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# The PB Report 2014/2015

**A Publication of the Privatization Barometer**
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## The wave builds

**Privatization programs have raised $812 billion worldwide since January 2012 — and may raise $300 billion for the first time in 2015**

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THE WEBSITE ON PRIVATIZATION IN EUROPE

Fondazione Eni Enrico Mattei

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## The PB Report

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## What is the PB Report?

The PB Report is a twelve-month summary on privatization activity in the enlarged European Union. It aims to monitor the most recent trends, to analyze aggregate data on revenues and transactions, and to provide updated statistics at the country and sector level.

The report highlights the most important privatization deals of the year, focusing on the European Union but also monitoring the process around the rest of world. It hosts contributed articles by top international scholars, who will make accessible to the reader the most recent results of professional research.

Rigorous, updated, easily accessible and freely distributed on the web, the PB Report is an authoritative source of information and a vehicle for a more informed discussion on the choices and consequences of privatization.

The Privatization Barometer was developed by Fondazione Eni Enrico Mattei (FEEM) with the financial support from Fondazione IRI. As of 2010, KPMG Advisory S.p.A. becomes unique partner of PB, providing data, research skills and financial resources. This fourth joint issue of PB Report represents the long term strategic partnership between FEEM and KPMG Advisory S.p.A.

## Introduction

Call it "Britain and (especially) China lead the world in a new privatization wave". The 42-month period between January 2012 and August 2015 saw governments around the world raise over $812 billion (€644 billion) through privatizations, dwarfing the total for any comparable previous period, and the global value of privatizations for the first eight months of 2015, $213.4 billion (€188.2 billion), implies that the full-year 2015 total will be by far the highest on record—perhaps exceeding $300 billion for the first time ever. China was, by far, the leading privatizing country during both 2014 and 2015, raising $73.6 billion (€55.7 billion) during 2014, and an astonishing $133.3 billion (€123.0 billion) through August 2015—mostly during the raging bull market that peaked in May 2015. The United Kingdom was a distant second-leading privatizing country both during 2014 [$17.2 billion (€13.0 billion)] and during January-August 2015 [$14.6 billion (€12.2 billion)]. This Report describes global privatizations during 2014 and the first eight months of 2015, with emphasis on those in the European Union; it also presents four articles contributed by outside experts that highlight specific national and industrial programs.

As the name implies, my article "Privatization Trends and Major Deals of 2014 and Two-Thirds 2015" presents overall proceeds totals for deals worldwide and in the EU during 2014 and January-August 2015, and also describes the most important individual sales. Governments raised $218.8 billion (€166.5 billion) through privatization sales worldwide during 2014, substantially more than the $193.7 billion (€146.2 billion) total for 2013 and the second largest total on record. The $78.4 billion (€60.3 billion) and $42.2 billion (€34.9 billion) raised by EU governments during, respectively, 2014 and the first eight months of 2015 represented 36.2% and 19.8% of the respective global annual totals; both 2014 and 2015's values are far below the long-run average EU share of 43.7% of the global value of privatizations. Perhaps surprisingly, even though share issue privatizations (SIPs) accounted for over 90% of the 2014-15 divestment totals, there were only seven very large ($5 billion-plus) SIPs over this entire period; the bulk of total proceeds both years came from "mid-size" sales in the $1-3 billion range.

In the first contributed article, Vladimiro Giacché, provides an insightful analysis of the deeply flawed—but ultimately successful—privatization of Eastern Germany conducted by the Treuhandanstalt Agency between 1990 and 1994. The whole process was carried out at a record pace, so that the East German economy was incorporated into the market economy of the Federal Republic of Germany in less than five years. On the other hand, the process also showed a suboptimal outcome with regard both to the

privatizations revenues and to the preservation of East Germany industrial capacity. Rapid privatization was considered as the first priority, more important than rescue, so the concrete choice made was between sudden unwinding and sudden privatization. This was a drastic alternative indeed, and one that proved to be fatal for many companies that could have been rescued, and also resulted in privatization of very financially distressed companies, whose selling price had to be very low.

In the second contributed article, Filippo Belloc and Antonio Nicita examine the political trade-offs behind privatization and liberalization policies, particularly regarding network industries. They show that right-wing governments in OECD countries have favored privatization over liberalization, whereas left-wing governments have pushed for liberalization policies more intensively than right-oriented ones. The authors conclude that a proper disentangling of pro-market policies paints a rather different picture than that suggested by common wisdom: a partisan trade-off between privatization and liberalization shapes pro-market policy design of network industries. Right-wing governments tend to favor pro-market platforms, with a preference for those initiatives that allow additional reductions in the State's size, while liberalizations are used by left-wing governments as a mean to shift financing from taxpayers to the users and to redistribute rents towards low-income customers through price reductions and greater competition among providers. Thus, left-wing governments remain adverse to fully privatizing markets, while right-wing governments retain their favor for privatization, to the extent liberalizations may assume a redistributive nature.

In the third contributed article, Jerry Cao uses a comprehensive sample of large Chinese industrial state-owned enterprises (SOEs), that include those being privatized through share-issue privatization (SIP) and those remaining unlisted, to examine the causes and consequences of the SIP program. There are two types of Chinese SIPs: SOEs can be directly privatized via independent IPOs or they can be partially privatized by listing subsidiaries through equity carve-out, where a subsidiary to be listed is created by the parent SOE, which remains fully state-controlled. Professor Cao provides evidence that privatization through the SIP program in China prioritizes large SOEs with greater liquidity needs, and those with higher short-term debt ratios. Consequently, the SIP program works as a bailout by government to inject liquidity into the most debt-laden SOEs.

Finally, Sana Mohsni and Isaac Otchere examine whether privatization increases or decreases risk-taking by newly privatized banks—an intriguing empirical question. On one hand, privatization could induce higher risk taking by newly-privatized banks, since these now must answer to profit-oriented shareholders, whereas state-owned banks are not driven by principles of profit-maximization, but are used to promote governments' economic and social agenda. On the other hand, there are good reasons to expect that government ownership of banks could induce higher risk taking and that privatization could lead to a reduction in risk. The authors find that, prior to privatization, the behavior of newly privatized banks was riskier than their rivals. Following privatization,

however, the newly privatized banks experience a significant decrease in risk, and the observed reduction in risk is not due to industry-wide effects—so privatization reduces bank risk and brigs it closer to that of always private banks.

All in all, privatization as a core national economic policy appears to be in rude good health. Indeed, the privatization wave seems to be both spreading and deepening around the world.

Bill Megginson

November 1, 2015

**William L. Megginson**

University of Oklahoma, FEEM and King Fahd University of Petroleum and Minerals

# Privatization Trends and Major Deals in 2014 and Two-Thirds 2015

## Abstract

This article details major privatization deals executed during 2014 and the first eight months of 2015 and surveys trends shaping the privatization landscape worldwide. We document several important facts, including the following: (1) Governments raised $218.8 billion (€166.5 billion) through privatization sales worldwide during 2014, substantially more than the $193.7 billion (€146.2 billion) total for 2013 and the second largest total on record; (2) The global value of privatizations through the end of August 2015, $213.4 billion (€188.2 billion) implies that the full-year 2015 total will be, by far, the highest on record—perhaps exceeding $300 billion for the first time ever; (3) Share issue privatizations (SIPs) accounted for over 91% of the 2014 total, and nearly 94% of the January-August 2015 total, while auctions, targeted stake sales, convertible bond offerings, and asset sales accounted for the rest; (4) China was, by far, the leading privatizing country during both 2014 and 2015, raising $73.6 billion (€55.7 billion) during 2014, and an astonishing $133.3 billion (€123.0 billion) through August 2015—mostly during the raging bull market that peaked in May 2015. These Chinese totals represented almost one-third of the worldwide total for 2014, and almost two-thirds (62.5%) of 2015's eight-month global total. The United Kingdom was a distant second-leading privatizing country both during 2014 [$17.2 billion (€13.0 billion)] and during January-August 2015 [$14.6 billion (€12.2 billion)]; (5) The $78.4 billion (€560.3 billion) and $42.2 billion (€34.9 billion) raised by EU governments during, respectively, 2014 and the first eight months of 2015 represented 36.2% and 19.8% of the respective global annual totals; both 2014 and 2015's values are far below the long-run average EU share of 43.7% of the global value of privatizations; (6) There were a significant number of failed, withdrawn, and cancelled privatization sales during 2014 and 2015 (through August), but these represented a much lower proportion of attempted sales than was the case in earlier years—especially 2011, when over one-fourth of all privatizations attempted were withdrawn or cancelled; and (7) The large number (354) and value [$213.4 billion (€188.2 billion)] of privatizations executed during the first eight months of 2015, coupled with several massive planned sale announcements, suggests that a major new global privatization wave is in process, and may be accelerating.

JEL Classification: G32

Keywords: Privatization, Government Ownership

October 21, 2015

## Global Trends in Privatization, 2012-15

The 42-month period between January 2012 and August 2015 saw governments around the world raise over $812 billion (€644 billion) through privatizations, dwarfing the total for any comparable previous period. And since the 20-month period beginning in January 2014 witnessed privatizations totaling $431.4 billion (€644 billion), it seems that privatization programs are now raising over one-quarter trillion dollars annually, implying that an enormous privatization wave is in progress that may well last many years. The years 2012-14 yielded, respectively, the fifth, fourth, and second highest total privatization revenues on record and the annualized value of privatizations during the January-August 2015 period [$320.0 billion (€282.3 billion)] would easily shatter 2009's record $265.2 billion (€184.3 billion) total. Furthermore, since a large fraction of the "privatizations" during the immediate post-Crisis period of 2009-10 actually involved banks repurchasing from governments preferred stock acquired through rescues, the years 2012-15 probably represent the four highest annual levels of "true privatizations" ever. Figure 1 presents yearly worldwide privatization revenues, in US$ billions, over the period 1988 through August 2015.

Worldwide, governments raised $218.0 billion (€164.6 billion) through privatization sales during 2014 and $213.4 billion (€188.2 billion) during the first eight months 2015. The 2014 total was one-eighth higher than the $193.7 billion (€146.2 billion) and $189.4 billion (€145.7 billion) totals for 2013 and 2012, respectively—although these were also very strong years. And, as noted above, annualizing the global privatization total through August 2015 implies a massive full-year 2015 value of $320.0 billion (€282.3 billion). Intriguingly, however, neither 2014 nor 2015 saw a large number of immense privatization sales; whereas no fewer than twelve transactions raised $5.0 billion or more during 2012, only four deals in 2014 and three sales in January-August 2015 yielded that much. On the other hand, 40 deals during 2014 and no fewer than 49 sales during January-August 2015 were worth between $1.0 billion and $5.0 billion, compared to 39 such deals during 2013.

The single largest share issue privatization (SIP), and the largest of all privatization deals during 2014, was the March secondary market offering of a 6% stake in **Lloyds Banking Group** by the United Kingdom, which raised $6.95 billion (€5.00 billion). Only six months earlier (September 2013), the British government launched the re-privatization of Lloyds—which it had rescued during the global financial crisis—with a $5.11 billion (€3.83 billion) secondary offering, also of a 6% stake. The UK government sold yet another $4.67 billion (€3.87 billion) tranche of **Lloyds** in December 2014, which was the second largest EU privatization of 2014 and the sixth largest worlwide.[1]

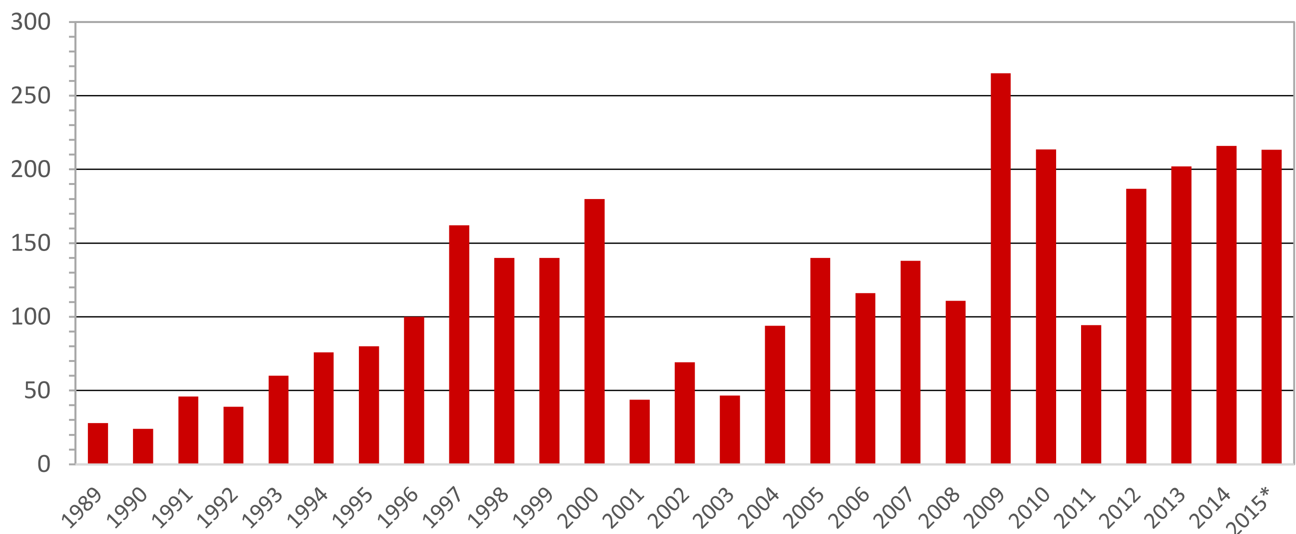
The second through sixth largest privatizations of 2014 were also share-issue privatizations (SIPs). The largest of these was the Hong Kong offering of shares in the Chinese company **CITIC Pacific Ltd**, which raised $6.87 billion (€32.23 billion) in August with a primary share offering.[2] The next largest deal was the pure secondary offering of 25% of Saudi Arabia's **National Commercial Bank**--which was executed by the government itself (without an underwriter), at a zero discount, was massively over-subscribed, and raised $6.00 billion (€4.31

[1] The early Lloyds sales are described in "Lloyds Banking Group 'April share sale likely'," *BBC.com* (February 4, 2014) and "Lloyds Banking Group Shares Sold by Treasury at 5% Discount," *Standard.co.uk* (March 26, 2014), while the "drip-feeding sales of Lloyds shares initiated in December 2014 is discussed in Martin Arnold and Emma Dunkley, "Treasury sells further 1% of Lloyds Bank holding," *Financial Times* (March 9, 2015) and Jonathan Guthrie, "Cameron seeks to reward stealth Tories with Lloyds share sale," *Financial Times* (June 1, 2015).

[2] See Elzio Barreto, "CITIC Pacific raises $5.1 billion for landmark deal to buy parent's assets," *Reuters.com* (May 15, 2014).

billion).[3] The fourth largest deal of 2014 was the March private placement by China's **BOE Technology Group**, which raised $6.0 billion (€4.30 billion) in new capital.[4] Without question, however, the most interesting large privatizations of 2014 were two huge secondary SIPs during November. The larger of these was the NCB sale, described above, but shortly after NCB closed, the Australian government launched the initial public offering of its entire stake in **Medibank Private**, which met similarly enthusiastic domestic demand and raised $4.80 billion (€3.85 billion).[5] The sixth largest privatization was the divestment by Italy's ENEL of the 22% stake it held in the Spanish utilty **Endesa** in November, which raised $3.90 billion (€3.80 billion).[6]

**Figure 1.**
**Worldwide Revenues from Privatizations, US$ Billions, 1988-August 2015**




* First eight months of 2015 (through August 2015

The EU also claimed the title of executing the first, second, and fourth largest privatizations during 2015 (at least thus far). The first of these occurred in March, when the Finnish company **Fortum** sold off its Swedish electricity grid holdings for €6.60 billion ($6.95 billion) to a group of Swedish pension funds and the Canadian firm Borealis.[7] The second largest EU and worldwide deal of January-August 2015 was actually an accumulation of small, opportunistic "dribbles" of shares in **Lloyds Bank** by the UK government, which disposed of a further 9% holding and raised $6.14 billion (€5.55 billion) between January and August.[8] The third largest EU—and fourth largest global--deal of 2015 thus far was Spain's long awaited, and enthusiastically received IPO of a 49% stake in the airport operator **Aena** in February, which raised $4.83 billion (€4.27 billion).

The privatization sales of January-August 2015 ranking third and fifth through eleventh in size were all non-UK share issue privatiations (SIPs). Six of these

[3] See Sarmad Khan, "Saudi Arabia's NCB Rises 10% in Trade Debut After $6 Billion IPO," Bloomberg (November 12, 2014).
[4] Details of the share offering are presented in the 2014 BOE Technology Group annual report.
[5] See Jennifer Hughes, "Asian IPOs end 2014 on a high," *Financial Times* (December 18, 2014).
[6] See Stanley Reed, "Italian Utility Enel Says Sale of Stake in Endesa Raised $3.9 Billion," *New York Times* (November 21, 2014).
[7] Reported in Richard Milne, "Fortum Sells Swedish Power Grid for €6.6bn," *Financial Times* (March 13, 2015).
[8] See Emma Dunkley, "Summer Budget: Government to Start Selling Stake in RBS," *Financial Times* (July 8, 2015).

eight offers were Chinese share sales and all but one of these was a primary (capital-raising) stock offering. The largest non-EU privatization deal of this period was the May 2015 seasoned equity offering of China's **Huatai Securities** in Hong Kong, which raised $5.00 billion (€4.49 billion).[9] The next two large Chinese SIPs of January-August 2015 were the May private placement of **Inner Mongolia Baotou Steel**, which raised $4.81 billion (€4.31 billion), and the January seasoned equity offering (SEO) of **CITIC Ltd** in Hong Kong, which raised $4.43 billion (€3.72 billion).[10] The next largest non-EU deal of January-August 2015 (ranking seventh overall) was the sale by Britain's Barclays Bank of at least 24% of its stake in the U.S. bank **Citizens Financial Group**, which was announced in March and completed in July. This raised $3.69 billion (€3.69 billion), and dropped Barclays' stake below 50%, thus allowing Citizens Financial to escape EU rules on bankers' pay, since it was no longer a financial institution majority-owned by an EU company. Barclays sold another tranche of **Citizens Financial** shares four months later, raising a further $2.57 bilion (€2.33 billion).[11] The eighth largest privatization deal of 2015 thus far was the January SEO of a 10% stake in **Coal India**, which was the largest ever Indian share offering in rupee terms—raising $3.66 bilion (€4.31 billion). This represented yet another step forward for the reform and privatization program launched in 2014 by India's Modi government, though that same program took a serious hit in August 2015, when state-owned Indian financial institutions had to rescue the gvernment's secondary offering of a 10% stake in **Indian Oil Corporation**, that raised a lower than hoped for $1.40 billion (€1.14 billion).[12]

Besides the very large deals described above, five other SIPs raised at least $3.00 billion during January-August 2015, and an astounding 11 EU and 30 non-EU (mostly Chinese) deals raised between $1.00-$3.00 billion, mostly during the Chinese stock market boom that ended in early May 2015. The five $3.00 billion+ offerings were three Chinese SEOs and one IPO, plus the first of what promises to be many UK secondary offerings of **Royal Bank of Scotland**, launched by the newly re-elected Conservative government of David Cameron in August, raising $3.24 billion (€2.89 billion).[13] The Chinese SIPs were the May private placement of **Unispendour Corp**, which raised $3.63 billion (€3.27 billion); another secondary offering of **CITIC Securities** of June, worth $3.50 billion (€3.12 billion); the $3.09 billion (€2.82 billion) April SEO of **China Galaxy Securities** in Hong Kong; and the January IPO of **China Huarong Asset Management Company** that raised $3.00 billion (€2.54 billion), also in Hong Kong.[14]

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[9] See Prudence Ho, "Huatai Securities' $4.5 Billion IPO Makes Hong Kong Top Listing Venue," *Wall Street Journal* (May 22, 2015).

[10] These two deals are described, respectively, in Fiona Law, "China Market Rout Closes Off an Avenue of Fundraising," *Wall Street Journal* (July 8, 2015), and Gabriel Wildau, "Citic Investor Presses Regulator on Insider Trading Claim," *Financial Times* (January 21, 2015).

[11] The March 2015 Citizens Financial sale is discussed in Ben McLannahan, "Citizens Financial Looks to 'Wriggle' Out of EU Pay Curbs," *Financial Times* (March 26, 2015), while the July sale is described in "Citizens Financial Group Announces Pricing of Secondary Common Stock Offering By RBS Group," *BusinessWire* (July 28, 2015).

[12] See James Crabtree, "Government raises $3.6bn through Coal India stake sale," *Financial Times* (February 2, 2015) and Amy Kazmin, "India's LIC salvages $1.4bn Indian Oil share sale," *Financial Times* (August 26, 2015).

[13] Tellingly, the RBS shares were sold at far below the price the Government paid to rescue the bank in 2008, which the Cameron gvernment had been unwilling to do previously. See Emma Dunkley and Martin Arnold, "Sale of RBS Stake Marks Start of the UK's Biggest Privatisation," *Financial Times* (August 4, 2015).

[14] See Bonnie Cao, "Citic Securities Seeks $3.5 Billion in Hong Kong Share Sale," *Financial Times* (June 15, 2015); Denny Thomas, "China Galaxy plans $3.1 bln private share sale to boost margin finance business," *Reuters.com* (April 28, 2015); and Jennifer Hughes, "China's top investment bank seeks Hong Kong IPO," *Financial Times* (July 22, 2015).

China was the leading privatizing country during both 2014 and January-August 2015—in both cases by huge margins. Chinese companies executed 188 SIPs and private sales (27 worth $500 million or more) raising $67.98 billion (€51.56 billion) during 2014, and raised a nearly incredible $133.28 billion (€123.00 billion) during just the first eight months of 2015 through 247 sales (79 worth at least $500 million) during January-August 2015. As is often the case, the bulk of China's privatization proceeds came from public and private-placement offerings of newly-issued (primary) shares by Chinese state-owned enterprises (SOEs) that reduced the state's equity ownership stake only indirectly, by increasing the total number of shares outstanding. The largest Chinese deal of 2014, and the second largest overall after the March 2014 Lloyd's Banking Group offering, was the CITIC Pacific offering discussed above. The first half of 2015 saw many Chinese brokerage firms, most of which remain state-controlled, raising capital for margin business as markets surged through early June, before falling by over 40% over the next three months.

The second largest privatizer of 2014, the United Kingdom, raised $17.18 billion (€12.99 billion) through 20 sales, the largest of which were the two massive Lloyds bank sahre sales discussed previously. 2014's third ranked privatizer, astonishingly enough, was Greece--which raised $13.02 billion (€9.64 billion) mostly through four primary share offerings in troubled (but apparently recuperating) banks. Australia was the fourth largest privatizing country of 2014, with 18 deals raising $12.61 billion (€9.75 billion), and was followed by Spain [12 deals raising $10.74 billion (€8.24 billion)]; Turkey [4+ deals raising $10.00 billion (€7.33 billion)]; the United States (see next); Saudi Arabia [4 deals raising $7.62 billion (€6.11 billion)]; and Italy [9 deals raising $7.34 billion (€5.45 billion)]. The United States--which was the leading privatizing country of 2012, as well as 2009 and 2010—raised $9.76 billion (€7.34 billion) through 10 sales during 2014; the largest of these was the aforementioned sale by RBS of its majority stake in **Citizens Financial** that netted $3.01 billion (€2.32 billion).[15]

The (distant) second largest privatizer of the first eight months of 2015, after China, was again the United kingdom, which executed 8 sales worth $14.61 billion (€12.12 billion). The next five largest privatizers of January-August 2015, after China and the UK, were India (25 deals; $12.16 billion; €10.65 billion); the United States (10 deals; $11.34 billion; €10.56 billion); Italy (3 deals; $6.87 billion; €6.19 billion); Spain (2 deals; $5.18 billion; €4.58 billion); and Saudi Arabia (2 deals; $3.05 billion; €2.74 billion).

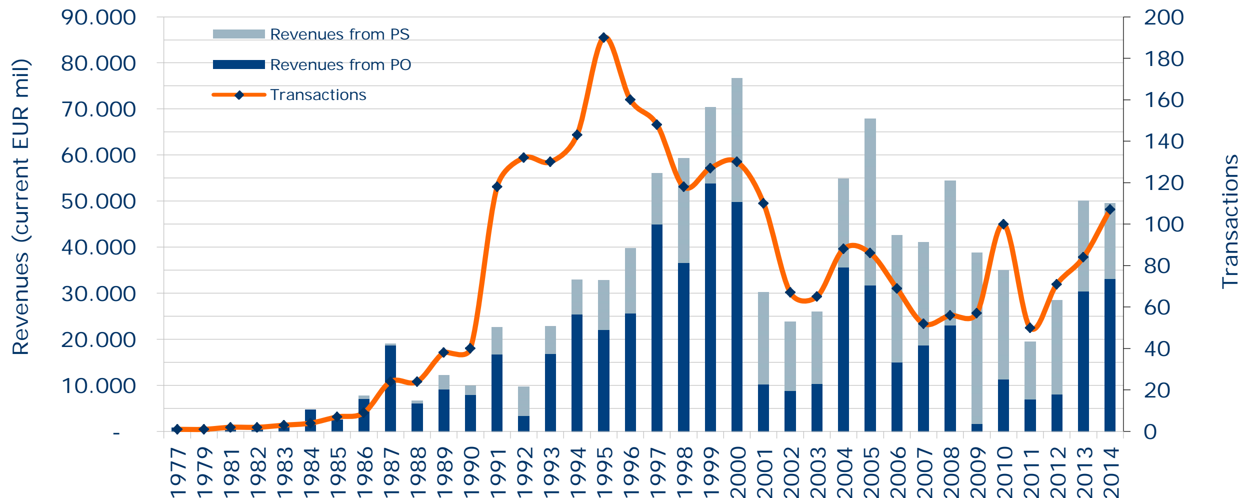
## Privatization Deals in the European Union during 2014 and 2015

Figure 2 describes the evolution of total privatization revenues (in current € millions) and transactions in the enlarged European Union over the entire privatization era 1977-2014. This clearly illustrates that the number of EU privatizations peaked in the mid-1990s, before beginning a long but mostly steady decline though 2012, and then bouncing back sharply during 2013 and 2014 to 84 and 117 deals, respectively. These dropped sharply to an annualized rate of 45 deals during Jauary-August 2015. EU privatization sale revenues peaked during the Bubble Era of 1998-2000, with €211 billion being raised just during these three years, dropped sharply during the recession of 2001-2003, and then fluctuated between €41 billion and €68 billion between 2004 and 2008. Proceeds then declined almost monotonically from 2008 to 2012, falling to only

[15] See Michael J. de la Merced, "Citizens Financial's Offering Raises $3 Billion as It Parts From R.B.S.," *New York Times* (September 23, 2014).

€28.2 billion ($36.7 billion) in 2012. The EU total then rose sharply to a five-year peak of €50.72 billion ($67.99 billion) in 2013 and a nine-year peak of €58.34 billion ($77.62 billion) during 2014. The annualized value of EU privatizations during 2015—based on January through August sales—is a very respectable €52.35 billion ($63.32 billion).

**Figure 2. Privatization in the Enlarged Europe: Total Revenues and Transactions 1977 - 2014**




Source: *Privatization Barometer*

Continuing a trend that has been emerging for several years, the 27 countries of the European Union accounted for a minority of the total number and value of privatization deals worldwide during 2014 and 2015. Table 1 presents the total proceeds, in US$ billions, raised by European Union and non-EU countries between 1988 and 2015 (through August). This shows the fraction of privatization revenues raised by EU governments represented 35.9% and 19.8% of the worldwide totals during 2014 and January-August 2015, respectively. This is lower than the long-run average EU share of about 44.6%, and far lower than the 68.2% share of total global divestments that the EU accounted for as recently as 2008. The 2014 figure is up substantially from the historic low of 19.9% recorded in 2012, but the January-August 2015 EU fraction of 19.8% of global privatization revenues will mark an all-time low, if it stands for the full year. Interestingly, the 2015 decline in the EU fraction of world privatizations has less to do with an absolue decline in the number and value of European deals—which, as noted, are robust on an annualized basis—than to the massive increase in non-EU, especially Chinese, privatization programs.

**Table 1. Privatization Revenues. Worldwide and European Union, US$ billions, 1988-2015**

| Year | World | EU25 | % World (ex EU25) | % EU25 |
|---|---|---|---|---|
| 1988 | 39.00 | 7.82 | 79.9% | 20.1% |
| 1989 | 28.00 | 14.21 | 49.2% | 50.8% |
| 1990 | 24.00 | 12.58 | 47.6% | 52.4% |
| 1991 | 46.00 | 28.02 | 39.1% | 60.9% |
| 1992 | 39.00 | 12.68 | 67.5% | 32.5% |
| 1993 | 60.00 | 27.11 | 54.8% | 45.2% |
| 1994 | 76.00 | 39.60 | 47.9% | 52.1% |
| 1995 | 80.00 | 43.80 | 45.2% | 54.8% |
| 1996 | 100.00 | 51.40 | 48.6% | 51.4% |
| 1997 | 162.00 | 63.46 | 60.8% | 39.2% |
| 1998 | 140.00 | 66.12 | 52.8% | 47.2% |
| 1999 | 140.00 | 75.10 | 46.4% | 53.6% |
| 2000 | 180.00 | 70.87 | 60.6% | 39.4% |
| 2001 | 43.80 | 27.07 | 38.2% | 61.8% |
| 2002 | 69.20 | 22.53 | 67.4% | 32.6% |
| 2003 | 46.60 | 29.40 | 36.9% | 63.1% |
| 2004 | 94.00 | 68.14 | 27.5% | 72.5% |
| 2005 | 140.00 | 84.52 | 39.6% | 60.4% |
| 2006 | 116.00 | 51.45 | 55.6% | 44.4% |
| 2007 | 138.00 | 54.48 | 60.5% | 39.5% |
| 2008 | 110.88 | 75.64 | 31.8% | 68.2% |
| 2009 | 265.17 | 55.88 | 78.9% | 21.1% |
| 2010 | 213.64 | 46.83 | 78.1% | 21.9% |
| 2011 | 94.40 | 26.37 | 72.1% | 27.9% |
| 2012 | 189.37 | 37.63 | 80.1% | 19.9% |
| 2013 | 193.72 | 67.41 | 65.2% | 34.8% |
| 2014 | 216.80 | 78.41 | 63.8% | 36.2% |
| 2015 * | 213.36 | 42.21 | 80.2% | 19.8% |
| **TOTAL** | **3,258.94** | **1,280.79** | **56.3%** | **43.7%** |

* Through August 2015.
Sources: *Privatization Barometer, Securities Data Corporation (SDC)* New Issues and Mergers and Acquisitions files, and author's search of various news media (principally *Financial Times*).

### Details of EU Privatization Deals during 2014

Table 2 details the 38 largest privatization sales (those yielding at least €300 million) during 2014, while the left-hand side of Table 3 presents the ranking of EU countries by total value of privatization. No fewer than 24 EU privatization deals raised at least $1 billion during 2014. The United Kingdom was the leading EU privatizing country that year, and the two largest EU deals of 2014 were the aforementioned Lloyds Bank share sales in March and December. The next two largest British deals were the February sale by the partially-natonalized Royal Bank of Scotland of another stake (28%) in **Direct Line Insurance** that riased €1.36 billion ($1.86 billion) and the June secondary market sale of **Markit Ltd** for €949 million ($1.28 billion). Other signifant UK deals of 2014 (though too small to make the cut-off for Table 2) include two secondary offerings of stakes in the **London Stock Exchange Group**—in July, raising €329 million ($446 million), and in September, raising €215 million ($280 million)—and the July secondary offering of **VTTI Energy Partners** for €271 million ($368 million).

Spain was the second largest EU privatizer of 2014, raising €11.34 billion ($13.02 billion) in thirteen sales. By far the largest such deal was the November sale by ENEL of its 22% stake in **Endesa** which, as noted above, raised $3.90 billion (€3.80 billion). The second largest privatization was the secondary offering by Mexico's Pemex of a 9.2% stake in Spain's **Repsol** that raised €2.10 billion ($2.85 billion).[16] The next two large Spanish deals of 2014 were April's secondary market sale by the nationalized banking group Bankia of a stake in **Iberdrola**, raising €5.27 billion ($7.19 billion), and February's secondary market offering of a 7.5% stake in **Bankia**, which was rescued in 2011, for €1.32 billion ($1.80 billion).[17]

Greece was again the third largest EU privatizer of 2014, based principally on four capital-raising share offerings by fully or partially-nationalized Greek banks that cumulatively raised €8.31 billion ($11.48 billion). In April, **Eurobank** raised $3.57 billion (€2.57 billion) by selling new shares representing 60% of issued capital, and this was followed one month later by a $3.43 billion (€2.50 billion) offering of new shares in **National Bank of Greece**.[18] **Piraeus Bank** and **Apha Bank** both executed rights offerings in March 2014, raising $2.43 billion (€1.75 billion) and $1.67 billion (€1.20 billion), respectively. The fifth large Greek privatization of 2014 was the December lease/concession of 14 regional Greek airports to the German airport operator, Fraport, and Greece's Copelouzos group for $1.53 billion (€1.23 billion).[19] The radical Syriza party that was elected to power in Greece in early 2015 promptly canceled this and several other privatization deals.

The fourth largest privatizing EU state of 2014 was Italy, which raised €5.47 billion ($7.34 billion) in nine deals. The largest deal was the July sale of a 35% stake in Italy's electrical grid operator, **CDP Reti**, to China State Grid for €2.16 billion ($2.86 billion).[20] Italy disposed of 2% stakes in **Eni** and **ENEL** in asset sales during February, raising a combined total of €2.00 billion ($2.74 billion). The final two material Italian disposals were July's secondary market offering of **Assicuazioni Generali SA**, which raised €469 million ($636 million) and the June IPO and primary share offering of the shipbuilder **Fincantieri SpA** that raised €356 million ($481 million).

France ranked fifth among EU privatizing states during 2014, raising €5.47 billion ($7.25 billion) through 19 deals. France's largest sale of 2014 was the May primary (capital-raising) offering of a 14% stake in **PSA Peugeot Citroen SA** that raised €1.95 billion ($2.68 billion). The second largest French sale was the June secondary market disposal of a 3.1% stake in **GDF Suez SA** that raised a total of €1.50 billion ($2.03 billion). The other large French deals of 2014 were the October accelerated bookbuilt offering of a €609 million ($737 million) stake

[16] See Jude Webber, "Pemex focuses closer to home," *Financial Times* (June 4, 2014).

[17] The Iberdrola sale is descibed in David Román, "Bankia Sells Iberdrola Stake," *Wall Street Journal* (April 10, 2014), while the Banka divestment is discussed in Charles Penty, "Spain Starts Sale of Bankia to Recoup Bailout Funding," *Bloomberg.com* (February 28, 2014).

[18] The Eurobank deal is discusssed in George Georgiopoulos, Greece's Eurobank completes 2.86 billion euro share offering," *Bloomberg* (April 29, 2014), while the NBG offer is described in Kevin Hope, "Greece's central bank governor makes case for consolidation," *Financial Times* (May 6, 2014).

[19] These Greek sales are described in George Georgiopoulos, "Greece's Piraeus Bank share offering oversubscribed - banking source," *Reuters.com* (March 26, 2014) and Ruth David, Nikos Chrysoloras, and Elisa Martinuzzi, "Greece's Alpha, Piraeus Banks Start Sale to Boost Capital," *Bloomberg.com* (March 25, 2014). Kerin Hope, "Greece backtracks on privatisation," *Financial Times* (March 13, 2015).

[20] See Rachel Sanderson, "China swoops in on Italy's power grids and luxury brands," *Financial Times* (October 7, 2014) and Francesca Landini, "Italy seals final deal to sell grid asset stakes to China," *Reuters.com* (November 27, 2014).

in **Orange SA** and the January secondary market sale of a stake in **Airbus Group NV** for €452 million ($614 million).[21]

Finland and the Netherlands were the sixth and seventh largest EU privatizers of 2014 with, respectively, six deals worth €4.19 billion ($5.79 billion) and four deals worth €2.35 billion ($3.08 billion). The most important deal by either country—and the EU's fourth largest deal of 2014--was Finland's March asset sale of its 100% stake in the **Fortum-Electricity distribution business** to Suomi Power Networks Oy, owned by a consortium of Finnish and international investors, for €2.57 billion ($3.57 billion).[22] Four months later, the Netherlands executed its one large 2014 deal with an IPO of the 26% stake in **NN Group NV** that the government acquired when it rescued ING during the financial crisis, raising €1.55 billion ($2.11 billion).[23] There was one other Dutch and three other Finnish offerings during the first eleven months of 2014: the January seasoned offering of a stake in **CEZ MH** for €531 million ($642 miillion), the February secondary offering of **Sampo Oyj**, raising €452 million ($619 million), and two primary share sales by **Citycon Oyj** that raised €406 million ($549 million) and €405 million ($549 million) during June and July, respectively.

Portugal was the eighth ranked EU privatizer of 2014, with four deals worth €1.72 billion ($2.11 billion). The largest Portuguese deal was an acquisition by China's Fosun International Group of an 80% stake in **Seguros Fidelidade Mundial** for €1.18 billion ($1.42 billion) in May.[24]

EU privatizing governments ranking nine through twelve for total proceeds during 2014 were Denmark [1 deal worth €1.47 billion ($2.01 billion)]; Cyprus [2 deals worth €1.34 billion ($1.77 billion)]; Poland [7 deals worth €825 million ($1.10 billion)]; and Ireland [1 deal worth €709 million ($959 million)]. The two largest deals from this group of countries were the February private placement of a 26% stake in Denmark's **DONG Energy A/S**, raising €1.47 billion ($2.01 billion) and the July capital-raising private placement and open offering of **Bank of Cyprus**, raising €1.08 billion ($1.47 billion). The final large sale by these countries during 2014 was Ireland's June sale of its entire 100% stake in the **Bord Gais Energy-Wind project** for €708 million ($959 million).[25]

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[21] The French deals are discussed in Michael Stothard, "French and Italian carmakers make up lost ground in Europe," *Financial Times* (April 14, 2014); "GDF Suez shares slip as French government sell part of stake," *Euronews.com* (June 14, 2014); Andrea Rothman, "Airbus Raises Almost $1 Billion in Dassault Aviation Share Sale," *Bloomberg.com* (November 28, 2014).

[22] See "Corrected key figures, Fortum sells its electricity distribution business in Finland to Suomi Power Networks," Fortum Group press report (December 13, 2014).

[23] See Maud Van Gaal, "ING Raises $2.1 Billion With IPO of NN Group Insurance," *Financial Times* (July 2, 2014).

[24] See Peter Wise, "China's Fosun buys Portuguese insurer Caixa Seguros," *Financial Times* (July 2, 2014).

[25] These deals are described in Peter Levring and Christian Wienberg, "Goldman Deal on Danish Energy Splits Copenhagen Coalition," *Bloomberg* (January 30, 2014); Martin Arnold in London and Kerin Hope, "Bank of Cyprus to raise €1bn through share sale," *Financial Times* (July 28, 2014); Ailish O'Hora, Sale of Bord Gais Energy in €1.1bn deal to Centrica consortium finalised," *Irish Independent* (21/03/2014).

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**Table 2. Large ($500 million+) EU Deals, 2014**

| Issue date | Issuer | Nation | Industry | % for sale | Value (€mil) | Value ($ mil) | Type of sale | Method of sale |
|---|---|---|---|---|---|---|---|---|
| 3/26/14 | Lloyds Banking Group PLC | United Kingdom | Finance | 6 | €4,996 | $ 6,954 | SEO | Secondary offer |
| 12/17/14 | Lloyds Banking Group PLC | United Kingdom | Finance | | 3,871 | 4,670 | SEO | Secondary offer |
| 4/15/14 | Eurobank | Greece | Finance | 60 | 2,864 | 3,954 | SEO | Primary offer |
| 11/24/14 | Endesa | Spain | Utilities | 22 | 3,100 | 3,900 | SEO | Secondary offer |
| 3/24/14 | Fortum-Electricity Dist Bus | Finland | Utilities | 100 | 2,567 | 3,573 | AS | Asset sale |
| 5/15/14 | National Bank of Greece | Greece | Finance | | 2,500 | 3,428 | SEO | Primary offer |
| 7/15/14 | CDP Reti | Italy | Utilities | 35 | 2,160 | 2,856 | AS | Asset sale |
| 6/4/14 | Repsol SA | Spain | Petroleum | 9.2 | 2,104 | 2,845 | SEO | Secondary offer |
| 2/15/14 | Eni and ENEL | Italy | Petroleum/Util | 2 | 2,000 | 2,738 | AS | Asset sale |
| 5/14/14 | PSA Peugeot Citroen SA | France | Manufacturing | 14 | 1,954 | 2,679 | SEO | Primary offer |
| 3/15/14 | Piraeus Bank | Greece | Finance | | 1,750 | 2,430 | Rights | Capital-raising |
| 4/10/14 | Iberdrola SA | Spain | Utilities | | 1,536 | 2,121 | SEO | Secondary offer |
| 7/1/14 | NN Group NV | Netherlands | Finance | 26 | 1,552 | 2,107 | IPO | Secondary offer |
| 6/25/14 | GDF Suez SA | France | Utilities | 3.1 | 1,526 | 2,063 | SEO | Secondary offer |
| 2/20/14 | DONG Energy A/S | Denmark | Petroleum | 26 | 1,466 | 2,007 | SEO | Private placement |
| 2/27/14 | Direct Line Insurance Grp | United Kingdom | Finance | 28 | 1,357 | 1,857 | SEO | Secondary offer |
| 2/28/14 | Bankia SA | Spain | Finance | | 1,315 | 1,800 | IPO | Capital-raising |
| 3/15/14 | Alpha Bank | Greece | Finance | | 1,200 | 1,670 | Rights | Capital-raising |
| 11/25/14 | Regional Greek Airports (14) | Greece | Infrastructure | | 1,230 | 1,534 | Lease | Concession |
| 7/28/14 | Bank of Cyprus PCL | Cyprus | Finance | | 1,083 | 1,469 | SEO | Private placement |
| 5/15/14 | Seguros Fidelidade Mundial | Portugal | Finance | 80.0 | 1,176 | 1,424 | AS | Asset sale |
| 5/08/14 | NCG Banco SA | Spain | Finance | 88.3 | 1,154 | 1,395 | PS | Private Placement |
| 1/22/14 | NCG Banco SA | Spain | Finance | 88.3 | 1,133 | 1,372 | PS | Private Placement |
| 6/18/14 | Markit Ltd | United Kingdom | Finance | | 949 | 1,283 | IPO | Secondary offer |
| 6/30/14 | Bord Gais Energy Wind | Ireland | Utilities | 100 | 708 | 959 | AS | Asset sale |
| 07/10/14 | SSP Group PLC | United Kingdom | Food | | 608 | 825 | IPO | Secondary offer |
| 10/16/14 | Entra ASA | Norway | Property | | 660 | 799 | IPO | Secondary offer |
| 10/01/14 | Orange SA | France | Telecoms | | 609 | 737 | SEO | Accelerated book |
| 11/06/14 | Teliasonera AB | Sweden | Telecoms | 2.31 | 565 | 684 | PO | Market Follow-on |
| 01/28/14 | CEZ MH BV | Netherlands | Finance | | 531 | 642 | SEO | Firm Commitment |
| 7/8/14 | Assicurazioni Generali SpA | Italy | Finance | | 469 | 636 | SEO | Secondary offer |
| 2/25/14 | Sampo Oyj | Finland | Petroleum | | 452 | 619 | SEO | Secondary offer |
| 1/15/14 | Airbus Group NV | France | Manufacturing | | 452 | 614 | SEO | Secondary offer |
| 6/27/14 | Electrica SA | Romania | Utilities | | 448 | 606 | IPO | Secondary offer |
| 11/20/14 | Adif-Optical Fiber Network | Spain | Telecoms | 100 | 497 | 601 | PS | Private Placement |
| 6/9/14 | Citycon Oyj | Finland | Real Estate | | 406 | 549 | SEO | Primary offer |
| 7/2/14 | Citycon Oyj | Finland | Real Estate | | 405 | 549 | SEO | Primary offer |
| 3/19/14 | Hemfosa Fastigheter AB | Sweden | Real Estate | | 360 | 501 | IPO | Mixed prim/secdy |
| | **16 EU states, 2014** | **38 transactions** | | | **€53,713** | **$71,450** | | |

Sources: *Privatization Barometer, Securities Data Corporation (SDC)* New Issues and Mergers and Acquisitions files, and author's search of various news media (principally *Financial Times*).

### Details of EU Privatization Deals during January-August 2015 (through November)

The right-hand side of Table 3 ranks the largest EU privatizing countries by value of transactions during the first eight months of 2015, while Table 4 details the European transactions that raised at least €100 million during that period. The United Kingdom was once again far the largest EU privatizer during Januray-August 2015, with 8 sales yielding €12.12 billion ($14.61 billion), while Sweden ranked second in Europe, with two deals accounting for €7.67 billion ($8.16 billion). The largest privatziation of January-August 2015, both for the EU and the world, was the March sale of the Finnish company Fortum's ownership stake in the **Swedish electricity grid** to a a group of Swedish pension funds and Canada's Borealis that raised €6.60 billion ($6.95 billion).[26] The largest UK privatization—and the EU and world's second largest sale--of 2015 was the "drip-feed" sale of shares in **Lloyds Bank** by the UK government over January-July 2015, which cumulatively disposed of a 9% stake and raised €5.57 billion ($6.14 billion).[27] The second largest UK (and third largest EU) deal of the first eight months of 2015 was the inaugural sale of a 5.2% stake in **Royal Bank of Scotland** (RBS) in August, which raised €5.57 billion ($6.14 billion). This sale was especially important both because it initiated what promises to be a lengthy divestment of the British government's majority holdings of RBS shares, acquired during the rescue operations of late 2008, and because the shares were sold at a lower price than the government had paid in the rescue—something the previous coaltion government had long resisted doing.

**Table 3. Ranking EU Countries by Total Privatization Revenues, 2014 and 2015 (through August)**

| 2014 Country | # Deals | Value (€mil) | Value ($ mil) | January-August 2015 Country | # Deals | Value Euro (mil) | Value USD (mil) |
|---|---|---|---|---|---|---|---|
| United Kingdom | 20 | €12,987 | $ 17,176 | United Kingdom | 8 | €12,116 | $14,614 |
| Spain | 13 | 11,336 | 13,200 | Sweden | 2 | 7,673 | 8,161 |
| Greece | 5 | 9,643 | 13,016 | Italy | 3 | 6,185 | 6,871 |
| Italy | 9 | 5,467 | 7,338 | Spain | 2 | 4,582 | 5,180 |
| France | 19 | 5,448 | 7,245 | Germany | 2 | 2,555 | 2,791 |
| Finland | 6 | 4,194 | 5,786 | France | 2 | 1,216 | 1,354 |
| Portugal | 4 | 1,577 | 1,832 | Netherlands | 1 | 1,122 | 1,272 |
| Netherlands | 4 | 2,350 | 3,078 | Ireland | 3 | 1,036 | 1,133 |
| Denmark | 1 | 1,466 | 2,007 | 4 other countries | 7 | 747 | 835 |
| Cyprus | 2 | 1,335 | 1,774 | | | | |
| 10 other countries | 33 | 4,460 | 5,939 | | | | |
| **2014 Total EU, 17 countries** | **117 deals** | **€60,263** | **$ 78,411** | **Jan-Aug 2015 Total EU, 12 countries** | **30 deals** | **€34,897** | **$ 42,212** |

Sources: *Privatization Barometer, Securities Data Corporation (SDC)* New Issues and Mergers and Acquisitions files, and author's search of various news media (principally *Financial Times*).

[26] See Richard Milne, "Fortum sells Swedish power grid for €6.6bn," *Financial Times* (March 13, 2015).
[27] See Emma Dunkley, "Government confirms retail sale of Lloyds shares," *Financial Times* (June 1, 2015) and "Summer Budget: Government to start selling stake in RBS," *Financial Times* (July 8, 2015).

Between them, Britain and Sweden accounted for well over half (56.7%) of the total value of EU privatizations during January-August 2015. Besides the deals described above, other noteworthy British privatizations during this period include the March secondary market sale by Bourse Dubai of its remaining 17.4% holdings in the **London Stock Exchange Group** for €1.85 billion ($2.02 billion); the June seasoned offering of a 15% tranche in **Royal Mail** that raised €1.03 billion ($1.16 billion); the highly successful March asset sale of the government's 40% stake in the **Eurostar cross-channel train service** for a much higher than expected €1.04 billion ($1.16 billion); and the June SEO of €628 million ($708 million) worth of shares in **Markit Ltd** executed by the consortium of banks (including state-controlled RBS) that own the data provider.[28] The only other large Swedish privatization of January-August 2015 was the February accelerated bookbuilt offering of a 4% stake in **TeliaSonera**, which raised €1.07 billion ($1.22 billion).[29]

The third and fourth largest EU privatizers of January-August 2015 were Italy and Spain, with three deals raising €6.19 billion ($6.87 billion) and two deals raising €4.58 billion ($5.18 billion), respectively. The largest sale in eiether country—and the EU's third largest of this period—was the long delayed but well received IPO of the Spanish government's 49% stake in the airport operator **Aena** in February, which raised €4.27 billion ($4.83 billion).[30] The next three largest privatizations of this period, and the fifth through seventh largest EU sales of January-August 2015, were all Italian deals. The first of these, the secondary offering of a 5.7% stake in **ENEL SpA**, executed in February, raised €2.19 billion ($2.45 billion); the second deal, also in February, was the €2.00 billion ($2.26 billion) asset sale of a stake in the transportation company **Ansaldo**; and the third deal was a March exchangeable bond offering by the UAE's Aabar Investments company that converted into 3% of the shares of **UniCredit**, which raised €2.00 billion ($2.16 billion).[31]

[28] The LSE and Markit sales are described in Philip Stafford, "LSE targets new openings as Borse Dubai bows out," *Financial Times* (March 26, 2015) and "Banks prepare to sell down stakes in data provider Markit," *Financial Times* (June 5, 2015). The Royal Mail deal is discussed in Gill Plimmer and Arash Massoudi, "Royal Mail stake sale raises £750m for UK government,"*Financial Times* (June 11, 2015). The Eurostar auction is described in George Parker, Gill Plimmer and David Oakley, "Eurostar sale raises £757m for Treasury,"*Financial Times* (March 4, 2015).

[29] See "Solidium Launches Accelerated Bookbuilt Offering of TeliaSonera Shares," *Thomson Reuters* (February 10, 2015).

[30] Andrew Bolger, "Europe equity surges to issuance record," *Financial Times* (February 18, 2015).

[31] The ENEL and Ansalso deals are discussed in Rachel Sanderson and Arash Massoudi, "Italy to sell 5.7% of state-controlled utility Enel," *Financial Times* (February 25, 2015). The Aabar exchangeable bond offering is described in Giovanni Legorano, "Debt can be exchanged for shares in Unicredit, in which Abu Dhabi fund is largest holder," *Financial Times* (March 23, 2015).

**Table 4. Large EU Deals, January-August 2015**

| Issue date | Company | Nation | Industry | % for sale | Value (€mil) | Value ($ mil) | Type of sale | Method of sale |
|---|---|---|---|---|---|---|---|---|
| 3/13/15 | Fortum-Electricity grid | Sweden | Utilities | | 6,600 | 6,945 | AS | Asset sale |
| Jan-Jul 15 | Lloyds Banks | United Kingdom | Finance | 9 | 5,547 | 6,141 | SEO | Small secdy sales |
| 2/09/15 | Aena SA | Spain | Infrastructure | 49 | 4,267 | 4,829 | IPO | Secondary offer |
| 8/04/15 | Royal Bank of Scotland Grp | United Kingdom | Finance | 5.2 | 2,887 | 3,236 | SEO | Accelerated book |
| 2/26/15 | Enel SpA | Italy | Petroleum | 5.7 | 2,185 | 2,449 | SEO | Secondary offer |
| 2/24/15 | Ansaldo | Italy | Transportation | | 2,000 | 2,262 | AS | Asset sale |
| 3/23/15 | Unicredito | Italy | Finance | 3 | 2,000[c] | 2,160 | ExBd | Exchangeable bond |
| 3/26/15 | London Stock Exchange Grp | United Kingdom | Finance | 17 | 1,847 | 2,017 | SEO | Secondary offer |
| 4/27/15 | Commerzbank | Germany | Finance | | 1,400 | 1,525 | SEO | Primary offer |
| 2/06/15 | GrandVision BV | Netherlands | Retailing | | 1,122 | 1,272 | IPO | Placement |
| 7/15/15 | Deutsche Pfandbriefbank | Germany | Finance | | 1,155 | 1,266 | IPO | Secondary offer |
| 2/11/15 | TeliaSonera AB | Sweden | Telecoms | 4 | 1,073 | 1,216 | SEO | Accelerated book |
| 6/11/15 | Royal Mail | United Kingdom | Services | 15 | 1,034 | 1,162 | SEO | Secondary offer |
| 3/04/15 | Eurostar cross-channel service | United Kingdom | Transportation | 40 | 1,043[a] | 1,155 | AS | Asset sale |
| 3/03/15 | Safran SA | France | Aerospace | 4 | 1,029 | 1,153 | SEO | Accelerated book |
| 6/04/15 | Markit Ltd | United Kingdom | Data services | | 628 | 708 | SEO | Secondary offer |
| 4/27/15 | Permanent TSB Group Hldg | Ireland-Rep | Finance | 48 | 500 | 545 | SEO | Primary offer |
| 6/11/15 | TAP | Portugal | Airline | 61 | 348[b] | 391 | AS | Asset sale |
| 5/19/15 | Enagas SA | Spain | Utilities | | 315 | 351 | SEO | Secondary offer |
| 3/20/15 | Malin Corp PLC | Ireland-Rep | Life sciences | | 325 | 351 | IPO | Primary offer |
| 2/26/15 | Irish Residential Properties | Ireland-Rep | Property | | 211 | 237 | SEO | Accelerated book |
| 3/11/15 | Societe des Bains de Mer | Monaco | Property | | 219 | 232 | SEO | Primary offer |
| 3/31/15 | Valeo SA | France | Automotive | | 187 | 201 | SEO | Placement |
| 6/11/15 | Royal Bank of Scotland Grp | United Kingdom | Finance | | 103 | 116 | SEO | Secondary offer |
| 5/08/15 | TINC Comm VA | Belgium | Finance | | 95 | 107 | IPO | Primary offer |
| | **11 EU states, January-August 2015** | **25 transactions** | | | **€36,729** | **$41,636** | | |

[a] Payment of £585 million plus redemption of £172 million preferred shares
[b] Purchase price of €10 million plus assumption of €338 million of debt.
[c] Shares offered in exchangeable bond offering by Aabar Investments (UAE-Dubai)
Sources: *Privatization Barometer, Securities Data Corporation (SDC)* New Issues and Mergers and Acquisitions files, and author's search of various news media (principally *Financial Times*).

Only three other EU countries, besides the four discussed above, raised more than €1 billion through privatizations during the first eight months of 2015. These were Germany [2 deals worth €2.56 billion ($2.79 billion)]; France [2 deals worth €1.22 billion ($1.35 billion)]; and the Netherlands [1 deal worth €1.12 billion ($1.27 billion)]. These countries executed four major deals between them; two in Germany and one each in France and the Netherlands. The two large German deals were the €1.40 billion ($1.53 billion) April capital-raising SEO by **Commerzbank**, in which the German government did not participate, and the July secondary offering of shares in **Deutsche Pfandbriefbank**, which raised €1.16 billion ($1.27 billion).[32] The largest Dutch and French sales were,

[32] Both German sales are discussed in James Shotter, "Deutsche Pfandbriefbank shares rise on market debut," *Financial Times* (July 16, 2015).

respectively, the February SEO of €1.12 billion ($1.27 billion) worth of shares in **GrandVision BV** and the March accelerated bookbuilt offering of a 4% stake in **Safran SA**.[33] The only other large EU privatization of January-August 2015 was the Irish government's April sale of a 48% stake in the insurer **Permanent TSB Group**, which raised €500 million ($545 million).

### Sales Outside of Europe during 2014 and the first Eight Months of 2015

Although European governments raised significant proceeds through privatization sales during the January 2014-August 2015 period (especially during 2014), their collective impact was dwarfed by non-EU privatizations over the same period. In fact, China alone raised almost as much as did all EU countries combined during 2014—188 deals worth $67.98 billion (€51.56 billion) versus 117 deals worth $77.62 billion (€58.34 billion)—and China's astonishing privatization totals for January-August 2015 [247 deals worth $133.28 billion (€123.00 billion)] represented over two-thirds (69.8%) of the number and almost two-thirds of the dollar (62.7%) and euro (65.4%) values of *global* privatizations during this period. While China has been one of the top two or three privatizing countries for many years, the massive surge in sales during January 2014-August 2015 coincided with the 145% rise in the value of shares traded on the Shenzhen and Shanghai stock exchanges through May 2015, and the number of privatization deals fell off only slightly during the June-August 2015 period, when Chinese share prices fell by over 40%.

Table 5 presents the ranking of non-EU countries by total value of privatizations during 2014 and the first eight months of 2015. Governments outside of Europe raised an impressive $140.38 billion (€106.24 billion) through 324 deals during 2014 and $171.15 billion (€157.29 billion) through 324 deals during January-August 2015. As noted above, China was by far the world's leading privatizer both years, especially 2015, but two other non-EU countries raised at least $10 billion in 2014 and January-August 2015. Australia and Turkey raised $12.61 billion (€9.75 billion) through 18 deals and $10 billion (€7.33 billion) in at least four deals, respectively, during 2014, while the United States barely missed the $10 billion cut for 2014 with 10 deals raising $9.76 billion (€7.34 billion).

The non-EU countries ranking fifth through tenth during 2014, with at least $2 billion in privatization sales, were Saudi Arabia [4 deals worth $7.62 billion (€6.11 billion)]; Russia [18 deals worth $6.66 billion (€4.90 billion)]; India [20 deals worth $4.27 billion (€3.15 billion)]; Japan [4 deals worth $3.90 billion (€3.01 billion)]; and South Korea [11 deals worth $2.64 billion (€2.02 billion)]. Three other non-EU countries round out the list of governments raising at least $1 billion during 2014: Malaysia [8 deals worth $1.82 billion (€1.34 billion)]; Canada [8 deals worth $1.46 billion (€1.10 billion)]; and the UAE [1 deal worth $1.00 billion (€732 million)].

[33] The GrandVision sale is described in Thomas Escritt, "GrandVision owners eye up to 1.3 bln euros from share sale," *Reuters* (January 26, 2015)," while the Safran offering is discussed in Michael Stothard, "Florange law gives French state the upper hand," *Financial Times* (April 16, 2015).

**Table 5. Ranking non-EU Countries by Total Privatization Revenues, 2014 and 2015 (through August)**

| 2014 Country | # Deals | Value (€mil) | Value (US$ mil) | Jan-Aug 2015 Country | # Deals | Value (€mil) | Value (US$ mil) |
|---|---|---|---|---|---|---|---|
| China | 189 | €55,697 | $73,617 | China | 247 | €123,004 | $ 133,277 |
| Australia | 18 | 9,749 | 12,611 | India | 25 | 10,652 | 12,161 |
| Turkey | 4+ | 7,332 | 10,000 | United States | 10 | 10.561 | 11,339 |
| United States | 10 | 7,342 | 9,755 | Saudi Arabia | 2 | 2,742 | 3,052 |
| Saudi Arabia | 4 | 6,113 | 7,617 | Malaysia | 7 | 1,956 | 2,148 |
| Russian Fed | 18 | 4,901 | 6,662 | Indonesia | 4 | 1,833 | 2,112 |
| India | 20 | 3,145 | 4,271 | South Korea | 6 | 1,168 | 1,256 |
| Japan | 4 | 3,007 | 3,902 | Thailand | 4 | 1,015 | 1,119 |
| South Korea | 11 | 2,019 | 2,643 | Pakistan | 2 | 1,001 | 1,069 |
| Malaysia | 8 | 1,335 | 1,821 | 11 other countries | 13 | 3,105 | 3,339 |
| Canada | 8 | 1,096 | 1,459 | | | | |
| UAE-Dubai | 1 | 732 | 1,000 | | | | |
| New Zealand | 2 | 629 | 871 | | | | |
| 15 other countries | 31 | 3,146 | 4,155 | | | | |
| **2014 Non-EU Total, 30 countries** | **324 deals** | **€106,243** | **$ 140,384** | **Jan-Aug 2015 Non-EU Total, 22 countries** | **324 deals** | **€157,289** | **$ 171,147** |
| **2014 Total World 48 countries** | **441 deals** | **€164,582** | **$ 218,007** | **2014 Total World 34 countries** | **354 deals** | **€188,181** | **$ 213,359** |

Sources: *Privatization Barometer*, *Securities Data Corporation (SDC)* New Issues and Mergers and Acquisitions files, and author's search of various news media (principally *Financial Times*).

After China, the next two leading non-EU privatizers of the first eight months of 2015 were India, with reported total proceeds of $12.16 billion (€10.65 billion) from 25 deals, and the United States, with a tally of $11.34 billion (€10.56 billion) through 10 sales. The next six leading non-EU privatizers of January-August 2015 were Saudi Arabia [2 deals worth $3.05 billion (€2.74 billion)]; Malaysia [7 deals worth $2.15 billion (€1.96 billion)]; Indonesia [4 deals worth $2.11 billion (€1.83 billion)]; South Korea [6 deals worth $1.26 billion (€1.17 billion)]; Thailand [4 deals worth $1.12 billion (€1.02 billion)]; and Pakistan [2 deals worth $1.07 billion (€1.00 billion)].

## Details of Individual Sales outside Europe in 2014

Table 6 lists the 55 non-EU privatization transactions of 2014 that raised at least $500 million. These and 269 smaller sales raised $140.24 billion (€106.24 billion), while 26 offers raised at least $1 billion. The four largest non-EU privatization of 2014 were all discussed in the introduction, and so will only be briefly reprised here. These were the $6.87 billion (€5.13 billion) August recapitalization and primary share offering of China's **CITIC Pacific Ltd**, that was executed in Hong Kong; the $6.00 billion (€4.82 billion) November IPO of a 25% stake in Saudi Arabia's **National Commercial Bank**; March's $6.00 billion (€4.31 billion) private placement of China's **BOE Technology Group**; and the $4.80 billion (€3.85 billion) secondary market IPO of Australia's **Medibank**

**Private** in November. The remaining large ($1 billion+) non-EU privatizations are discussed, by country of issuance, below.

The third, fourth and fifth largest Chinese sales of 2014, after CITIC Pacific and BOE Technology, were the December primary-share IPO of **Dalian Wanda Commercial**, which raised $3.70 billion (€3.04 billion); the primary-share IPO of **CGN Power** in Hong Kong, also in December, that raised $3.64 billion (€2.96 billion); and January's primary share IPO of **HK Electrical Investments Ltd** that raised $3.11 billion (€2.29 billion).[34] The May SEO of **China Merchants Securities** raised $1.79 billion (€1.30 billion); the December IPO in Hong Kong of **BAIC Motor Corp Ltd** raised $1.53 billion (€1.23 billion); and the January primary-share SEO of **China Shipbuilding Industries** raised $1.40 billion (€1.03 billion). The last three large ($1 billion+) Chinese privatizations of 2014 were all primary share IPOs and all were executed in mainland China rather than Hong Kong. These were May's IPO of **China CNR Corp Ltd** (formerly Central National Railways), that raised $1.21 billion (€886 million); December's $1.13 billion (€927 million) IPO of **Guosen Securities**; and the March IPO of **Harbin Bank** that raised $1.13 billion (€812 million).

Australia's center-right government headed by Tony Abbott, elected in September 2013, launched a sweeping privatization program designed to raise up to A$100 billion for re-investment in the country's infrastructure—and the initial phase of this program made Australia the second largest non-EU privatizer of 2014. The country executed four $1 billion+ deals during the year, the largest of which was the aforementioned November IPO of the government's 100% stake in **Medibank Private** that raised $4.80 billion (€3.85 billion). One month later, the primary-share IPO of **YancoalSCN Ltd** closed out 2014 by raising $2.31 billion (€1.89 billion), while April's primary-share SEO of transportation company **Transurban Group** raised $2.54 billion (€1.84 billion).[35] The final large Australian deal of 2014 came even earlier in the year--the February asset sale of **Macquarie Generation** to AGL Energy by the News South Wales state government raised $1.35 billion (€988 million).[36]

The third leading non-EU privatizing country of 2014, Turkey, executed several auctions of infrastructure and other companies during the year that raised a reported $10.0 billion (€7.33 billion), though as was the case for 2013 we only identified four sales totaling much less than this. The only identifiable $1 billion+ Turkish privatization was the July auction of a concession to operate the national betting company **Milli Piyango** that was won by the Turkish consortium Net Sans-Hitay, which paid $2.76 billion (€2.03 billion).[37]

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[34] These deals are described, respectively, in Jennifer Hughes, "Dalian Wanda raises $3.7bn in Hong Kong IPO," *Financial Times* (December 16, 2014); Yvonne Lee and Prudence Ho, China's CGN Power Raises Over $3 Billion in Hong Kong IPO," *Wall Street Journal* (December 2, 2014); and Jing Song, "HK Electric Raises $3.1 billion from IPO," *Financeasia.com* (January 22, 2014).

[35] The Yancoal deal is described in a company share offering circular (www.yancoal.au.com), while the Transurban Group IPO is discussed in Brett Foley, "Transurban Group Buys Queensland Motorways for A$7.1 Billion," *Financial Times* (April 24, 2014).

[36] See "AGL completes sale of Macquarie Generation and announces leadership change," AGL Energy Company media release (www.agl.com.au).

[37] See "More Turkish infrastructure to be privatized: Finance minister," *Portturkey.c*om (October 7, 2014).

**Table 6. Large ($500 million+) Non-EU Deals, 2014**

| Issue Date | Issuer | Nation | Industry | % Sold | Value (€mil) | Value (US$ mil) | Type of sale | Method of sale |
|---|---|---|---|---|---|---|---|---|
| 8/25/14 | CITIC Pacific Ltd | China | Finance | | €5,134 | 6,874 | SEO | Primary offer HK |
| 11/6/14 | National Commercial Bank | Saudi Arabia | Finance | 25 | 4,817 | 6,000 | IPO | Secondary offer |
| 3/25/14 | BOE Technology Group Co Ltd | China | Services | | 4,308 | 5,996 | SEO | Primary offer |
| 11/6/14 | Medibank Private | Australia | Insurance | 100 | 3.850 | 4,800 | IPO | Secondary offer |
| 12/16/14 | Dalian Wanda Commercial | China | Property | | 3,035 | 3,700 | IPO | Primary offer |
| 12/3/14 | CGN Power | China | Utilities | | 2,957 | 3,639 | IPO | Primary offer HK |
| 12/22/24 | YancoalSCN Ltd | Australia | Mining | | 1,892 | 2,307 | IPO | Primary offer |
| 1/22/14 | HK Electric Investments Ltd | Hong Kong | Finance | | 2,286 | 3,111 | IPO | Primary offer |
| 3/10/14 | Japan Display Inc | Japan | Manufacturing | | 2,382 | 3,084 | IPO | Mixed prim/sec |
| 9/23/14 | Citizens Financial Group Inc | United States | Finance | | 2,324 | 3,010 | IPO | Secondary offer |
| 7/15/14 | Milli Piyango | Turkey | Services | | 2,034 | 2,760 | AS | Asset sale |
| 5/30/14 | OAO IL | Russian Fed | Manufacturing | | 1,886 | 2,587 | SEO | Primary offer |
| 4/24/14 | Transurban Group | Australia | Transportation | | 1,839 | 2,538 | SEO | Primary offer |
| 4/9/14 | Ally Financial Inc | United States | Finance | | 1,720 | 2,375 | IPO | Secondary offer |
| 5/22/14 | China Merchants Securities Co | China | Finance | | 1,304 | 1,788 | SEO | Primary offer |
| 12/13/14 | BAIC Motor Corp Ltd | China | Manufacturing | | 1,229 | 1,532 | IPO | Primary offer HK |
| 12/2/14 | Ma'aden Company | Saudi Arabia | Mining | | 1,204 | 1,492 | SEO | Rights offer |
| 1/21/14 | China Shipbuilding Ind Co Ltd | China | Manufacturing | | 1,030 | 1,402 | SEO | Primary offer |
| 2/15/14 | Macquarie Generation | Australia | Utilities | 100 | 988 | 1,353 | AS | Asset sale |
| 4/3/14 | IMS Health Holdings Inc | United States | Services | | 942 | 1,300 | IPO | Mixed prim/sec |
| 1/30/14 | State Bank of India | India | Finance | | 944 | 1,284 | SEO | Capital raising |
| 12/19/14 | Ally Financial | United States | Finance | 11.4 | 1,044 | 1,277 | SEO | Secondary offer |
| 5/16/14 | China CNR Corp Ltd | China | Transportation | | 886 | 1,215 | IPO | Primary offer |
| 12/28/14 | Guosen Securities | China | Finance | | 927 | 1,130 | IPO | Primary offer |
| 3/25/14 | Harbin Bank Co Ltd | China | Finance | | 812 | 1,130 | IPO | Capital raising |
| 6/12/14 | DP World | UAE-Dubai | Infrastructure | | 732 | 1,000 | CvBd | Convertible bond |
| 9/15/14 | Ji lin Ji En Nickel Industry | China | Mining | | 754 | 977 | SEO | Primary offer |
| 2/28/14 | Lenta Ltd | Russian Fed | Retailing | | 696 | 952 | IPO | Secondary offer |
| 3/21/14 | Axis Bank Ltd | India | Finance | | 655 | 911 | SEO | Secondary offer |
| 6/17/14 | Tsinghua Tongfang Co Ltd | China | Manufacturing | | 653 | 883 | SEO | Primary offer |
| 5/16/14 | Sichuan Chengfei Integration | China | Manufacturing | | 620 | 850 | SEO | Primary offer |
| 7/30/14 | Soochow Securities Co Ltd | China | Finance | | 613 | 831 | SEO | Primary offer |
| 3/12/14 | AVIC Capital Co Ltd | China | Finance | | 585 | 814 | SEO | Primary offer |
| 10/24/14 | KEPCO | South Korea | Utilities | | 633 | 809 | SEO | Primary offer |
| 10/6/14 | ASZ | Russian Fed | Manufacturing | | 609 | 799 | SEO | Primary offer |
| 10/16/14 | Entra ASA | Norway | Real Estate | 58 | 625 | 799 | IPO | Mixed prim/sec |
| 3/12/14 | Quintiles Transnational | United States | Pharmaceutical | | 560 | 780 | SEO | Secondary offer |
| 7/3/14 | Luye Pharma Group Ltd | China | Pharmaceutical | | 563 | 764 | IPO | Mixed prim/sec |
| 1/7/14 | China Oilfield Services Ltd | China | Services | | 558 | 759 | SEO | Primary offer |
| 9/25/14 | Tongling Nonferrous Metals Gp | China | Manufacturing | | 565 | 732 | SEO | Primary offer |
| 2/20/14 | Southwest Securities Co Ltd | China | Finance | | 518 | 709 | SEO | Primary offer |
| 11/30/14 | Dubai Parks & Resorts | Dubai | Property | | 558 | 695 | IPO | Primary offer |
| 9/2/14 | Crescent Point Energy Corp | Canada | Petroleum | | 530 | 687 | SEO | Primary offer |
| 4/4/14 | NPO Saturn | Russian Fed | Manufacturing | | 492 | 680 | SEO | Primary offer |
| 2/27/14 | Oil Search Ltd | Australia | Petroleum | | 487 | 666 | SEO | Primary offer |
| 1/15/14 | Shaanxi Coal Industry Co Ltd | China | Mining | | 486 | 662 | IPO | Primary offer |

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| 3/28/14 | Genesis Energy Ltd | New Zealand | Utilities | 473 | 658 | IPO | Secondary offer |
| 3/1/14 | Beijing San Yuan Foods Co Ltd | China | Manufacturing | 468 | 651 | SEO | Primary offer |
| 8/13/14 | Songliao Automobile Co Ltd | China | Manufacturing | 479 | 642 | SEO | Primary offer |
| 8/15/14 | Beijing Urban Constr Invest | China | Finance | 474 | 635 | SEO | Primary offer |
| 7/14/14 | Huadian Power International | China | Utilities | 395 | 537 | SEO | Primary offer |
| 9/5/14 | Beijing Zhongchuang Telecom | China | Telecommunic | 409 | 530 | SEO | Primary offer |
| 4/13/14 | Oman Telecommunications Co | Oman | Telecommunic | 384 | 530 | IPO | Primary offer |
| 6/5/14 | Xi'an Aero-Engine PLC | China | Manufacturing | 377 | 510 | SEO | Primary offer |
| 9/24/14 | Bank of Ningbo Co Ltd | China | Finance | 389 | 504 | SEO | Primary offer |
| **2014 Total** | | **55 Transactions** | | **€64,286** | **$89,640** | | |

Sources: *Privatization Barometer, Securities Data Corporation (SDC)* New Issues and Mergers and Acquisitions files, and author's search of various news media (principally *Financial Times*).

Three $1 billion+ privatizations were executed in the United States during 2014, which was enough to make it the year's fourth leading non-EU privatizing country. The largest of these was September's sale of a 25% stake in **Citizens Financial Group** owned by Royal Bank of Scotland that yielded $3.01 billion (€2.32 billion) to the partly-nationalized British bank. April saw the secondary market IPO of **Ally Financial** (the 2013 sale was a private placement), wherein the US government sold 20% of the company's shares for $2.38 billion (€1.72 billion) and dropped its retained holdings from 37% to 17%. Finally, **IMS Health Holdings** raised $1.30 billion (€942 million) through a primary share IPO in April.[38]

Two countries rather unfamiliar among the ranks of global privatizers captured the fifth and sixth non-EU ranking of 2014—Saudi Arabia and Russia, respectively. The largest Saudi deal was the enormous [$6.00 billion (€4.82 billion)] IPO of a 25% stake in **National Commercial Bank** by the Saudi government, discussed in the Introduction. The only other large Saudi deal of 2014 was the December rights offer of the mining firm **Saudi Arabian Mining Company** (**Ma'aden**) that raised $1.49 billion (€1.20 billion).[39] Russia witnessed two large privatizations during 2014, the larger of which was the May primary offering of shares in the aerospace company **OAO Ilyushin**, which raised $2.59 billion (€1.89 billion). Three months earlier, there was a secondary share IPO of the food retailer **Lenta Ltd** that raised $952 million (€696 million).

The eighth and ninth largest non-EU privatizing countries of 2014 were India and Japan. India's only $1 billion+ sale of the year was January's disappointing capital-raising offering of a 7.8% stake in the **State Bank of India**.[40] Although this sale raised a non-trivial $1.28 billion (€943 million), this was only three-quarters of what the government had hoped to raise, and represented the financial swan song for India's Congress party government—which was swept from office by Narendra Modi's BJP party during the summer. Japan also launched only one $1 billion+ sale during 2014, the mixed primary and secondary share IPO of 59% of **Japan Display Inc** that raised $3.08 billion (€2.38 billion) in March.[41] While

[38] These three deals are described in Michael J. de la Merced, "Citizens Financial's Offering Raises $3 Billion as It Parts From R.B.S," *New York Times* (September 23, 2014); Richard Blackden, "Nike disappoints amid Fed-fuelled rally," *Financial Times* (December 19, 2014); and Leslie Picker, "TPG-Backed IMS Health Gains After $1.3 Billion Share Sale," *Bloomberg* (April 4, 2014).

[39] See "Saudi Arabian Mining Company (Ma'aden) to issue rights shares," *Aljaziracapital.com* (June 1, 2014).

[40] See Sumeet Chatterjee, "State Bank of India launches up to $1.5 billion share sale – sources." *Reuters* (**January 28, 2014**).

[41] See Takashi Amano, "Japan Display Prices Initial Share Sale at Bottom of Range," *Bloomberg* (March 10, 2014).

this was the only large Japanese deal of either 2014 or January-August 2015, the country is teeing up several large-to-enormous privatizations in coming years, as we will discuss in the section below.

### Details of Individual Sales outside Europe in 2015 (through August)

Table 7 lists the 41 non-EU privatization transactions of the first eight months of 2015 that raised at least $1 billion. (There were so many significant sales during January-August 2015 that we had to truncate Table 7 at $1 billion rather than $500 million) All but eight of these deals were Chinese share offerings—and most of those were the now-familiar primary share (capital-raising) public offerings or private placements. Eight of the thrteen largest deals (raising at least $1.70 billion) were sales of shares in mainland-Chinese companies in the Hong Kong mrket, and seven of the these were executed by financial companies.

The largest Chinese deal of January-August 2015 was the May SEO of **Huatai Securities Company**, which raised $5.00 billion (€4.49 billion) in Hong Kong.[42] The second and third largest Chinese deals of 2015, thus far, are the $4.81 billion (€4.31 billion) private placement of **Inner Mongolia Baotou Steel**, also in May, and the January SEO of **CITIC Ltd** in Hong Kong that raised $5.00 billion (€4.23 billion).[43] The next three largest Chinese sales of January-August 2015 occurred in the second quarter. **Unisplendour Corporation** executed a $3.36 billion (€3.27 billion) private placement in May. This was followed by the secondary share SEO of **CITIC Securities** in June that raised $3.50 billion (€3.12 billion), and preceded by the April private placement in Hong Kong of $3.09 billion (€2.82 billion) of shares in **China Galaxy Securities**.[44]

An additional four Chinese share offerings during January-August 2015 raised between $2 billion and $3 billion. These were the January IPO of **China Huarong Asset Management Company**, that raised $3.00 billion (€2.54 billion) in Hong Kong; the $2.87 billion (€2.61 billion) SEO in Hong Kong of **China Eastern Airlines** in July; the private placement of **Shenwan Hongyuan Group** in June that raised $2.19 billion (€1.95 billion); and the May primary-share IPO of **China National Nuclear Power** in Hong Kong, which raised $2.13 billion (€1.95 billion).[45] The China Eastern Airlines sale is especially noteworthy, because the company simultaneously sold a 3.55% stake directly to Delta Airlines for $450 million to further cement the two companies' Skyteam partnership.

Rather than list and comment separately on the remaining 21 Chinese share sales during January-August 2015 that raised between $1 billion and $2 billion, we will simply note a few key patterns important distinguishing features. First, all 21 were capital-raising primary share issues, and all but five were executed between

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[42] See M Rochan, "Huatai Securities: World's second biggest IPO this year fails to sizzle," *Reuters* (June 1, 2015).

[43] These two offerings are described in Fiona Law, "China Market Rout Closes Off an Avenue of Fundraising," *Wall Street Journal* (July 8, 2015) and Gabriel Wildau, "Citic investor presses regulator on insider trading claim," *Financial Times* (January 21, 2015).

[44] The Uniplendour, CITIC, and China Galaxy Securities deals are described in, respectively, "BRIEF-IT services provider Unisplendour to raise up to 22.5 bln yuan in private placement," Unisplendour Corporation media release (May 25, 2015); Bonnie Cao, "Citic Securities Seeks $3.5 Billion in Hong Kong Share Sale," *Financial Times* (June 15, 2015); and Jennifer Hughes, "Fosun raises $1.2bn as stock price doubles," *Financial Times* (May 11, 2015).

[45] These offerings are described in Jing Song, "China Huarong kicks off Hong Kong IPO," *FinanceAsia.com* (January 14, 2015); ," *Financial Times* (May 11, 2015); "China Eastern Airlines plans $2.4 billion private share sale to fund global push," *Reuters* (April 24, 2016); Bonnie Cao, "Citic Securities Seeks $3.5 Billion in Hong Kong Share Sale," *Financial Times* (June 15, 2015); and David Keohane, Markets go up, markets go down… apparently even in China," *Financial Times* (July 28, 2015).

January and May 2015, when the Chinese stock markets were still surging. Seven of the 21 sales—and four of the five IPOs—were share offerings by mainland Chinese companies executed in Hong Kong. The industrial distribution of these 21 offerings covered the spectrum--with the only concentrations being three issues each from the manufacturing, finance and insurance, and service sectors and two sales by property companies.

Although China dominated the global and non-EU privatization league tables during the first eight months of 2015, five other non-EU countries executed $1 billion+ deals. The United States had three such deals: two additional sales by RBS of shares in **Citizens Financial Group** in March and July, which raised $3.69 billion (€3.48 billion) and $2.57 billion (€2.33 billion), respectively, and the May secondary offering of **IMS Health Holdings** shares that raised $1.59 billion (€1.42 billion).[46] The two large Indian privatizations of January-August 2015 were both secondary-share SEOs of 10% share stakes: the January sale of Coal India, worth $3.66 billion (€3.24 billion), and the August sale of Indian Oil Corporation, that raised $1.40 billion (€1.14 billion).

There were only two $1 billion+ privatizations during January-August 2015 in non-EU countries other than China, the United States and India. South Africa and Pakistan executed one large deal apiece, and each of these was unique in its own way. The largest deal was the direct sale, in July, of the South African government's residual 13.9% stake in the telecom firm **Vodacom** for $2.30 billion (€2.08 billion).[47] This was executed to raise the money needed to bail-out the floundering electric utility company Eskom. The April SEO of a 42% stake in **Habib Bank** was, at $1.01 billion (€943 million), not especially large by international standards, but it was the largest share offering in rupee-terms in Pakistan's history.[48]

[46] See "Citizens Financial Group Announces Pricing of Secondary Common Stock Offering By RBS Group," ***Business Wire*** (July 28, 2015) and Leslie Picker, "**TPG-Backed IMS Health Gains After $1.3 Billion Share Sale,"** ***Bloomberg*** (April 4, 2014).

[47] **See** Andrew England, South Africa sells Vodacom stake to bail out Eskom," *Financial Times* (July 1, 2015).

[48] **See Kamran Haider** and **Faseeh Mangi, "Pakistan Raises Record $1.02 Billion in Habib Bank Share Sale",** *Financial Times* (April 11, 2015).

**Table 7. Large ($1,000 million+) Non-EU Deals, January-August 2015**

| Issue date | Company | Nation | Industry | % for sale | Value (€mil) | Value ($ mil) | Type of sale | Method of sale |
|---|---|---|---|---|---|---|---|---|
| 05/22/15 | Huatai Securities Co Ltd | China | Finance | | 4,487 | 5,000 | SEO-HK | Primary offer |
| 05/22/15 | Inner Mongolia Baotou Steel | China | Manufacturing | | 4,310 | 4,809 | SEO | Private placement |
| 01/20/15 | CITIC Ltd | China | Finance | 3 | 3,724 | 4,433 | SEO-HK | Primary offer |
| 03/25/15 | Citizens Financial Group | United States | Finance | | 3,480 | 3,687 | SEO | Secondary offer |
| 01/29/15 | Coal India Ltd | India | Mining | 10 | 3,236 | 3,661 | SEO | Secondary offer |
| 05/21/15 | Unisplendour Corp Ltd | China | Services | | 3,265 | 3,632 | SEO | Private placement |
| 6/15/15 | CITIC Securities | China | Finance | | 3,117 | 3,500 | SEO | Secondary offer |
| 04/27/15 | China Galaxy Securities | China | Finance | | 2,818 | 3,094 | SEO-HK | Private placement |
| 01/14/15 | China Huarong Asset Management Co | China | Finance | | 2,541 | 3,000 | IPO-HK | Primary offer |
| 7/15/15 | China Eastern Airlines | China | Airline | | 2,605 | 2,870[a] | SEO-HK & DS | Primary offer & Direct sale |
| 07/28/15 | Citizens Financial Group | United States | Finance | | 2,326 | 2,571 | SEO | Secondary offer |
| 7/1/15 | Vodacom | South Africa | Telecoms | 13.9 | 2,075 | 2,300 | DS | Direct sale |
| 06/12/15 | Shenwan Hongyuan Group | China | Finance | | 1,952 | 2,193 | SEO | Private placement |
| 05/29/15 | China National Nuclear Power | China | Utilities | | 1,951 | 2,128 | IPO-HK | Primary offer |
| 06/22/15 | Legend Holdings Corp | China | Conglomerate | | 1,765 | 1,975 | IPO-HK | Primary offer |
| 07/28/15 | Air China Ltd | China | Airlines | | 1,749 | 1,933 | SEO | Private placement |
| 05/07/15 | China Taiping Ins Hldgs | China | Insurance | | 1,541 | 1,739 | SEO-HK | Primary offer |
| 01/26/15 | Nanjing Huadong Electronic Information | China | Services | | 1,488 | 1,679 | SEO | Private placement |
| 01/23/15 | Henan Billions Chemical | China | Chemicals | | 1,467 | 1,655 | SEO | Private placement |
| 01/13/15 | Guangzhou Baiyunshan Pharmaceuticals | China | Pharmaceutics | | 1,430 | 1,614 | SEO | Private placement |
| 03/17/15 | Poly Real Estate Group | China | Property | | 1,520 | 1,612 | SEO | Private placement |
| 05/12/15 | BesTV New Media Co | China | Services | | 1,433 | 1,611 | IPO | Primary offer |
| 07/13/15 | China Railway Construction Corp | China | Engineering | | 1,452 | 1,600 | SEO | Private placement |
| 05/06/15 | IMS Health Holdings Inc | United States | Health care | | 1,423 | 1,594 | SEO | Secondary offer |
| 06/09/15 | Bright Dairy & Food Co | China | Food | | 1,286 | 1,451 | SEO | Private placement |
| 08/01/15 | China Railway Signal & Communications | China | Services | | 1,298 | 1,422 | IPO-HK | Primary offer |
| 8/25/15 | Indian Oil Corporation | India | Petroleum | 10 | 1,139 | 1,400 | SEO | Secondary offer |
| 05/12/15 | China Resources Land | China | Property | | 1,159 | 1,303 | SEO-HK | Primary offer |
| 06/30/15 | Jihua Group Corp Ltd | China | Manufacturing | | 1,157 | 1,290 | SEO | Private placement |
| 03/21/15 | Shenzhen Overseas Chinese Town | China | Tourism | | 1,213 | 1,289 | SEO | Private placement |
| 06/16/15 | Bank of Nanjing Co Ltd | China | Finance | | 1,147 | 1,288 | SEO | Private placement |
| 01/27/15 | Dongxu Optoelectronic Technology | China | Manufacturing | | 1,127 | 1,281 | SEO | Private placement |
| 5/12/15 | China Resources Land | China | Property | | | 1,300 | SEO-HK | Primary offer |
| 05/11/15 | Jointo Energy Invest Co | China | Energy | | 1,032 | 1,160 | SEO | Placement |
| 03/25/15 | Zhejiang Longsheng Auto Parts | China | Automobiles | | 1,063 | 1,159 | SEO | Private placement |
| 03/25/15 | Fuyao Glass Industries | China | Manufacturing | | 1,004 | 1,095 | SEO-HK | Primary offer |
| 04/10/15 | Habib Bank Ltd | Pakistan | Finance | 42 | 943 | 1,006 | SEO | Secondary offer |
| 02/17/15 | CDB Leasing Co Ltd | China | Finance | | 878 | 1,000 | IPO-HK | Primary offer |
| | | | N=41 | | **€74,292** | **$80,014** | | |

[a] Sold $2,420 million in primary share offering and $450 direct sale (3.55%) of stock to Delta Airlines.

Sources: *Privatization Barometer, Securities Data Corporation (SDC)* New Issues and Mergers and Acquisitions files, and author's search of various news media (principally *Financial Times*).

## Failed and Canceled Privatizations during 2014 and the First Eight Months of 2015

In sharp contrast with 2011 and 2013, the January 2014-August 2015 period will doubtless be remembered for the large number of completed privatizations, rather than for the number and value of privatization sales that failed, were cancelled, or were withdrawn. Nonetheless, there were a significant number of failed deals during 2014 and, especially, during the first eight months of 2015.

The largest failed/canceled privatizations of 2014 occurred in Italy. The poor June market debut of Financantieri (see above) caused the government of Prime Minister Matteo Renzi to delay planned sales of stakes in the air traffic controller **Enav**, the export agency **SACE** and, most importantly, 40% of **Poste Italiane**. The postal sale, which was re-launched in September 2015, was and is expected to net the State around €4 billion ($5 billion).[49]

The British government suffered the indignity of failing to complete an announced privatization twice during 2014. The first happened in July when plans to privatize **Land Registry** were called off following conflicts between Tory and Liberal Democrat members of the governing coalition. The second failure came in December when the Dutch and German governments vetoed the long-planned sale of the UK's 33% stake in the uranium enrichment company **Urenco**.[50] Ironically, this sale had only become feasible when the Dutch government earlier dropped its veto regarding sale of the company to private buyers. A full privatization of Urenco could have raised up to €10 billion ($12.5 billion).

Central and Southern Europe also saw their share of delayed and/or canceled privatizations during 2014. A planned auction of rights to operate the port serving the Turkish province of Koaceli failed in January, when no bidder stepped up to meet the minimum starting price of $516 million. Five months later, local opposition torpedoed a $1 billion (€736 million) bid by Russia's Rosneft for a controlling stake in **Kyrgyzstan's main international airport**.[51] Then in July, the newly elected Slovenian government of Miro Cerar postponed plans to privatize **Telekom Slovenije** and the **Ljubljana airport**. One month previously, the outgoing prime minister had frozen a privatization program targeting 15 companies—even though two had already been sold.

The final three significant failed/delayed/canceled divestments of 2014 occurred in the United States, India, and Pakistan. In March 2014, the largest municipally-owned U.S. electric utility, **Philadelphia Gas Works**, was sold through auction (with 33 bidders!) to UIL Holdings for an unexpectedly high $1.86 billion (€1.33 billion). All that was required to complete the sale was approval by the Philadelphia City Council before July 14, but this date passed without an approving vote and in December UIL exercised its option to terminate the deal. [52] The two aborted sales from Pakistan and India both occurred in November, beginning with the new Indian government of Narendra Modi delaying (yet again) sale of another tranche of **Steel Authority of India** (SAIL) shares due to vehement trade union opposition. A much worse fate befell the newly re-elected Pakistani government of Nawaz Sharif, which was also forced by trade union

[49] The 2014 postponed sales are described in Rachel Sanderson, "Italy loses enthusiasm for privatisations," *Financial Times* (August 25, 2014), while same author describes the re-launched offering of Poste Italiane in "Italy to list €4bn stake in post office on Milan stock exchange," *Financial Times* (July 19, 2015).

[50] See Jonathan Guthrie, "Private sector left floundering by risk of contracts such as Sellafield," *Financial Times* (January 12, 2015).

[51] See Jack Farchy, "Russia's neighbours: Primary colours," *Financial Times* (June 9, 2014).

[52] See Sujeet Indap, "Politics scupper Philadelphia's gas deal," *Financial Times* (December 15, 2014).

opposition to cancel the international sale of a 7.5% stake in **Oil and Gas Development Ltd** (OGDCL), after already having set a minimum price.[53] Besides raising around $800 million (€595 million) for the cash-strapped government, a successful offering would have marked Pakistan's return to international capital markets.

The most important failed/canceled privatizations of January-August 2015occurred in Australia and in the country that dominated European and world headlines for much of 1H2015: Greece. The surprise January 2015 electoral defeat of Campbell Newman's government in the Australian province of Queensland canceled some A$37 billion worth of planned privatizations. The largest single deal impacted by this election was an A$16.5 billion coal mining and export project in central Queensland. More general fears that other large Australian privatization would be put at risk were, however, calmed by the March re-election of Mike Baird's government in New South Wales. A dramatic electoral result also changed Greece's privatization path: the January 2015 election of the radical left-wing Syriza party threw the country's (finally) promising privatization program into reverse. The first major deals to be canceled were the aforementioned sale of **14 regional airports** to Germany's Fraport, which had closed only one month earlier, and the proposed $950 privatization of the the remaing 67% of the **Port of Piraeus** still in state hands. The new government also definitively halted the planned privatization of **Public Power Corporation of Greece**. Ironically—or tragically, depending upon your prespective—this same Syriza government was forced to accept a much more sweeping privatization program plan in July 2015 as part of a third EU bailout package, which Greece was forced to accept after its banks closed due to lack of (euro) funds and the economy neared financial collapse. This plan even removed final authority over privatization execution and control of sale proceeds from the Greek government.[54]

Two high-profile planned privatizations in the global petroleum industry collapsed—or at least were seriously delayed--in the first eight months of 2015. May saw the resignation of the CEO who was pushing a plan for China's **Sinopec** to sell up to 30% of the company's holdings in its string of petrol stations (a cash-cow business), that could have yielded up to $20 billion (€15 billion). His departure puts these plans on indefinite hold. Two months previously, the Peruvian government indefinitely canceled plans to sell up to 49% of its holdings in **PetroPeru** on the local stock market, which would have allowed the company to raise up to $3.5 billion in private capital for its ambitious exploration and production program and to upgrade its refineries to better handle the heavy crude oil it is now producing.[55]

Two other countries round out the list of failed and canceled privatization during January-August 2015. The Malaysian government, which had been trying for more than a year to list its **1 Malaysia Development Bank (1MDB)**, was forced to withdraw the planned IPO in April. The parent state-owned company announced plans to attract a new promoter to take over and ultimatley list 1MDB. Finally, the Serbia government announced, also in April, that George

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[53] See Farhan Bokhari and Avantika, "Chilkoti Pakistan delays $800m OGDCL stake sale," *Financial Times* (November 9, 2014).

[54] See Kerin Hope, "Greece backtracks on privatisation," *Financial Times* (February 4, 2015).

[55] These failed deals are described in Yvonne Lee And Prudence Ho, "Sinopec Gas-Station IPO Loses Momentum," *Wall Street Journal* (May 6, 2015) and *Teresa Cespedes,* "Peru's State Oil Company Says Scraps Plan For 2015 Share Offer," *Reuters* (March 30, 2015).

Soros and others had backed out of announced plans to acquire the pharmaceutical company **Galenika**, due to its high and mounting debts.[56]

### Planned Sales in Late 2015 and Beyond

We conclude this survey of privatization trends and major deals by describing sales that seem likely to be completed during 2015 or later years. Seven national programs—China, Britain, Australia, Turkey, India, Pakistan, and Japan--stand out due either to aggregate size, scope, or both. An eighth national program, Russia's, still has ambitious goals, but these seem unlikely to come to fruition any time soon as that country struggles to emerge from recession caused by the plunge in oil prices that began in late 2014 and the accumulating force of western sanctions.

China has dominated the privatization leagues tables for the past two years, and this seems likely to continue during 4Q2015 and beyond. Even though the 45% decline in the value of shares traded on the Shanghai and Shenzhen since May 2015, which knocked $3.9 trillion off China's market capitalization, has frozen some $154 billion in planned share sales, some or all of these sales are likely to proceed if and when calm returns to the markets. Perhaps the single largest planned-but-stalled sale is the IPO of Sinopec's retail distribution network, discussed in the previous section.

In what amounts to a historic turning of the circle, the United Kingdom—which launched privatization into a skeptical world dusing the 1980s—appears likely to be either the world's leading or second largest (after China) privatizer of 4Q2015 and 2016. Chancellor of the Exchequer George Osborne announced in August 2015 that the newly elected majority Conservative government planned to dispose of £32 billion [$48.6 billion; €43.4 billion] of state assets over the coming financial year, more than in any year of Margaret Thatcher's premeirship. Having already sold sizeable chucks of its holdings in **Lloyds Banking Group** and, in August 2015, having initiated sales of **Royal Bank of Scotland** (RBS), the government of David Cameron plans to fully divest the state's holdings in these banks—even at a price below that paid for their rescues during the fiancial crisis of 2008-09.[57] The Government also plans to sell the state's remaining 15% stake in **Royal Mail**, a large stake in the **Green Investment Ba**nk—set up by the prior Conservative-Liberal Democrat coalition government in 2012—and a £13 billion [$19.8 billion; €17.6 billion] chunk of **Northern Rock mortgages**, also acquired during the Financial Crisis. The Government is also considering privatizing the state-owned broadcaster **Channel 4**, which could raise up to £1 billion [$1.5 billion; €1.4 billion].[58]

Australia's Liberal government, headed by Tony Abbott from September 2013 until September 2015, began seriously implementing plans to raise up to A$100 billion [$85 billion; €64 billion] through sales of existing infrastructure and financial assets, and to recycle these proceeds into new infrastructure investment. There were several large privatizations during 2014 and early 2015, described above, and the new government of Malcolm Turnbull—who unseated Abbott as

[56] These two collapsed deals are discussed in Liau Y-Sing and Lilian Karunungan, Escaping Najib's Malaysia, Investors Also Flee Currency and Stock Market," *Bloomberg* (August 18, 2015) and "Soros Gave Up On Buying Galenika Due To Its Huge Debts," *Bloomberg* (April 28, 2015).

[57] The British government's divestment plans and accomplishments as of August 2015 are summarized in Martin Arnold, Elizabeth Rigby and Emma Dunkley, "Government stake sale in Royal Bank of Scotland draws fire," *Financial Times* (August 4, 2015).

[58] The Green Investment and and Channel 4 proposed sales are discussed in Elizabeth Rigby and Henry Mance, "UK plans to privatise Channel 4 come back into view," *Financial Times* (July 3, 2015).

Liberal Party leader on September 14, 2015—promised continuation of all major policy initiatives.[59] At the regional level, the New South Wales state government plans to raise an additional A$20 billion [[$85 billion; €64 billion] by privatizing "poles and wires" (electricity distribution networks). Similarly to the national government, NSW also plans to recycle the proceeds of these sales into new infrastructure investments.

Turkey continues to pursue an aggressive, multi-year privatization program focused on divesting its electricity, port, and gaming assets. The country raised a record $12.4 billion (€9.7 billion) during 2013, plus an additional $10 billion (€7.6 billion) during 2014, by divesting mostly electricity generation plants and the country's national gambling company **Milli Piyango**. In October 2014, the Turkish Finance Ministry laid out an ambitious privatization plan for 2015 and beyond, encomapssing sales of **Spor Toto** and **Horse Racing Authority** which combined could raise up to $10 billion (€9 billion). Also planned are additional sales of stakes in **Turksat's cable TV network**, 49% of the public stake in **Turkish Electricty Distribution Company**, the **Haydarpasa project** in Istanbul, the **Eti mine works** and boric acid facilities, and additional infrastructure assets. To date (late-October 2015), none of these sales have been completed, likely due to the political and economic problems that have rocked Turkey over the past year, but if these problems were to be ameliorated a truly massive privatization program could be re-launched. Various Turkish governments have raised about $70 billion through divestments since 1986.[60]

The Indian government of Narendra Modi, elected in 2014, has tried with some success to break India's cycle of chronic over-promising yet under-delivering on planned privatizations. Though to date his government has been unable to actually divest sizeable stakes in many of the nation's "crown jewels" it was able to sell $1 billion+ stakes in the huge-but-troubled coal monopoly, Coal India, and in Indian Oil Corporation by August 2015 (discussed previously). The Government has plans (hopes?) to partially divest the energy company **ONGC** and to sell additional stakes in the electric power group **NHPC**, **Coal India** and **Indian Oil Corporation**.[61] Other sacred cows could then follow.

Pakistan has a rather chequered history with privatizations, but the Sharif government appears determined to continue trying. It finally achieved a major success with the aforementioned April sale of a 40% stake in Habib Bank, and hopes to buil on that with a relaunch of the **OGDCL** sale that was aborted in November 2014. The government hopes to raise up to $2 billion through an international share offering in **Pakistan International Airlines** and sales of at least **nine electricity companies** and **six generating companies** during late 2015 or 2016.[62]

Japan's privatization "program" has long been characterized by a relatively small number of immensely large sales, spaced irregularly over time, and this seems likely to continue. The national government successfully executed very large divestments of **Japan Airlines** ($8.47 billion; €6.46 billion) in 2012 and **Japan Tobacco** ($7.75 billion; €5.93 billion) in March 2013, and additional stakes in these companies could well be offered in 2016 or later. However, in October 2014, the government of Shinzo Abe announced a renewed plan for what could

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[59] See Lenore Taylor and Daniel Hurst, Malcolm Turnbull promises new style of leadership after overthrowing Abbott," *The Guardian* (September 14, 2015).

[60] The Turkish government's privatization plans are summarized in "More Turkish infrastructure to be privatized: Finance minister," *PortTurkey.co* (October 7, 2014).

[61] See Victor Mallet, "Slow start to $10bn Indian state sell-off," *Financial Times* (December 5, 2014).

[62] See Lenore Taylor and Daniel Hurst, Malcolm Turnbull promises new style of leadership after overthrowing Abbott," *The Guardian* (September 14, 2015).

become one of the largest single privatizations in history. This is the oft-mooted, oft-canceled sale of a two-thirds stake in **Japan Post** in three tranches beginning in late 2015, which could raise up to $37 billion based on current market comparables.[63] Japan's government might at long last also follow through on plans first mooted in September 2011 to divest stakes in the oil company **Inpex** and the exploration and development company **Japex**, together valued at ¥566 billion ($7.41 billion; €5.38 billion). Finally, the Japanese (city) government hopes to raise $7-15 billion by fully privatizing the **Osaka Airport**.

Russia--always Russia--has grand plans for continuing its long-term divestment program, though as noted these plans are in serious jeapordy as the economy and the rouble both seem in free fall. In February 2014, Russian Prime Minister Dmitry Medvedev announced plans to raise Rbs 200 billion (worth $5.7 billion at the time, but worth only $3.1 billion in October 2015) by 2016 through sales of **Rostelecom** and the state shipping company, **Sovcomoflot**, as well as stakes in **United Grain Company** and **Novoroossiyk Commercial Port**. During 2013 and 2014, Russia raised $11.52 billion (€9.93 billion) by selling stakes in **Bank VTB**, **Sberbank**, **Freight One**, **VSMPO-Avisma**, and other companies, and in most of these cases the government retains still more stock that can be sold during 4Q2015 or later, if markets allow sales to be executed at reasonable prices. The government has also announced plans to sell off the rail container group, **Transcontainer**, and perhaps more of the stock it holds in **Russian Railways**. On balance, however, one must conclude that Russia's privatization program has (like India) usually fallen well short of its stated goals, due mostly to political infighting among top policy-makers, and unless the political issues—and the ongoing recession--are successfully resolved there seems little prospect of the state selling off a controlling interest in **Rosneft**, **Gazprom**, or any of the other massive state enterprises that dominate Russia's economy.[64]

Several eurozone countries--including Italy, Portugal, Cyprus, and Ireland—have significant though not massive divestment plans for 4Q2015 and 2016. The sales being contemplated are frequently for assets nationalized through bailouts during the financial crises of 2008-09 or 2012. As noted in the delayed/canceled/failed deal discussions above, Italy's Renzi government merely postponed several large divestments, and did not cancel these outright. Besides stakes in **Enav**, **SACE** and **Poste Italiane**—which is being offered for sale as this is being written in late-October 2015--the government might try to sell some or all of its 13% stake in the semiconductor manufacturer **ST Microelectronics**, train-station operator **Grandi Stazioni**, and its indirect holdings (throuugh CDP) in **Snam** and **Terna**, respectively the national oil and gas and electricity grids. Portugal plans to sell all or part of the gas and energy provider **Galp**, the railway freight service provider **CP Cargo**, the **CTT** postal service, parts of the water utility **Aguas de Portugal**, and the country's largest bank, **Caixa Geral de Depositos**. Cyprus has passed legislation authorizing sale of three utilities by 2018, which could raise up to €1.4 billion ($1.75 billion): the electricity authority **EAC**, the telecoms provider **CYta**, and **Cyprus Port Authority**, which manages the ports of Larnaca and Limassol. Ireland has announced plans to raise up to €3 billion by selling off its 25% stake in **Aer Lingus**, the state forestry body **Coillte**, and **Allied Irish Banks**—but has thus far shied away from any plans to privatize **ESB Group**, the Electricity Supply Board, due to strong union opposition.[65]

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[63] See Leo Lewis, "Japan Post kicks off TSE listing process," *Financial Times* (June 30, 2015).
[64] The dire state of Russia's privatization program is discussed in Alexei Lossan, "Kremlin to sell off 19.5% stake in Rosneft in bid to raise funds," *RBTH.com* (December 9, 2014).
[65] See Vincent Boland "Permanent TSB seeks to raise €525m," *Financial Times* (March 11, 2015).

Two privatization stars of recent years, the United States and Poland, are in the odd positions of having nearly completed major divestment programs initiated after the Financial Crisis ended in 2009, but the US still has valuable stakes in **General Motors**, **Citigroup**, and a few other companies that will likely be divested piecemeal over the next two years.

Two other fairly small, but nonetheless interesting planned national divestment programs deserve explicit mention before we conclude with a discussion of industry-specific planned sales. In July 2014, the newly-elected Serbian Prime Minister, Aleksandar Vucic, unveiled plans for the mass sale or liquidation of loss-making SOEs. 584 of the companies included in this plan are already registered with the privatization agency, and **Telekom Srbija**, Belgrade's **Nikola Tesla Airport**, and a major insurer among the firms most likely to be successfully divested.[66] On the other side of the world, the Vietnamese government announced yet another privatization plan—termed "equitisation" for local consumption—that will begin with sale of a 3.5% (!!) stake in **Vietnam Airlines** that would value the company at $1.5 billion (€5.38 billion). Whether this will be any more successful than previous attempts to divest the airline (when a strategic buyer once offered twice this value for a controlling stake) and more than 430 other SOEs remains unclear. Whereas the government claims to be willing to tolerate up to 49% private ownership in "equitized" firms, foreign strategic holdings will probably remain capped at 20-25%, severely reducing potential demand.[67]

Several countries plan to divest state-owned aviation and aerospace assets during 4Q2015 or later. As noted above, Greece, Japan, and Serbia all hope to fully or partially privatize major international airports, while Japan, Ireland, and Vietnam all plan to divest some or all of their national airlines. In addition, Korea plans to divest the **Incheon Airport** in the near future. Although the Brazilian government's hopes of auctioning a concession to operate **Galeão Airport**, Rio's main international access point, have been dealt a serious blow by the turmoil affecting all emerging markets—and the Brazil-specific turmoil resulting from the Petrobras scandal—this valuable asset remains saleable. Additional planned airline and aerospace company sales include Poland's ongoing (but heretofore unsuccessful) attempt to divest its stake in **LOT**, while the Korean government hopes to revive the sale **Korea Aerospace Industries** that collapsed in December 2012.

Sales of financial assets and companies should also prove popular during 4Q2015 and later. Besides the divestments already discussed above, at least two countries are planning multi-billion dollar privatizations soon. The Netherlands is planning a late 2015 IPO of up to 40% of **ABN Amro**, which it rescued with a €30 billion capital injection in 2009, that might raise up to €6 billion ($7.25 billion).[68] Korea is hoping that its fourth attempt to sell a 57% stake in **Woori Financial Group** will ultimately succeed and raise as much s $3.9 billion.

Rounding out this listing of proposed state divestments are the rather general plan put forward by the French government in October 2014 to sell off up to €10 billion ($11.1 billion) worth of state assets by April 2016, and the April 2015 announcement by the government of Slovakia to sell its 49% shareholding in

[66] See "Serbian govt starts privatisation of Telekom Srbija," *telecompaper.com* (June 26, 2015).
[67] Vietnam's privatization program is described in Michael Peel and Nguyen Phuong Linh, "Vietnam scraps foreign ownership limits in investment push," *Financial Times* (June 29, 2015).
[68] See Martin Arnold, Dutch government to sell 30 per cent stake in ABN Amro," *Financial Times* (May 22, 2015).

**Slovak Telekom** through an IPO that could raise up to €800 million ($890 million).[69]

## Conclusions

To summarize, the total value of global privatizations during 2014 rose significantly from prior years' levels to become the second largest sum ever, and the frenetic pace of divestments during January-August 2015 puts this year on track to become the highest ever—perhaps even exceeding $300 billion for the first time. Additionally, governments have announced major divestment plans that are likely to continue for at least the next two years, so the immediate future of privatization programs looks very bright. Longer term, the continuing fiscal challenges facing both western and emerging market countries suggests that privatization programs will remain a central issue for global finance and economics for many years to come.

[69] See "Henry Foy, "Slovak Telekom set for flotation as Deutsche Telekom talks end," *Financial Times* (April 8, 2015).

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# Learning from Past Privatizations: the Case of Treuhandanstalt (Germany 1990-1994)

Privatizations accomplished in the last decades offer to policy makers a broad spectrum of cases, enabling them to learn both from successful cases and from the less successful ones. Sometimes, privatizations show contradictory aspects, being successful in certain regards, but at the same time unsatisfactory concerning other goals. The privatization of East Germany economy from 1990 to 1994, recently regarded as a possible model for privatizations in Greece (Juncker 2011: 65), actually represents a good example of this.

The whole process was carried out at a record pace, so that the embodiment of East German economy in the market economy of the Federal Republic of Germany was definitely attained in less than 5 years. On the other hand, the process also showed a suboptimal outcome with regard both to the privatizations revenues and to the preservation of East Germany industrial capacity.

Concerning the first aspect, it can be said that on 19th October 1990 the chairman of the Treuhandanstalt (THA), the trustee to which all the assets to be privatized had been conferred, estimated all assets to have a total value of around DM600 billion. But as of 31st December 1994, when THA ceased its operations, that amount had vanished and was replaced by a DM256 billion minus: all in all, around a DM900 billion loss (Wenzel 2000: 171). Regarding the second aspect, privatizations caused a significant change in the industrial landscape of the former East Germany areas, leaving big industries (Kombinate) broken up, often closed, and only insufficiently replaced by SMEs.

The above is naturally partly related to the priorities assigned by the policy maker to the process (speed over economic gain, incorporation of East German assets over preservation of the industrial landscape), but it was also caused by failures and mistakes in the privatization process. The **critical issues** in the privatization process can be summarized as follows.

## 1. Amount of the assets on sale

THA has been referred to as "the biggest holding in the world". It actually "privatized an entire economy" (Most 2011: 172). From 1 July 1990 to 31 December 1994 it owned all the state factories and companies of the GDR, that employed some 4,1 million people (more than a fourth of the whole GDR population, and 46% of the employees of the country). It held 8,500 Kombinate and other companies, 20,000 shops and stores, 7,500 restaurants, 900 bookshops, 1,854 pharmacies, 3.68 million hectares land and forest, and real estate totaling 25 billion square meters.

The huge amount of assets on sale depressed the price of the assets sold, as was to be expected: it's a basic economic truth that, when the goods offered exceed demand, the buyer makes the price. From this point view, it was the mission

itself of THA - privatizing everything - that made it impossible to earn significantly from the privatizations.

## 2. Bad accountability and inadequacy of internal controls

The "Law on privatization and restructuring of the state owned assets", which was issued on 17 June 1990, gave control over THA only to the Ministry of Finance. These oversight powers proved to be very limited in practice. An important role was also played by a specific measure enacted by the Minister of Finance Theo Waigel on 26 October 1990: he released the board members of THA from liabilities, even in the case of gross negligence (while German corporate law, and particularly § 93 of law of public limited companies, assigns board members full responsibility). Only later was the release limited to slight negligence, and in this form it was left in place until the end of THA's operations. The release from liabilities was *de facto* extended to managers and officials at different levels and even to external consultants.

Internal controls also showed some serious inadequacies. As underlined by the Deputy Chairman of the Federal Court of Auditors, internal rules weren't respected and nobody supervised them (Laabs 2012: 303-304). So the biggest holding of the world had no effective controls--neither internal or external. Needless to say, for an institution which had such important strategic tasks it should have been an essential prerequisite to have good governance, reliable accountability and efficient internal controls.

## 3. Recruitment criteria

Recruitment of the personnel devoted to the privatization of East Germany companies was conducted favoring almost exclusively human resources coming from the West: all the important positions were covered by Western German officials. Even among managers, only two came from East Germany (see Laabs 2012: 226). Many managers and experts were also removed from responsible positions in the companies to be privatized, as they were presumed to be too close to the political system that had ruled East Germany for 40 years. Thus, very important knowledge about the functioning both of the companies controlled by THA and of the economic environment in which they were operating was lost forever. In retrospect, it would have been a much better HR policy to let professionals from the West and the East work together.

## 4. General approach to privatizations

The objectives assigned to THA emerge very clearly from the already mentioned title of the ruling law: "Law on privatization and restructuring of the state owned assets". Its first article states as follows: "State owned goods must be privatized". So privatization was considered as the first priority, more important than rescue. Thus in many cases the concrete choice was between sudden unwinding and sudden privatization. This was a drastic alternative indeed, and one that proved to be fatal for many companies that could have been rescued, and also resulted in privatization of very financially distressed companies, whose selling price had to be very low.

### 5. Remuneration policy

The rapid pace of the privatization process took top priority. Birgit Breuel, named Chairman of THA after the death of Rohwedder, proudly said: "In only 4 months we sold some 1,000 companies. Mrs. Thatcher privatized only 25 companies in 2 years, and it takes one year for the German Federal government to privatize only one. No other Institutions worldwide would have been able to do what we achieved" (quoted in Laabs 2012: 196). The structuring of the bonus system in THA was consistent with such a priority. At the beginning of 1992 the bonus for the cleverest officials was determined as follows: DM 44,000 were attributed to those in line with the privatization targets for 30 September 1992 (expressed in number of privatized companies). In case of overtaking these goals, the bonus would have been DM 88,000 (Baale 2008: 107). As recently confirmed by the financial crisis erupted in 2007, a monofactorial bonus system is dangerous in itself and can enhance moral hazard.

### 6. Eligibility criteria for companies to be privatized

Also questionable were the criteria used for differentiate East German companies among those which had to be immediately privatized, those to be rescued/refinanced (in order to be privatized as soon as possible) and those that on the contrary deserved closure/liquidation. These criteria were so explained by the THA manager, Horst Plaschna, to the Parliamentary Inquiry Commission on privatizations established in 1993 by the Bundestag: "only the companies that already have products capable of being sold in the West are to be rescued... Companies that haven't such a product aren't to be rescued. We are actually not allowed to develop new products using taxpayers' money. This would have a distorting effect on competition in West [Germany]" (Beweisprotokoll 1994: 31). It's worth mentioning in this regard that two-thirds of East German exports went, not to the West, but to Eastern European countries and to the Soviet Union. On this basis it's no wonder that only 10 per cent of East Germany companies was judged "to be rescued" by THA officials (Baale 2008: 97). The outcome was the liquidation of many companies that would have been capable of continuing their operations.

### 7. Companies allocated privately instead by tender operations

Regarding the way the companies were sold, private allocation was preferred to tender mechanisms. Such a privatization method implied a high rate of discretionality. It enabled THA to sell most assets (87 per cent) to West German entrepreneurs and corporations. But, on the other hand it diminished privatization revenues and increased the probability of collusive and corrupt practices between THA officials and buyers of the former GDR state-owned assets. Such practices actually took place not infrequently. It emerged, for instance, that officials of the THA branch in Halle built a criminal association together with people already known to the courts of Western Germany.

### 8. Eligibility criteria for buyers

As shown above, Western German companies became *de facto* the preferred choice of THA officials. This strengthened many West Germany companies, but hat two negative side effects. First, many foreign potential buyers that had already shown interest in East Germany assets, stepped down (sometimes after having complained to German and European authorities). In this way, access for

foreign companies to the unified German market was substantially limited. This hindered competition in Germany's corporate landscape, and thus weakened overall market efficiency. Second, it became clear after a while that for many Western German companies in 1990 (that at the time suffered from much unused productive capacity of their own), the priority was *selling* in GDR instead of *investing* there (Rösler in Bahrmann/Links 2005: 96, 101, 98). The buyers often turned out to be not big German corporations and serious *Mittelständler*, but also property speculators (buying companies only to earn the rights to use the soil which companies were built on) and even crooks, who were only interested in diverting money from the THA funding pot for privatizations or from the acquired company to their own accounts: a famous case was that of Wärmeanlagebau in Berlin. The other condition that made frauds easier was the almost complete lack of inquiries and checking on track record and even on pending proceedings against the appointed buyers. All in all, already at the beginning of 1994, the Minister of Finance Waigel, answering a Parliamentary question, estimated the losses due to economic crime related to privatizations in DM 3 billion; other estimates put the losses much higher, up to DM 25 billion (see Laabs 2012: 337).

## 9. Shortfalls in contracts with buyers and lack of ex post controls

In many cases contracts weren't really binding for the buyer with regards to compliance with promises to do investments and to keep jobs in place. This enabled counterparts not to stick to promises without having as a consequence the invalidation of the contract signed. So, for instance, of DM 200 billion promised investments (as stated by THA), by the end of 1993 only DM 10 billion had been actually realized, or only 5 per cent (Baale 2008: 115-116). It's important to stress that in many cases the buyers benefited from a generous amount of money spent by the THA in rescuing the companies to be privatized. There are significant differences--that not even the Parliamentary Inquiry Commission was able to clear--between the estimates on the amount spent made by Waigel (DM 155 billion) and the amounts coming from THA (about DM 268 billion). In practice, most of the amount spent was the dowry for the buyer for privatizing companies that were often offered at the symbolic price of DM 1. So, for instance SKW Trostberg bought the nitrogen producer Stickstoffwerke Piesteritz for the price of 1 DM and received from THA DM 953 million. Other cases were also significant: Kvaerner Deutschland bought Warnow yards for DM 1 million but received some DM 1,528 million from THA for rescuing the company; the tools factory Fritz Werner Werkzeugmaschinen bought Niles Werkzeugmaschinen for DM 50,000 and received at the same time some DM 5 million.

As a counterweight to this public money outflow, *ex post* controls proved to be very poor. Because of this, there were many cases of money being diverted, resulting in large losses. The case of Bremer Vulkan--that went bankrupt after having benefited from DM 3,472 million for the privatization of Meerestechnik Wismar, the yards Volkswerft Stralsund and other companies--is the most famous example, because this prompted the European Commission to open an infringement procedure against Germany for prohibited State aid and ignited a legal controversy thereafter (Wenzel 2003: 33-34).

## 10. Concluding remarks

While a general judgment on the outcome of privatization process in the former East Germany is a matter for historians, the knowledge of the critical issues we have discussed above can be useful both for today's policy makers (particularly § 1,2,4) and managers (§ 2, 3, 5-9). Such knowledge can not only help them avoid mistakes, but also help them master privatization processes more effectively and in a more useful way for all the stakeholders involved.

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# Understanding the Political Trade-offs Behind Privatization and Liberalization Policies

## 1. Political orientation bias in privatization and liberalization policies: an empirical puzzle?

Partisan differences in economic policy have been extensively analyzed by political economic researchers with respect to a large set of macroeconomic policies (covering the regulation of monetary, fiscal, labor, and industrial institutions, among others). Surprisingly, the political economic analysis of deregulation still fails to fully acknowledge the role of governments' partisan orientation in shaping the combination of liberalization-privatization policies. This is particularly true for OECD network industries and for the co-evolution of liberalization and privatization patterns therein observed over the last thirty years. As a consequence, whether and to what extent partisanship affects the policy design concerning both liberalization and privatization policies is a research question that still deserves an appropriate investigation.

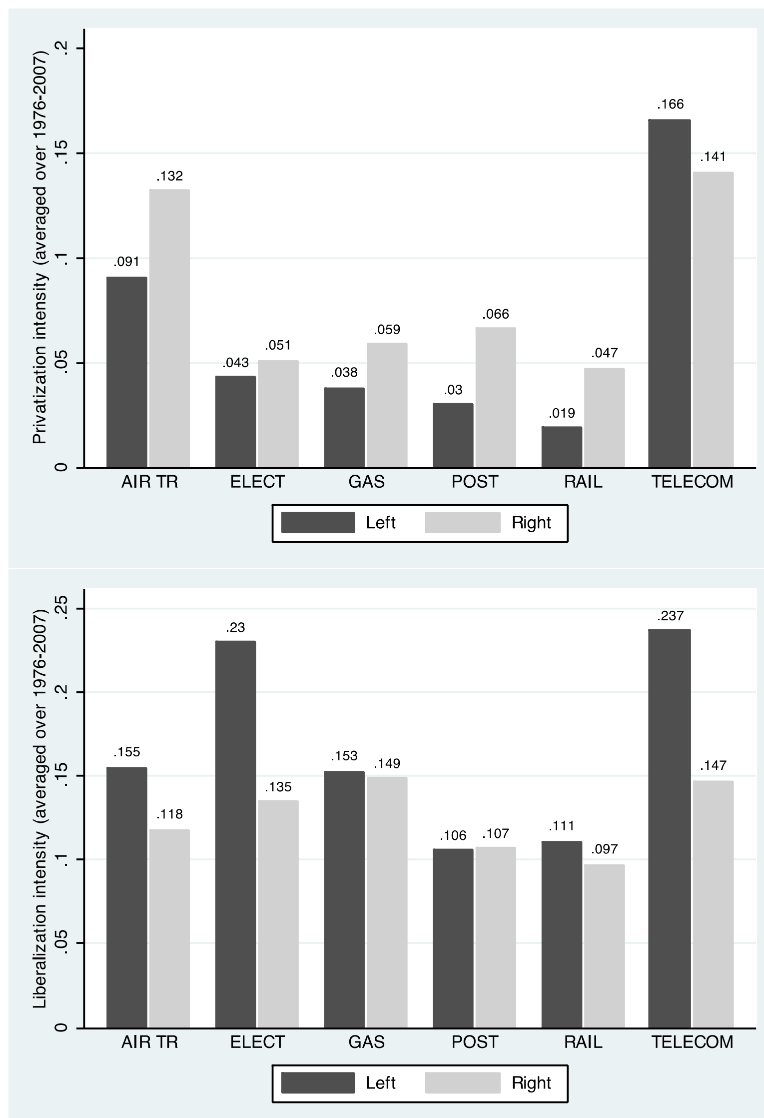
A traditional stream of policy research maintains that right-wing oriented governments tend to adopt market-led economic programs, including deregulation, State withdrawal from corporate ownership and progressive entry barriers abatement. On the other side, left-wing parties are deemed to rely on a positive degree of State intervention as a secure way to control prices and wage dynamics. Thus, according to this literature, the wave of pro-competitive initiatives observed in OECD network industries, since the early 1980s, should be mainly attributed to the political influence of right-wing executives.

While this common wisdom has certainly explained certain trends of deregulation in former legal monopolized industries, it contrasts with the available evidence on privatization and liberalization patterns. Recent data on OECD network industries suggests alternative pro-market paradigms, based on various combinations of privatization and liberalization initiatives and driven by the partisan orientation of governments. The focus on network industries is relevant, in this respect, as these sectors have long been characterized by the presence of natural monopoly segments, network externalities, and firms having non-economic objectives (e.g., universal service obligations). Given these peculiar characteristics, network industries have typically been burdened with legal restrictions to entry, widespread public ownership, and extensive cross-subsidies to a larger extent than other sectors. The evolution of governance and regulatory techniques, and an increasing international exposure made liberalization and privatization possible in these sectors, thus allowing governments to reveal in practice their pro-market preferences. OECD network industries are therefore an appropriate and interesting case for exploring the reform aptitudes of governments. Moreover, the intense reform processes in network industries have stimulated economists to collect quantitative information

of a higher quality than for other sectors, thus making rigorous data on these industries available for econometric analysis.

Figure 1 focuses precisely on OECD network industries deregulation. Surprisingly, it shows that right-wing executives favored privatization over liberalization, whereas left-wing governments pushed for liberalization policies more intensively than right-oriented ones. Phrased differently, a proper disentangling of pro-market policies unveils a rather different story than that suggested by common wisdom: a partisan trade-off between privatization and liberalization shapes pro-market policy design of network industries. Thus, the alleged primacy of right-wing governments in promoting the full range of pro-competition policies needs to be challenged and the left-wing pro-market activism needs to be explained.

**Figure 1**. Privatization and liberalization intensity averaged over six network industries and 30 OECD countries for right-wing/left-wing governments. Source: Belloc et al. (2014).



In a recent paper (Belloc et al., 2014) we have shown that the aggregate patterns outlined in Figure 1 are actually confirmed by rigorous econometric inquiry. Our econometric findings reveal that right-wing governments privatize to a greater extent and liberalize to a lesser extent than left-wing governments; thus, different countries have taken different pro- market paths according to the political orientation of the government in office. This empirical result is robust to the presence of cross-effects between liberalization and privatization, to sectoral path-dependency in policy adoption, and to policy diffusion across European countries.

In particular, our findings reveal that, even within a common shift toward pro-market reforms at the global level (the so-called neo-liberalism waves of the ‘80s and ‘90s), ideology still affects policy design and that the relation between policy and politics cannot be reduced to the anachronistic view of left-wing governments hindering competition and right-oriented parties promoting market development. Our results suggest the importance of investigating the economic effects of different policy sequencing. Several economists have argued that gradualism in policy adoption is crucial to the success of a pro-market reform process (e.g., Dewatripont and Roland, 1992, and Roland, 1994): privatizing without first granting free entry hampers the emergence of effective competition in the market and an efficient corporate restructuring of incumbents. If governments choose different liberalization-privatization paths, then it is interesting to measure the economic outcomes of the various policy mixes and to understand whether an optimal sequencing of reforms does exist. Our analysis may also encourage deeper econometric work on the effect of economic policies on political equilibriums and indirectly on subsequent economic outcomes. Causality factors may indeed run both ways, from politics to economic policy and vice-versa.

Available data thus forces reconsideration of the political and economic rationale behind privatization and liberalization as they have evolved over the last decades. Here, we outline some possible alternative (or complementary) explanations for the observed politics-driven privatization and liberalization paths and propose hypotheses for future research in the field.

## 2. Political rationales behind the liberalization-privatization trade-off

***Policy diffusion.*** A possible explanation behind the observed correlation between right-wing and left-wing governments with, respectively, privatizations and liberalizations refers to policy diffusion processes. This argument derives from the idea that institutional convergence drives market reforms in globalized economies, determining a transnational propagation of public policies (Simmons and Elkins, 2004). Policy diffusion may be stimulated through rather different channels, the most common being policy learning (according to which governments tend to follow the policy strategies previously adopted by successful neighboring countries) and supranational institutional drivers (in which economic and institutional integration, such as that deriving from joining the European Union or from more general political affinity, fosters policy convergence among partner countries). Where policy diffusion is present, then governments adhering to the same political platform may tend to adopt also similar policy initiatives, imitating the deregulation strategy adopted by the first mover. A sort of path dependency should thus emerges, with right-wing executives biased towards privatization policies (following Thatcherism and Reaganomics) and left-wing governments favoring liberalizations in the spirit of the neoliberalism launched by the US President Bill Clinton and the UK Prime

Minister Tony Blair. While policy diffusion mechanisms have certainly played a role in the progressive patterns of deregulation adopted by Western countries, a systematic econometric analysis also reveals that the statistically significant relevance of policy diffusion does not completely absorb the correlation between executives' political orientation and the observed privatization-liberalization mix (see Belloc et al. (2014)). Policy diffusion alone, therefore, does not offer a fully convincing explanation of why right-wing and left-wing governments turned out to bias their deregulation initiatives towards privatization and liberalization, respectively.

***Swing voters signaling.*** A second interpretation relies on the argument that the observed asymmetric privatization-liberalization patterns unveil a signaling strategy adopted by governments to attract middle-class voters. On the one hand, right-wing governments may tend to push towards privatizations allocating a significant amount of shares to median-class citizens in order to shift their preferences to the right (Biais and Perotti, 2002). On the other, left-wing executives may mirror this strategy with liberalization policies, trying to attract median voters otherwise tempted to vote for right parties by restructuring the economy through market discipline in liberalized sectors and minimizing rent-seeking. This argument however holds under specific political and electoral conditions and pro-market left-wing executives may lose some of their own constituents. When the latter effect dominates, self-interested left-wing governments may be induced not to compete for median voters. Moreover, the "swing voters signaling" interpretation does not explain why right-wing governments do implement liberalization initiatives to a lesser extent than left-wing ones (see Belloc and Nicita (2011)).

***Policy reversal.*** Another rationale proposes that, while right-wing governments tend to be anchored to their traditional policy platforms (typically centered on privatization), left-wing policy-makers may adopt liberalization policies to increase their credibility with respect to policy announcements by implementing a market-oriented policy that is distant from the left-wing original political platform (Cukierman and Tommasi, 1998). The idea, here, is that governments may find it difficult to make credible announcements to their voters, given the information asymmetry between executives (who have private information on the current state of the economy) and citizens-voters (who do not have access to the same information set). Thus, a policy switch from left-wing to right-wing pro-market policies may turn out to be optimal for leftish governing parties, if it is instrumental to increasing their credibility. Also this argument may contribute to explain certain specific policy measures, but it fails to acknowledge why a similar policy reversal has not been observed for right-wing governments that indeed remained true to their original policy framework.

***Policy complementarities.*** A fourth interpretation derives from privatization and liberalization being perceived by policy makers as a complement for other policies the government may want to implement. On the one side, privatization might be adopted by right-wing governments as a complement for the State's size reduction policies (including tax cuts). On the other side, liberalization might be considered by left-wing governments as a pre-requisite for redistributive policies or future market-oriented initiatives, including privatization, that left-wing executives may need to implement. In particular, when efficiency arguments and industrial and technological conditions force left-wing governments to foster State withdrawal from corporate ownership, the government may try to create a favorable free-market environment through entry barriers abatement in order to avoid a simple shift from a public to a private monopoly. Particularly for network industries, the economic outcome of privatizations seems to strictly depend on

the degree of joint liberalization policy (Newbery, 1997, 2002). Also in this case, it nevertheless remains unclear why right-wing governments did not push on liberalization initiatives as for privatization. In a right-wing policy agenda, liberalizations may indeed be needed after privatizations to increase market opportunities for existing operators previously active in other markets and to sustain new firms creation.

***Institutional drivers.*** Institutional drivers may be another important determinant of pro-market policy making. In particular, from this point of view, the institutional political environment within which governing parties decide their policies assume a crucial role in the elaboration of an executive's policy agenda. This argument mainly refers to left-wing liberalizations and proposes that, when left-wing parties are in office in a heterogeneous coalition encompassing also center and pro-market parties, then liberalization may be adopted as a way to deter stronger market-oriented policy or as a way of conceding some market-oriented measures to other members in the coalition, in exchange for redistributive policies towards left-wing constituents. This may clarify why, in weak political-institutional settings, when a left-wing party is in office, liberalizations may be observed. Again, however, the proposed argument contributes to motivate some left-wing liberalizations, but does not explain the observed privatization-liberalization divide, with right-wing governments liberalizing less than left-wing ones. In Belloc, et al. (2014), furthermore, we showed that the correlation between policies and executive's political color is robust to controls for the "institutional capacity" of governments (proxied by indexes of lawmaking power and political competition).

***Public finance.*** An additional interpretation, mainly focusing on privatization, suggests that right-wing governments may favor privatization over liberalization because they tend to be elected after economic downturns and, once in office, need to boost the sale of shares of previously State-owned companies in order to restructure public budgets. While empirical evidence shows that government debt and deficit indeed tend to exert a positive stimulus on privatization initiatives, in a previous paper we also unveiled that this is not sufficient to explain the positive correlation between right-wing political orientation of governments and the intensity of privatization measures (Belloc and Nicita, 2012).

***New political agendas.*** A final, more convincing argument, is that framing privatization within a traditional right-wing policy platform and liberalization is a mean to reduce inequality within a new left-wing political agenda. On the one side, right-wing governments tend to preserve their favor for pro-market platforms, with a preference for those initiatives that allow additional State size reductions, as maintained by proponents of the policy complementarities argument. Privatization is a source of finance for governments and may be used by right-wing executives to cover tax cuts and, more generally, to lighten the economic burden of the State. On the other side, left-wing governments may have changed their agenda according to the greater dispersion of their constituents across heterogeneous social classes. In globalized economies, left-wing parties try to be representative of low-income customers rather than of low-income employees only (Alesina and Giavazzi, 2007). In this new framework, liberalizations are used by left-wing governments as a mean to shift financing from taxpayers to the users and to redistribute rents towards low-income customers through price reductions and greater competition among providers. Moreover, liberalizations can be implemented without renouncing universal access priorities. Thus, left-wing governments remain adverse to fully privatizing markets, while right-wing governments retain their favor for privatization, to the extent liberalizations may assume a redistributive nature.

## 3. The telecommunications case: ugly duckling or pilot sector?

As Figure 1 shows, the telecommunications sector followed an unexpected pattern characterized by both left-wing driven liberalization and privatization. It is interesting to investigate whether the telecommunications sector constitutes a sort of exception, with left-wing governments implementing both policies in an attempt to remove right-wing control over sectoral rents (this may be coherent with some country experience), or an experimental ground for left-wing governments also trying to govern privatization processes. In the latter case, which would be the rationale for left-wing privatizations and should we expect left-wing privatizations also in other sectors in the future?

These questions do not have an answer yet and remain open for future research (on the evolution of telecommunications restructuring processes see Belloc et al. (2012, 2013)). Nonetheless, econometric evidence shows that the privatization process in OECD telecommunications reacted to international convergence in policy-making and to economic and political integration within the EU more than in other sectors.

Specifically, in Belloc, et al. (2014) we have found that a globalization variable is shown to have a relatively higher impact on telecommunications privatizations compared to other network industries. Moreover, estimated telecommunications-specific fixed effects were associated with a relatively larger parameter, suggesting that this sector has been relatively more exposed to pro-competitive reforms. These results are not sufficient to explain the political determinants of telecommunications privatizations. However, they also suggest that the deregulation process in telecommunications is not confined within single countries' experiences and that the rise of a global telecommunications market may be a part of the story.

## 4. Summing up

Mainstream empirical literature has generally treated liberalization and privatization policies as two aligned and substitutable issues under the comprehensive umbrella of pro-market reforms. The distinction between the two policies has often been confused in the economic literature, and the two concepts have often been overlapped and conflated in a generic notion of “pro-competitive deregulation”. It is not only a matter of definition; it is also a matter of content and of alternative political and economic rationales behind the governmental choice of a policy mix.

Disentangling privatization and liberalization would reveal that the two policies might have different economic and political rationales and consequences. Whereas liberalization should properly denote the abatement of legal provisions impeding the free entry of new competitors into a market and does not directly involve corporate ownership changes, privatization is a process of formerly State-owned firms going private and does not imply legal free entry into the market (without liberalization, privatization simply determines a shift from a public to a private monopoly).

Of course, the effects of liberalization are not independent of the level of privatization in the market, and vice-versa. On the one hand, entry barrier abatement before privatization reduces the monopolistic rents of the incumbent and lowers the price at which the State will be able to sell its shares of a company; on the other, the State’s withdrawing from ownership before liberalization increases the returns that the State can obtain from privatization. While this distinction has been suggested by many studies on pro-market policy

effect, it has been thus far ignored by the existent empirical political economic literature.

We suggest that liberalization and privatization policies need to be approached as two distinct components of a general pro-market reform process. Disentangling the two policies, at least in network industries, would reveal much more on the political orientation and motivation of pro-competitive governments than actually appraised.

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## Risk-taking Behavior of Privatized Banks

Bank privatization has been pervasive in both developed and developing countries. While prior studies have provided ample evidence on the operating performance of newly privatized banks, there is little evidence on bank risk taking behavior. We examine the effects of privatization on risk-taking by newly privatized banks in an environment of increased competition. The impact of privatization on the risk-taking behavior of newly privatized banks is an interesting empirical question. On one hand, privatization could induce higher risk taking by newly-privatized banks. Since state-owned banks are not driven by principles of profit-maximization, but are used to promote governments' economic and social agenda and to maximize social stability through the provision of employment and credit or subsidies to supporters in return for political contributions and votes. In order to ensure success of future elections, governments use state owned enterprises (SOEs) to pursue conservative investment strategies. Following privatization and the attendant change in the objective of the firm to value maximization, privatized banks now accountable to shareholders, could become more aggressive in their quest to create value for the new owners. It is therefore reasonable to surmise that risk taking by the privatized banks will increase in the post-privatization period.

On the other hand, there are good reasons to expect that government ownership of banks could induce higher risk taking and that privatization could lead to a reduction in risk. First, state-owned banks are used to implement governments' political agenda. In this regard, due to political exigencies, state banks tended to extend credit sometimes at below market rates and with little economic justification to favored and usually risky sectors such as agriculture. In addition, state banks were occasionally coerced into making economically questionable loans to friends of politicians. Consequently, state-owned banks could carry higher non-performing loans than other banks. Thus government ownership of banks and the resulting politicization of resource allocation can increase the risks of privatized banks. Once the banks are privatized and are relieved of these political exigencies they will shift lending away from state-owned enterprises (SOE) to more creditworthy clients who meet the banks' new and presumably prudent lending standards.

In addition, the lack of monitoring and accountability on the part of the managers of the state-owned banks could induce them to take higher risk. The existence of soft budget constraints could add to this incentive to take high risk. As part of the government apparatus, SOEs are able to secure additional finances if they sustain losses and are often rescued with public money if they are threatened with bankruptcy. Thus, SOEs can act as if the limits to their

budgets are malleable or "soft" (Chang, 2007). From the perspective of the manager of a state bank, the government will always be there to pick up the tabs in the end, and being fully aware of this safety net, the executives of state-owned banks can take risky bets and gamble with their employers' assets, sometimes for personal gains. Thus the effect of soft budget constraints, political exigencies to lend to priority and economically risky sectors, and the lack of monitoring lead us to predict that the risk of the privatized banks in the pre-privatization period could be high. Once these banks are privatized and their objectives change and market monitoring improves, risk can reduce in the post-privatization period. Moreover, with the removal of government subsidies following privatization, the banks could become more cautious and less risky. Gropp, et al. (2012) find that banks whose government guarantees were removed cut their credit risk and loan sizes. The foregoing argument suggests that privatization could have ambiguous influence on bank risk taking behavior and that whether bank privatization induces higher or lower risk taking by newly privatized banks is an empirical question.

We examine this empirical question using a sample of 242 bank privatizations in 42 countries that occurred between 1988 and 2007 and a control sample consisting of 582 banks observations of all publicly traded bank in the countries at the time of privatization. We obtain the list of privatized banks from Megginson (2005) and the World Bank privatization database (2008). We use the World Bank's country classifications to construct our lists of developed and developing countries. The privatization announcement dates were obtained from the business news archives of Thomson Reuters and Factiva. The financial statement and stock price data come from Bankscope and Datastream International databases. Since changes in risk-taking behavior can take a long time to manifest, we use five years of pre-privatization data and five years of post-privatization data to examine the research question. We use the z-score as our main measure of risk.[70] A higher z-score indicates that the bank is more stable. For robustness test, we also use ROA volatility, ROE volatility, the ratio of non-performing loans to gross loans, and solvency ratio as alternative measures of risk. We use a five-year moving window to calculate both the volatility of ROA and ROE. Similar to ROA, the ROE series are winsorized at -100% and +100%. The *ratio of non-performing loans* is the ratio of non-performing loans to gross loans. The ratio approximates a bank's exposure to credit risk. A higher ratio indicates a higher exposure to credit risk.

We analyze changes in risk over the pre- and post-privatization period and report our results in Table 1. We find for our sample of privatized banks that the *z-score,* our main accounting-based risk measure, increased from a pre-privatization level of 2.22 to 2.72 in the post-privatization period and the change is significant at 1%. The increase in the *z-score* signifies a reduction in risk and an improvement in the banks' stability following privatization. The other risk measures also provide similar results; i.e., the privatized banks experienced a reduction in the variability of ROE, volatility of ROA, an improvement in the ratio of non-performing loans, as well as an improvement

[70] The z-score is defined as the inverse of the probability of insolvency and is estimated as the return on assets plus the capital-to-asset ratio, divided by the standard deviation of return on assets. It measures the distance from insolvency.

in the solvency ratio. These results are consistent with the hypothesis that the privatized banks have become more prudent and less risky following privatization.

### Is the reduction in the privatized banks' risk an industry-wide phenomenon?

The reduction in risk documented for the privatized banks could be an industry-wide phenomenon and not necessarily an outcome of the privatization. It is possible that deregulation of the banking sector led to lower risk taking among all banks. Berger, et al. (2009) argue that a monopolistic banking system (which is what existed in some of the countries before deregulation and privatization) is associated with higher loan rates for borrowers. The higher loan rates could increase the risk appetite of borrowers who must fulfill more stringent repayment obligations; thus the banks will have to carry high-risk loan portfolios. However, deregulation and competition among banks could lead to a reduction in interest rates and the probability of loan defaults for all banks. In addition, the removal of restrictions and government controls on banks following privatization could improve the stability of the banking system and enhance banks' charter value which will in turn provide incentives for banks to institute conservative investment policies while at the same time encouraging increased diversification of their assets portfolio (Gonzales, 2005). Consequently, it is possible that the observed reduction in risk and non-performing loans documented for the privatized banks could be an industry-wide phenomenon. To address this concern, we estimate the risk measures for the rival banks in order to account for industry influences on risk taking.

**Table 1: Changes in risk**

This table reports the mean, median, difference-in-means and difference in difference means tests of *volatility of ROE*, *ratio of non-performing loans*, *Z-score*, *volatility of ROA*, and *solvency ratio* levels of banks. Differences in difference in mean tests compare the mean statistics of privatized banks to those of rival banks. T-statistics appear in parentheses. The symbol *, ** and *** indicate significance at the 0.10, 0.05 and 0.01 levels, respectively.

| | Privatized Banks | | | Rival Banks | | | Priv - Rivals | Priv - Rivals | Difference |
|---|---|---|---|---|---|---|---|---|---|
| | 5-year post-period | 5-year pre-period | Diff | 5-year post-period | 5-year pre-period | Diff. | Post-period | Pre-period | Diff. in diff |
| | (a) | (b) | (a-b) | ( c ) | (d) | (c-d) | (a-c) | (b-d) | (a-c)-(b-d) |
| Z-score | 2.7138 | 2.2208 | 0.5033** | 3.0376 | 3.0018 | 0.0356 | -0.3131* | -0.781** | 0.3507* |
| | | | (2.1348) | | | (0.1215) | (-1.7305) | (-2.3680) | (1.6803) |
| Vola of ROE | 0.0084 | 0.1524 | -0.0684*** | 0.075 | 0.1116 | -0.0364*** | 0.0092 | 0.0411* | -0.0342*** |
| | | | (-3.2325) | | | (-3.1072) | (0.9129) | (1.8726) | (-2.963) |
| Ratio of NPL | 0.0806 | 0.14 | -0.0593*** | 0.0618 | 0.0843 | -0.0224 | 0.019** | 0.0558*** | -0.0301* |
| | | | (-3.3009) | | | (-1.4938) | (2.062) | (2.5918) | (-1.8918) |
| Vola of ROA | 0.0065 | 0.0138 | -0.0076*** | 0.0077 | 0.0114 | -0.0038* | -0.0013 | 0.0024 | -0.0040*** |
| | | | (-2.7252) | | | (-1.6802) | (-1.0096) | (0.7471) | (-3.3283) |
| Solvency ratio | 0.0778 | 0.0702 | 0.0077* | 0.0788 | 0.0773 | 0.0018 | -0.0012 | -0.0071 | 0.004 |
| | | | (1.9088) | | | (0.2593) | (-0.2263) | (-1.3133) | (0.0792) |

The results presented in columns (c) to (d) of Table 1 indicate that unlike the newly privatized banks which exhibit significant reduction in the z-score and all other risk measures following privatization, rival banks did not experience any significant change in their *z-score*. The other accounting-based risk measures also did not change except *volatility of ROE.* Collectively, these results suggest that the reduction in risk experienced by the privatized banks is not due to industry-wide effects. Nonetheless, we control for any potential industry-wide effects that could have affected privatized banks' risk by estimating industry-adjusted risk for the privatized banks (as the difference between the privatized banks' risk measure and that of the rival banks) for the pre- and post-privatization periods. The results, presented in the last three columns of Table 1_ show that the newly privatized banks were, on average, riskier than their rivals in the pre-privatization period as they had significantly higher *ratio of non-performing loans,* higher *volatility of ROE* and lower *z-score* (implying higher risk) than those of the rivals. The privatized banks continue to exhibit higher risk than their industry counterparts in the post-privatization period; however the difference between the newly privatized banks' risk measures and those of the rival banks becomes significantly smaller. In summary, the privatized banks exhibited higher levels of risk than their rivals in the pre-privatization period. They have experienced a significant decrease in risk after the privatization and the reduction in risks is not attributed to industry-wide factors.[71]

## Degree of privatization and risk taking

Having documenting that privatized banks experience a reduction in risk after privatization, we perform additional analysis to gain further insights into their risk-taking by examining the effect of the degree of privatization such as full *vs.* partial privatization and fraction of shares sold on risk taking. We expect the fraction of shares sold to impact bank's risk taking. On one hand, we can argue that because state-owned banks are not motivated by principles of profit-maximization and because they enjoy government subsidies with little or no pressure for better performance, they will have less incentive to take higher risk. But once the government sells its holdings in the firm, and the bank becomes more accountable to shareholders, risk taking by the bank could increase. On the other hand, it is plausible that the gradual removal of government subsidies and guarantees following privatization can make the privatized banks more cautious and prudent in the post-privatization period. To test this conjecture, we examine the relationship between fraction of shares sold and risk taking. The results presented in Table 2 show that the coefficient of *fraction* is consistently negative in the z-score regression, implying that a higher fraction of shares sold is associated with higher risk taking. This observation is interesting because it suggests that as the government reduces its holdings and the banks become more accountable to shareholders, the

[71] We also conducted a more rigorous (pooled) cross-sectional time series regression analysis using GMM and examined the interaction effects of privatization and several transaction, firm, and country characteristics on risk taking while controlling for factors other which extant literature has shown to affect corporate risk taking including the legal system, the type of bank regulation and supervision, the country's level of development, leverage, size, etc. The results, not reported here for brevity purposes are similar; privatized banks exhibited higher risk than the control sample before privatization but they have experienced a reduction in risk in the post-privatization period.

privatized banks take on more risk. This finding is reinforced by the coefficient of *Full*, which is consistently negative and significant, indicating that fully privatized banks exhibit higher risks than those that are partially privatized. The combined effect of *Fraction* sold and *Full* variables on risk taking, coupled with the finding that the privatized banks had higher risk in the pre-privatization period than in the post privatization period suggests a nonlinear relationship between government ownership and risk taking.[72]

[72]We also examine the effect of the privatization method (SIP vs. asset sale) might have on risk taking since firms privatized through the stock market (SIP) are subject to disclosure requirements and profit-maximizing pressures that are different from those of banks privatized through asset sales. Although privatizations through asset sales are not always subject to such constraints, they are characterized by higher information asymmetry that could lead to increase in risk taking by the new owners. Though not reported here, except for the ratio of non-performing loans, we do not observe significant differences in risk-taking between banks privatized through the stock market and those privatized through asset sales. However, our regression results show that consistent with the information asymmetry hypothesis, we find that banks privatized through asset sale exhibit evidence of higher risk than those privatized through *SIP*.

**Table 2: Further Analysis of Privatized Banks**

This table presents results of additional analysis of privatized banks. Panel A presents regression results of Z-score on post-privatization period dummy (post-Priv), privatization characteristics (*SIP*, *Fraction*, *Full. Foreign*), country characteristics (*Developed, Law, PolRisk, DI*) and other control variables *(Ownership/Governance, Financial leverage, Size*). Panel B shows the z-score for different levels of privatization. T-statistics appear in parentheses and the symbols *, ** and ***indicate significance at the 0.10, 0.05 and 0.01 levels, respectively.

| Z score | | | | | |
|---|---|---|---|---|---|
| **Panel A: Regression results** | | | | | |
| | (1) | (2) | (3) | (4) | (5) |
| *Intercept* | 1.664*** | 1.4471*** | 1.3121*** | 1.4583*** | 4.6072*** |
| | (7.461) | (5.160) | (5.507) | (5.438) | (3.247) |
| *SIP* | 0.6772*** | 0.1903* | 2.2694*** | 2.3248*** | 2.7698*** |
| | (3.568) | (1.7974) | (8.720) | (8.158) | (8.273) |
| *Full* | -0.0653*** | -0.1477*** | -2.3963*** | -3.8380*** | -4.0858*** |
| | (-1.954) | (-2.546) | (-6.286) | (-4.330) | (-4.210) |
| *Fraction* | | -0.6672** | -1.0866* | -2.9570* | -5.1017*** |
| | | (-2.239) | (-1.7432) | (-1.802) | (-2.489) |
| *Foreign* | | -0.3949*** | -0.006 | -0.0797 | -0.1922 |
| | | (-2.635) | (-0.019) | (-0.219) | (-0.510) |
| *Developed* | | 0.5625*** | 0.775*** | 1.0352*** | 1.0689*** |
| | | (4.115) | (2.781) | (3.145) | (2.687) |
| *Law* | | 0.7730*** | -0.2255 | 0.0395 | 0.3973 |
| | | (6.707) | (-0.679) | (0.103) | (0.790) |
| *PolRisk* | | 0.0609*** | 0.033*** | 0.0297*** | 0.0361*** |
| | | (9.027) | (3.080) | (2.961) | (3.793) |
| *DI* | | 0.2226 | 0.0433 | 0.0142 | 0.1431 |
| | | (1.606) | (0.155) | (0.052) | (0.305) |
| *SIP*Full* | | | 3.6020*** | 2.9931*** | 1.3264* |
| | | | (3.598) | (2.657) | (1.748) |
| *SIP*Fraction* | | | -2.0244* | -1.3735 | 0.6974 |
| | | | (-1.882) | (-1.131) | (0.375) |
| *SIP*Foreign* | | | -0.2153** | -0.1683** | -0.1025* |
| | | | (-2.693) | (-2.015) | (-1.925) |
| *SIP*Developed* | | | -1.9980*** | -2.2060*** | -1.7269*** |
| | | | (-6.929) | (-6.056) | (-3.583) |
| *SIP*Law* | | | 0.6621*** | 0.61251** | 0.6032** |
| | | | (2.784) | (2.158) | (1.985) |
| *Ownership/Governance* | | | 0.0728 | 0.0557 | 0.0125 |
| | | | (1.090) | (0.844) | (0.160) |
| *Leverage* | | | 2.5754*** | 2.5382*** | 8.2523** |
| | | | (3.297) | (3.101) | (2.179) |
| *Size* | | | 0.2426*** | 0.234*** | 0.2077*** |
| | | | (4.153) | (4.209) | (3.367) |
| *ROE* | | | 1.2150 | 1.292 | 0.7214 |
| | | | (1.414) | (1.589) | (0.753) |
| Fraction ^2 | | | | 4.9418*** | 6.7437*** |
| | | | | (2.115) | (2.799) |
| *SIP*PolRisk* | | | | | -0.0174* |
| | | | | | (-1.922) |
| *SIP*DI* | | | | | -0.1800 |
| | | | | | (-0.420) |
| Year fixed effects | yes | yes | yes | yes | yes |
| Observations | 770 | 573 | 568 | 331 | 331 |
| Adjusted $R^2$ | 0.05 | 0.19 | 0.42 | 0.47 | 0.48 |
| **Panel B: z-score for different levels of privatization** | | | | | |
| Privatization interval | Mean | Median | Privatization interval | Mean | Median |
| **0%** | 2.713 | 2.708 | **>50-≤60%** | 2.639 | 2.591 |
| **>0-≤10%** | 2.835 | 2.720 | **>60-≤70%** | 2.522 | 2.632 |
| **>10-≤20%** | 3.575 | 3.471 | **>70-≤80%** | 2.599 | 2.764 |
| **>20-≤30%** | 3.203 | 3.231 | **>80-≤90%** | 2.963 | 2.664 |
| **>30-≤40%** | 3.031 | 3.155 | **100%** | 3.064 | 2.820 |

### Further analysis of the U-shaped relationship

We follow the procedure used by Morck, et al. (1988) and analyze the non-linear relationship between the degree of privatization and risk taking by grouping the z-score of the privatized banks into different categories based on the degree of privatization. The results, presented in Panel B of Table 2 show that the relationship is certainly non-linear and is somewhat U-shaped. We observe that the median z-score increases (risk declines) from 2.708 for state banks (0% privatization) to 3.471 for privatization level of about 20% and then drops (risk increases) to 3.15 at >30%-≤40% private ownership and to 2.82 at 100% private ownership, thus generating a somewhat U-shaped (roof-shaped or inverted U-shaped) relationship between the percent of shares privatized and risk taking (private ownership and z-score). However, there isn't a monotonic reduction in risk from what appears to be the optimal level of privatization (between 10%-20%) to 100% privatization.

A fully-owned state bank (with zero percent private ownership) has higher risk than a 20% partially privatized bank perhaps because a state-owned bank typically takes on maximal regulatory risk in an effort to implement government policy-- investing in risky sectors such as agriculture, even if the risky asset provides a lower expected return than safe assets. As private ownership rises to a more modest level (of 20%), maximal risk-taking induced typically by political expediency is tempered by far more prudent lending practices, thus leading to a reduction in risks. From our analysis, a 20% public-private ownership in the privatized banks seems to be the optimal degree of privatization that minimizes the banks' risk. This optimal privatization level ensures conservative and prudential practices that stabilize the banks. As private ownership in the bank rises to a much higher level and the managers become more accountable to private investors who demand higher profitability and higher return, the banks tend to take on more risk. At the full end of the privatization spectrum, risk increases further. The implication of our results is that the amount of risk a bank takes depends on the bank's ownership structure, with the relationship between private ownership and risk taking being non-linear and roughly U-shaped (inverted U-shaped between private ownership and z-score) suggesting that both full government ownership and full private ownership lead to increased risk.[1]

We further test this non-linear relationship between government/private ownership and risk taking by introducing *fraction squared* as an explanatory variable in our regression and find that the linear form, *Fraction,* enters the regression negatively and the quadratic form, *Fraction squared*, enters positively and is strongly significant at the 1% level, thus confirming the non linear, somewhat U-shaped relationship between private ownership in the bank and risk taking (see results reported in columns 5 and 6 of table 2). The foregoing results suggest that the impact of privatization on risk taking depends on how much of the bank is privatized and that an 80-20 public-private partnership (20% privatization) minimizes risk.

The roughly U-shaped relationship between fraction of bank's shares sold and risk taking (which is a new finding) suggests that both full government ownership and full private ownership lead to increased risk. However, the incentives driving the high risk under full government ownership and full private ownership are different. For the former, political intervention in the operations of

[1]We also examine the z-scores of the fully privatized sub-sample and find that where the banks' ownership structure changed from fully state-owned to fully private-owned, the pre and post privatization z-scores of 2.202 and 2.208 respectively are not statistically different.

the state banks, for example using the banks to extend credit for political reasons, including lending to usually risky segments of the market at below market rates, and the availability of government guarantees and subsidies enjoyed by state-owned banks can induce higher risk taking. For fully privatized banks that are wholly accountable to their private owners, the desire to create value for the shareholders will make the banks more aggressive, which in turn can lead to higher risk taking.

## Conclusion

We examine the risk-taking behavior of newly privatized banks and find that prior to privatization the banks were riskier than their rivals. Following privatization however, the newly privatized banks experience a significant decrease in risk, and the observed reduction in risk is not due to industry-wide effects. Interestingly, we also find that a higher proportion of the banks' shares sold induces higher risk taking and that banks that are fully privatized exhibit higher risk than those that are partially privatized, suggesting that as the privatized banks become more accountable to their shareholders, they become more risky. Although this finding seems to suggest a monotonic positive relationship between the degree of privatization and bank risk taking, the fact that *fraction of banks' shares* sold by the government is positively related to risk taking, coupled with the finding that the privatized banks experience a reduction in risk after privatization points to a non-linear relationship between government (private) ownership and risk taking. Further analysis of this nonlinear relationship indicates that the relationship between private ownership and risk taking is somewhat U-shaped. This relationship remains even when we control for firm size, privatization transaction and country characteristics. Our results are robust to different measures of risk.

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# Share Issue Privatization in China and its Consequences

## 1. Introduction

Privatization is viewed as a means of creating efficient organizations for state owned enterprises (SOEs) by strengthening incentives, opening up access to capital markets, and subjecting companies to equity market monitoring. Supporting this view, Megginson and Netter (2001) document that the post-privatization performance of most firms is better than pre-privatization performance. Dewenter and Malatesta (2001) and Claessens and Djankov (2002) found that newly privatized SOEs' performance improves.

China's privatization is different from typical privatization practices around the world (Lipton, Sachs, and Summers, 1990; Boycko, Shleifer, and Vishny, 1994; Biais and Perotti, 2002). China's approach is gradual. The reform in China has proceeded with the government dictating the pace of reform, aiming to gradually introduce a significant but minor percentage of public minority ownership for trading on the stock market. Such partial privatization allows the Chinese government to retain a substantial portion of the ownership of partially privatized SOEs, especially medium and large firms. In doing so, China adopted a strategy so-called "keeping the larger ones and letting go the smaller ones".

SIPs allow the government to retain control as the largest shareholder in publicly traded SOEs. Two stock exchanges, the Shanghai Stock Exchange and the Shenzhen Stock Exchange, were established in the early 1990s and large scale SIP started in 1997. By 2002, the total value of SIP offerings reached US$100 billion. Through the SIP program, hundreds of SOEs obtain listed status with shares traded on the stock market. There are two types of SIPs: independent IPO listings and equity carve-out listings. SOEs can directly be privatized via independent IPOs or they can be partially privatized by listing subsidiaries through equity carve-out. Deng, Gan, and He (2010) show that approximately three quarters of the SIP firms went through an "incomplete restructuring" process, creating a parent-subsidiary structure in which the subsidiary was listed and the parent company kept the redundant workers and debt burdens. Sun and Tong (2003) find that the operating efficiency of Chinese SIP firms drops significantly during the three years after privatization.

We first study why some SOEs are privatized through the SIP program. Firm size and debt are important in affecting whether SOEs will be privatized through SIP. Next we examine the choices of SIPs either through independent IPOs and carve-out. State ownership is positively associated with the likelihood of privatization only for SIPs through carve-out IPOs, but not for independent listings. Short-term leverage (debt-asset ratio) is positively related to the choice of privatization through independent IPO but has no effect on the choice of carve-out IPO.

## 2. Data and Sample Description

We utilize a comprehensive sample of large industrial SOEs compiled by the National Bureau of Statistics of China between 1998 and 2009. The sample not only includes large SOEs that remain unlisted but also largest SOEs that are partially privatized through SIPs. The SIP firms are categorized into two groups: those stand-alone companies privatized through IPOs and those with only their subsidiaries listed (carve-out). The availability of unlisted SOEs means that our sample is immune from sample selection bias, since SOEs without SIPs provide a perfect benchmark to examine *ex ante* which types of SOEs are likely to be privatized. Our categorization of two types of SIP firms follows Pagano, Panetta and Zingales (1998). They examine the factors that drive Italian family businesses to go public.

We first manually collect privatization information for SOEs, those privatized via SIP as well as SOEs unlisted and remaining fully owned by the government. To ensure that non-privatized SOEs are comparable, we only include the largest 2000 firms each year, according to asset size. We exclude firms with less than 20% government ownership. The SIP is matched to IPO data available on the internet through news search. The final sample includes more than 1000 SOEs every year and it is unbalanced panel data.

In the multivariate analysis, we use probit regression to study the ex-ante determinants of SOEs to be privatized through share issues. The regression specifications are below:

$$\text{Probit } (SIP) = \alpha_0 + \alpha_1 \, Size + \alpha_2 \, Leverage + \alpha_3 \, State\ Ownership + \alpha_4 \, Perforamnce + \alpha_5 Control\ Variables + \varepsilon \quad (1).$$

All independent variables are one-year lagged and the dependent variable is a dummy set to one if an SOE is privatized. The control variables include year and industry dummies. We furthermore examine the effect of privatization on leverage (debt/asset ratio). The privatization dummy is set to one for SOEs that eventually go public through share issuance, and to zero if they remain unlisted. Post IPO dummy is one for privatized SOEs at one year after IPOs.

$$Performance = \alpha_0 + \alpha_1 \, Privatization\ dummy + \alpha_2 \, Post\ IPO\ dummy + \alpha_3 \, Control\ Variables + \varepsilon \quad (2).$$

Table 1 provides a detailed yearly distribution of the sample, including the number of SOEs, the number of SIP firms with independent IPO and number of SIP firms with equity carve-out IPO. The table shows that there are 1587 SOEs at the beginning of our sample period in 1998, and there were 188 independent IPOs and 171 care-out IPOs that year. The number of SOEs gradually decreases to 1156 in 2009. The shrinking size of SOEs reflects that many of them are privatized and no longer have state ownership and that private firms without state ownership have grown substantially in the recent years. Among SOEs, about 21% are privatized through SIP with independent IPO, and about 12% are those listed through carve-out IPO.

**Table 1: Sample Year and Industry Distributions**

The sample includes the largest 2000 industrial and manufacturing firms in China from 1998 to 2009. We report sample observations of each year for SOEs, SEOs with independent IPOs and SOEs with Carve-outs.

Panel A: Year Distribution

| | SOEs of whole sample | SOEs with Independent IPOs | Percentage | SOEs with Carve-outs | Percentage |
|---|---|---|---|---|---|
| 1998 | 1587 | 188 | 11.85% | 171 | 10.78% |
| 1999 | 1560 | 205 | 13.14% | 190 | 12.18% |
| 2000 | 1537 | 258 | 16.79% | 196 | 12.75% |
| 2001 | 1489 | 264 | 17.73% | 187 | 12.56% |
| 2002 | 1489 | 276 | 18.54% | 188 | 12.63% |
| 2003 | 1404 | 270 | 19.23% | 180 | 12.82% |
| 2004 | 1326 | 341 | 25.72% | 149 | 11.24% |
| 2005 | 1283 | 295 | 22.99% | 163 | 12.70% |
| 2006 | 1263 | 298 | 23.59% | 155 | 12.27% |
| 2007 | 1180 | 285 | 24.15% | 142 | 12.03% |
| 2008 | 1173 | 398 | 33.93% | 151 | 12.87% |
| 2009 | 1156 | 368 | 31.83% | 148 | 12.80% |
| Average | 1351 | 287 | 21.62% | 168 | 12.30% |

Table 2 reports the firm-year mean and median of the firm characteristics and financials for three groups: SIP firms with independent IPO, SIP firms with carve-out IPO, and the remaining SOEs that are not privatized through SIP.

**Table 2: Sample Summary Statistics**

The sample includes the largest 2000 industrial and manufacturing firms in China from 1998 to 2009. We only include SOEs, and report sample summary of firm characteristics and financial performance of all firm-year observations. The summary is reported according to whether firms are SOEs with Carve-outs, SEOs with independent IPOs and other SOEs.

| | SOEs with Carve-outs | | SOEs with Independent IPOs | | Control Group of Other SOEs | |
|---|---|---|---|---|---|---|
| | Mean | Median | Mean | Median | Mean | Median |
| Firm Age | 40.75 | 39 | 33.20 | 18 | 40.83 | 36 |
| Total Asset (Billion RMB) | 6.62 | 3.31 | 5.51 | 2.70 | 8.16 | 3.72 |
| Shareholder Equity (Billion RMB) | 3.50 | 1.53 | 3.30 | 1.46 | 2.27 | 0.86 |
| Employees (Thousand) | 102.84 | 6.79 | 75.51 | 3.30 | 177.44 | 2.56 |
| Revenue (Billion RMB) | 52.50 | 18.34 | 58.89 | 20.42 | 37.45 | 12.44 |
| Percentage of State Ownership (%) | 72.25 | 99.99 | 44.38 | 48.99 | 60.94 | 91.80 |
| Fixed Asset/Asset (%) | 41.14 | 40.37 | 51.28 | 50.10 | 53.34 | 52.37 |
| Total Debt/Asset (%) | 56.47 | 57.02 | 51.64 | 51.82 | 63.89 | 65.40 |

| | | | | | | |
|---|---|---|---|---|---|---|
| Receivable/Asset (%) | 8.52 | 6.35 | 7.76 | 5.30 | 8.39 | 5.16 |
| Short Debt/Total Debt (%) | 75.79 | 79.21 | 74.77 | 81.78 | 65.32 | 72.71 |
| Interest/Debt (%) | 3.31 | 2.36 | 5.16 | 2.65 | 3.51 | 2.30 |
| Financing Cost/Total Cost (%) | 4.35 | 2.97 | 3.74 | 1.86 | 5.73 | 2.70 |
| CAPEX/Asset (%) | 8.67 | 3.70 | 6.27 | 1.36 | 4.36 | 0.72 |
| ROA (%) | 3.16 | 2.15 | 4.71 | 3.24 | 3.42 | 1.37 |
| ROE (%) | 5.04 | 5.46 | 11.44 | 7.47 | 8.43 | 4.59 |
| Asset Growth Rate (%) | 34.30 | 10.58 | 48.51 | 8.59 | 39.31 | 6.17 |
| Profit from Non-core Business (%) | 7.08 | 2.82 | 5.29 | 0.79 | 2.57 | 0.82 |

On average, unlisted SOEs are similar in asset size and employees to SIP firms with carve-out IPOs, while SIP firms with independent IPOs are smaller. Government ownership in SIP firms with independent IPO is smallest among the three groups with a mean of 44% and a median of 49%. The other two groups are majority owned by the government. SIP firms have higher short-term debt-to-total debt ratios. On average, SIP firms with independent IPO are shown to have higher ROA, ROE and sales growth than other SOEs.

## 3. Main Results

Table 3 reports the probit regression results for the determination of SOEs being privatized through share issues vs. remaining unlisted. The regression is a cross-sectional OLS regression. Three sets of probit regressions include three dependent variables, respectively, a dummy for SIP, a dummy for SIP with independent IPO, and a dummy for SIP with carve-out IPO. The regressions control year and industry fixed effects. The regression coefficients and heteroscedasticity-robust t-statistics are reported in the columns 2, 3, and 4 respectively.

**Table 3: Determinants of the Decision to Privatize**

The sample includes the largest 2000 industrial and manufacturing firms in China from 1998 to 2009. We only include SOEs and use probit regression to study the determinants of the decision to privatize. For each privatized firm, we generate a dummy variable of one if the SOE is privatized within 3 years of privatization, while exclude observations at the year or after the year of privatization. The table reports three sets of regressions where first set include all privations, the second set include only independent IPOs as privatization and the third include SEOs with carve-outs as partial privations.

| | Dummy(SIP) | Dummy (SIP with Independent IPOs) | Dummy (SIP with Carve-outs) |
|---|---|---|---|
| Percentage of State Ownership | 0.343*** | 0.107 | 0.459*** |
| | (4.13) | (0.89) | (3.81) |
| Log(Asset) | 0.294*** | 0.182** | 0.398*** |
| | (6.72) | (2.77) | (6.80) |
| Log(1+ Firm Age) | 0.017 | -0.048 | 0.013 |
| | (0.49) | (0.89) | (0.29) |

| | | | |
|---|---|---|---|
| Fixed Asset/Asset | -0.440** | 1.399*** | -0.552*** |
| | (3.81) | (4.04) | (4.23) |
| Total Debt/Asset | -1.117*** | -0.844** | -1.298*** |
| | (10.69) | (2.90) | (9.91) |
| Short Debt/Total Debt | 0.216* | 0.726** | 0.084 |
| | (1.94) | (2.90) | (0.78) |
| Interest/Debt | -0.158 | 0.876 | -0.238 |
| | (0.59) | (0.97) | (0.74) |
| CAPEX/Asset | 0.295 | 1.076 | -0.726 |
| | (0.72) | (1.15) | (1.53) |
| ROA | -0.888** | -0.990* | -0.438 |
| | (2.03) | (1.84) | (0.52) |
| Asset Growth Rate | 0.003 | 0.107** | -0.021 |
| | (0.13) | (2.40) | (0.74) |
| Year Fixed Effect | Yes | Yes | Yes |
| Industry Fixed Effect | Yes | Yes | Yes |
| Obs. | 9273 | 4704 | 8666 |
| Pseudo $R^2$ | 0.20 | 0.33 | 0.22 |

First, the size of the company is strongly correlated with the privatization probability. The size effect is more apparent for the SIP firms with carve-out IPO, and the coefficients suggests that it is about two times more likely for the SOE to have equity carve-outs listings than for SOEs to have independent listings. This evidence not only suggests that bigger sized SOEs are prioritized to be privatized in general but also suggests that the government is more likely to use carve-out IPOs and retain control through parent holding firms for larger and listed SOEs. Secondly, State ownership matters for privatization. SOEs with high prior state ownership proportions are more likely to have SIP via carve-out IPO rather than an independent IPO, consistent with the perception that SIP with carve-out IPO is more intended for retaining government control. Thirdly, financial conditions of SOEs are important concerns in privatization. The coefficients on leverage are all negative in the regressions. A possible explanation is that in preparing for SIP, government intentionally restructures SOEs to lower their debt burdens before they are listed.

We next use a difference-in-difference approach in which unlisted SOEs are the control group. The results are reported in Table 4. In the OLS regressions, the dependent variable is firm leverage. The independent variables include a privatization dummy and post-privatization dummy so they capture the difference-in-difference effect of SIP and post-IPO effects.

**Table 4: Difference in Difference of the Effect of Privatization Decision on Subsequent Leverage**
The regressions run OLS estimates of the dependent variable of leverage (debt/asset) at t+1 on the independent variables. The independent variable of interest is Privatization Dummy which is one if SOEs go public through share issuance. We report whole sample results at Column 1 and subsample results for independent IPOs at Column 2 and Carve-Outs at Column 3. The regression controls year and industry fixed effects. Robust t-statistics are reported in the parentheses. *, **, *** indicates the significance level of 10%, 5%, and 1%, respectively.

| | Whole Sample | Independent IPOs | Carve-Outs |
|---|---|---|---|
| Privatization Dummy | -0.051* | -0.062** | -0.032 |
| | (1.78) | (2.01) | (1.14) |
| Post IPO Dummy | -0.014*** | -0.020** | -0.000 |
| | (2.27) | (2.22) | (0.15) |
| Percentage of State Ownership | 0.007 | 0.005 | -0.001 |
| | (1.28) | (0.68) | (0.19) |
| Log(Asset) | 0.009** | 0.006 | 0.004 |
| | (2.04) | (1.38) | (0.75) |
| Fixed Asset/Asset | 0.017 | 0.017 | 0.001 |
| | (1.22) | (0.94) | (0.12) |
| Total Debt/Asset | 0.627 | 0.602*** | 0.651 |
| | (42.06) | (30.88) | (26.62) |
| Short Debt/Total Debt | 0.004 | 0.006 | 0.001 |
| | (0.32) | (0.37) | (0.04) |
| Interest/Debt | 0.059* | 0.063* | -0.020 |
| | (1.97) | (1.76) | (0.34) |
| CAPEX/Asset | -0.066** | -0.130*** | -0.013 |
| | (2.77) | (3.76) | (0.39) |
| ROA | -0.005 | 0.012 | -0.081 |
| | (0.14) | (0.25) | (0.93) |
| Year Fixed Effect | Yes | Yes | Yes |
| Industry Fixed Effect | Yes | Yes | Yes |
| Obs. | 3830 | 2269 | 1587 |
| Pseudo $R^2$ | 0.43 | 0.43 | 0.43 |

Table 4 reports the effect of privatization on firm leverage. The negative coefficient of the privatization dummy shows that privatized firms tend to have lower leverage compared to other SOEs. This also verifies our previous assumption that in prioritizing SOEs for privatization the government used equity markets to bail out them. Many of them cannot borrow more (limited bank credit) or run effectively on high leverage. The results suggest that the SIP program in China is an alternative way for government to bail out financially distressed and poor-performing SOEs with relatively bigger sizes. Compared to SIP via independent IPO, SIP via equity carve-out appears to be a scheme for government to retain more control and influence, resulting in a much weaker effect.

## Conclusion

We use a comprehensive sample of large industrial SOEs that include those being privatized through SIP and those remaining unlisted in China to examine the causes and consequences of the SIP program. We provide evidence that privatization through the SIP program in China prioritizes large SOEs with greater liquidity needs, and those with higher short-term debt ratios. Consequently, the SIP program works as a bailout by government to inject liquidity into the most debt-laden SOEs. Our research suggests that creating independent enterprises through IPOs may lead to more efficiency in SOEs.

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