The PB Report 2009

A Publication of the Privatization Barometer

www.privatizationbarometer.net

Privatizing America

THE WEBSITE ON PRIVATIZATION IN EUROPE

Fondazione Eni Enrico Mattei

KPMG

Contents

The PB Report

A Publication of
Privatization Barometer
www.privatizationbarometer.net

Project Coordinator:
W.L. Megginson

Researchers:
B. Bortolotti
V. Fotak
K. Holland
V. Milella
L. Pellizzola

c/o Fondazione Eni Enrico Mattei - FEEM
Corso Magenta 63, 20123 Milano - Italy
tel +39 | 02 | 5203.6951
fax +39 | 02 | 5203.6946
e-mail: info@privatizationbarometer.net

Please see important certifications and subscription information at the end of this issue.

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 monitoring 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. The launch of this joint PB Report represents the first step of a long term strategic partnership between FEEM and KPMG Advisory S.p.A.

Executive Summary

What a year 2009 was for privatization worldwide! One year after witnessing massive injections of government capital into financial systems, 2009 saw a record volume of state sales of corporate equity -- or, stated more accurately, a record volume of corporate repurchases of government-owned shares. Privatization proceeds totaled a record €184.30 billion ($265.17 billion) during 2009, but bank repurchases of government holdings of preferred shares accounted for €118.46 billion ($168.8 billion) of this record -- or almost two-thirds of the total. Besides the bank share repurchases, the global value of "classic" privatization deals during 2009 totaled only €65.84 billion ($96.29 billion), the lowest such tally since 2004. The year 2009 was, far more than is usually the case, a tale of two very dissimilar halves. The value of all privatizations worldwide during 1H2009 totaled about €67 billion ($95 billion) -- including the €48.2 billion ($68.0 billion) U.S. bank repurchases of TARP capital -- while the €117 billion ($171 billion) second half total was nearly twice as large.

For the first time ever, the United States was the world's largest privatizer during 2009, and the €98.70 billion ($140.10 billion) paid to the U.S Treasury by American banks to redeem TARP equity capital injections accounted for over half of the global privatization total for 2009. During the last half of 2009, European banks also redeemed €18.73 billion ($28.75 billion) worth of preferred shares that had been purchased by governments as part of rescue packages during 2008 and early 2009. As in previous years, China led the world in the value of non-bank privatization deals during 2009, with 79 transactions that raised €20.27 billion ($28.05 billion). The second largest non-bank privatizer was also not a surprise: Russia executed 6 transactions and raised €6.59 billion ($9.12 billion), mostly accounted for by three large asset sales.

There was very little European privatization activity during the first half of 2009. Only three deals were large, in the sense of raising close to one billion euros or more, and one of these -- the €2.99 billion ($4.29 billion) preference share repurchase by Britain's **Lloyds Banking Group** in June -- was the first large redemption of shares that had been bought by governments worldwide as part of a rescue package. The largest EU privatization deal during 1H2009 was the €4.82 billion ($6.65 billion) acquisition by Electricité de France of the British government's 35.54% stake in British Energy. This privatization deal was part of a larger €13.69 billion ($18.59 billion) acquisition of **British Energy** by EDF which was launched in 2008 but only passed all regulatory hurdles and closed in January 2009.

By far the most important privatization transactions outside of Europe during 1H2009 were the redemptions of ten non-voting, non-convertible preferred share stakes that the U.S. Treasury had purchased in American banks under the Troubled Asset Relief Program (TARP) during late 2008 and early 2009. In early June, ten institutions were allowed to redeem all their government-owned shares for a total value of $68.0 billion (€48.2 billion). The names of these institutions were, bizarrely, not immediately disclosed, though it later emerged that the ten were **Goldman Sachs, Morgan Stanley, JP Morgan Chase, American Express, Northern Trust, BB&T Corporation, State Street, US Bancorp, Capital One Financial, and Bank of New York Mellon**. Besides the U.S. bank stock redemptions, there were only four other large non-EU privatizations during 1H2009.

The floodgates of state shareholding repurchases opened wide for Europe's banks during the second half of 2009, with five such preferred share redemptions yielding €16.74 billion ($22.83 billion) for the treasuries of France, the Netherlands, and Greece. **BNP Paribas** kicked off the parade of French redemptions in late September 2009, with a €4.3 billion ($6.3 billion) rights offering, the proceeds from which the bank used in early October to redeem €5.10 billion ($7.51 billion) of preference shares that the French Treasury had purchased earlier in 2009. Two months later, **ING** executed a €7.50 billion ($10.78 billion) rights offering and used two-thirds of the proceeds -- €5.00 billion ($7.18 billion) -- to redeem the Dutch government's preferred stock holdings. The second half of 2009 also witnessed two large "classic" EU privatization deals, the larger of which was the €4.83 billion ($6.81 billion) sale of the Dutch utilities group **Nuon NV** to the state-owned Swedish energy group Vattenfall in July.

As with the first half, however, the bulk of all privatization transactions during 2H2009 occurred outside of Europe. Three massive TARP capital redemptions by U.S. banks yielded no less than $70.0 billion (€48.1 billion) for the U.S. Treasury during December 2009, and all three were funded by large seasoned equity offerings (SEOs). **Bank of America** (BofA) led off with a $19.3 billion (€12.8 billion) SEO, and then redeemed all $25.0 billion (€16.6 billion) worth of preferred shares the government had invested into BofA ($15.0 billion, €10.0 billion) and Merrill Lynch ($10.0 billion, €6.6 billion), which BofA had acquired in late 2008. **Wells Fargo** followed two weeks later with a $12.3 billion (€8.5 billion) SEO, the proceeds of which were immediately used to redeem its $25 billion (€17.2 billion) TARP funding. **Citigroup** then closed the year with a $17.0 billion SEO and redemption of $20 billion (€13.9 billion) in TARP funding. These three large sales, coupled with several smaller TARP redemptions during 2H2009 and the $68 billion (€48.1 billion) of redemptions in June, yielded total repayment proceeds of $140.10 billion (€98.70 billion) for the U.S. Treasury within a year of the original TARP investments.

China was the second largest privatizer of 2009, and most of the sale proceeds were received during the second half. This was because the Chinese government had imposed an eight-month moratorium on all IPOs, which only expired in June 2009, so all six large (€1 billion plus) share issue privatizations occurred after that date. First off the blocks, in July 2009, was the year's largest Chinese privatization was the July €5.2 billion ($7.3 billion) IPO of **China State Construction Engineering**. The new stock surged to a 90% premium during early trading on the Shanghai Stock Exchange (SSE), but then closed the day 56% above the initial offering price -- a fairly typically initial return for large Chinese IPOs.

Perhaps the strangest privatization of the second half of 2009 was also the year's largest. In a November auction, the Iranian government "privatized" **Iran Telecom**, only to discover that the company submitting the winning €5.27 billion ($7.80 billion) bid was a front company for the Revolutionary Guards. Another large, non-EU privatization occurred in September, when the Swiss government raised €4.76 billion ($6.80 billion) by successfully and profitably selling off the 9.3% common equity stake in **UBS** it had purchased ten months earlier for €3.94 billion ($5.30 billion).

Although a record volume of successful privatizations occurred during 2009, the year also saw many failed and canceled deals. By far the largest such reverse, was the Japanese government's September announcement that it would "freeze" the planned IPO of **Japan Post**. A second major cancellation of a planned privatization occurred in two months earlier, when Britain's Labour government backed off plans to divest **Royal Mail** in the face of strikes by the Communications Workers Union and extreme skittishness on the part of potential bidders. April 2009 saw an especially embarrassing failed privatization -- the collapse of the sale of Chicago's **Midway Airport**. This much hyped $2.50 billion sale had been announced in late 2008 and was supposedly the opening of a major U.S. airport privatization program, but the winning bidder was ultimately unable to secured funding.

The editors of Privatization Barometer periodically compute the market values of privatized firms, and compare their combined valuation to that of always- private companies. As of June 2009, the 132 privatized companies in the Financial Times FT 500 list of the world's 500 most valuable companies had a combined market capitalization of $4.745 trillion. This represents 30.3% of the €11.05 trillion ($15.617 trillion) combined value of all the FT 500 companies -- and slightly more than half (50.2%) of the non-U.S. market capitalization of the FT 500 (319 firms). Finally, we also estimate the market value of retained government stakes in EU companies, based on a report by Elga Bartsch and Edmund Ng entitled "Towards Fiscal Tightening and Privatization: Implications for Equities". [Their study is reproduced in the Articles section of this Report]. The 41 largest such stakes -- those valued at over $2.0 billion -- are worth $428.7 billion; adding in the 68 smaller stakes listed by Bartsch and Ng, plus the roughly €140 billion ($200 billion) that EU governments injected into weakened banks during 2008-09 and which they hope to recover once markets improve, suggest that European governments have at least two-thirds of a trillion dollars worth of stakes in partially privatized that could be sold within the next few years.

William L. Megginson[§]

[§]University of Oklahoma and FEEM

Privatization Trends and Major Deals in 2009

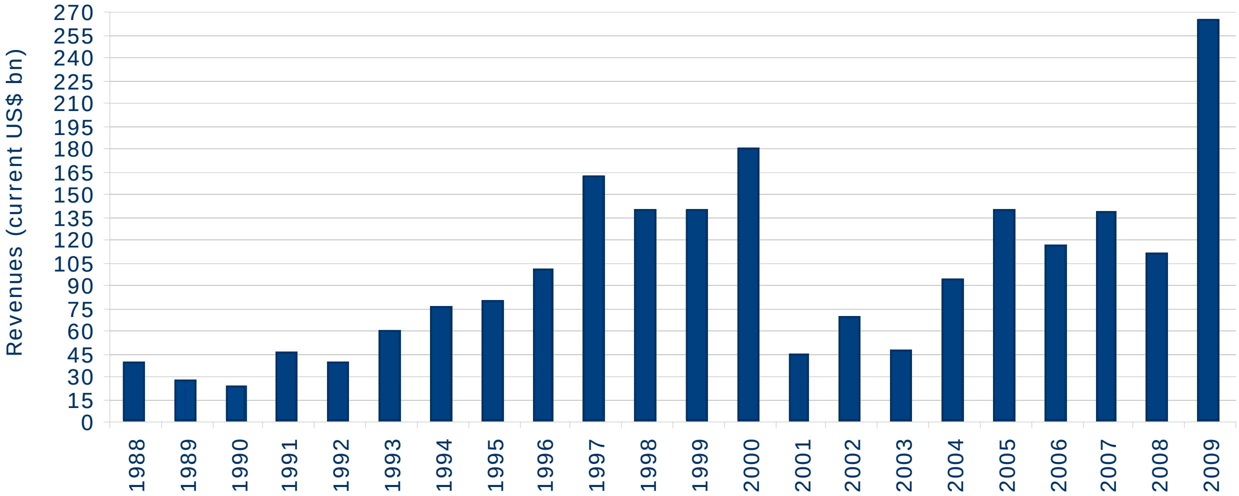
Global Trends in Privatization, 2009

The year 2009 was unlike any other in terms of state ownership of the economy. After seeing a massive extension of state support for financial systems in 2008, last year saw a record volume of state sales of corporate equity -- or stated more accurately, a record volume of corporate repurchases of government-owned shares. Privatization proceeds totaled a record €184.30 billion ($265.17 billion) during 2009, but bank repurchases of government holdings of preferred shares accounted for €118.46 billion ($168.8 billion) of this record -- or almost two-thirds of the total.

The massive bank repurchases of state-owned shares yielded a truly bizarre outcome: for the first time ever, the United States was the world's largest privatizer during 2009, and the €98.70 billion ($140.10 billion) paid by the U.S Treasury by American banks to redeem TARP equity capital injections accounted for over half of the global privatization total for 2009. During the last half of 2009, European banks also redeemed €18.73 billion ($28.75 billion) worth of preferred shares that had been purchased by governments as part of rescue packages during 2008 and early 2009. In almost all of these cases, the banks funded their share repurchases through large seasoned equity offerings executed during the second and third quarters of 2009. The American banks sold shares through general cash offers - the standard U.S. method of selling seasoned equity - while almost all of the European banks executed large rights offerings targeted at their existing shareholders.

Besides the bank share repurchases, the global value of "classic" privatization deals during 2009 totaled only €65.84 billion ($96.29 billion), the lowest such

Figure 1. Worldwide Revenues from Privatizations 1988 - 2009



Source: *Privatization Barometer*

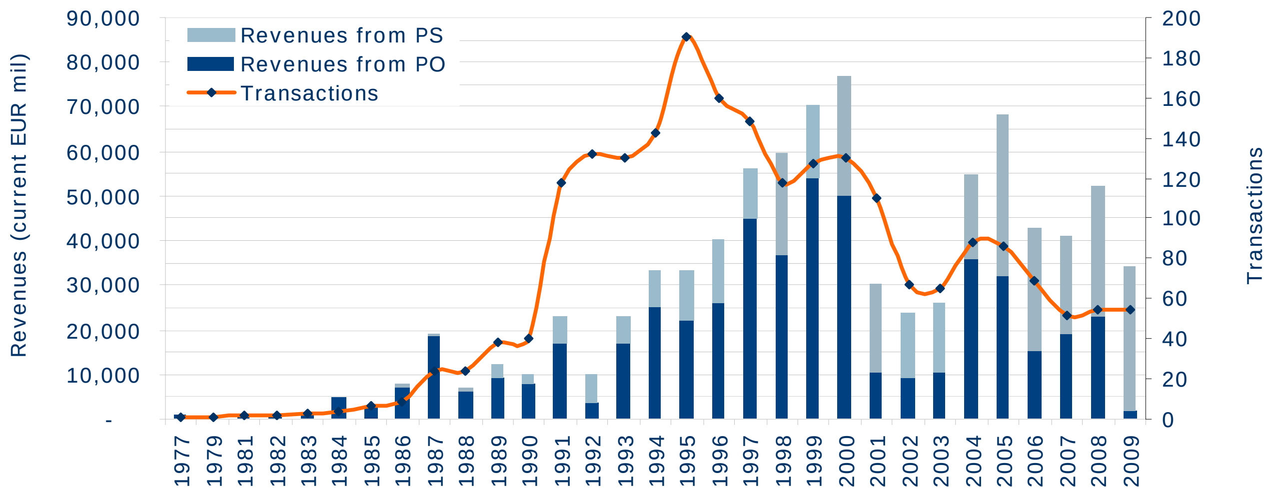
tally since 2004. As in previous years, China led the world in the value of non-bank privatization deals during 2009, with 79 transactions that raised €20.27 billion ($28.05 billion). The second largest non-bank privatizer was also not a surprise: Russia executed 6 transactions and raised €6.59 billion ($9.12 billion), mostly accounted for by three large asset sales. However, the third largest non-bank privatizer most definitely was a surprise. Iran raised almost €5.41 billion ($8.0 billion) through a series of very bizarre sales that included the largest privatization IPO of 2009. This was the €5.27 billion ($7.80 billion) sale of **Iran Telecom**, which ended up being purchased by a front company for the Revolutionary Guards! All in all, 2009 was an exciting but unique year for global privatizations, as we discuss in detail below.

Privatization Deals in the European Union, 1H2009

The first half of 2009 was a very quiet period for privatization in the European Union, during which governments raised a mere €9.66 billion ($16.59 billion) in 19 transactions (all deals are detailed in Table 1). Only three of these were large, in the sense of raising close to one billion euros or more, and one of these -- the €2.99 billion ($4.29 billion) preference share repurchase by Britain's **Lloyds Banking Group** in June -- was the first large redemption of shares that had been bought by governments worldwide as part of a rescue package. This redemption was funded by a rights offering of Lloyds stock, and came amid acrimonious debate between the bank and the government about how much of a "break-up fee" Lloyds would have to pay to fully exit the asset protection scheme at a later date. The government was demanding a fee of at least £1.0 billion (€1.12 billion, $1.66 billion). Like its counterparties in continental Europe but unlike the United States government, the British government had demanded very high rates for the preferred shares it invested into struggling banks and had also imposed very strict limits on executive compensation and dividend payments. For these reasons, and because the government was mandating that rescued banks significantly increase lending to small businesses and consumers, Lloyds was (and remains) eager to begin exiting from government oversight and thus seems likely to accept a significant break-up in order to exit the government's asset protection scheme. In late November 2009, Lloyds launched a second, even larger £13.5 billion (€14.81 billion, $22.25 billion) rights offering and announced plans to use most of the proceeds from this offer to redeem more of the government's equity stake in the bank during 2010 (see Table 1).

The second largest EU privatization deal during 1H2009 was the €4.82 billion

Figure 2. Privatization in the Enlarged Europe: Total Revenues and Transactions 1977 - 2009



Source: *Privatization Barometer*

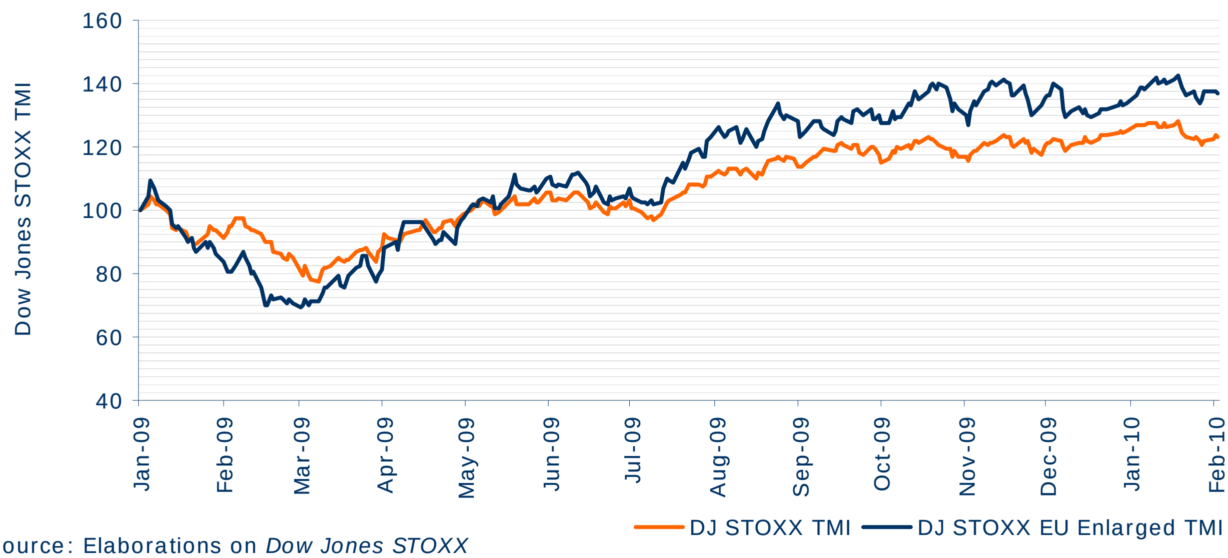
($6.65 billion) acquisition by Electricité de France of the British government's 35.54% stake in **British Energy**. This privatization deal was part of a larger €13.69 billion ($18.59 billion) acquisition of British Energy by EDF which was launched in 2008 but only passed all regulatory hurdles and closed in January 2009. The sale actually netted the British government a tidy profit, since the state had been forced to rescue British Energy three years previously, when nuclear power-related liabilities had forced the firm towards bankruptcy. The third large EU privatization of 1H2009 was the €851 million ($1.20 billion) private sale of the Netherlands' **Rompetrol Group** to Kazakhstan's NK KazMunaiGaz, which closed in late June.

Although not especially large, there is one other EU privatization during 1H2009 that warrants separate mention. This is the March sale of the Greek government's stake in **Olympic Airlines** to a private investor group for €177 million ($240 million). Mirroring Italy's experience with Alitalia, Greece had for many years been attempting first to restructure Olympic for profitability under state ownership, then to sell it to another international airline (with significant nationalistic strings attached), all without success. In the end, the Greek government wrote off Olympic's debts (with EU permission) and sold the equity to a domestic investor group for a relative pittance, in hopes that the flag carrier's future could somehow be secured.

Privatization Deals in the European Union, 2H2009

The floodgates of state shareholding repurchases opened wide for Europe's banks during the second half of 2009, with five such preferred share redemptions yielding €16.74 billion ($22.83 billion) for the treasuries of France, the Netherlands, and Greece. As noted, all of these were funded by rights offerings, mostly executed in late summer and fall of 2009. French bank repurchases dominated this list, both in number (three) and in total value (€10.8 billion, $15.90 billion), though the one Dutch transaction was the largest EU bank redemption deal of the year. **BNP Paribas** kicked off the parade of French redemptions in late September 2009, with a €4.3 billion ($6.3 billion) rights offering, the proceeds from which the bank used in early October to redeem €5.10 billion ($7.51 billion) of preference shares that the French Treasury had purchased earlier in 2009. One week later, **BPCE/Natixis** and **Société Générale** similarly launched rights offerings and used the proceeds to redeem French state holdings of preferred stock worth €4.00 billion ($5.89 billion) and €1.70 billion

Figure 3. Equity Markets in EU25, 2009



Source: Elaborations on *Dow Jones STOXX*

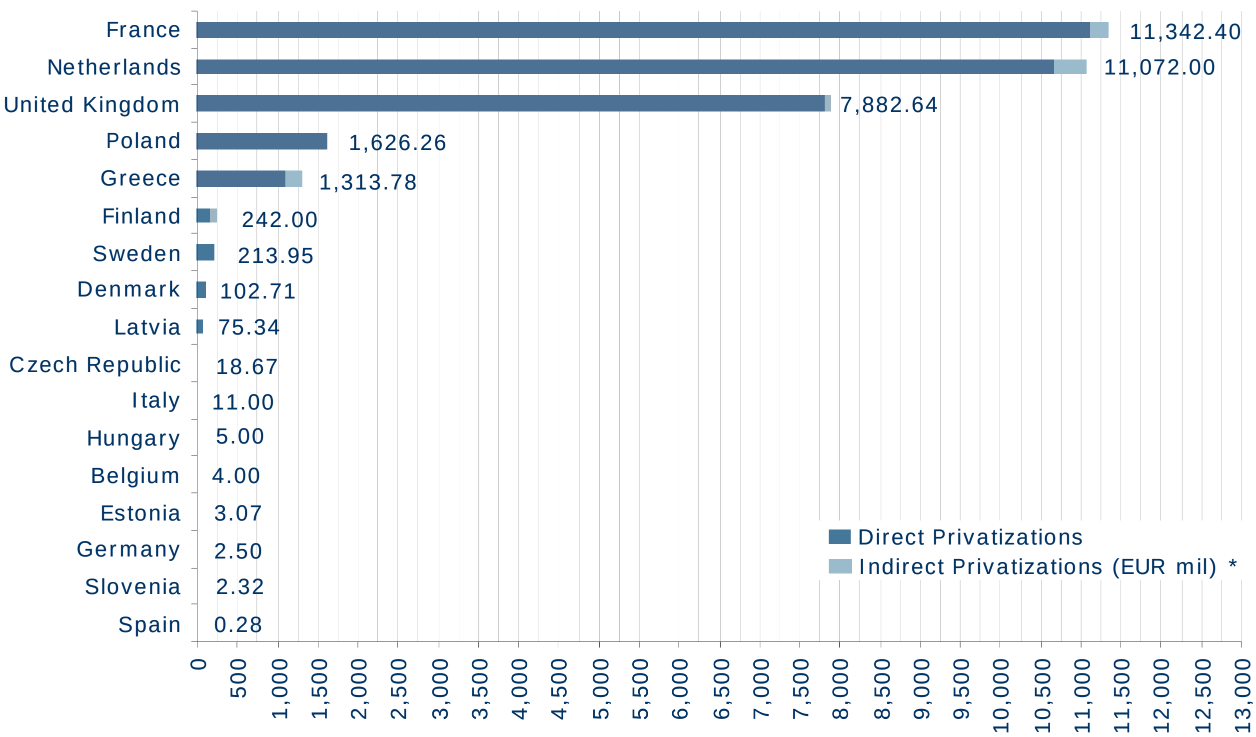
($2.50 billion), respectively. Two other French banks, Crédit Agricole and Crédit Mutuel also redeemed securities purchased during rescue operations by the French government, but since these were subordinated debt securities rather than equity we do not classify these redemptions as privatizations.

The other two large bank redemptions of rescue-related preferred stockholdings were by Greece's **Alpha Bank** and ING, the Netherlands' largest bank. Alpha Bank went first, launching a €986 million ($1,452 million) rights offering in October and using the proceeds to redeem the Greek government's €940 million ($1,384 million) preferred stock holdings in the bank. Two months later, **ING** executed a €7.50 billion ($10.78 billion) rights offering and used two-thirds of the proceeds--€5.00 billion ($7.18 billion)--to redeem the Dutch government's preferred stock holdings.

The second half of 2009 also witnessed two large "classic" EU privatization deals. The larger of the two was the €4.83 billion ($6.81 billion) sale of the Dutch utilities group **Nuon NV** to the state-owned Swedish energy group Vattenfall in July. The second privatization also involved an electric utility--this time the €1.42 billion ($2.11 billion) initial public offering of a 15.0% stake in Poland's **PGE Polska Grupa Energetyczna**. This IPO was priced at the top of its indicative pricing range and was heavily over-subscribed.

Figure 2, which shows the total number and value of EU privatizations since 1977, puts 2009's European privatization totals in perspective. As can be seen, the 55 transactions and €33.92 billion ($48.86 billion) value makes 2009 overall a depressed privatization year, especially when the redemptions of rescue-related state holdings of preferred stock in large banks are removed. On the other hand, European equity markets were particularly buoyant during much of 2009—albeit

Figure 4. Distribution of Privatization Revenues by Country, 2009



* Direct Privatizations refer to the sale of government's direct stakes. Indirect Privatizations include spin-offs and transfer of shares from government owned companies.

Source: *Privatization Barometer*

after a severe two-year long collapse in share values. Figure 2 dramatically shows the rebound in European stock prices after hitting a multi-year lows in March 2009. Over the next nine months, the broadest measure of EU equity values, the DJ Stoxx EU Enlarged TMI, more than doubled, while the DJ Stoxx TMI index of "Old Europe" stocks rose by 60.0%. Finally, Table 1 details all EU privatizations of 2009.

Sales Outside of Europe during 1H2009

By far the most important privatization transactions outside of Europe during 1H2009 were the redemptions of ten non-voting, non-convertible preferred share stakes that the U.S. Treasury had purchased in American banks under the Troubled Asset Relief Program (TARP) during late 2008 and early 2009. As Kateryna Holland describes in her article later in this Report, the U.S. federal government injected a total of almost $205 billion (€154 billion) into financial institutions under TARP, and then required the systemically important banks that received these funds to conduct "stress tests" to determine their ability to survive large swings in interest rates and further deterioration of the macroeconomic environment. These tests were conducted during the spring of 2009, and yielded a finding that several U.S. banks needed to raise a total of $75 billion in new common stock to augment their Tier 1 capital.

Somewhat to the Treasury's surprise, the banks did just—and a flood of large seasoned equity offerings by commercial and investment banks during 1H2009 raised even more than $75 billion in less than two quarters. This was made possible by the sharp rebound in U.S. stock valuations (especially financial stock valuations) that occurred after the Dow Jones Industrial Average (DJIA) hit a multi-year low on March 6, 2009. Several stocks more than tripled in value over the next few months, and the share offerings were uniformly well received by investors.

Rather awkwardly for the Treasury, those banks that passed their stress tests immediately thereafter began to lobby for the right to repurchase the government's TARP-related investments. After somewhat tortured negotiations regarding the value of the warrants that the Treasury had received for its investments—and which banks would also have to repurchase—ten institutions were allowed in early June 2009 to redeem all their government-owned shares for a total $68.0 billion (€48.2 billion). The names of these institutions were, bizarrely, not immediately disclosed, though it later emerged that the ten were **Goldman Sachs, Morgan Stanley, JP Morgan Chase, American Express, Northern Trust, BB&T Corporation, State Street, US Bancorp, Capital One Financial, and Bank of New York Mellon**. Table 2 details the amounts of capital injected into and redeemed by the 34 U.S. financial institutions that subsequently repurchased TARP holdings during 2009.

Besides the U.S. bank stock redemptions, there were four other large non-EU privatizations during 1H2009. The two largest deals were asset sales of Russian state-owned assets to domestic investors. In April, **OAO Ufaorgsintez** was sold to AFK Sistema for €1.88 billion ($2.50 billion) and two months later **Rostelekom** was sold to ASV for €1.14 billion ($1.61 billion). In March, the U.S. government sold **IndyMac Bancorp** (acquired during the bank rescues of 2008) to an investor group, also for €1.14 billion ($1.55 billion). Rounding out this list is an asset sale to domestic Chinese investors, the €1.16 billion sale of **Tianjin Port Company** to Grand Point Investment Ltd, which closed in February.

Table 1. Deals, 2009

Date	Company Name	Nation	Sector	% for Sale	Value (€ mil)	Direct / Indirect Sale*	Method of Sale**
10/06/09	BNP Paribas	France	Finance	Preferred shs	5,100.00	Direct	Repurchase govt shs
12/21/09	ING	Netherlands	Finance	Preferred shs	5,000.00	Direct	Repurchase govt shs
07/01/09	Nuon NV	Netherlands	Utilities	49.00	4,833.00	Direct	PS
01/05/09	British Energy PLC	United Kingdom	Utilities	35.54	4,820.14	Direct	PS
10/13/09	BPCE/Natixis	France	Finance	Preferred shs	4,000.00	Direct	Repurchase govt shs
06/05/09	Lloyds Banking Group PLC	United Kingdom	Finance	Preferred shs	2,985.00	Direct	Repurchase govt shs
10/13/09	Société Générale	France	Finance	Preferred shs	1,700.00	Direct	Repurchase govt shs
10/27/09	PGE Polska Grupa Energetyczna	Poland	Utilities	15.00	1,415.50	Direct	IPO
10/19/09	Alpha Bank	Greece	Finance	Preferred shs	940.00	Direct	Repurchase govt shs
06/06/09	Rompetrol Group NV	Netherlands	Petroleum Industry	25.00	851.00	Direct	PS
07/22/09	Fortis Corporate Insurance NV	Netherlands	Finance	100.00	350.00	Indirect	PS
11/04/09	SOVAFIM-offices(11)	France	Finance	100.00	231.00	Direct	PS
05/14/09	OTE MTS Holding BV	Greece	Tlc	100.00	190.00	Indirect	PS
03/22/09	Olympic Airlines	Greece	Transports	100.00	177.20	Direct	PS
12/11/09	Areva NC Expansion SASU	France	Utilities	15.00	170.50	Indirect	PS
06/24/09	Vapo Oy	Finland	Utilities	49.90	165.00	Direct	PS
05/19/09	Carnegie Investment Bank AB	Sweden	Finance	100.00	153.41	Direct	PS
06/18/09	Bogdanka Coal Mine	Poland	Natural Resources	32.00	116.55	Direct	IPO
08/28/09	ICADE SA	France	Finance	2.85	91.00	Direct	PO
08/20/09	Finnair-Properties(4)	Finland	Finance	100.00	77.00	Indirect	PS
04/16/09	Parex Banka	Latvia	Finance	25.00	75.34	Direct	PS
11/30/09	Fiber Newco A/S	Denmark	Petroleum Industry	100.00	57.14	Direct	PS
11/02/09	UKAEA Ltd	United Kingdom	Public Administration	100.00	55.29	Indirect	PS
10/30/09	WPEC	Poland	Manufacturing	85.00	49.63	Direct	PS
05/19/09	Max Matthiessen Holding AB	Sweden	Finance	100.00	46.43	Direct	PS
05/27/09	Roskilde Forsyning	Denmark	Utilities	100.00	38.03	Direct	PS
10/06/09	Stamicarbon BV	Netherlands	Finance	100.00	38.00	Indirect	PS
09/01/09	Icade Administration de Biens	France	Finance	100.00	24.10	Indirect	PS
12/01/09	Plymouth Citybus Ltd	United Kingdom	Transports	100.00	22.20	Direct	PS
07/29/09	Technoexport as	Czech Republic	Finance	98.85	18.67	Direct	PS
08/26/09	Icade Eurogem SASU	France	Services Industry	100.00	18.00	Indirect	PS
09/07/09	Bank BPH SA	Poland	Finance	3.68	16.40	Direct	PO
01/01/09	Svenska McDonald's Development	Sweden	Trade Industry	10.00	13.38	Direct	PS
05/28/09	Polskie Linie Lotnicze	Poland	Transports	25.10	12.00	Direct	PS
10/26/09	Malpensa Logistica Europa SpA	Italy	Transports	75.00	11.00	Indirect	PS
07/23/09	EMC Gestion SAS	France	Finance	100.00	7.80	Direct	PS
05/08/09	Olympic Fuel Co SA	Greece	Services Industry	64.06	6.58	Indirect	PS
03/22/09	Frederiksberg Forsyning A/S	Denmark	Utilities	100.00	6.46	Indirect	PS
07/31/09	Raaberbahn AG	Hungary	Transports	5.70	5.00	Direct	PS
09/10/09	Bukowa Gora SA	Poland	Natural Resources	90.25	4.56	Direct	PS
01/01/09	Immo Certrest SA	Belgium	Finance	100.00	4.00	Indirect	PS
12/02/09	AS Vooremaa Teed	Estonia	Construction	100.00	3.07	Direct	PS
07/17/09	Regio Kliniken gGmbH	Germany	Services Industry	74.90	2.50	Direct	PS
07/20/09	Najdi.si informacijske Storitv	Slovenia	Services Industry	25.00	2.32	Direct	PS
10/28/09	ZPRE Jedlicze Sp zoo	Poland	Manufacturing	85.00	2.10	Direct	PS
11/23/09	BPBK Sp zoo	Poland	Services Industry	85.00	1.95	Direct	PS
12/07/09	Lenora Sp zoo	Poland	Manufacturing	51.00	1.91	Direct	PS
01/05/10	Madro Bialystok Sp zoo	Poland	Trade Industry	85.00	1.54	Direct	PS
12/10/09	WPRM Sp zoo	Poland	Construction	85.00	1.27	Direct	PS
12/22/09	PRDIM Sp zoo	Poland	Construction	85.00	1.23	Direct	PS
11/13/09	Gudme Raaschou Vision A/S	Denmark	Finance	20.45	1.08	Direct	PS
12/11/09	OBiKS Sp zoo	Poland	Services Industry	85.00	0.97	Direct	PS
02/19/09	Stockholm Lans Landsting AB-	Sweden	Services Industry	100.00	0.73	Direct	PS
01/15/09	DKE Sp zoo	Poland	Utilities	49.67	0.67	Indirect	PS
11/26/09	Xestion Urbanistica de	Spain	Services Industry	100.00	0.28	Direct	PS
Total 1H2009		**19 Transactions**			**9,663.46**		
Total 2H2009		**36 Transactions**			**24,254.45**		
Total 2009		**55 Transactions**			**33,917.92**		

* Direct Privatizations refer to the sale of government's direct stakes. Indirect Privatizations include spin-offs and transfer of shares from government owned companies. Parenteses report the Parent/Seller Company name.

Method of Sale: AT (Accelerated Transaction); IPO (Initial Public Offerings); PO (Public Offering); PS (Private Sale).

** Repurchases of government shares are considered as private placements in the summary statistics (Figure 2)

Source: *Privatization Barometer.*

Sales Outside of Europe during 2H2009

The year 2009 was, far more than is usually the case, a tale of two very dissimilar halves. The value of all privatizations worldwide during 1H2009 totaled about €67 billion ($95 billion)—including the €48.2 billion ($68.0 billion) U.S. bank repurchases of TARP capital—while the €117 billion ($171 billion) second half total was nearly twice as large. As with the first half, however, the bulk of all privatization transactions during 2H2009 occurred outside of Europe. The 2H2009 privatization leader was the same unlikely champion of the first half, the United States of America, and for the same bank capital redemption reason.

Three massive TARP capital redemptions by U.S. banks yielded no less than $70.0 billion (€48.1 billion) for the U.S. Treasury during December 2009, and all three were funded by prior large seasoned equity offerings (SEOs). **Bank of America** (BofA) led off with a $19.3 billion (€12.8 billion) SEO, and then redeemed all $25.0 billion (€16.6 billion) worth of preferred shares the government had invested into BofA ($15.0 billion, €10.0 billion) and Merrill Lynch ($10.0 billion, €6.6 billion), which BofA had acquired in late 2008. **Wells Fargo** followed two weeks later with a $12.3 billion (€8.5 billion) SEO, the proceeds of which were immediately used to redeem its $25 billion (€17.2 billion) TARP funding. **Citigroup** then closed the year with a $17.0 billion SEO and redemption of $20 billion (€13.9 billion) in TARP funding. These three large sales, coupled with several smaller TARP redemptions during 2H2009 and the $68 billion (€48.1 billion) of redemptions in June, yielded total repayment proceeds of $140.10 billion (€98.70 billion) for the U.S. Treasury within a year of the original TARP investments. Besides the bank stock redemptions, there was one other important sale of a U.S. government-controlled asset acquired during the financial crisis of 2008. This was the sale by **AIG** of its U.S. Personal Auto Group to Farmers Group for €1.35 billion (1.90 billion) in mid-December.

China was the second largest privatizer of 2009, and most of the sale proceeds were received during the second half. This was because the Chinese government had imposed an eight-month moratorium on all IPOs, which only expired in June 2009, so all six large (€1 billion plus) share issue privatizations occurred after that date. First off the blocks, in July 2009, was the year's largest Chinese privatization, the €5.2 billion ($7.3 billion) IPO of **China State Construction Engineering**. The new stock surged to a 90% premium during early trading on the Shanghai Stock Exchange (SSE), but then closed the day 56% above the initial offering price—a fairly typically initial return for large Chinese IPOs. One month later, **Everbright Securities** raised €1.14 billion ($1.60 billion) in its IPO, but investors received only a 30% first-day return.

Table 2. TARP Capital Injections in U.S. Banks and Subsequent Repayments

Investment Date	Company	Company Headquarters	Capital Disbursed	Capital Repayment Amount
10/28/08	JPMorgan Chase & Co.	NY	$25,000,000,000	$25,000,000,000
10/28/08	Citigroup Inc.	NY	$25,000,000,000	$20,000,000,000
10/28/08	Wells Fargo & Company	CA	$25,000,000,000	$25,000,000,000
10/28/08	Bank of America Corp.	NC	$15,000,000,000	$15,000,000,000
10/28/08	Morgan Stanley	NY	$10,000,000,000	$10,000,000,000
10/28/08	The Goldman Sachs Group, Inc.	NY	$10,000,000,000	$10,000,000,000
01/09/09	Bank of America Corp.	NC	$10,000,000,000	$10,000,000,000
11/14/08	Capital One Financial Corp.	VA	$3,555,199,000	$3,555,199,000
01/09/09	American Express Company	NY	$3,388,890,000	$3,388,890,000
11/14/09	BB&T Corp.	NC	$3,133,640,000	$3,133,640,000
10/28/08	Bank of New York Mellon Corp.	NY	$3,000,000,000	$3,000,000,000
10/28/08	State Street Corp.	MA	$2,000,000,000	$2,000,000,000
11/14/08	TCF Financial Corp.	MN	$361,172,000	$361,172,000
11/14/08	Valley National Bancorp	NJ	$300,000,000	$75,000,000
11/14/08	Washington Federal Inc.	WA	$200,000,000	$200,000,000
11/21/08	First Niagara Financial Group	NY	$184,011,000	$184,011,000
12/12/08	Sterling Bancshares, Inc.	TX	$125,198,000	$125,198,000
01/09/09	FirstMerit Corp.	OH	$125,000,000	$125,000,000
12/12/08	Signature Bank	NY	$120,000,000	$120,000,000
12/12/08	Old National Bancorp	IN	$100,000,000	$100,000,000
12/05/08	Iberiabank Corp.	LA	$90,000,000	$90,000,000
01/09/09	Sun Bancorp, Inc.	NJ	$89,310,000	$89,310,000
01/09/09	Independent Bank Corp.	MA	$78,158,000	$78,158,000
01/16/09	Texas Capital Bancshares, Inc.	TX	$75,000,000	$75,000,000
01/16/09	SCBT Financial Corp.	SC	$64,779,000	$64,779,000
12/19/08	Berkshire Hills Bancorp, Inc.	MA	$40,000,000	$40,000,000
12/05/08	Bank of Marin Bancorp	CA	$28,000,000	$28,000,000
12/19/08	Alliance Financial Corp.	NY	$26,918,000	$26,918,000
11/21/08	HF Financial Corp.	SD	$25,000,000	$25,000,000
01/09/09	New York Private Bank & Trust Corp.	MD	$25,000,000	$25,000,000
01/16/09	Centra Financial Holdings/Centra Bank	WV	$15,000,000	$15,000,000
01/16/09	First Manitowoc Bancorp, Inc.	WI	$12,000,000	$12,000,000
01/16/09	Somerset Hills Bancorp	NJ	$7,414,000	$7,414,000
01/23/09	First ULB Corp.	CA	$4,900,000	$4,900,000

Source: *U.S. Treasury Department* and *Financial Times* (*www.ft.com*)

The second largest Chinese SIP of 2009 occurred in September, when **Metallurgical Corporation of China** raised a total of €3.48 billion ($5.10 billion) in a two-tranche IPO—a first sale of €1.91 billion ($2.80 billion) in Shanghai, followed shortly thereafter by a €1.57 billion ($2.3 billion) offering in Hong Kong. Overall, MCC investors received a 28% first-day return. The third and fourth largest Chinese SIPs of 2H2009 both occurred in December. **China Shipbuilding**'s IPO raised €1.44 billion ($2.10 billion) and yielded a modest 12% initial return, while **China CNR Corporation**'s IPO two weeks later raised €1.41 billion ($2.04 billion) for the company but netted only a 2.3% first-day return for investors. The sixth largest Chinese SIP, the €1.08 billion $1.60 billion **China Merchant Securities** IPO in November, also yielded a historically small 8% first day return. Besides these share issue privatizations, there was also one large Chinese asset sale during 2H2009, the €1.00 billion ($1.49 billion) divestiture of **Guotou Electric Corporation** to SDIC Huang Power Holding Company in late November.

Russia was the world's third largest non-EU privatizer during 2009, though its experience was different from others in that most sales occurred during the first half—as discussed above. There was only one large transaction during 2H2009, the €2.68 billion ($3.96 billion) asset sale of **Severneftegazprom** to the German utility E ON in October.

Perhaps the strangest privatization of the second half of 2009 was also the year's largest. In a November auction, the Iranian government "privatized" **Iran Telecom**, only to discover that the company submitting the winning €5.27 billion ($7.80 billion) bid was a front company for the Revolutionary Guards. Farce veered towards fraud when the Guard's consortium, Etemad Mobin Development Company, had to struggle to raise cash to make the first 20% down payment. This deal capped a dismal year for Iranian divestments, coming as it did after two largely unsuccessful attempts to sell stakes in state-owned banks. These failures were unsurprising, since the banks were constrained to charging only 12% interest on loans, even though the national inflation rate was twice that level, and the government of Mohmoud Ahmadi-Nejad mandates that up to 40% of all privatized company shares be distributed free of charge as "Justice Shares" to the nation's poor. The private sector in Iran is truly being squeezed to the point of collapse.

Completing the list of large privatizations for 2H2009 are two deals executed by governments of European nations that are not members of the European Union—and thus not tallied earlier—and one asset sale in Singapore. In September, the Swiss government raised €4.76 billion ($6.80 billion) by successfully and profitably selling off the 9.3% common equity stake in UBS it had purchased ten months earlier for €3.94 billion ($5.30 billion). Two months later, the Turkish government announced that it had received acceptable bids totaling €804 million ($1.20 billion) for three power grids. Finally, in December the Singaporean government sold its 100% stake in **Chartered Semiconductor Manufacturing** to Advanced Technology Investment, a UAE-headquartered sovereign wealth fund, in a €2.74 billion ($3.92 billion) privately negotiated purchase and recapitalization.

Failed and Canceled Privatizations during 2009

Although 2009 witnessed a record volume of successful privatizations, it also saw a stunning number of failed and canceled deals. The largest such reverse, by far, was the Japanese government's September announcement that it would "freeze" the planned IPO of **Japan Post**. The privatization of the 138 year-old company had been a center-piece of the reform agenda pushed by Prime Minister Junichiro Koizumi during his 2001-2006 premiership, but the new Japanese government elected to office in the summer of 2009 had campaigned against the sale and shelved it very soon after coming to power.

A second major cancellation of a planned privatization occurred in July, when Britain's Labour government backed off plans to divest **Royal Mail** in the face of strikes by the Communications Workers Union and extreme skittishness on the part of potential bidders. All interested parties demanded indemnities from the government in the (highly likely) case of strikes, and none were willing to offer anything near the £2.0 billion (€2.31 billion, $3.26 billion) minimum price the government seemed to be hoping for. Two months previously, the Turkish government similarly canceled a tender offer to operate the national lottery, **Milli Piyango**, for 10 years after no bidder was willing to meet the government's minimum price of €1.21 billion ($1.62 billion).

April 2009 saw an especially embarrassing failed privatization—the collapse of the sale of Chicago's **Midway Airport**. This $2.50 billion sale had been announced with much fanfare in late 2008 and was heralded as the flagship opening of a major U.S. airport privatization program, but the winning bidder, Lysander Gatwick Investment, was ultimately unable to secured funding. The last major failed privatization of 2009, the planned sale of China's **Tonghua Iron and Steel** to the Jianlong Group, collapsed in tragedy when the executive sent to Jianlong to oversee the ownership transfer was beaten to death by some of Tonghua's 50 thousand workers who were angered at the prospect of their firm being restructured and sold.

Market Values of Privatized Companies

The editors of Privatization Barometer periodically compute the market values of privatized firms, and compare their combined valuation to that of always-private companies. As of June 2009, the 132 privatized companies in the *Financial Times* FT 500 list of the world's 500 most valuable companies had a combined market capitalization of $4.745 trillion. This represents 30.3% of the $15.617 trillion (€11.05 trillion) combined value of all the FT 500 companies—and slightly more than half (50.2%) of the non-U.S. market capitalization of the FT 500 (319 firms). This is the first year when privatized companies represented more than half of all non-U.S. market values, and suggests that fully and partially divested companies had weathered the global financial crisis of 2008-09 relatively well.

It is almost certainly the case that privatized firms have had an even greater impact on the development of non-U.S. stock markets than these aggregate numbers suggest, because they are generally among the largest firms in these markets. Table 3 details the relative size of the most valuable privatized firms on FT 500 list, and gives the firm's ranking within its home market. Privatized companies are the most valuable listed firms in 20 of the countries on Table 3's list, the second most valuable in 24, and the third in 23. Privatized companies are the first, second, and third most valuable firms in Austria, the Czech Republic, France, Greece, Hungary, Italy, Poland, Portugal and Hong Kong -- and, unsurprisingly, all of the most valuable companies in China and Russia are privatized firms.

Table 3. Ranking of Privatized Companies among the Most Valuable in Various Countries, June 2009

This table presents where privatized companies rank, in terms of market capitalization, in 32 different national stock markets as of June 2009, based on those companies listed in the Financial Times FT 500 or Euro FT 500 listings of the world's most valuable listed firms.

Country	Most valuable	Second most valuable	Third most valuable	Fourth most valuable	Country	Most valuable	Second most valuable	Third most valuable	Fourth most valuable
Europe					*Middle East/Asia*				
Austria	x	x	x		Australia		x	x	x
Belgium			x		China	x	x	x	x
Czech Rep.	x	x	x		Hong Kong	x	x	x	
Finland		x			India		x	x	
France	x	x	x	x	Israel	x			
Germany	x	x	x		Japan		x	x	
Greece	x	x	x		Korea		x	x	x
Hungary	x	x	x		Saudi Arabia	x	x		x
Ireland				x	Singapore	x		x	
Italy	x	x	x		Taiwan		x	x	
Netherlands		x			*Latin America/Other*				
Norway	x	x			Argentina	x			
Poland	x	x	x	x	Brazil	x	x		
Portugal	x	x	x	x	Mexico			x	
Spain	x		x		Russia	x	x	x	x
Sweden			x		South Africa		x		x
Turkey	x		x	x	*World*		x		x
United Kingdom		x			*World, ex-USA*	x	x	x	x

Source: *Financial Times (www.ft.com)*

Privatization's Future: How Much Do Governments Have Left to Sell?

We conclude by examining the near and intermediate-term future of privatization by asking and attempting to answer the question, what do governments have left to sell? As you might expect, the answer to this is not straightforward, since one must decide whether to examine just the value of the stakes that governments now retain in companies that have already been privatized, or to also include state-owned companies (and even industries). We focus here on determining the market value of retained government stakes in EU companies, since a report by Edmund Ng and Elga Bartsch entitled "Towards Fiscal Tightening and Privatization: Implications for Equities" presents a detailed listing of stakes that EU governments hold in partially privatized firms as of summer 2009. [Their study is reproduced in the Articles section of this Report]. The 41 largest such stakes -- those valued at over $2.0 billion -- are detailed in Table 4 and these stakes alone are worth $428.7 billion. Adding in the 68 smaller stakes listed by Ng and Bartsch, plus the roughly €140 billion ($200 billion) that EU governments injected into weakened banks during 2008-09 and which they hope to recover once markets improve, suggest that European governments have at least two-thirds of a trillion dollars worth of stakes in partially privatized that could be sold within the next few years. Ng and Bartsch argue that just such sales are very likely, since these governments face truly dire fiscal problems and have few alternatives for raising comparable amounts of revenue.

As the observant reader will doubtless have noted, Table 4 details only European firms, and EU governments have in recent years been overshadowed as privatizers by emerging market governments in the Middle East, Russia, Africa and Asia—especially China. Unfortunately, we know of no similar listing of the market values of retained stakes in partially privatized companies from these regions—but the total must surely exceed €1.5 trillion ($2 trillion). The mere 38 listed Chinese, Russian, and Saudi companies in the 2009 FT 500 tabulation of the world's most valuable firms have market capitalizations of €969 billion ($1,370 billion), €156 billion ($220 billion), and €69 billion ($97 billion), respectively, and the governments retain large majority holdings (often exceeding 70%) in almost all of these companies. Additionally, there are entire industries—most notably oil but also including electric power production and distribution—that remain fully or largely state-owned in important national or regional economies. As a thought exercise, consider the possible market value that the nine fully state-owned national oil companies that make up the Organization of Petroleum Exporting Countries (OPEC) might command if they were ever listed on stock markets. Should the world's governments decide to launch (or re-launch) major privatization programs over the next five years, the scale could dwarf any other wave of equity sales that finance has ever witnessed before.

Planned Sales in 2010

We conclude this survey of privatization trends and major deals by describing deals that seem likely to be consummated in 2010. There are several planned, though as of this writing (March 28, 2010), few of the sales that seemed to be pending at year-end 2009 have been implemented. The Polish government has announced plans to raise up to €8.90 billion ($13.35 billion) during 2010-11 in order to keep the public debt from exceeding a constitutionally mandated maximum of 55% of GDP—though few specific sales have been identified. Similarly, the Turkish government has talked vaguely about additional sales of Turk Telecom, but has not provided specifics.

The most important mooted sales of 2010 are likely to be divestments of some or all of the British government's holdings in Lloyds Banking Group and HSBC. The Labour government actually solicited bids from investment banks wishing to handle sales of these two bank stakes in July 2009, and the opposition Conservative party has announced its intention to divest the banks should it win the spring 2010 British general election. If equity markets continue to improve during 2010 and the newly elected British government follows through with full privatization of its Lloyds and HSBC stakes, these sales could well raise over £100 billion (€110 billion, $150 billion). Also Portugal, under European Union pressure, announced sweeping privatization measures affecting its airline, rail transport, postal, energy, paper industries, bank and insurance activities. The Portuguese privatization would raise about €6 billion ($8.22 billion) by 2013.

Table 4. Market Value of Retained Government Stakes in Partially Privatized European Companies

This table details the retained holdings of European Union governments in listed, partially privatized companies as of August 2009. The table lists the company name, the home country (and thus the government owning stock), the sector in which the firm operates, its overall market value in US$ millions, the retained government stake and the market value of that stake.

Company	Country	Sector	Overall firm market value ($ Mn)	Retained govt stake (%)	Value of govt stake ($Mn)
Electricité de France	France	Utilities	96,299	84.7	81,565.25
Statoil Hydro	Norway	Energy	73,309	67.0	49,117.03
Royal Bank of Scotland	United Kingdom	Financials	47,873	70.3	33,654.72
GDF-Suez	France	Utilities	96,299	34.6	33,319.45
Lloyds Banking Group	United Kingdom	Financials	48,131	43.4	20,888.85
ENI	Italy	Energy	95,499	21.6	20,627.78
Deutsche Telekom	Germany	Telecommunications	57,458	31.7	18,214.19
TeliaSonera	Finland/Sweden	Telecommunications	29,407	51.0	14,997.57
Volkswagen	Germany	Consumer discretionary	62,659	20.0	12,531.80
Fortum Group	Finland	Energy	23,611	51.6	12,183.28
Swisscom	Switzerland	Telecommunications	1,778	56.9	1,011.68
France Telecom	France	Telecommunications	67,455	13.5	9,106.43
Telenor	Norway	Telecommunications	1,598	54.0	862.92
ENEL	Italy	Utilities	56,488	14.8	8,360.22
Belgacom	Belgium	Telecommunications	12,873	53.5	6,887.06
OMV AG	Austria	Energy	12,566	50.7	6,370.96
Deutsche Post	Germany	Industrials	20,135	30.5	6,141.18
CNP Assurances	France	Financials	13,824	41.1	5,681.66
Nordea Bank	Scandinavia	Financials	43,245	12.8	5,535.36
Cia Espanola Petroleos	Spain	Energy	11,215	47.1	5,282.27
E.On	Germany	Utilities	85,705	5.9	5,056.60
DnB NOR	Norway	Financials	13,993	34.0	4,757.62
Aéroports de Paris	France	Industrials	8,503	52.4	4,455.57
Energias de Portugal	Portugal	Utilities	14,811	25.9	3,836.05
Societe Generale	France	Financials	47,214	7.4	3,493.84
A2A (National Archives)	United Kingdom	Utilities	5,904	56.9	3,359.38
Yara International	Norway	Materials	877	36.2	317.47
Finmeccanica	Italy	Industrials	9,446	31.5	2,975.49
Public Power Corp	Greece	Utilities	5,316	51.1	2,716.48
Verbund	Austria	Utilities	8,082	33.2	2,683.22
Commerzbank	Germany	Financials	10,184	25.0	2,546.00
OPAP	Greece	Consumer discretionary	74	34.0	25.16
Fraport	Germany	Industrials	4,845	51.6	2,500.02
Thales	France	Industrials	8,793	26.5	2,330.15
Safran	France	Information technology	746	30.4	226.78
Eurasian Natural Resources	United Kingdom	Materials	18,947	11.7	2,216.80
BKW FMB Energie	Switzerland	Utilities	4,199	52.5	2,204.48
Banque Cantonale Vaud	Switzerland	Financials	3,266	67.0	2,188.22
Neste Oil	Finland	Energy	4,094	50.1	2,051.09
Renault	France	Consumer discretionary	13,859	15.0	2,078.85
Subtotal			**1,140,580.000**	**--**	**404,358.92**

Source: *Source: Edmund Ng and Elga Bartsch, "European Economics & Strategy: Poor State of Government Finance & Implications for Equities," Morgan Stanley Research, September 1, 2009; page 10.*

Elga Bartsch and Edmund Ng

Morgan Stanley & Co. International plc

Towards Fiscal Tightening and Privatization: Implications for Equities[¥]

Gradual fiscal tightening despite record deficits. Fiscal policies are clearly on an unsustainable path in Europe, with structural budget deficit and gross government debt expected to reach 6% and 82% of GDP in 2010, significantly above the 3% and 60% limits set by the Stability & Growth Pact. Despite record deficits, our economists believe major fiscal tightening is unlikely, given political complications and the fragile and sub-par economic recovery. They expect 2011 budget deficits to decline only marginally from their multi-decade highs and government debt to GDP to reach new highs (see "Global Forecast Snapshots: What Fiscal Tightening?", 10 March 2010). We think one thing is certain - fiscal tightening will be remain a dominant theme for the coming years.

How will governments tackle record debt burdens – spending cuts + asset sales + tax hikes, and… Tepid economic recovery alone is unlikely to restore fiscal imbalances, and we continue to believe that a combination of spending cuts, more privatisation and tax hikes will be required to bring fiscal positions back towards an even keel (see also 'Poor State of Government Finances & Implications for Equities', 1 September 2009). Greece, Ireland, Spain and Portugal have already mapped out some austerity measures to cut spending and raise taxes and we believe other countries will follow suit. Our call for more privatisation when government finances are in trouble has also continued to play out, with Sweden seeking approval to sell its stake in SAS, and Portugal announcing a €6bn privatisation programme.

More about the Stability and Growth Pact (SGP) - The SGP is an agreement by EU Member States related to their conduct of fiscal policy, to facilitate and maintain Economic and Monetary Union of the EU. The SGP normally limits budget deficit to 3% of GDP and gross debt to 60% of GDP. Otherwise countries are assessed by the European Commission (EC) to be in excessive deficit. Euro area countries could potentially face sanctions, if they do not take substantial corrective measures. The ECB is currently asking governments to reduce the structural budget deficit by 0.5% of GDP per annum (or 1.0% of GDP for highly indebted countries). EMU entry candidates will need to meet these so called convergence criteria which covers four main areas – price stability, long-term interest rates, government budgetary position and exchange rates.

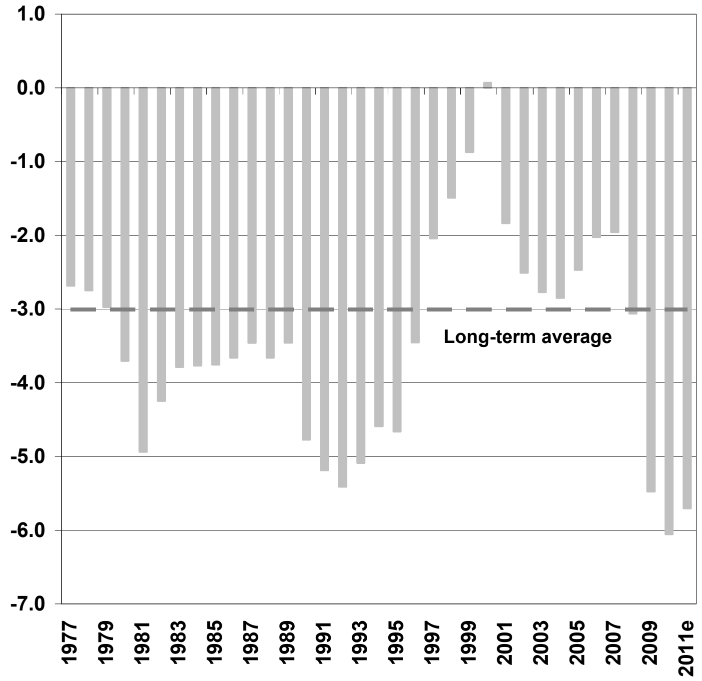
1. Tax hikes. Tax rates are unlikely to go up significantly for profits & capital income, in our view. Competition between different tax regimes in the European Union will likely limit tax increases, notably for internationally mobile tax bases such as corporate profits and capital income. Calls for harmonisation of different tax regimes are likely to re-emerge, particularly on closing loopholes in tax bases. Over the long haul, the tax burden is likely to shift further from internationally mobile tax bases towards more immobile tax bases such as labour income or property.

[¥] *For further details, please see full version of these notes published on September 1, 2009 and March 10, 2010 by Morgan Stanley Research, Morgan Stanley & Co. International plc.*

Exhibit 1

Worst Government Deficit on Record Expected in 2010

- EU15*: Structural Deficit** (%GDP)

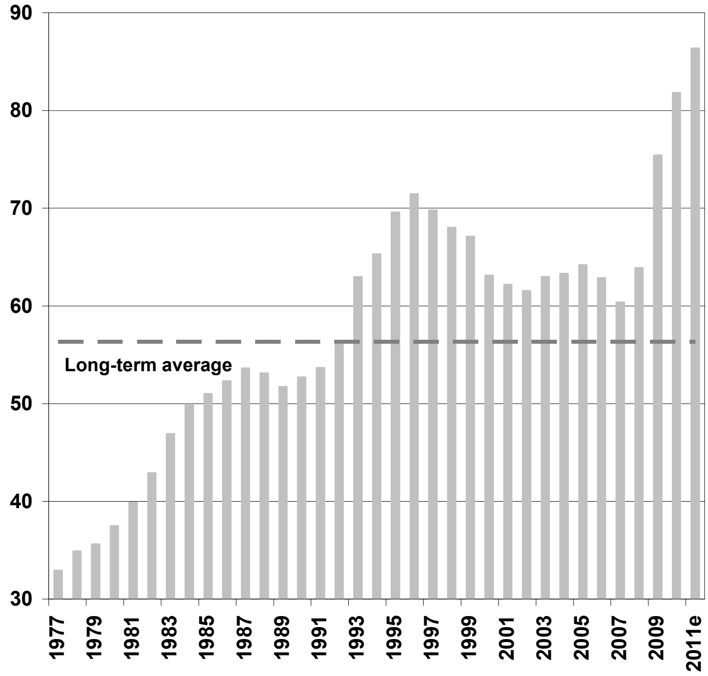


*Official EU15 structural deficit (i.e. cyclically adjusted) time series goes back to 1995, but extended further back using data available for member countries (i.e. Only Austria, Belgium, Denmark, Germany, Netherlands & Portugal have full data history from 1977, France from 1978, Finland & Italy from 1980, Ireland from 1985, UK from 1986, Greece from 1988, Luxembourg from 1990, Sweden from 1993, Spain from 1995); **See footnote in the following page for definition of structural deficit and government gross debt; e = European Commission estimates. Source: European Commission, Eurostat, Morgan Stanley Research.

Exhibit 2

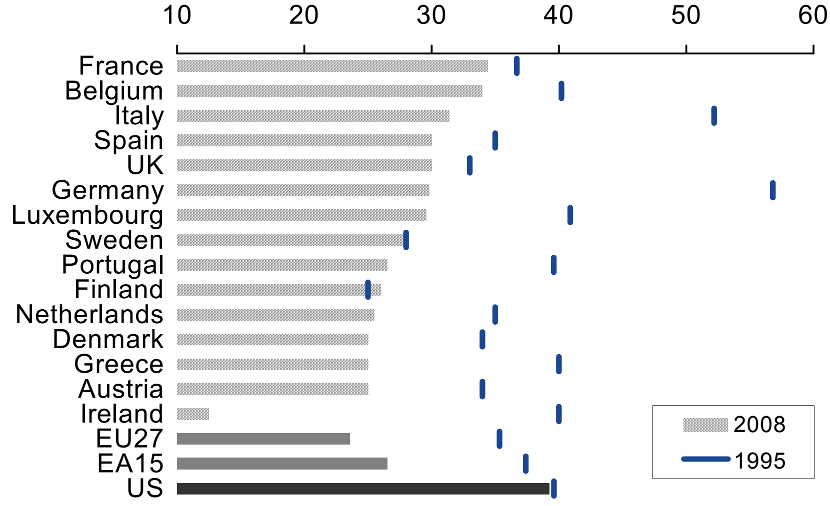
Government Debt Level at a 33-Year High

- Government Debt* by Country (%GDP)



Note: e = European Commission estimates. Source: European Commission, Eurostat, Morgan Stanley Research.

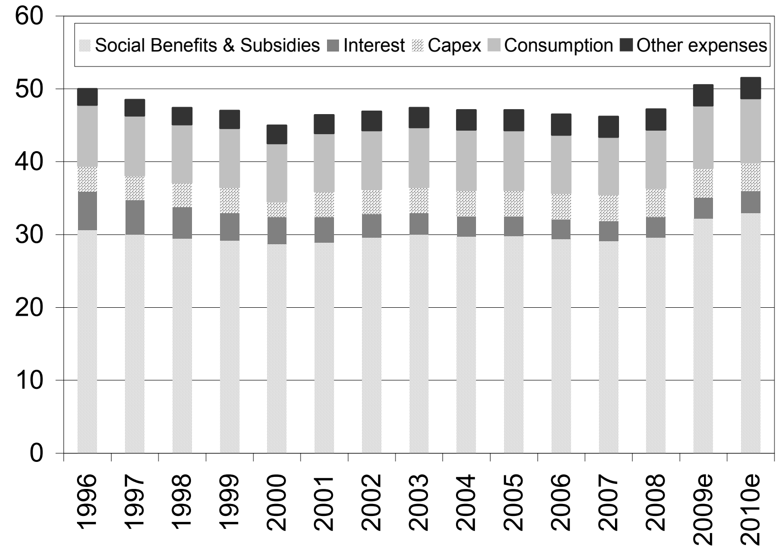
Exhibit 3
Tax Battle Within Europe is Likely to Cap Hikes
- Top Statutory Tax Rate (%) for Corporate Income



Source: European Commission, Commission Services, OECD, Morgan Stanley Research

The shift from direct taxes on income and profits towards indirect taxes on consumption or energy use will likely to be reinforced. We expect indirect taxes and administrative prices to make greater contributions to headline inflation. New tax cuts (promised in the German election and by the Swedish government) are also difficult to deliver unless there are radical spending cuts elsewhere, we believe.

Exhibit 4
Social Benefits Represent 50%+ of Expenses - EU15: Breakdown of Government Expenditure (%GDP)



Source: European Commission, Eurostat, Commission Services, Morgan Stanley Research

2. Spending cuts. We expect significant cuts in government spending going forward. With strong corporate tax competition between different business locations and higher tax wedges being detrimental to long-term growth, government spending will likely be reassessed and cut back where possible – notably in the area of social benefits where entitlements were expanded during the crisis. A number of countries will also have to take decisive action to defuse the pension time-bomb and limit age-related spending increases. In addition, governments will be keen to reduce outlays on debt service by using innovative funding strategies and by reducing the amount of debt. Significant reductions in investment spending (e.g. infrastructure, education) might have negative repercussions on long-term growth. Budget pressures will likely promote Private-Public-Partnerships (PPP).

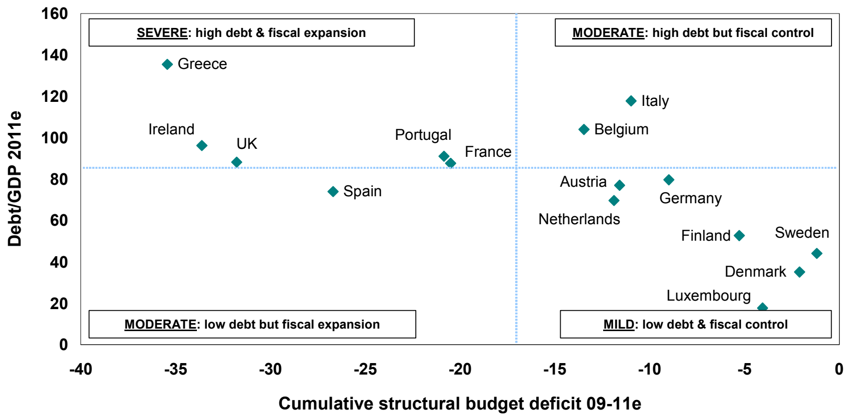
3. Privatisation. This is not a new trend and in recent weeks we have already seen the Swiss Government selling their SFr 6bn stake in UBS. Norway's leading right-wing opposition party also highlighted their plan to raise ~$12bn by selling stakes in Nordic companies if they had won last October's election. We expect more to come, as our analysis and academic studies show that governments tend to step-up their effort in privatization when their finances are in trouble.

Tough decisions lie ahead for finance ministers. The extent to which policy makers will be able to deliver on these tough decisions crucially depends on the institutional set-up. The electoral system determines whether governments command stable majorities in parliament. The degree of centralisation in federal relations and social security determines whether the national government can control overall spending effectively. The election cycle is relevant with respect to timing of the fiscal consolidation. An acute sense of a crisis tends to make it easier push through austerity packages.

Macro implication for equities - range trading for years to come due to the threat of fiscal tightening. At some point governments will need to restore their rapidly deteriorating finances. This fiscal tightening could have large implications for equities, and is one of the main structural reasons, together with the continued need for deleveraging in financial and household sectors, that we expect range-bound markets for years to come, as opposed to a new bull market (see "*The Aftermath of Secular Bear Markets*", 10 August 2009).

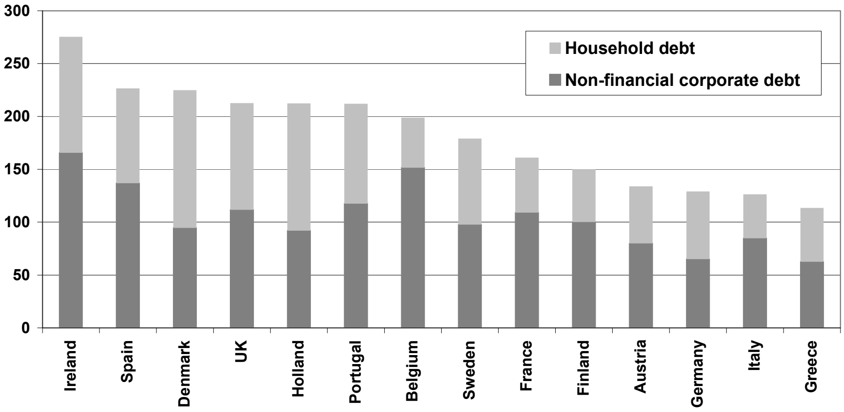
Fiscal position of some countries are particularly weak

Exhibit 5
Greece, Ireland and UK have a combination of high debt level & wide structural budget deficit, and...



Source: European Commission, Eurostat, Morgan Stanley Research.

Exhibit 6
…Ireland, Spain, Denmark and UK have the biggest debt overhang in the private sector



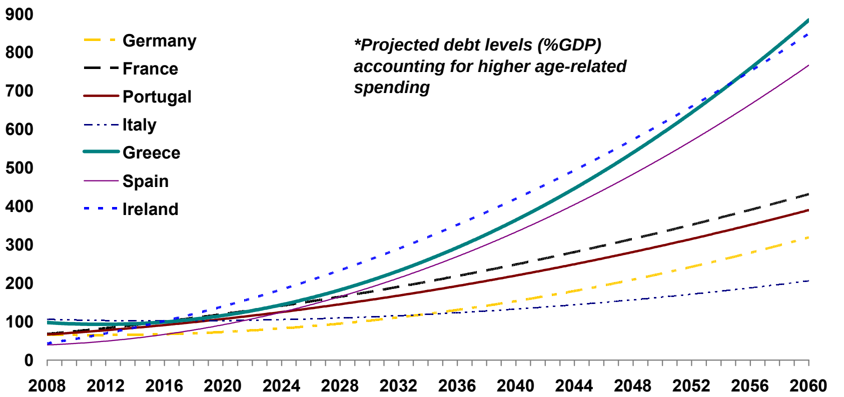
Source: European Commission, OECD, National Statistic Offices, Morgan Stanley Research.

Exhibit 7
Debt affordability is still quite good but…

Country	Interest expense (%GDP)				Interest expense (%Revenue)			
	2010	*LTA*	*MAX*	*MIN*	*2010*	*LTA*	*MAX*	*MIN*
Greece	5.7	7.3	12.4	4.4	15.3	20.2	34.2	10.9
Italy	4.7	7.6	12.7	4.4	10.4	17.8	27.4	10.1
Ireland	3.3	4.4	9.8	0.8	9.7	11.1	22.9	2.3
Belgium	4.1	6.8	11.7	3.4	8.5	14.6	25.7	7.8
Portugal	3.1	4.5	8.3	1.4	7.1	12.7	24.9	5.2
Spain	2.5	2.9	5.2	1.6	6.9	7.8	13.6	3.9
United Kingdom	2.6	3.6	5.3	1.9	6.6	8.7	11.8	4.8
Austria	3.1	3.2	4.1	1.6	6.5	6.4	8.1	3.7
Germany	2.8	3.0	3.5	2.7	6.4	6.8	7.7	6.1
France	2.9	2.6	3.6	1.0	6.2	5.4	7.1	2.4
Netherlands	2.5	4.0	6.2	2.1	5.5	8.2	12.1	4.6
Finland	1.5	2.0	4.4	0.6	2.9	3.7	7.8	1.3
Denmark	1.5	4.2	9.3	1.1	2.8	7.7	17.2	2.5
Sweden	1.2	3.2	6.2	1.2	2.3	5.5	10.2	2.3
EU 15	**3.0**	**4.0**	**5.7**	**2.6**	**6.9**	**9.0**	**13.0**	**5.9**

Note: government revenue incl. direct & indirect taxes, social contributions received and capital transfers received.
Source: European Commission, Eurostat, Morgan Stanley Research.

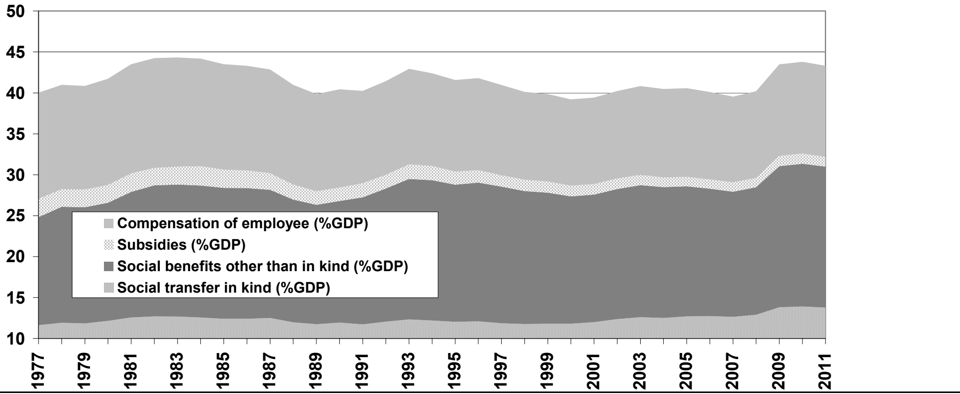
Exhibit 8
…Every country has an age-related budget issue



Note: *Age related spending include pension, healthcare, long-term care, unemployment benefits & education.
Source: European Commission, Eurostat, Morgan Stanley Research.

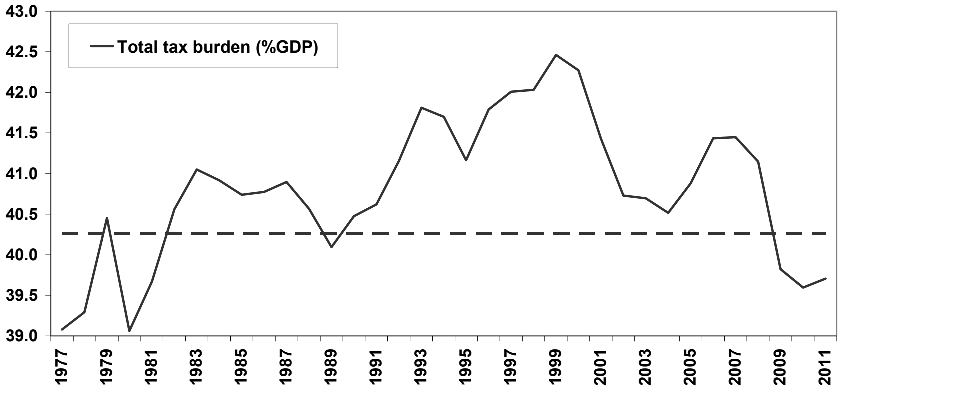
Tackling the debt burden – spending cuts + asset sales + tax hikes

Exhibit 9
Record-high government spending needs to be cut to balance the budget, and ...



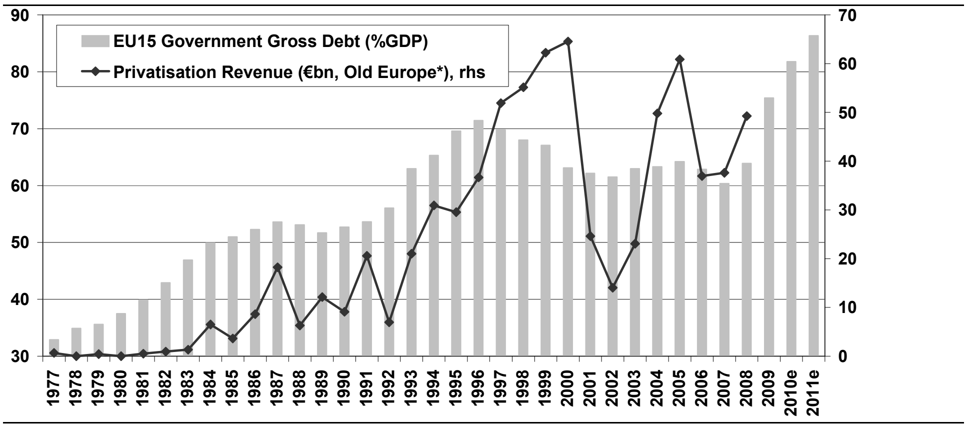
Source: Privatization Barometer, European Commission, Eurostat, Morgan Stanley Research.

Exhibit 10
...Low tax burden on private sector provides some room for tax hikes



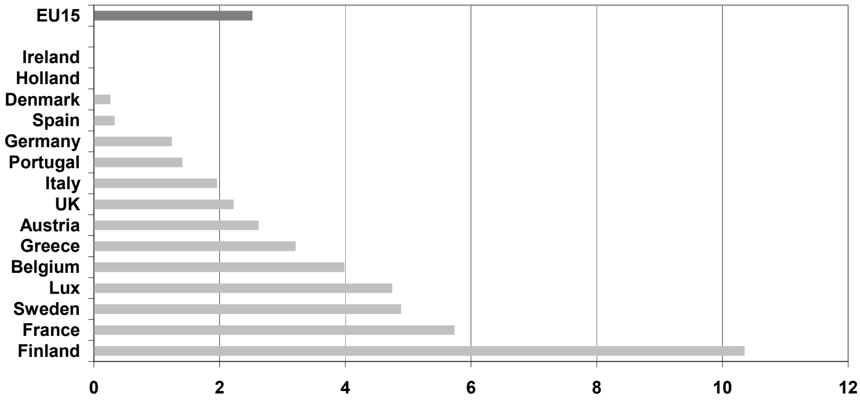
Source: Privatization Barometer, European Commission, Eurostat, Morgan Stanley Research.

Exhibit 11
Governments tend to step up privatization when their finances are in trouble, and ...



Source: Privatization Barometer, European Commission, Eurostat, Morgan Stanley Research.

Exhibit 12
… Potential revenue is significant post equity rally
- Potential* Privatisation Revenue (%GDP)



Source: Privatization Barometer, European Commission, Eurostat, Morgan Stanley Research.

… Three stock baskets to play these themes:

Trade #1 - stocks that suffer from cuts in government spending. Our previous analysis shows that European companies generate 7% of revenues directly from government expenditure, with Healthcare, Capital Goods and Software the most exposed (see "*Global Exposure Guide 2009*", September 21 2009). While we do not see immediate risks from cuts in fiscal spending as discussed above, we believe cuts in government expenditure will be a persistent theme for years to come.

Trade #2 - stocks with potential overhang risks if government stakes were sold. Clearly, government ownership alone is not a good reason to sell a stock, as there are strategic holdings that are unlikely to be sold, and removing

Trade #1 - stocks that suffer from cuts in government spending
European Companies with the highest exposure to government expenditure in 2009

Company Name	Sector	Market Cap $mn	Price	Share of 2009 Revenue from Govt	Company Name	Sector	Market Cap $mn	Price	Share of 2009 Revenue from Govt
Fresenius Medical Care	Health Care	16,044	€ 39.8	100.0	Arriva	Industrials	1,696	£ 5.69	49.8
Fresenius SE	Health Care	11,630	€ 53.5	100.0	Lafarge	Materials	20,560	€ 52.7	48.0
BAE SYSTEMS	Industrials	20,046	£ 3.79	100.0	Korian	Health Care	784	€ 18.5	47.0
Ceres Power	Industrials	172	£ 1.34	100.0	Orpea	Health Care	1,626	€ 31.1	47.0
Care UK	Health Care	376	£ 4.07	95.0	Almirall	Health Care	2,228	€ 10.0	45.0
Rhoen Klinikum	Health Care	3,459	€ 18.6	95.0	AstraZeneca	Health Care	63,446	£ 29.29	45.0
Celesio	Health Care	4,971	€ 21.7	87.0	Lundbeck	Health Care	3,374	DKK 95.00	45.0
United Drug	Health Care	722	€ 2.3	87.0	Novo Nordisk	Health Care	44,864	DKK 395.00	45.0
Synergy Health	Health Care	479	£ 5.90	80.0	ACS	Industrials	5,433	$ 59.64	45.0
Southern Cross Health.	Health Care	422	£ 1.50	70.0	Pearson	Cons. Discr.	11,579	£ 9.56	40.0
Balfour Beatty	Industrials	2,838	£ 2.77	70.0	GlaxoSmithKline	Health Care	95,320	£ 12.30	40.0
Finmeccanica	Industrials	7,512	€ 9.6	65.0	Grifols	Health Care	3,226	€ 11.2	40.0
Vinci	Industrials	29,844	€ 42.0	62.0	Ipsen	Health Care	4,234	€ 37.4	40.0
Indra	IT	3,508	€ 15.6	60.0	Novartis	Health Care	146,386	SFr 60.25	40.0
DEXIA	Financials	9,383	€ 4.0	55.0	Sanofi-Aventis	Health Care	97,250	€ 54.8	40.0
Carillion	Industrials	1,708	£ 2.88	55.0	UCB S.A.	Health Care	8,050	€ 32.6	40.0
FirstGroup	Industrials	2,659	£ 3.69	53.0	CRH	Materials	17,002	€ 17.8	40.0
Titan Cement S.A	Materials	2,296	€ 19.8	51.0	Inmarsat	Tlc	5,232	£ 7.61	40.0
Smith & Nephew	Health Care	9,091	£ 6.87	50.0	Steria	IT	876	€ 22.3	36.0
Synthes	Health Care	14,162	SFr 129.50	50.0	EDF	Utilities	95,687	€ 38.4	33.0
Capita Group	Industrials	6,735	£ 7.22	50.0	Holcim	Materials	23,555	SFr 77.05	32.0
Italcementi	Materials	3,421	€ 8.9	50.0	International Power	Utilities	7,580	£ 3.33	30.5
PPC	Utilities	2,136	$ 9.97	50.0	Elan Corp.	Health Care	4,196	€ 5.3	30.0
Suez Environnement	Utilities	11,289	€ 16.9	50.0	Roche	Health Care	144,608	SFr 182.00	30.0
Veolia Environnement	Utilities	15,999	€ 23.7	50.0	Rolls-Royce	Industrials	15,568	£ 5.62	30.0

For important disclosures regarding companies that are the subject of this screen, please see the Morgan Stanley Research Disclosure Website at www.morganstanley.com/researchdisclosures. Prices updated as of 10 March 2010. Source: MSCI, Morgan Stanley Research overhang in stocks we like fundamentally is sometimes a trigger for outperformance. We do however believe it is a prudent approach to avoid stocks with negative fundamental outlook and significant government ownership.

Trade #2 - stocks with potential overhang risks if government stakes were sold

- MS Research Coverage with 5% + government ownership

Company Name	Sector	MV ($Mn)	Price (LC)	Govt Stake (%)
RENAULT	Cons. Discr.	12,832	€ 33.0	15.0
OPAP	Cons. Discr.	7,112	€ 16.3	34.0
STATOILHYDRO	Energy	74,545	NKr 137.6	67.0
FORTUM CORP	Energy	23,432	€ 19.3	51.6
OMV AG	Energy	11,222	€ 27.4	51.5
NESTE OIL	Energy	4,117	€ 11.8	50.1
BNP PARIBAS	Financials	92,578	€ 57.2	11.7
LLOYDS BANKING GROUP	Financials	54,098	£ 0.5	41.3
NORDEA BANK	Financials	42,675	SKr 75.1	19.8
ROYAL BANK OF SCOTLAND	Financials	33,525	£ 0.4	70.3
DNB NOR	Financials	19,233	NKr 69.5	27.8
SAMPO A	Financials	14,263	€ 18.7	14.2
DEXIA	Financials	10,311	€ 4.3	14.3
COMMERZBANK	Financials	9,400	€ 5.8	25.0
BOLSAS Y MERCADOS ESPANO	Financials	2,305	€ 20.2	5.3
DEUTSCHE POST	Industrials	21,136	€ 12.8	30.5
EADS	Industrials	17,693	€ 15.9	5.5
NORSK HYDRO	Industrials	9,001	NKr 42.7	43.8
ADP	Industrials	7,866	€ 58.2	52.1
FINMECCANICA	Industrials	7,858	€ 10.0	31.5
METSO CORP	Industrials	5,000	€ 24.4	10.4
FRAPORT	Industrials	4,835	€ 38.6	51.6
AIR FRANCE-KLM	Industrials	4,273	€ 10.4	17.5
IBERIA LINEA AEREAS	Industrials	3,068	€ 2.4	5.2
HAMBURGER HAFEN UND LOGI	Industrials	2,818	€ 29.5	68.5
UNIQUE ZURICH AIRPORT	Industrials	1,928	SFr 336.5	38.4
OESTERREICHISCHE POST	Industrials	1,924	€ 20.9	52.8
FLUGHAFEN WIEN	Industrials	978	€ 34.1	40.0
SAS	Industrials	935	SKr 2.7	21.0
SAFRAN	IT	10,077	€ 17.7	30.2
EURASIAN NATURAL RES	Materials	21,540	£ 11.1	11.7
KAZAKHMYS	Materials	12,332	£ 15.3	15.0
YARA INTERNATIONAL	Materials	11,770	NKr 237.6	36.2
SSAB SVENSKT STAL A	Materials	4,296	SKr 126.7	5.1
OUTOKUMPU	Materials	3,542	€ 14.2	31.0
KEMIRA	Materials	2,715	€ 12.8	13.3
FRANCE TELECOM	Tlc	64,256	€ 17.8	13.2
DEUTSCHE TELEKOM	Tlc	58,036	€ 9.7	31.7
TELIASONERA	Tlc	32,380	SKr 51.2	51.0
TELENOR	Tlc	22,266	NKr 79.1	54.0
SWISSCOM	Tlc	18,226	SFr 377.0	56.9
BELGACOM	Tlc	13,069	€ 28.3	53.5
OTE HELLENIC TELECOM.	Tlc	6,264	€ 9.4	20.0
TELEKOM AUSTRIA	Tlc	5,836	€ 9.7	28.4
EDF	Utilities	95,691	€ 37.9	83.4
GDF-SUEZ	Utilities	84,794	€ 27.5	34.6
E. ON	Utilities	73,378	€ 26.9	5.9
ENEL	Utilities	52,892	€ 4.1	14.8
EDP ENERGIAS DE PORTUGAL	Utilities	13,376	€ 2.8	24.7
RED ELECTRICA CORP	Utilities	7,077	€ 38.3	20.0
VERBUND OESTERR ELEK A	Utilities	5,719	€ 27.7	33.2
A2A	Utilities	5,689	€ 1.3	56.9
ENAGAS	Utilities	5,161	€ 15.8	5.0
ACEA	Utilities	2,163	€ 7.4	51.0

- Non MS Research Coverage with 5% + government ownership

Company Name	Sector	MV ($Mn)	Price (LC)	Govt Stake (%)
VOLKSWAGEN STAMM	Cons. Discr.	28,684	€ 71.2	20.0
COMPAGNIE DES ALPES	Cons. Discr.	607	€ 25.2	39.5
LA SEDA DE BARCELONA B	Cons. Discr.	291	€ 0.3	6.0
EBRO PULEVA	Cons. Staples	3,078	€ 14.3	8.4
CERMAQ	Cons. Staples	1,061	NKr 67.5	43.5
BONIFICA FERRARESI	Cons. Staples	237	€ 30.9	62.4
CIA ESP PETROLEOS(CEPSA	Energy	7,660	€ 21.0	47.1
HELLENIC PETROLEUM	Energy	3,580	€ 8.6	35.5
TOTAL GABON	Energy	1,698	€ 276.4	25.0
CADOGAN PETROLEUM PLC	Energy	53	£ 0.2	5.0
CNP ASSURANCES	Financials	13,741	€ 67.8	41.1
BANQUE CANTONALE VAUD	Financials	3,871	SFr 482.0	67.0
ST GALLER KANTONALBANK	Financials	2,601	SFr 500.0	54.8
LUZERNER KANTONALBK R	Financials	2,308	SFr 291.0	62.6
AGRICULTURAL BK GREECE	Financials	2,040	€ 1.7	77.3
LIECHTENST LANDESBK INH	Financials	2,029	SFr 70.6	57.5
BNB BANQUE NATL BELGIQUE	Financials	1,870	€ 3,424.0	50.0
TT HELLENIC POSTBANK	Financials	1,557	€ 4.0	34.0
ALLREAL HOLDING	Financials	1,360	SFr 128.0	5.3
BANK OF GREECE	Financials	1,169	€ 43.1	6.6
SPONDA	Financials	1,129	€ 3.0	34.3
ATTICA BANK	Financials	468	€ 1.4	13.6
TECHNOPOLIS	Financials	283	€ 3.6	10.7
THALES	Industrials	8,156	€ 30.0	27.0
HERA	Industrials	2,630	€ 1.7	46.0
KONGSBERG GRUPPEN	Industrials	1,978	NKr 97.0	50.0
KOBENHAVNS LUFTHAVNE	Industrials	1,769	DKr 1229.0	39.2
SAS NORGE B	Industrials	939	NKr 2.2	21.0
FINNAIR	Industrials	682	€ 3.9	56.1
SAVE SPA	Industrials	490	€ 6.5	29.3
PIRAEUS PORT AUTHORITY	Industrials	457	€ 13.4	74.1
ION BEAM APPLICATIONS	Industrials	302	€ 8.3	5.3
THESSALONIKI PORT AUTHOR	Industrials	187	€ 13.6	74.3
SALZGITTER	Materials	5,505	€ 67.1	26.5
STORA ENSO R	Materials	4,109	€ 4.9	6.8
RAUTARUUKKI	Materials	2,727	€ 14.2	39.7
TESSENDERLO CHEMIE	Materials	844	€ 22.2	25.9
INAPA	Materials	131	€ 0.6	32.7
ELISA A	Telecommunica	3,744	€ 16.5	10.8
RETELIT	Telecommunica	91	€ 0.4	14.8
SUEZ	Utilities	49,090	€ 27.5	35.7
MOTOR-COLUMBUS INH	Utilities	10,607	SFr 418.0	10.2
PUBLIC POWER CORP	Utilities	4,007	€ 12.7	51.1
BKW FMB ENERGIE	Utilities	3,922	SFr 79.6	52.5
MVV ENERGIE AG	Utilities	2,868	€ 31.9	66.4
EVN	Utilities	2,784	€ 12.5	51.0
ROMANDE ENERGIE HOLDIN	Utilities	1,920	SFr 1,805.0	52.7
CKW N	Utilities	1,811	SFr 326.8	9.9
HAFSLUND A	Utilities	1,294	NKr 66.0	58.5
EYDAP ATHENS WASUPP.	Utilities	856	€ 5.9	61.0
ENIA	Utilities	856	€ 5.8	47.3
THESSALONIKI WATER&SEWAG	Utilities	201	€ 4.1	74.0

Note: Government defined as the executive or administrative organisation of a country, state, municipality, etc. or an entity owned by such an organisation. For important disclosures regarding companies that are the subject of this screen, please see the Morgan Stanley Research Disclosure Website at www.morganstanley.com/researchdisclosures. Prices updated as of 10 March 2010. Source: Lionshare, MSCI, Morgan Stanley Research

Trade #3 - most exposed stocks to tax hikes & tighter tax regimes. Companies with effective rates below peers in the same sector and country are likely to be the most affected, we believe, if taxes were to go up and loopholes in tax bases closed.

Trade #3 - Most exposed to tax hikes & tighter tax regimes
50 European names with effective tax rates below their peers in the same sector & country (Rank on Tax Expense as %PBT)

Company Name	Sector	Country	MV ($Mn)	Price (LC)	Average Effective Tax Rate (04 - 07)		
					Company	*Sector*	*Country*
Carnival PLC	Cons. Discr.	United Kingdom	6,151	£ 19.4	2.0%	30%	30%
StoreBrand ASA	Financials	Norway	3,127	NKr 32.9	2.9%	24%	26%
Investor AB	Financials	Sweden	8,101	SKr 134.5	3.8%	24%	28%
3i Group PLC	Financials	United Kingdom	3,886	£ 3.0	3.9%	24%	30%
Partners Group Holding AG	Financials	Switzerland	3,380	SFr 120.0	4.1%	24%	22%
Bourbon	Energy	France	2,066	€ 32.3	6.2%	35%	32%
Pargesa Holding S.A.	Financials	Switzerland	6,057	SFr 84.7	6.9%	24%	22%
GKN PLC	Cons. Discr.	United Kingdom	2,661	£ 1.2	7.5%	30%	30%
Banque Cantonale Vaudoise	Financials	Switzerland	3,839	SFr 403.0	7.9%	24%	22%
Criteria CaixaCorp S.A.	Financials	Spain	15,420	€ 3.5	8.1%	24%	29%
Ryanair Holdings PLC	Industrials	Ireland	7,040	€ 3.2	8.4%	30%	16%
Liechtensteinische Landesbank AG	Financials	Switzerland	2,003	SFr 69.0	10.0%	24%	22%
Renault S.A.	Cons. Discr.	France	11,743	€ 33.8	10.0%	30%	32%
Bulgari S.P.A.	Consumer	Italy	2,330	€ 5.5	10.8%	30%	37%
Banco Comercial Portugues S/A	Financials	Portugal	4,767	€ 0.9	11.3%	24%	21%
Carphone Warehouse Group PLC	Cons. Discr.	United Kingdom	2,580	£ 1.9	12.3%	30%	30%
DCC PLC	Industrials	Ireland	2,160	€ 16.6	12.5%	30%	16%
Oriflame Cosmetics S.A. SDR	Cons. Staples	Sweden	3,293	SKr 340.0	12.5%	28%	28%
EFG International AG	Financials	Switzerland	2,017	SFr 18.1	12.6%	24%	22%
Logitech International S.A.	IT	Switzerland	2,954	SFr 19.0	12.7%	31%	22%
Actelion Ltd.	Health Care	Switzerland	6,380	SFr 61.5	13.1%	29%	22%
Investment AB Kinnevik	Financials	Sweden	3,743	SKr 99.0	13.2%	24%	28%
Compagnie Nationale a Portefeuille	Financials	Belgium	5,505	€ 35.9	13.5%	24%	23%
Nutreco Holding N.V.	Cons. Staples	Netherlands	2,085	€ 31.7	13.6%	28%	25%
Abengoa S.A.	Industrials	Spain	2,293	€ 19.1	14.0%	30%	29%
D'Ieteren N.V. S.A.	Cons. Discr.	Belgium	2,412	€ 192.3	14.2%	30%	23%
Ferrexpo PLC	Materials	United Kingdom	2,527	£ 1.7	14.3%	29%	30%
Galenica AG	Health Care	Switzerland	2,446	SFr 341.5	14.3%	29%	22%
Credit Suisse Group AG	Financials	Switzerland	52,673	SFr 55.3	14.5%	24%	22%
Sonae SGPS S/A	Industrials	Portugal	2,224	€ 0.9	14.7%	30%	21%
Piraeus Bank S.A.	Financials	Greece	2,818	€ 10.9	14.9%	24%	29%
Novartis AG	Health Care	Switzerland	146,903	SFr 48.8	15.2%	29%	22%
Randstad Holding N.V.	Industrials	Netherlands	7,114	€ 30.5	16.0%	30%	25%
Umicore S.A.	Materials	Belgium	3,604	€ 19.0	16.2%	29%	23%
Barry Callebaut AG	Cons. Staples	Switzerland	3,111	SFr 598.5	16.5%	28%	22%
EMS-Chemie Holding AG	Materials	Switzerland	2,900	SFr 110.8	16.6%	29%	22%
ArcelorMittal SA	Materials	France	59,581	€ 26.0	16.6%	29%	32%
Straumann Holding AG	Health Care	Switzerland	3,817	SFr 247.9	16.7%	29%	22%
Sonova Holding AG	Health Care	Switzerland	8,273	SFr 96.6	16.8%	29%	22%
Jeronimo Martins SGPS S/A	Cons. Staples	Portugal	6,053	€ 5.6	16.8%	28%	21%
Compagnie Financiere Richemont S.A.	Consumer	Switzerland	17,624	SFr 28.8	16.9%	30%	22%
Dexia S.A.	Financials	Belgium	9,554	€ 6.5	17.2%	24%	23%
Ladbrokes PLC	Consumer	United Kingdom	2,003	£ 1.9	17.3%	30%	30%
ING Groep N.V.	Financials	Netherlands	34,328	€ 10.4	17.7%	24%	25%
Orkla ASA	Industrials	Norway	8,060	NKr 49.6	17.8%	30%	26%
Hexagon AB	Industrials	Sweden	3,416	SKr 75.3	17.8%	30%	28%
Northumbrian Water Group PLC	Utilities	United Kingdom	2,177	£ 2.4	17.9%	31%	30%
Swisscom AG	Tlc	Switzerland	17,823	SFr 368.8	17.9%	25%	22%
Credit Agricole S.A.	Financials	France	34,568	€ 12.4	18.0%	24%	32%
Man Group PLC	Financials	United Kingdom	5,854	£ 2.8	18.3%	24%	30%

Note: exclude stocks with MV <$2bn; also exclude real estate companies as some have REIT status and are therefore exempt from income & CGT. For important disclosures regarding companies that are the subject of this screen, please see the Morgan Stanley Research Disclosure Website at www.morganstanley.com/researchdisclosures. Prices updated as of 10 March 2010. Source: Worldscope, MSCI, Morgan Stanley Research

Kateryna Holland §

§ University of Oklahoma and FEEM

Last but not Least: Bank Privatization in the U.S.

Last year, the U.S. public learned that their biggest banks preferred to repay "cheap" government funding as soon as possible rather than continue being subject to government oversight of executive pay and bank lending policies. Given the extremely turbulent events of the 2008 subprime mortgage crisis, and their effect on asset values and loss of liquidity the original capital infusions from the government restored order in the market by making government the lender of last resort. The proposed rescue program put investors, creditors and depositors "at peace" through an implicit guarantee that large banks, which carried large amounts of systemic risks, were "too big to fail." This paper documents the governmental response to the crisis in the United States, details the terms of the deals given to banks, explores market reactions to the news of capital injections, and concludes with a description of exit strategies through the repayment of government capital.

The 2008 financial crisis was rooted in the bursting of the housing bubble. It brought home the realization that hard to value securities – such as Mortgage Backed Securities (MBSs) and Collateralized Debt Obligations (CDOs) – on bank balance sheets were worth less and had lower credit quality than originally thought. This pushed many banks to take large write-offs as they brought those securitized loans back from the off-balance special investment vehicles (SIVs) onto their books, thus marking the start of the downward spiral described so well by Brunnermeier (2009). Liquidity dried up as trust diminished and banks lost market capitalization. The short-term lending most banking institutions came to rely on heavily in 2002-2006 was primarily based on trust. Therefore, the rates for commercial paper and other short term lending facilities spiked as firms lost confidence in the reliability of reported asset values. The opaque nature of

Table 1. Descriptive Statistics on TARP recipients by size, market capitalization and TARP grant

	BY Total Assets (end of 2006)	BY Market Cap (end of 2007)	By size of TARP grant	Capital Disbursed*
1	Citigroup Inc.	Bank of America Corp.	Citigroup Inc.	$ 25,000,000,000
2	Bank of America Corp.	Citigroup Inc.	Wells Fargo & Company	$ 25,000,000,000
3	JPMorgan Chase & Co.	JPMorgan Chase & Co.	JPMorgan Chase & Co.	$ 25,000,000,000
4	Morgan Stanley	Wells Fargo & Company	Bank of America Corp.	$ 15,000,000,000
5	Goldman Sachs Group, Inc.	Goldman Sachs Group, Inc.	Morgan Stanley	$ 10,000,000,000
6	Wells Fargo & Company	Morgan Stanley	Goldman Sachs Group, Inc.	$ 10,000,000,000
7	U.S. Bancorp	Bank of New York Mellon Corp.	PNC Financial Services Group Inc.	$ 7,579,200,000
8	SunTrust Banks, Inc.	U.S. Bancorp	U.S. Bancorp	$ 6,599,000,000
9	Capital One Financial Corp.	State Street Corp.	Capital One Financial Corp.	$ 3,555,199,000
10	Regions Financial Corp.	PNC Financial Services Group Inc.	SunTrust Banks, Inc.	$ 3,500,000,000
11	BB&T Corp.	SunTrust Banks, Inc.	Regions Financial Corp.	$ 3,500,000,000
12	State Street Corp.	Capital One Financial Corp.	Fifth Third Bancorp	$ 3,408,000,000
13	Bank of New York Mellon Corp.	Northern Trust Corp.	BB&T Corp.	$ 3,133,640,000
14	PNC Financial Services Group Inc.	BB&T Corp.	Bank of New York Mellon Corp.	$ 3,000,000,000
15	Fifth Third Bancorp	Regions Financial Corp.	KeyCorp	$ 2,500,000,000

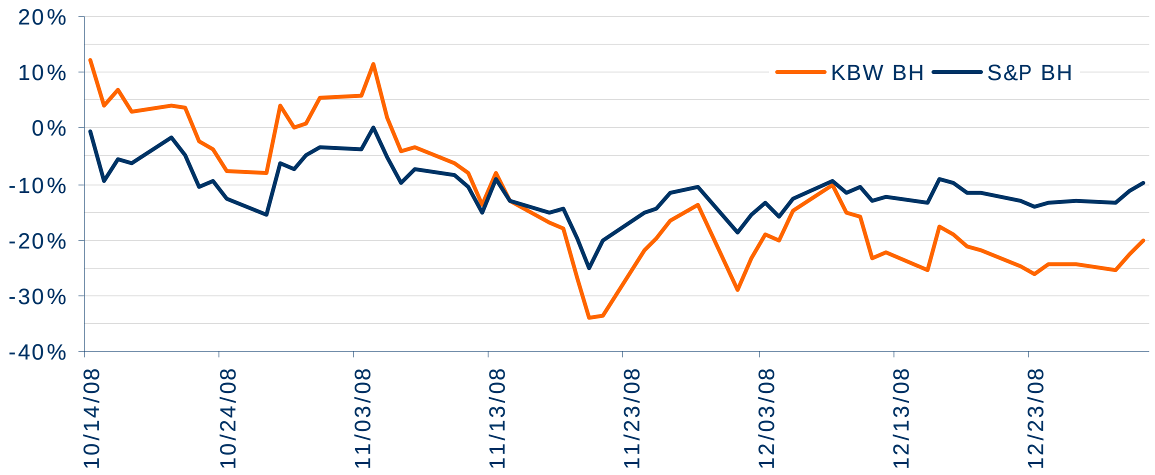
* Ranked by Size of TARP grant
Source: *CRSP* and *COMPUSTAT*

securitized transactions made double-checking valuations impossible. Bank stock prices declined as shareholders unwound their holdings, trying to reduce their exposure to the financial sector, and as fire sales of assets to cover margin calls escalated causing even further asset value decreases. After Lehman Brothers unexpectedly filed for bankruptcy on September 15, 2008, due to an inability to obtain funds, the financial markets reacted with panic and posted their largest drop since the Great Depression.[1] The interconnectedness and interdependence of different financial instruments, firms and countries became apparent through price declines across different and previously uncorrelated security classes and countries. Governments across the world decided to intervene in order to prevent a global disaster.

The U.S. chose to strengthen its financial sector through the Trouble Assets Relief Program (TARP). The initial TARP was proposed on September 19, 2008 as a $700 billion plan to purchase or insure "troubled" assets. The terms outlining the exact procedures or institutions that would qualify were not well defined. This uncertainty, along with the traditional U.S. distaste for government involvement in economic affairs led to the initial rejection of the TARP plan on September 29, sending the market for another downward slide. The S&P 500 dropped 8.8%, its largest decline since 1987 and the KBW banking index lost 20%.[2] This decline did not stop even with the later vote of approval for $700 billion TAPR on October 3, 2008. However, when more clarity was added on October 14, 2008 the markets and, in particular, the banking sector had a positive reaction. The Treasury announced that the first disbursement of $250 billion of TARP Capital Purchase Program (CPP) would be spent on the purchase of non-convertible preferred stock in banks.[3] Also 50% of the initial disbursement would be allotted to the eight largest American banks – Citigroup, Bank of America, JPMorgan Chase, Goldman Sachs, Morgan Stanley, Wells Fargo, Bank of New York, and State Street.[4] Citigroup and Bank of America also received an additional $25 billion in asset guarantees each (not through CPP).

This was a big change to the terms from the original proposition. Initially, U.S. Treasury Secretary Henry Paulson proposed that government buy the toxic assets in insolvent banks and then sell them in auction to private investors. However, after his meeting with the U.K Prime Minister Brown the course of

Figure 1. KBW[a] and S&P500 Buy-and-Hold Returns[b]



Source: Elaborations on *finance.yahoo.com*

[a] *KBW (Keefe, Bruyette and Woods) banking index ^BKX consists of 24 largest U.S. banks.*

[b] *October 13th 2008 is used as the original date and December 31st 2008 is used as the end period date.*

action was switched to injecting the funds via preferred stock. The United Kingdom announced their bank rescue plan a week prior to the U.S. plan.[5] While their banks had a positive reaction to the news, it was at a much smaller scale than the United States. King (2009) finds banks outperformed the general index by 13.1% in the United Kingdom, compared to the 21.1% positive response in the United States.

Table 2. Largest Bank Share Issues from September 2008 to December 2009

	Filing Date	Issue Date	Issuer	Principal Amount ($ mil)	Total Cumulative Issue ($mln)	Shares Offered	Offer Price	Price at Close of Offer
1	04/20/09	12/03/09	Bank of America Corp	$ 19,290		1,286,000,000	$ 15.00	$ 16.28
	04/20/09	05/08/09	Bank of America Corp	$ 13,463		1,250,000,000	$ 10.77	$ 14.17
	05/05/06	10/07/08	Bank of America Corp	$ 10,010	42,762.50	455,000,000	$ 22.00	$ 22.10
2	10/30/08	12/15/09	Wells Fargo,San Francisco,CA	$ 10,650		426,000,000	$ 25.00	$ 25.84
	10/30/08	11/06/08	Wells Fargo,San Francisco,CA	$ 8,802		326,000,000	$ 27.00	$ 29.50
	10/30/08	05/08/09	Wells Fargo,San Francisco,CA	$ 3,751		170,500,000	$ 22.00	$ 28.18
	10/30/08	05/08/09	Wells Fargo,San Francisco,CA	$ 3,751		170,500,000	$ 22.00	$ 28.18
	10/30/08	11/06/08	Wells Fargo,San Francisco,CA	$ 2,201	29,154.50	81,500,000	$ 27.00	$ 29.50
3	02/20/09	12/16/09	Citigroup Inc	$ 17,000	17,000.00	5,396,825,397	$ 3.15	$ 3.20
4	10/16/07	09/26/08	JPMorgan Chase & Co	$ 10,000		246,913,580	$ 40.50	$ 48.24
	10/16/07	06/02/09	JPMorgan Chase & Co	$ 5,006	15,005.50	142,000,000	$ 35.25	$ 33.98
5	12/01/05	09/25/08	Goldman Sachs Group Inc	$ 5,000		40,650,407	$ 123.00	$ 137.99
	10/10/08	04/14/09	Goldman Sachs Group Inc	$ 5,000	10,000.00	40,650,407	$ 123.00	$ 115.11
6	12/23/08	05/08/09	Morgan Stanley	$ 4,041		168,358,334	$ 24.00	$ 25.10
	12/23/08	06/02/09	Morgan Stanley	$ 2,247	6,287.40	81,881,801	$ 27.44	$ 30.09
7	01/15/10	02/03/10	PNC Finl Svcs Grp Inc	$ 3,000		55,555,600	$ 54.00	$ 51.03
	05/14/09	05/27/09	PNC Finl Svcs Grp Inc	$ 633	3,633.20	15,000,000	$ 42.21	$ 43.66
8	04/17/08	05/11/09	US Bancorp,Minneapolis,MN	$ 2,502	2,502.00	139,000,000	$ 18.00	$ 17.67
9	07/25/08	05/12/09	BB&T Corp	$ 1,500		75,000,000	$ 20.00	$ 22.50
	07/25/08	08/17/09	BB&T Corp	$ 870	2,369.70	33,450,000	$ 26.00	$ 27.53
10	03/12/09	05/18/09	State Street Corp	$ 2,000	2,000.00	51,283,000	$ 39.00	$ 41.79
11	09/05/06	06/01/09	SunTrust Banks Inc,Atlanta,GA	$ 1,053		81,000,000	$ 13.00	$ 15.94
	09/05/06	06/01/09	SunTrust Banks Inc,Atlanta,GA	$ 351		27,000,000	$ 13.00	$ 15.94
	05/15/09	07/22/09	SunTrust Banks Inc,Atlanta,GA	$ 260	1,664.10	17,667,226	$ 14.73	$ 16.93
12	05/11/07	05/20/09	Regions Finl Corp	$ 1,600	1,600.00	400,000,000	$ 4.00	$ 4.89
13	11/06/07	10/21/09	Marshall & Ilsley Corp,WI	$ 782		136,000,000	$ 5.75	$ 6.10
	11/06/07	06/11/09	Marshall & Ilsley Corp,WI	$ 500	1,282.30	87,000,000	$ 5.75	$ 6.13
14	07/02/07	05/11/09	Bank of New York Mellon Corp	$ 1,208	1,207.50	42,000,000	$ 28.75	$ 28.43
15	01/13/09	09/18/09	Huntington Bancshares Inc,OH	$ 400		95,238,000	$ 4.20	$ 4.41
	01/13/09	06/03/09	Huntington Bancshares Inc,OH	$ 324		90,000,000	$ 3.60	$ 4.05
	09/09/09	09/17/09	Huntington Bancshares Inc,OH	$ 150		35,717,240	$ 4.20	$ 4.35
	04/24/09	05/08/09	Huntington Bancshares Inc,OH	$ 120		38,491,650	$ 3.12	$ 5.71
	05/21/09	06/09/09	Huntington Bancshares Inc,OH	$ 76	1,069.80	18,454,313	$ 4.11	$ 4.03
16	05/11/09	06/02/09	KeyCorp,Cleveland,Ohio	$ 1,001	1,000.50	205,438,975	$ 4.87	$ 4.60
17	05/20/09	06/04/09	Fifth Third Bancorp,OH	$ 1,000	1,000.00	157,955,960	$ 6.33	$ 7.13
18	07/31/08	04/28/09	Northern Trust Corp	$ 750	750.00	15,000,000	$ 50.00	$ 55.00
19	09/09/09	12/18/09	Northwest Bancshares Inc	$ 689	688.80	68,878,267	$ 10.00	
20	01/20/09	09/16/09	Synovus Financial Corp,GA	$ 600	600.00	150,000,000	$ 4.00	$ 3.90
21	06/01/09	09/17/09	Zions Bancorp,Utah	$ 250		16,832,925	$ 14.85	$ 18.40
	06/01/09	08/10/09	Zions Bancorp,Utah	$ 127		9,177,658	$ 13.79	$ 16.43
	06/01/09	11/09/09	Zions Bancorp,Utah	$ 67	443.70	3,671,000	$ 18.31	$ 13.26
22	12/17/08	01/11/10	Associated Banc-Corp	$ 435	434.80	38,993,956	$ 11.15	$ 12.01
23	05/09/08	05/13/09	PrivateBancorp Inc	$ 223		11,600,000	$ 19.25	$ 19.54
	05/09/08	10/28/09	PrivateBancorp Inc	$ 164	387.60	19,324,051	$ 8.50	$ 9.26
24	11/17/09	11/18/09	SVB Financial Group	$ 300	300.30	7,800,000	$ 38.50	$ 38.36
25		09/08/08	Signature Bank NY	$ 136		4,700,000	$ 29.00	$ 32.53
	06/02/09	06/02/09	Signature Bank NY	$ 117	253.30	4,500,000	$ 26.00	$ 26.78
26	06/29/09	07/01/09	IBERIABANK Corp,New Iberia,LA	$ 150		3,850,000	$ 39.00	$ 39.29
	11/18/08	12/11/08	IBERIABANK Corp,New Iberia,LA	$ 100	250.20	2,500,000	$ 40.00	$ 42.83
27	01/16/09	10/21/09	Whitney Holding Corp,LO	$ 200	200.00	25,000,000	$ 8.00	$ 8.58
28	06/12/09	09/24/09	United Cmnty Bk,Blairsville,GA	$ 194	193.50	38,700,000	$ 5.00	$ 5.09
29	11/12/09	02/01/10	Cathay Gen Bancorp,LA,CA	$ 115		13,068,182	$ 8.80	$ 9.56
	09/09/09	10/13/09	Cathay Gen Bancorp,LA,CA	$ 70	185.40	7,614,571	$ 9.25	$ 10.06
30	02/27/09	01/13/10	First Midwest Bancorp,IL	$ 180		16,363,637	$ 11.00	$ 12.36
31	06/06/08	09/22/09	Old Natl Bancorp,Evansville,IN	$ 180	180.00	18,000,000	$ 10.00	$ 11.03
32	05/12/09	05/14/09	Western Alliance Bancorp,NV	$ 175	175.20	29,200,000	$ 6.00	$ 6.37
33	10/01/08	06/03/09	First Finl Bancorp	$ 90		12,000,000	$ 7.50	$ 8.03
	10/01/08	01/27/10	First Finl Bancorp	$ 85	175.00	5,614,200	$ 15.14	$ 16.20

Table 2. Largest Bank Share Issues from September 2008 to December 2009 (continued)

	Filing Date	Issue Date	Issuer	Principal Amount ($ mil)		Total Cumulative Issue ($mln)	Shares Offered	Offer Price	Price at Close of Offer
34	10/19/09	10/20/09	Hancock Hldg Co,Gulfport,MS	$	153	152.70	4,300,000	$ 35.50	$ 36.40
35	11/07/08	09/09/09	National Penn Bancshares,PA	$	140	140.20	26,700,000	$ 5.25	$ 6.16
36	05/14/09	07/13/09	Territorial Bancorp Inc	$	122	122.00	12,200,000	$ 10.00	$ 14.83
37	05/12/09	06/10/09	FNB Corp,Naples,Hermitage,PA	$	116	115.50	21,000,000	$ 5.50	$ 5.80
38	06/03/09	07/21/09	CVB Financial Corp,Ontario,CA	$	115	115.20	19,700,000	$ 5.85	$ 6.30
39	12/18/08	05/05/09	City National Corp	$	109	109.20	2,800,000	$ 39.00	$ 43.05
40	10/17/08	08/05/09	Columbia Banking System Inc,WA	$	104	104.10	8,500,000	$ 12.25	$ 13.87
41	05/21/09	06/11/09	Pinnacle Financial Partners,TN	$	100	100.10	7,700,000	$ 13.00	$ 14.43
42	10/27/08	10/31/08	First Commonwealth Finl Corp	$	100		10,000,000	$ 10.00	$ 11.13
43	11/30/09	12/01/09	Trustmark Corp,Jackson,MS	$	100	100.00	5,405,406	$ 18.50	$ 19.82
44	08/10/09	09/15/09	Home Bancshares Inc,Conway,AR	$	98	98.30	4,950,000	$ 19.85	$ 20.61
45	11/26/08	09/16/09	Flushing Finl Corp	$	96	95.70	8,317,400	$ 11.50	$ 11.53
46	08/07/09	10/26/09	Hudson Valley Holding Corp,NY	$	90	90.00	3,600,000	$ 25.00	$ 25.15
47	11/03/08	11/13/08	Glacier Bancorp Inc,MT	$	85	85.30	5,500,000	$ 15.50	$ 17.24
48	08/04/09	08/14/09	Seacoast Bkg Corp of Florida	$	66		29,300,000	$ 2.25	$ 2.55
48		08/10/09	Seacoast Bkg Corp of Florida	$	15	80.90	6,000,000	$ 2.50	$ 2.80
49	08/10/09	09/16/09	United Western Bancorp Inc	$	80	80.00	20,000,000	$ 4.00	$ 3.76
50	07/02/09	07/29/09	CenterState Banks Inc	$	75		11,540,000	$ 6.50	$ 6.89
51	08/06/09	09/24/09	Metro Bancorp Inc	$	75		6,250,000	$ 12.00	$ 11.72
52	09/18/09	10/21/09	Nara Bancorp Inc,LA,CA	$	75		10,000,000	$ 7.50	$ 7.70
53	03/05/09	06/19/09	The South Financial Group Inc	$	75	75.00	75,000,000	$ 1.00	$ 1.30
54	08/21/09	09/24/09	First Busey Corp,Urbana,Il	$	72	72.00	18,000,000	$ 4.00	$ 4.95
55	08/26/09	09/17/09	1st United Bancorp,Boca Raton	$	70	70.00	14,000,000	$ 5.00	
56	04/21/08	07/20/09	East West Bancorp Inc	$	70	69.90	11,000,000	$ 6.35	$ 6.71
57	09/12/06	10/08/08	Berkshire Hills Bancorp Inc	$	36		1,500,000	$ 24.00	$ 23.60
57	09/12/06	05/12/09	Berkshire Hills Bancorp Inc	$	30	66.10	1,400,000	$ 21.50	$ 21.51
58	10/24/08	09/23/09	First Financial Holdings Inc	$	65		4,193,550	$ 15.50	$ 15.62
59	02/27/09	12/07/09	Valley National Bancorp,NJ	$	65	65.00	5,000,000	$ 13.00	$ 13.36
60	08/26/09	11/11/09	Simmons First Natl Corp	$	65	64.90	2,650,000	$ 24.50	$ 24.50
61	10/24/08	09/10/09	Union Bankshares Corp,VA	$	63	62.60	4,725,000	$ 13.25	$ 13.29
62	10/26/09	11/12/09	Lakeland Financial Corp	$	60	59.50	3,500,000	$ 17.00	$ 16.74
63	09/26/08	06/04/09	First Cmnty Bancshares Inc	$	58	57.50	4,600,000	$ 12.50	$ 12.50
64	12/20/06	07/14/09	CoBiz Financial Inc	$	57	57.00	12,670,000	$ 4.50	$ 4.30
65	04/15/09	05/05/09	Texas Capital Bancshares Inc	$	55	55.00	4,000,000	$ 13.75	$ 15.50
66	08/12/09	08/28/09	Tower Bancorp Inc	$	53	52.70	1,968,509	$ 26.75	$ 27.63
67	05/08/09	08/06/09	Univest Corp of Pennsylvania	$	52	51.60	2,950,000	$ 17.50	$ 20.63
68	04/14/09	05/06/09	Sterling Bancshares,Houston,TX	$	50	50.40	7,200,000	$ 7.00	$ 7.13
69	07/31/09	09/15/09	Eagle Bancorp Inc,Bethesda,MD	$	48	48.00	5,853,600	$ 8.20	$ 8.75
70	09/10/08	10/03/08	Community Bank Sys Inc,NY	$	46	45.70	2,200,000	$ 20.75	$ 23.74
71	09/04/09	11/24/09	Washington Banking Co,Oak	$	45	45.00	5,000,000	$ 9.00	$ 9.96
72	12/18/08	09/16/09	Heritage Financial Corp,WA	$	43	43.40	3,775,000	$ 11.50	$ 12.39
73	09/22/09	10/14/09	Pac Continental Corp,Eugene,OR	$	42	42.00	4,800,000	$ 8.75	$ 9.85
74	03/25/09	03/26/09	NBT Bancorp Inc	$	35	34.70	1,576,230	$ 22.00	$ 21.20
75	11/25/09	12/16/09	MidSouth Bancorp Inc,LA	$	34	34.40	2,700,000	$ 12.75	$ 13.79
76	02/09/09	05/21/09	Cardinal Financial Corp	$	31	31.00	4,000,000	$ 7.75	$ 7.76
77	03/20/09	05/12/09	SCBT Finl Corp,Columbia,SC	$	30	29.90	1,300,000	$ 23.00	$ 23.29
78	10/07/08	05/14/09	Smithtown Bancorp Inc,NY	$	28	28.00	2,800,000	$ 10.00	$ 11.11
79	09/17/09	11/30/09	FPB Bancorp Inc	$	25		4,166,500	$ 6.00	$ 1.29
80	10/14/09	10/29/09	Southern National Bancorp of	$	25	25.00	4,166,666	$ 6.00	$ 6.20
81	10/21/09	12/07/09	American River Bankshares	$	22		3,520,000	$ 6.25	$ 6.69
82	10/13/09	12/15/09	Bar Harbor Bankshares,ME	$	22	22.00	800,000	$ 27.50	$ 27.00
83	10/02/09	11/24/09	Citizens & Northern Corp	$	20	20.00	2,500,000	$ 8.00	$ 8.60
84	07/02/09	07/27/09	Middleburg Financial Corp	$	18	18.30	1,700,000	$ 10.75	$ 11.63
85	10/09/09	11/04/09	Pacific Premier Bancorp Inc	$	15	15.00	4,615,385	$ 3.25	$ 3.29
86	06/13/08	01/28/09	Hibernia Homestead Bancorp Inc	$	11	11.10	1,113,334	$ 10.00	$ 10.50
87	09/10/09	11/19/09	Enterprise Bancorp Inc	$	9	8.90	820,276	$ 10.85	$ 10.83
88	08/13/09	09/30/09	Center Bancorp Inc,Union,NJ	$	8	8.00	1,137,896	$ 7.00	$ 7.36
89	07/20/09	12/11/09	Tennessee Commerce Bancorp Inc	$	3	3.30	903,394	$ 3.65	$ 3.65
90	12/30/09	12/30/09	Sierra Vista Bank	$	1	1.20	200,400	$ 6.15	$ 7.29
91	07/02/09	09/21/09	Community Capital Corp,SC	$	1	0.50	183,577	$ 2.75	$ 2.78
Complete Totals				**$**	**148,408**				

Source: Elaborations on *SDC Thomson Reuters*

Other European countries had a mixed (some positive, some negative) reaction to similar government rescue plans. The differences in responses were attributed to various terms accompanying these rescues. The United States had the most lenient criteria which set a 5% dividend on the non-convertible preferred shares while imposing few restrictions mainly dealing with executive pay (Appendix I). On the other hand the United Kingdom prohibited the payment of common dividends in banks that received government investment. The bank responses to the limitations of various rescue packages became more apparent in the next couple of weeks as investors had a chance to process the information. The stocks of large U.K. banks that were known to be receiving government funds declined significantly more in the weeks following the announcement than did the overall market. King (2009) shows that bank returns for the period [1,25 days] after the announcement were negative, with abnormal returns computed using the market model as well as the market adjusted returns. As examples, U.S. bank stocks show a -15.7% return, U.K. banks show a -24% return, and German banks have a -27.7% return. Considering the overall reaction during the first 50 days after the announcement to various government rescue packages, U.S. was the only country where banks reacted positively compared to the overall market.

The first round of infusions into the U.S. banks that were announced on October 14, 2008 actually occurred on October 28, 2008. Table 1 shows the original recipients of federal funds. Interestingly, with the exception of PNC Financial Services group, which received a $ 7,579,200,000 financing at the end of December, the other top 15 banks (by size of assets or market capitalization) received their bailout funds during the first two disbursement periods (Table 1). In general, the majority of disbursements occurred in 2008 and went to the largest banks. As a matter of fact $204 billion was given out from October 2008 to December 2009 to over 700 financial institutions. The vast majority of funds, 87% or $177.5 billion, were allocated in 2008, compared to only 13% ($27.3 billion) in 2009. Bank of America received its $25 billion allocation spread out over two disbursements, $15 billion on October 28, 2008 and $10 billion on January 9, 2009, due to the acquisition of Merrill Lynch. Investors knew about the upcoming January 2009 payment in late 2008 and therefore priced that information into their expectations at that point. The distribution of TARP payments looks even more skewed to 2008, with 92% allocated in 2008 to 216 institutions and only 8% disbursed in 2009 to 521 institutions.

These U.S. capital injections were received as positive news by investors, as shown by King's (2009) findings of positive returns for American bank stocks. I also document a 12.2% increase in the KBW Index on October 14, while the S&P 500 stayed relatively flat. However, investor sentiment quickly reversed due to mounting evidence of rising foreclosures, increasing unemployment numbers and general economic decline. Figure 1 shows that buy-and-hold returns on KBW and S&P 500 were -20% and -10%, respectively, at the end of 2009. Another reason for the decline in U.S. banking stocks, along with the above mentioned causes, was a mounting public outrage over the announcement of large bonuses paid to managers, traders and employees of banks that received government financing.

As the new year of 2009 would come to show, this public anger over the bonuses and limits on executive compensation did push the biggest banks to redeem their CPP preferred shares as soon as possible. However, the initial reaction, as documented in the empirical literature and reflected in market prices, was highly positive--in particular to the government rescue program in the U.S. due to the generous terms attached to the funds. What were the terms of the U.S.

CPP program? Financial institutions had until November 14, 2008 to apply for the program which would inject funding of 1% to 3% of their risk-weighted capital. In exchange, banks sold non-voting non-convertible preferred stock, as well as warrants, to the Treasury.[6] There was a 5% annual dividend on the preferred shares for the first five years, increasing to 9% thereafter. The purpose of the warrants, and to a lesser degree dividends, was to allow taxpayers to share in the upside improvements of banks and to compensate them for the risk they undertook through their investment. Restrictions were set up on dividends and executive compensation. Any dividend increase on common stock would need to be approved by the Treasury as long as they held the CPP preferred stock. Also if a bank failed to pay dividends on CPP shares, then no dividends could be paid of junior preferred shares. While the terms outlined above are quite attractive, restrictions on executive pay prompted many banks to repay the funds as soon as possible since they did not want to lose their top talent. However, the CPP preferred stock could only be redeemed with the proceeds from a qualified equity offering.[7]

In order to repay the money that banks received from the government they needed to sell more shares--which diluted current shareholder stakes. This restriction was relaxed with the introduction of CAP (Capital Assistance Program).

Table 3. Largest TARP repayments

This table presents the banks that have repaid their government financing by the end of 2009. It outlines when the initial government support was allocated and in which amount, repayment date and amount, as well as warrant desposition date and amount received.

Purchase Date	Name of Institution	Investment Amount ($mln)	Repayment Date	Repayment Amount ($mln)	Warrant Disposition Date	Type	Warrant Disposition Amount ($mln)
10/28/08	Bank of America Corp.	$ 15,000	12/09/09	$ 15,000			
10/28/08	The Bank of New York Mellon Corp.	$ 3,000	06/17/09	$ 3,000	08/05/09	Warrants	$ 136.00
10/28/08	The Goldman Sachs Group, Inc.	$ 10,000	06/17/09	$ 10,000	07/22/09	Warrants	$ 1,100.00
10/28/08	JPMorgan Chase & Co.	$ 25,000	06/17/09	$ 25,000	12/10/09	Warrants	$ 950.32
10/28/08	Morgan Stanley	$ 10,000	06/17/09	$ 10,000	08/12/09	Warrants	$ 950.00
10/28/08	State Street Corp.	$ 2,000	06/17/09	$ 2,000	07/08/09	Warrants	$ 60.00
10/28/08	Wells Fargo & Company	$ 25,000	12/23/09	$ 25,000			$ -
11/14/08	Northern Trust Corp.	$ 1,576	06/17/09	$ 1,576	08/26/09	Warrants	$ 87.00
11/14/08	Washington Federal, Inc.	$ 200	05/27/09	$ 200			$ -
11/14/08	BB&T Corp.	$ 3,134	06/17/09	$ 3,134	07/22/09	Warrants	$ 67.01
11/14/08	Capital One Financial Corp.	$ 3,555	06/17/09	$ 3,555	12/03/09	Warrants	$ 148.73
11/14/08	Valley National Bancorp	$ 300	06/03/09	$ 75			$ -
		$ -	09/23/09	$ 125			$ -
		$ -	12/23/09	$ 100			$ -
11/14/08	U.S. Bancorp	$ 6,599	06/17/09	$ 6,599	07/15/09	Warrants	$ 139.00
11/14/08	TCF Financial Corp.	$ 361	04/22/09	$ 361	12/15/09	Warrants	$ 9.60
11/21/08	First Niagara Financial Group	$ 184	05/27/09	$ 184	06/24/09	Warrants	$ 2.70
11/21/08	HF Financial Corp.	$ 25	06/03/09	$ 25	06/30/09	Warrants	$ 0.65
11/21/08	Centerstate Banks of Florida Inc.	$ 28	09/30/09	$ 28	10/28/09	Warrants	$ 0.21
11/21/08	City National Corp.	$ 400	12/30/09	$ 200			$ -
11/21/08	First Community Bankshares Inc.	$ 42	07/08/09	$ 42			$ -
11/21/08	Boston Private Financial Holdings, Inc.	$ 154	01/13/10	$ 50			$ -
11/21/08	Trustmark Corp.	$ 215	12/09/09	$ 215	12/30/09	Warrants	$ 10.00
12/05/08	WesBanco, Inc.	$ 75	09/09/09	$ 75	12/23/09	Warrants	$ 0.95
12/05/08	Manhattan Bancorp	$ 2	09/16/09	$ 2	10/14/09	Warrants	$ 0.06
12/05/08	Iberiabank Corp.	$ 90	03/31/09	$ 90	05/20/09	Warrants	$ 1.20
12/05/08	Eagle Bancorp, Inc.	$ 38	12/23/09	$ 15			$ -
12/05/08	CVB Financial Corp	$ 130	08/26/09	$ 98	10/28/09	Warrants	$ 1.31
		$ -	09/02/09	$ 33			$ -
12/05/08	Bank of Marin Bancorp	$ 28	03/31/09	$ 28			$ -
12/05/08	Old Line Bancshares, Inc.	$ 7	07/15/09	$ 7	09/02/09	Warrants	$ 0.23

Table 3. Largest TARP repayments (continued)

Purchase Date	Name of Institution	Investment Amount ($mln)	Repayment Date	Repayment Amount ($mln)	Warrant Disposition Date	Type	Warrant Disposition Amount ($mln)
12/12/08	Old National Bancorp	$ 100	03/31/09	$ 100	05/08/09	Warrants	$ 1.20
12/12/08	SVB Financial Group	$ 235	12/23/09	$ 235			$ -
12/12/08	Signature Bank	$ 120	03/31/09	$ 120			$ -
12/12/08	Bank of the Ozarks, Inc.	$ 75	11/04/09	$ 75	11/24/09	Warrants	$ 2.65
12/12/08	Sterling Bancshares, Inc.	$ 125	05/05/09	$ 125			$ -
12/12/08	LSB Corp.	$ 15	11/18/09	$ 15	12/16/09	Warrants	$ 0.56
12/19/08	Wainwright Bank & Trust Company	$ 22	11/24/09	$ 22	12/16/09	Warrants	$ 0.57
12/19/08	Berkshire Hills Bancorp, Inc.	$ 40	05/27/09	$ 40	06/24/09	Warrants	$ 1.04
12/19/08	Flushing Financial Corp.	$ 70	10/28/09	$ 70	12/30/09	Warrants	$ 0.90
12/19/08	Monarch Financial Holdings, Inc.	$ 15	12/23/09	$ 15			$ -
12/19/08	Union Bankshares Corp.	$ 59	11/18/09	$ 59	12/23/09	Warrants	$ 0.45
12/19/08	Bancorp Rhode Island, Inc.	$ 30	08/05/09	$ 30	09/30/09	Warrants	$ 1.40
12/19/08	Alliance Financial Corp.	$ 27	05/13/09	$ 27	06/17/09	Warrants	$ 0.90
12/23/08	Magna Bank	$ 14	11/24/09	$ 3			$ -
01/09/09	Bank of America Corp.	$ 10,000	12/09/09	$ 10,000			$ -
01/09/09	FirstMerit Corp.	$ 125	04/22/09	$ 125	05/27/09	Warrants	$ 5.03
01/09/09	Peapack-Gladstone Financial Corp.	$ 29	01/06/10	$ 7			$ -
01/09/09	Commerce National Bank	$ 5	10/07/09	$ 5			$ -
01/09/09	Sun Bancorp, Inc.	$ 89	04/08/09	$ 89	05/27/09	Warrants	$ 2.10
01/09/09	American Express Company	$ 3,389	06/17/09	$ 3,389	07/29/09	Warrants	$ 340.00
01/09/09	Independent Bank Corp.	$ 78	04/22/09	$ 78	05/27/09	Warrants	$ 2.20
01/09/09	LCNB Corp.	$ 13	10/21/09	$ 13			$ -
01/09/09	F.N.B. Corp.	$ 100	09/09/09	$ 100			$ -
01/09/09	Shore Bancshares, Inc.	$ 25	04/15/09	$ 25			$ -
01/16/09	Somerset Hills Bancorp	$ 7	05/20/09	$ 7	06/24/09	Warrants	$ 0.28
01/16/09	SCBT Financial Corp.	$ 65	05/20/09	$ 65	06/24/09	Warrants	$ 1.40
01/16/09	Texas Capital Bancshares, Inc.	$ 75	05/13/09	$ 75			$ -
01/16/09	Centra Financial Holdings, Inc.	$ 15	03/31/09	$ 15	04/15/09	Pref. Stock	$ 0.75
01/16/09	State Bankshares, Inc.	$ 50	08/12/09	$ 13			$ -
01/16/09	First Manitowoc Bancorp, Inc.	$ 12	05/27/09	$ 12	05/27/09	Pref. Stock	$ 0.60
01/23/09	First ULB Corp.	$ 5	04/22/09	$ 5	04/22/09	Pref. Stock	$ 0.25
01/23/09	Midland States Bancorp, Inc.	$ 10	12/23/09	$ 10	12/23/09	Pref. Stock	$ 0.51
01/23/09	FPB Financial Corp.	$ 3	12/16/09	$ 1			$ -
01/30/09	Middleburg Financial Corporation	$ 22	12/23/09	$ 22			$ -
02/13/09	Westamerica Bancorporation	$ 84	09/02/09	$ 42			$ -
		$ -	11/18/09	$ 42			$ -
02/13/09	Midwest Regional Bancorp, Inc.	$ 1	11/10/09	$ 1	11/10/09	Pref. Stock	$ 0.04
03/13/09	1st United Bancorp, Inc.	$ 10	11/18/09	$ 10	11/18/09	Pref. Stock	$ 0.50
04/24/09	Frontier Bancshares, Inc.	$ 3	11/24/09	$ 2			$ -
Totals		**$ 122,304**		**$ 121,904**			**$ 4,028**

Source: *financialstability.gov*

The CAP was an effective extension of CPP, just with stricter terms, and was announced on February 25, 2009. It injected capital into institutions that applied by May 25, 2009, a much longer deadline than for CPP. However, CAP government capital was in the form of convertible preferred shares which would automatically be transferred into common shares at the 7-year mark. The terms of CAP required a higher 9% dividend, kept all the CPP restrictions and added additional reporting obligations. The Treasury allowed banks to use proceeds from their sale of convertible preferred stock for the CAP program to redeem the CPP preferred shares. But looking at the terms of both offers (CPP and CAP) that option for repayment seemed undesirable. The introduction of CAP made the 19 largest institutions – those with assets of $100 billion or more – immediately eligible to voluntarily apply, though they were required to undergo stress tests.

Stress tests for the 19 largest U.S. banks were performed in May 2009 and allowed public access to a lot of valuable information, including never before released CAMELS scores.[8] The results revealed that $74.6 billion of fresh capital had to be raised by ten firms. Goldman Sachs, J.P. Morgan, New York Mellon and State Street received a “clean bill of health”, while Bank of America, Citigroup, Morgan Stanley had to raise $33.9, $5.5, and $1.8 billion respectively. The surprise finding was the $13.7 billion deficiency for Wells Fargo, since their management had been a persistent speaker disapproving federal capital injections. However, the majority of deficiency came from the exposure to troubled mortgages inherited from their recent purchase of Wachovia. Most banks that needed to raise funds tapped capital markets and issued new common shares. Some of history’s largest share offerings followed as a response to the stress tests. Bank of America raised $42.8 billion dollars, Wells Fargo $29.2 billion, Citigroup $17 billion, JPMorgan Chase $15billion, Goldman Sachs $10 billion, and Morgan Stanley $6.3 billion. Table 2 outlines the large bank related equity offerings that occurred in response to banks’ need to increase their capital ratios.

Invasive stress tests, public disclosure of sensitive information such as CAMELS ratings, and more importantly the restrictions on executive pay and possibly public image concerns sped up the desire of the top national banks to repay TARP money. Goldman Sachs and J.P. Morgan were the first of the eight large banks to disclose their intention to repay. Congress added provisions to the American Recovery and Reinvestment Act (ARRA) in May 2009 that modified the original terms of repayment. Under Title VII, Sec. 7001, SEC 111(g) of the Act banks were allowed to repay “subject to consultation” with banking regulators.[9] The new law completely changed the original CPP rules on this issue and barred the government from forcing banks to raise outside equity for replacement capital and from imposing any waiting period.

On June 9, 2009 the U.S. Treasury Department announced approval for 10 of the largest banks to repay about $68 billion of bailout funds. However, by that time a handful of smaller banks started redeeming their preferred stock and repurchasing warrants. Centra Bank, a private bank, repurchased its warrants on March 31, 2009 at 5% of the face value of the preferred stock investment. The terms of warrant repurchase for public firms were different and banks had the right to repurchase their warrants at “fair market value” as was assessed by an independent party.

The first public bank to repurchase warrants was Old National Bancorp (ONB) on May 11, 2009. The bank repurchased the $100 million of preferred stock which it received in December 2008 at par and paid $1.2 million for the 813,008 warrants. While this seemed a nice return on investment the academic community, as well as Congressional Oversight Panel (COP), criticized the transaction and concluded that taxpayers received a price that was below “fair market value.” Wilson (2009) estimated that the warrants were worth $4.09 million in his middle estimate. Even his low end estimate was $1.5 million, which was still higher than what the bank completed the repurchase for. Since the topic received wide news coverage the Treasury agreed to start evaluating the repurchase terms of the warrants more closely. If the bank and Treasury could not agree on a “fair” price, the Treasury would offer up the warrants to the private market through a registered public offering.

All banks also had a chance to cut their warrants in half if they offered a qualified equity offering in the amount of CPP preferred shares (Table 3). State Street was the first bank from the “Big 8” to buy their full stake back from the Treasury and, as mentioned earlier, the only one of the big banks who used funds from a qualified equity offering to do so. State Street received the smallest initial capital infusion of all the large banks. Due to this, they were able to cut their warrants by 50% if they issued as much equity as they received for CPP preferred shares, $2 billion. Mellon, Goldman, J.P. Morgan and Morgan Stanley followed suit by redeeming their preferred shares on June 17, 2009, but they all did so under Title VII of the American Recovery and Reinvestment Act, though they also raised significant funds in the capital markets in 2009 (Table 2). At the end of 2009, only Citigroup remained tied to the bailout as Bank of America and Wells Fargo repaid TARP in December 2009. Most of the banks repurchased their warrants from the government at “fair value.” JPMorgan Chase decided to allow the government to auction off their warrants to the public, as did Bank of America. The reasoning behind this move is unclear, since the public might be willing to pay a higher than calculated “fair value” price that Treasury would settle for. While that would lose money for the shareholders, improvements in public image and increased news coverage could also have been public relations goals designed to bring in new clients to these banks. Bank of America followed suit after their year-end 2009 repayment.

The exact amounts and dates of preferred stock redemption and warrant repurchase are present in Table 3. Out of $204.8 billion that was allocated to CPP participants in 2008 and 2009, $121 billion was repaid and over $4 billion received for warrants. As of the end of 2009, 66 banks have redeemed their CPP preferred shares and most of those have repurchased the warrants (or percent of preferred stock if a bank was private) by the end of 2009. Of this number, 43 were the banks that received TARP funding in 2008. Were the banks that repaid the funds different from others?

As Table 4 shows these were bigger, more liquid banks that did not lose as much in market capitalization as other banks. This point raises questions about the exit strategies of the remaining banks given their weaker characteristics. It is difficult to predict when and what kind of return the U.S. taxpayers will earn on their remaining investment of close to $83 billion. The press has lately labeled Fannie, Freddie and AIG the “black holes” of taxpayer funds, as there are no clear exit strategies from the substantial government help these firms received

Table 4. Characteristics of the U.S. banks that received government financing in 2008

	N	Average Market Cap (000.000)	Average Market Cap (000.000)	Average Market Cap (000.000)	% change (Jan07-Dec08)	% change (Jan08-Dec08)	Total Assets	Common Equity	% Cash	% Cash & ST Inv	Debt Ratio
		Jan-07	Jan-08	Dec-08			2008	2008	2008	2008	2008
Non-Bailout	820	$ 2,372,320	$ 2,124,239	$ 1,195,728	-50%	-44%	$ 49,363	$ 2,049	4.15%	7.84%	95%
Bail-out	152	$ 9,879,749	$ 7,290,431	$ 4,319,458	-56%	-41%	$ 77,391	$ 4,888	6.32%	14.07%	91%
Paid-Back	19	$ 24,236,895	$ 21,562,184	$ 13,727,068	-43%	-36%	$ 77,678	$ 4,905	6.31%	14.05%	91%
Have not Paid Back	134	$ 7,765,131	$ 5,236,163	$ 2,965,332	-62%	-43%	$ 54,372	$ 3,366	6.19%	9.06%	91%

	N	%
Bail-out (>$10bln)	42	28%
Bail-out($10bln-$3bln)	30	20%
Bail-out($3bln-$1bln)	45	29%
Bail-out($1bln-$500mln)	27	18%
Bail-out(<500mln)	8	5%
Total Bail-out	***152***	***100%***
Non-Bail-out (>$10bln)	144	18%
Non-Bail-out($10bln-$3bln)	110	13%
Non-Bail-out($3bln-$1bln)	177	22%
Non-Bail-out($1bln-$500mln)	166	20%
Non-Bail-out(<500mln)	223	27%
Total Non-Bail-out	***820***	***100%***

Source: *CRSP* and *COMPUSTAT*

and continue to receive. While the these three firms did not participate in the CPP portion of TARP, but instead tapped other TARP programs, the concerns their exit strategies post are valid for banks under CPP as well. The current year (2010) is bound to shed some light on these questions as well as enable researchers to analyze the overall effectiveness of TARP given longer term effects.

Appendix I: Title VII - Limits on Executive Compensation [www.govtrack.us]

Section 7001

Amends the Emergency Economic Stabilization Act of 2008 (the Act) to direct the Secretary of the Treasury to require each entity receiving financial assistance under the Troubled Assets Relief Program (TARP) to meet specified standards for executive compensation and corporate governance of such entity during the period in which any obligation arising from TARP financial assistance remains outstanding, including: (1) limits on compensation that exclude incentives for senior executive officers of the TARP recipient to take unnecessary and excessive risks that threaten the value of such recipient; (2) the recovery by the TARP recipient of any bonus, award, or compensation paid to a senior executive officer and any of the next 20 most highly-compensated employees based on statements of earnings, revenue, or other criteria that are later found to be materially inaccurate; (3) a prohibition against any TARP recipient making any "golden parachute" payment to a senior executive officer or any of the next five most highly-compensated employees; (4) a prohibition against any TARP recipient paying or accruing any bonus, award, or incentive compensation, except with respect to the payment of certain long-term restricted stock; (5) a prohibition against any compensation plan that would encourage the manipulation of reported earnings; and (6) the establishment of a Board Compensation Committee.

Requires the board of directors of each TARP recipient to be comprised entirely of independent directors and to have in place a company-wide policy limiting excessive or luxury expenditures, including regarding: (1) entertainment or events; (2) office and facility renovations; and (3) aviation or other transportation services.

Requires annual shareholder approval of executive compensation of TARP recipients.
Directs the Secretary to review and, if necessary, take appropriate action with respect to, compensation paid to the senior executive officers and the next 20 most highly-compensated employees of each TARP recipient prior to the enactment of this Act.

References

Brunnermeier, Markus (Winter 2009): “Deciphering the Liquidity and Credit Crunch 2007-2008”, *Journal of Economic Perspectives* 23, pp. 77-100.

Wilson L., (May 2009 a): “Valuing the First Negotiate Repurchase of the TARP Warrants,” Working Paper.

Wilson L., (July 2009 b): "Should Goldman Sachs and Morgan Stanley try to get half price on the TARP warrants?," Working Paper.

Wilson L., (Aug 2009 c): "A Model for Estimating the Cancellation Probabilities of TARP Warrants," Working Paper.

Carney, J (Aug. 10, 2009): "Why Did JP Morgan Decide To Send TARP Warrants To An Auction?," *businessinsider.com*.

Peletta D., Solomon D (April 22, 2009): "Financial Firms Lobby to Cut Cost of TARP Exit," *Wall Street Journal*.

Press Release (March 31, 2009): "Old National Bancorp Repurchases Preferred Stock From U.S. Treasury" http://www.snl.com/irweblinkx/file.aspx?IID=100391&FID=7574918

Sidel, R. (May 8, 2009): "Now, With Strong and Weak Separated, a Race to Raise Capital or Repay TARP," *Wall Street Journal* http://www.financialstability.gov/roadtostability/capitalpurchaseprogram.html

[1] Cox and Glapa develop a detailed timeline of the events related to the 2008 financial crisis http://www.uiowa.edu/ifdebook/timeline/timeline1.shtml.
[2] KBW (Keefe, Bruyette and Woods) banking index ^BKX consists of 24 largest U.S. banks.
[3] CPP was one of the programs among many created under TARP. For a full listing of different TARP initiatives please refer to http://money.cnn.com/news/storysupplement/economy/bailouttracker/index.html CPP component of TARP was aimed at increasing financial strength of a variety of financial institutions by providing them with capital. This would increase bank's capability to lend to U.S. consumers and businesses which would support the U.S. economy. For more detail on CPP please refer to http://www.financialstability.gov/roadtostability/capitalpurchaseprogram.html.
[4] Originally nine banks were mentioned and Merrill Lynch & Co., Inc. was listed as the qualifying institution. It was getting a $10 billion dollar capital injection that was deferred pending merger. The purchase of Merrill Lynch by Bank of America was completed on 1/1/2009, and this transaction under the CPP was funded on 1/9/2009 with Bank of America being the named recipient.
[5] The bank rescue plan for the United Kingdom was announced on October 8, 2008, followed on October 9 by the Netherlands, October 13 by France and Germany, and on October 16 by Switzerland.
[6] The warrants were 10 year options to purchase common stock in qualifying banks in the amount of 15% of the CPP preferred stock issue. The exercise price is the market price on the date of CPP investment. The Treasury agreed to not exercise any voting rights with respect to any shares of common stock received at warrant exercise. Following a 100% repayment on the CPP preferred shares, firms have a right to repurchase warrants at their fair value. Also, the number of shares underlying the warrant can be reduced by 50% if the firm raises replacement Tier 1 capital through a qualified equity offering.
[7] Qualified equity offering is an offering of Tier 1 perpetual preferred or common stock.
[8] CAMELS ratings are a supervisory ranking of bank's overall condition in the United States. These rankings are performed on-site by Fed officials and are typically never released to public to prevent bank runs. Each letter stands for a respective attribute – C is capital adequacy, A is asset quality, M is management, E is earnings, L is liquidity and S is sensitivity to market risk.
[9] "Division B, Title VII, Sec. 7001, SEC 111(g) of the American Recovery and Reinvestment Act of 2009):NO IMPEDIMENT TO WITHDRAWAL BY TARP RECIPIENTS.—Subject to consultation with the appropriate Federal banking agency (as that term is defined in section 3 of the Federal Deposit Insurance Act), if any, the Secretary shall permit a TARP recipient to repay any assistance previously provided under the TARP to such financial institution, without regard to whether the financial institution has replaced such funds from any other source or to any waiting period, and when such assistance is repaid, the Secretary shall liquidate warrants associated with such assistance at the current market price."

Nandini Gupta[♣]

[♣]Kelley School of Business, Indiana University

From Commanding Heights to Family Silver: The Halting Progress of Privatization in India

Current status of the privatization program

In February 2010, India's United Progressive Alliance (UPA) government, led by the Congress party, resurrected its stalled privatization program with a secondary offering of shares in National Thermal Power Corporation Ltd (NTPC), one of India's best performing government-owned firms, which owns 20% of India's power generation capacity. The sale of the $1.85 billion block of shares reduced the government's existing stake in the company by an additional 5%, leaving 85% still under government control. However, the poor performance of the offering has raised alarm bells for the government's future privatization plans. NTPC was subscribed just 1.2 times for the secondary offering, mainly with the help of government-owned financial institutions ("NTPC issue scrapes through with support from SBI, LIC," *The Economic Times*, February 6, 2010). Although two foreign investment banks, Citigroup and J.P. Morgan were advising the company, the secondary offering did not attract any foreign institutional investment.

The poor performance of the offering has also raised questions regarding the growth prospects of this company, which is a "navratna", one of the nine "jewels" in the government's crown. In a recent speech, the top ranking bureaucrat in the power ministry, HS Brahma, pointed out the company's low employee productivity ("Power secretary censures NTPC for low productivity," *Daily News and Analysis India*, February 15, 2010). The lackluster performance may also be due to investor skepticism regarding the company's ability to compete effectively with a rapidly growing private sector. For example, all of NTPCs large projects have been awarded by the government and the firm has not won any projects through competitive bidding. This could severely impact the future growth prospects of this firm as the government moves towards competitive bidding for all energy sector projects.

The *Wall Street Journal* noted in response to the partial privatization of NTPC in February of 2010 that the sale of minority equity stakes, between 5% or 10%, "makes this a fund-raising exercise rather than a meaningful shift toward less state control," ("In India, offers fall well short of P-word," February 4, 2010, *The Wall Street Journal*). However, this should not come as a surprise as it has been the stated policy of the current government to only undertake partial privatizations.

The lack of progress in privatization since 2004 is mainly due to the fact that the coalition government in power required the support of anti-privatization political parties to maintain a parliamentary majority. Following its reelection in 2009, the government no longer required the support of the Communist parties, and in response, the nation's main business newspaper reported, "Market expectations that the UPA government, without the baggage of its Left allies, would push forward with the divestment of PSU [public sector units or government-owned] companies, is driving these stocks. As a result, since May 16 the investor euphoria for stocks of government-run companies, the PSU index on the BSE has gained 40%, double the sensex gain of 20% during the same period….All these gains have come despite some of the PSU companies registering ordinary results, market players said." (*The Economic Times*, "PSU Stocks Give 40% Returns, "June 1, 2009).

However, there is evidence of pushback from other members of the coalition government. For example, the privatization of the government-owned Neyveli Lignite located in the state of Tamil Nadu was delayed because of opposition from a coalition member, the DMK Party, which is based in Tamil Nadu. And the privatization of firms located in West Bengal has been delayed due to opposition from the coalition member, the Trinamool Congress. As noted in a newspaper editorial, "It is not that the DMK and the Trinamool Congress have any deep ideological opposition to disinvestment… these parties' concern over disinvestment will stem from its likely impact on the mood of voters in the next Assembly elections to be held just two years from now in Tamil Nadu and West Bengal. No political party will like to be associated with any proposal that results in obvious job losses or relocation of employees and then lose votes in the elections…These allies might eventually agree to the disinvestment plan, provided the PSUs located in Tamil Nadu and West Bengal are exempted at least until 2011," (*Business Standard*, June 3, 2009, "Disinvestment, There is many a slip").

The academic literature supports the anecdotal evidence. Examining the role of politics in India's privatization program, Dinc and Gupta (2009) find that between 1991 and 2004, successive governments have been reluctant to privatize because of a potential electoral backlash. In particular, firms located in electoral districts where the governing party is in a close race with opposition parties are much less likely to be privatized.

Government-ownership and privatization

The first prime minister of post-independence India, Jawaharlal Nehru envisaged the role of government-firms as the "commanding heights" of the economy, on the grounds that the private sector would not undertake projects requiring large investments with long gestation periods. The late 1960s also witnessed a period of rapid nationalization of firms in all sectors, so that by 1991 gross capital formation in federal government-owned firms accounted for 40% of total gross capital formation in the economy (Ministry of Finance (1996)). However, government-owned firms are to be found in a wide range of industries, including bakeries, hotels, warehouses, and technology services, a far cry from the original commanding heights rationale.

Following a balance of payments crisis in 1991, the Indian government undertook wide-ranging economic reforms to reduce the role of the government in the economy, including competition reforms, foreign investment and trade liberalization, financial sector reforms, and privatization. However, privatization has been very politically contentious as is demonstrated by the fact that it is officially referred to as "disinvestment". It is opposed by organized labor unions, political parties who fear popular backlash and loss of voter support, and politicians who do not want to lose control of the firms. Acknowledging the role of politics one Prime Minister said, "If you face immediate political problems - elections in four states - it is hard to push ahead…We had to worry about the prospects of unemployment if public sector units faced closure," (*Asia Times*, April 8, 1997, "India's Reform Architect Looks On From The Sidelines").

In the 18 years since the start of the economic reforms, successive governments have sold majority stakes in just 14 firms, and have sold partial equity stakes in 47 firms out of 242 firms in operation owned by the federal government. The current government has stated that its policy will be to sell only partial equity stakes and retain management control over profitable firms. The prevailing argument against privatization is best captured by this quote from a Member of Parliament: "Disinvestment of the public sector is nothing but selling the family silver to meet the grocer's bill," (*Times of India*, June 9, 2009, "DMK puts spoke in Disinvestment plans").

Federal government firms account for about 85% of the total assets of all government-owned companies (Gupta (2005)), and operate in a large number of manufacturing, service, and infrastructure industries, including steel, cement and chemicals; capital goods; electricity and gas; as well as services such as telecommunications, trading, tourism, and warehousing, among others. The banking, insurance, and financial services sectors are also heavily dominated by federal and state-government owned firms. Government-owned firms are typically overstaffed and their workers often earn more than workers in privately-owned firms. For example, the average wages of government-firm workers were twice as high as in the private sector (Panagariya (2008)). This large wage difference suggests why government firm workers vigorously oppose privatization.

The total capital employed in federal government-owned firms is Rs.7.6 trillion (About $166 billion at the March 3, 2010 exchange rate of 1USD = 45.7 INR), and total employment was 1.57 million workers, excluding casual workers and contract laborers (Public Enterprise Survey, 2007-08). Of the 242 firms, 46 firms have sold partial equity stakes and are publicly listed on the stock market. On January 2010, the total market capitalization of the 44 firms listed on the country's largest stock exchange, the Bombay Stock Exchange (BSE) was Rs. 15.2 trillion (About $332 billion converted at the March 3, 2010 exchange rate

Table 1. Privatizations in India by Year

Year	Number of Privatization Transactions	Privatization Revenues (Millions of Indian Rupees)*
1991	47	30,377.40
1992	35	19,125.10
1993	n.a.	n.a.
1994	13	48,431.00
1995	5	1,684.80
1996	1	3,796.70
1997	1	9,100.00
1998	5	53,711.40
1999	4	15,847.20
2000	4	18,712.60
2001	9	32,682.80
2002	6	23,479.80
2003	10	155,474.10
2004	3	27,648.70
2005	1	15,696.80
2006	-	-
2007	3	41,813.80
2008	-	-
2009	3	127,400.00
Total	**150**	**624,982.20**

Source: Disinvestment Commission of India, Government of India Disinvestment until Now

Table 2. Revenues from Partial Privatizations and Majority Sales: 1991-2009 (Millions of Rupees)

Year	Revenues from Partial Privatizations	Revenues from Strategic Sales
1991	30,377.40	-
1992	19,125.10	-
1993	n.a.	n.a.
1994	48,431.00	-
1995	1,684.80	-
1996	3,796.70	-
1997	9,100.00	-
1998	53,711.40	-
1999	14,792.70	1,054.50
2000	-	18,712.60
2001	-	32,682.80
2002	-	23,479.80
2003	151,282.50	4,191.60
2004	27,648.70	-
2005	15,696.80	-
2006	-	-
2007	41,813.80	-
2008	-	-
2009	127,400.00	-
Total	**544,860.60**	**80,121.30**

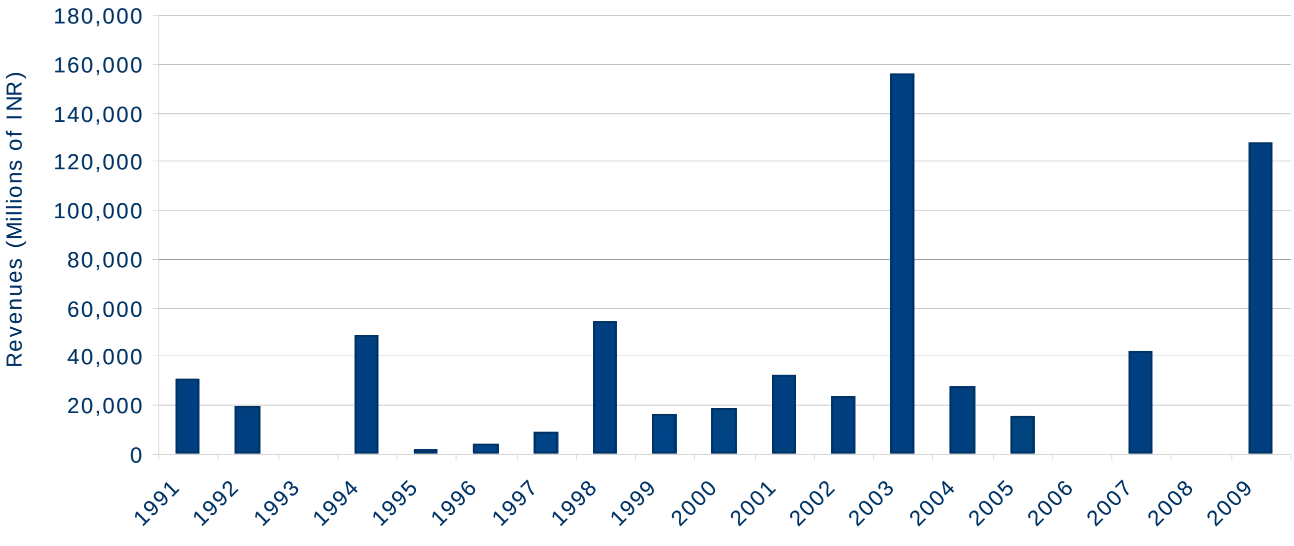
Source: Bombay Stock Exchange Disinvestments Database and *Disinvestment Commission of India,* Government of India of 1USD = 45.7 INR), accounting for 26% of the total market capitalization of the 4883 listed companies on the BSE. Taking into account government-owned banks and government-owned companies increases the share of market capitalization of all government-owned firms to 30.9% of the total market capitalization of the BSE.

Evolving privatization policy

India's privatization policy over the past two decades has changed with each government. Outlining the economic reforms of 1991, the Industrial Policy Resolution of 1991 argued for partial divestiture in government-owned firms "in order to provide further market discipline to the performance of public enterprises" (paragraph 34). The official reasons for privatization in India have been stated as improving governance and efficiency, freeing up resources for social programs, and developing financial markets (Department of Disinvestment, 2001). Between 1991 and 2004, nearly every government's annual budget declared that the privatization goal is to reduce government ownership to 26% of equity, the minimum equity holding necessary for certain voting powers, in all government-owned firms not in the defense, atomic energy, and railway sectors. However, until 1999, successive governments sold only minority stakes, sometimes as little as 0.1%, without transferring management control. Partial privatization proved to be a lucrative source of revenues without the accompanying political controversy of transferring control of government-owned assets to private owners.

Following the defeat of the center-left Congress party government in 1996, the privatization program remained in hiatus until 1999. The incoming government led by the conservative Bharatiya Janata Party (BJP), continued the practice of minority equity sales on financial markets, but also sold majority stakes and transferred management control in 14 firms between 1999 and 2004. This represented a major shift in policy from previous governments. After the 2004 elections, which saw the election of the Congress party and its coalition partners (UPA), the privatization program came to a halt because the coalition government required the support of anti-privatization Communist parties to retain a parliamentary majority. The same party was reelected in 2009, and the current government has stated its intention to continue with partial privatizations, while retaining more than 51% ownership stake in most

Figure 1. Indian Revenues from Privatizations 1991 - 2009



Source: *Bombay Stock Exchange Disinvestments Database* government-owned firms.

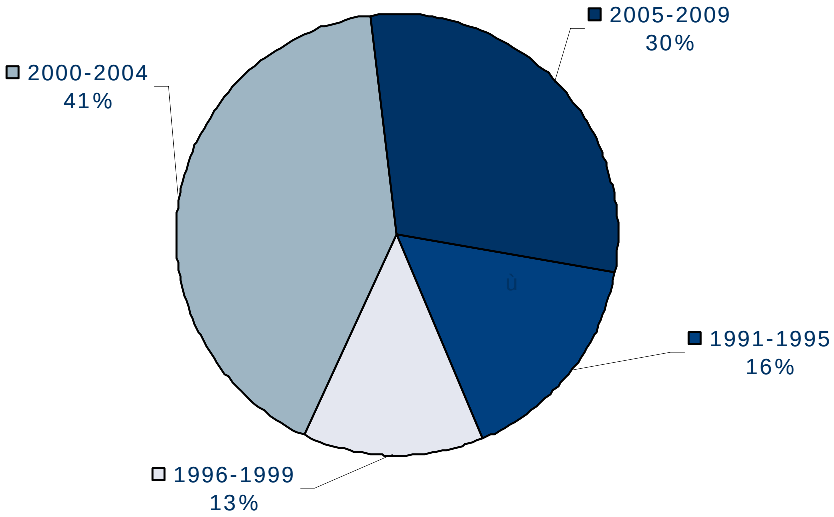
Progress in Privatization

In Figure 1 we describe the annual breakdown of revenues raised from privatization in India since 1991. From 1991 to 2010 the total amount collected through Indian privatization has been about Rs. 625 billion (About $13.7 billion at the March 3, 2010 exchange rate of 1USD = 45.7 INR) over 19 years. More than two-thirds of these revenues have been raised from partial privatizations on the stock market (Department of Disinvestment, 2010). Successive governments have sold partial equity stakes in 47 companies, sold majority stakes and transferred management control in 14 firms, and have sold 20 hotels belonging to its two main hotel groups to private owners.

The Congress government initiated the privatization program in 1991, and between 1991 and 1995 the government partially privatized (sold minority equity stakes without giving up management control) in 39 firms, some of which sold equity multiple times. Even though the largest number of firms divested equity stakes in this period, the most sustained period of privatization in terms of sale revenues was between 1999 and 2004, when the prevailing government sold majority equity stakes. The government elected in 2000 undertook the strategic sale of 14 firms and also partially privatized 5 firms. Since 2004, the government, which was reelected in 2009, has sold only minority equity stakes in 5 firms. In Table 1 we list the number of privatization transactions and the amounts received from privatization sales by year. Figure 2 describes the fraction of revenues raised under successive governments (1991-2009).

The privatization methods and the number of companies sold each year also varies widely. In the majority of cases, the government has sold partial equity stakes using a variety of methods including auctions of shares to financial institutions, public offers (including both IPOs and SEOs), sales of shares to other government firms, sales to employees, and sales of majority equity stakes to private investors. Sales of shares to financial institutions were used more widely in the initial years of the privatization program, and these shares were subsequently traded on the stock market. Public offers on the stock market were the main method by which firms were partially privatized, while strategic sales to private investors were limited to the years 1999 to 2004.

Figure 2. % of Revenues raised under each government



Source: *Bombay Stock Exchange Disinvestments Database*

Is partial privatization effective?

Of the total revenues raised from privatization sales in India, just 10% are from the sale of majority ownership stakes. As noted in Table 2 revenues raised from partial privatization far exceed those obtained from majority sales of Indian government-owned firms. The academic literature on privatization has shown that even partial privatization, the sale of minority equity stakes on the stock market without the transfer of management control, can have a positive impact on the performance of privatized firms by imposing market discipline. Using data on India’s government-owned firms, Gupta (2005) finds that the sale of partial equity stakes increases their sale revenues, profitability, labor productivity, investment spending on research and development and expenditures on fixed assets. These observed improvements in operating performance are not accompanied by layoffs. Partial privatization may also be beneficial for the development of stock markets (Megginson and Netter, 2001). In India, among the top 10 companies with the highest market capitalization on the Bombay Stock Exchange in 2005, five are partially privatized companies, and the company with the highest market capitalization on the exchange is a partially privatized oil company.

However, partial privatization can also pose risks for minority shareholders. For example, in 2002 the government asked the partially privatized Oil and Natural Gas Company (ONGC) to make a special dividend payment to the government of Rs. 50 billion (about $1 billion at the March 3, 2010 exchange rate of 1 USD=45.7 INR), following its high profits in the previous quarter due to an increase in world oil prices (Gupta (2008)). This prevented the company from undertaking planned capital expenditures of Rs. 47 billion. The government's

Table 3. Majority Sales to Private Owners

Company Name	Year of Sale	Name of Buyer	% Stake Sold	% Government Equity
BHARAT ALUMINIUM CO.LTD.	2000-01	STERLITE INDUSTRIES (INDIA) LTD.	51.00	49.00
CMC LTD.	2001-02	TATA CONSULTANCY SERVICES LTD.	51.00	32.31
HINDUSTAN TELEPRINTERS LTD.	2001-02	HIMACHAL FUTURISTIC COMMUNICATION LTD.	74.00	26.00
HINDUSTAN ZINC LTD.	2002-03	STERLITE OPPORTUNITIES & VENTURES LTD.	22.07	49.93
HOTEL CORP.OF INDIA LTD.*	2002-03	BATRA HOSPITALITY PVT.LTD.	100.00	0.00
HOTEL CORP.OF INDIA LTD.*	2001-02	INPAC TRAVELS (INDIA) PVT.LTD.	100.00	0.00
HOTEL CORP.OF INDIA LTD.*	2001-02	TULIP HOSPITALITY PVT.LTD.	100.00	0.00
ICI INDIA LTD.	2003-04	ASIAN PAINTS (INDIA) LTD.	9.20	0.00
INDIA TOURISM DEVELOPMENT CORP.LTD.*	2002-03	BRIGHT ENTERPRISES PVT.LTD.& CONSORTIUM	89.97	0.00
INDIA TOURISM DEVELOPMENT CORP.LTD.*	2002-03	M FAR HOTELS LTD.	89.97	0.00
INDIA TOURISM DEVELOPMENT CORP.LTD.*	2002-03	LOKSANGAM HOTELS & RESORTS PVT.LTD.& CONSORTIUM	89.97	0.00
INDIA TOURISM DEVELOPMENT CORP.LTD.*	2002-03	AUTO IMPEX LTD.	89.97	0.00
INDIA TOURISM DEVELOPMENT CORP.LTD.*	2002-03	BHARAT HOTELS LTD.	89.97	0.00
INDIA TOURISM DEVELOPMENT CORP.LTD.*	2002-03	CONSORTIUM OF RAMNATH HOTELS PVT.LTD.	89.97	0.00
INDIA TOURISM DEVELOPMENT CORP.LTD.*	2002-03	CONSORTIUM OF UNISON HOTELS LTD.& FORMAX COMMERCIAL PVT.LTD.	89.97	0.00
INDIA TOURISM DEVELOPMENT CORP.LTD.*	2002-03	NEHRU PLACE HOTELS LTD.	89.97	0.00
INDIA TOURISM DEVELOPMENT CORP.LTD.*	2002-03	MORAL TRADING & INVESTMENT LTD.	89.97	0.00
INDIA TOURISM DEVELOPMENT CORP.LTD.*	2002-03	TAJGVK HOTELS & RESORTS LTD.	100.00	0.00
INDIA TOURISM DEVELOPMENT CORP.LTD.*	2001-02	MALNAD HOTELS& RESORTS PVT.LTD.	89.97	0.00
INDIA TOURISM DEVELOPMENT CORP.LTD.*	2001-02	LOTUS NIKKO HOTELS	89.97	0.00
INDIA TOURISM DEVELOPMENT CORP.LTD.*	2001-02	SANGU CHAKRA HOTELS PVT.LTD.	89.97	0.00
INDIA TOURISM DEVELOPMENT CORP.LTD.*	2001-02	G.R.THANGA MALIGAI PVT.LTD.	89.97	0.00
INDIA TOURISM DEVELOPMENT CORP.LTD.*	2001-02	MOHAN SINGH	89.97	0.00
INDIA TOURISM DEVELOPMENT CORP.LTD.*	2001-02	BHARAT HOTELS LTD.	89.97	0.00
INDIA TOURISM DEVELOPMENT CORP.LTD.*	2001-02	CONSORTIUM OF SUSHIL GUPTA & OTHERS	89.97	0.00
INDIA TOURISM DEVELOPMENT CORP.LTD.*	2001-02	SILVERLINK HOLDINGS LTD.& CONSORTIUM	89.97	0.00
INDIAN PETROCHEMICALS CORP.LTD.	2002-03	RELIANCE PETRO INVESTMENTS LTD.	26.00	33.95
JESSOP & CO.LTD.	2003-04	INDO WAGON ENGINEERING LTD.	72.00	27.00
KOCHI REFINERIES LTD.	2000-01	BHARAT PETROLEUM CORP.LTD.	55.04	0.00
LAGAN JUTE MACHINERY CO.LTD.,THE	2000-01	MURALIDHAR RATANLAL EXPORTS LTD.	74.00	26.00
MADRAS REFINERIES LTD.	2000-01	INDIAN OIL CORP.LTD.	51.81	0.00
MARUTI UDYOG LTD.	2003-04	NA	27.51	18.28
MODERN FOOD INDUSTRIES (INDIA) LTD.	1999-00	HINDUSTAN LEVER LTD.	74.00	26.00
PARADEEP PHOSPHATES LTD.	2001-02	ZUARI MAROC PHOSPHATES PVT.LTD.	74.00	26.00
VIDESH SANCHAR NIGAM LTD.	2001-02	PANATONE FINVEST LTD.(A TATA GROUP CO.)	25.00	26.12

Notes: * Sale of hotels owned by these companies
Source: *Bombay Stock Exchange* Disinvestments Database

actions were interpreted as inconsistent with that of shareholder value maximization (*The Hindu Business Line*, November 17, 2002, "PSU Stocks-Bizarre Are the Ways of Govt").

Starting in 1999 the Indian government undertook strategic sales whereby majority stakes were sold and management control in 14 companies was transferred to private owners. As noted in Table 2 privatization revenues from strategic sales were about Rs. 76 billion ($1.66 billion at the March 3, 2010 exchange rate of 1 USD= 45.7 INR), far less than the amount raised through partial privatizations since 1991 (Department of Disinvestment, 2010). These companies are listed in Table 3 along with the names of the private buyers.

Table 4. Disinvestments Required in Listed Government-Owned Firms to reach 10% Public Shareholding

Company Name	Market Capitalization (February 26, 2010, Rs millions)	% Govt Equity Stake	% Private Equity Stake	Additional % Govt Equity to be sold to reach 10% Private Equity Stake	
				%	Amount (Rs.millions)*
IRCON INTERNATIONAL LTD. a	3,018.90	99.73	0.27	9.73	293.70
HINDUSTAN COPPER LTD.	488,006.20	99.59	0.41	9.59	46,797.10
MMTC LTD.	1,678,882.50	99.33	0.67	9.33	156,659.90
MAHARASHTRA ELEKTROSMELT LTD. *	14,784.00	99.12	0.88	9.12	1,347.80
HMT LTD.	61,322.20	98.88	1.12	8.88	5,447.00
NMDC LTD.	1,711,567.90	98.38	1.62	8.38	143,504.40
FERTILIZERS & CHEMICALS TRAVANCORE LTD.	33,906.60	98.96	1.04	8.96	3,038.40
NATIONAL FERTILIZERS LTD.	58,771.30	97.64	2.36	7.64	4,490.10
SCOOTERS INDIA LTD.	1,165.10	95.38	4.62	5.38	62.70
ANDREW YULE & CO.LTD.	15,068.30	94.42	5.58	4.42	666.00
NEYVELI LIGNITE CORP.LTD.	261,890.50	93.56	6.44	3.56	9,319.40
ITI LTD.	14,313.60	92.98	7.02	2.98	426.50
RASHTRIYA CHEMICALS & FERTILIZERS LTD.	51,196.70	92.50	7.50	2.50	1,280.20
INDIA TOURISM DEVELOPMENT CORP.LTD. b	8,542.50	92.11	7.89	2.11	180.10
STATE TRADING CORP.OF INDIA LTD.,THE	27,942.00	91.02	8.98	1.02	285.80
HINDUSTAN PHOTO FILMS MFG.CO.LTD. c	6,146.00	90.63	9.37	0.63	38.90
ENGINEERS INDIA LTD.	108,100.50	90.40	9.60	0.40	433.50
POWER FINANCE CORP.LTD.	286,884.30	89.78	10.22	0.00	0.00
NTPC LTD.	1,673,829.30	89.50	10.50	0.00	0.00
MANGALORE REFINERY & PETROCHEMICALS LTD.	129,627.10	88.57	11.43	0.00	0.00
NATIONAL ALUMINIUM CO.LTD.	248,027.00	87.15	12.85	0.00	0.00
POWER GRID CORP.OF INDIA LTD.	450,766.90	86.36	13.64	0.00	0.00
NHPC LTD.	393,008.70	86.36	13.64	0.00	0.00
STEEL AUTHORITY OF INDIA LTD.	902,145.50	85.83	14.17	0.00	0.00
RURAL ELECTRIFICATION CORP.LTD.	209,513.00	81.82	18.18	0.00	0.00
SHIPPING CORP.OF INDIA LTD.,THE	60,278.60	80.12	19.88	0.00	0.00
INDIAN OIL CORP.LTD.	771,603.30	78.92	21.08	0.00	0.00
DREDGING CORP.OF INDIA LTD.	16,786.00	78.56	21.44	0.00	0.00
OIL INDIA LTD.	278,542.40	78.43	21.57	0.00	0.00
BHARAT ELECTRONICS LTD.	159,936.00	75.86	24.14	0.00	0.00
HINDUSTAN FLUOROCARBONS LTD.	508.60	60.90	39.10	0.00	0.00
BALMER LAWRIE INVESTMENTS LTD.	3,001.10	59.67	40.33	0.00	0.00
BHARAT IMMUNOLOGICALS & BIOLOGICALS CORP.LTD.	820.40	59.25	40.75	0.00	0.00
BALMER LAWRIE & CO.LTD.	9,542.80	0.00	100.00	0.00	0.00
BEML LTD.	42,192.10	54.03	45.97	0.00	0.00
HINDUSTAN ORGANIC CHEMICALS LTD.	2,728.30	58.61	41.39	0.00	0.00
CHENNAI PETROLEUM CORP.LTD.	36,557.70	67.29	32.71	0.00	0.00
CONTAINER CORP.OF INDIA LTD.	155,777.90	63.09	36.91	0.00	0.00
BHARAT HEAVY ELECTRICALS LTD.	1,151,424.50	67.72	32.28	0.00	0.00
BHARAT PETROLEUM CORP.LTD.	203,349.40	54.93	45.07	0.00	0.00
HINDUSTAN PETROLEUM CORP.LTD.	117,385.10	51.11	48.89	0.00	0.00
MAHANAGAR TELEPHONE NIGAM LTD.	42,751.30	59.56	40.44	0.00	0.00
OIL & NATURAL GAS CORP.LTD.	238,922.76	74.14	25.86	0.00	0.00
GAIL (INDIA) LTD.	499,990.30	58.08	41.92	0.00	0.00

Note: *Shareholding pattern as on 30.09.2009;a) based on last traded price as on 17/10/1995; b) based on last traded price as on 21/10/2009; c) based on last traded price as on 04/03/1994
Source: *Bombay Stock Exchange* Disinvestments Database

A road map for the future?

The current government stated policy is that it will continue partial privatization but will maintain a minimum 51% ownership stake in government-owned firms. The most recent Economic Survey (Ministry of Finance, 2008-09) described the agenda as follows: (1) Generate at least Rs. 250 billion per year from privatization sales. (2) Sell 5-10% equity in previously identified profit making firms that are not one of the “navratnas”, or nine most prestigious firms. (3) List all unlisted firms and sell a minimum of 10% of equity to the public, and (4) Auction all loss making firms that cannot be revived. For those in which net worth is zero, allow negative bidding in the form of debt write-off.

The government has raised over Rs. 127 billion (About $2.8 billion at the March 3, 2010 exchange rate of 1USD=45.7 INR) from privatization sales in the fiscal year 2009-10 (Table 1). It plans three more partial privatizations by the end of March 2010. In particular, it will divest a 10% stake in Satluj Jal Vidyut Nigam Ltd (SJVN Ltd.) a hydro-power company, an 8.38% stake in NMDC Ltd, India’s largest iron ore producer, and a 5% stake in Rural Electrification Corporation (REC Ltd.), with an additional issue of 15% new equity by the company.

Significantly, the government has also announced that it will raise the minimum public shareholding in listed companies to 25%. This figure was subsequently revised downwards to 10%. In Table 4 we provide a list of listed government-owned firms, the current government-ownership stake and the current public ownership stake, as well as the fraction of shares to be sold to reduce the ownership stake of the government to 90%. Lastly, the table provides estimates of potential privatization revenues if the government were to reduce its ownership stake to under 10% in all listed companies, based on February 2010 market prices.

References

Bombay Stock Exchange Disinvestments Database, http://www.bsepsu.com.

Department of Disinvestment, 2001, Presentation on Disinvestment.

Department of Disinvestment, 2010, Disinvestment until Now, http://www.divest.nic.in.

Department of Public Enterprises, 2007-08, Public Enterprise Survey, Government of India, New Delhi, India.

Dinc, Serdar and Nandini Gupta, 2009, The Decision to Privatize: Finance and Politics, forthcoming, Journal of Finance.

Gupta, Nandini, 2005, Partial Privatization and Firm Performance, Journal of Finance 60, 987-1015.

Gupta, Nandini, 2008, Privatization in South Asia, in Gerard Roland (ed.) Privatization:Successes and Failures, Columbia University Press: New York, NY, pages 170-198.

Megginson, William and Jeffry Netter, 2001, From State to Market: A Survey of Empirical Studies on Privatization, Journal of Economic Literature 39, 321-389.

Ministry of Finance, 1996, 2008, Economic Survey of India, Government of India, New Delhi, India.

Panagariya, Arvind, 2007, India: An Emerging Giant (Oxford University Press, New York).

Lester Salamon[Σ]

[Σ]Johns Hopkins University

Privatization for the Social Good: A New Avenue for Global Foundation-Building [#]

Introduction: The Case for PtP

Energetic efforts are being made at the present time to promote the development of community foundations or other community-based philanthropic institutions around the world, especially in less-developed or transitional regions. Such institutions are vital to the emergence of truly independent civil society sectors in these countries, which, in turn, help to foster the bonds of trust and reciprocity widely recognized to be necessary for democracy and a functioning market system.[1]

A crucial barrier to the success of these initiatives, however, has been the general lack of capital to underwrite their operations. Supporters of foundation formation in these settings have looked to multi-national corporations operating in their regions for contributions to seed these embryonic institutions, but such contributions can barely sustain the foundations' operating costs, let alone build endowments capable of generating significant grants for nonprofit purposes.

Meantime, however, in many of the same regions where these foundation-building efforts are going starved for capital, enormous privatization sales are under way that are transferring huge stores of publicly owned or community-owned assets into private, often foreign, hands. Readers of the Privatization Barometer will be aware that, despite a widespread perception that privatization is largely over, it remains enormously robust. During the most recent three-year period for which data are available, 2006-2008, an estimated $370 billion in assets were raised through privatization sales around the world.[2] And this included over $100 billion in 2008 despite the severe financial crisis under way then.[3] Among the notable privatization developments in recent years are the following:[4]

- The sale by Hungary of a 51 percent stake in the Hungarian mortgage bank FHB;
- Word that 37 companies had applied for the purchase of three **Turkish** regional power grids, which the country is selling as part of a wider sell-off of state assets backed by the International Monetary Fund. Turkish privatization continued into 2008 with the sales of Tekel Tobacco to UK's British American tobacco for €1.1 billion and a 15 percent stake in Turk Telecom for €1.10 billion;

[#] *Lester M. Salamon is a professor at the Johns Hopkins University, director of the Johns Hopkins Center for Civil Society Studies, and Project Director of the Philanthropication thru Privatization Initiative. He previously served as deputy associate director of the Office of Management and Budget in the Executive Office of the U.S.President.*

- The sale by the government of **Ukraine** of the country's largest steel mill, Kryvorizhstal, to Indian steel magnate Lakshmi Mittal for $4.8 billion;

- The announcement by the local government of **Shenyang Province** in the northeast of **China** of its intention to sell off 24 major State-owned enterprises worth an estimated US$9.58 billion;

- The 2008 sale by **Latvia** of a 51 percent share in its mobile telephone operator LMT to Telia Sonera, the Swedish-Finnish operator, in a deal valued at €500 million ($782 million);

- **Kenya**'s November 2007 sale of a 51 percent stake in Kenya Telecom to France Telecom for €269 million ($390 million), followed in March 2008 by its sale of a 25 percent stake in its mobile phone operator Safaricom to UK-baed Vodaphone for €500 million ($775 million);

- The sale by **Greece** in 2007 and 2008 of a 10.7 percent stake in Hellenic Telecom for €1.10 billion, of a 20 percent stake in its Postal Savings Bank for 513 million, and a 35-year concession to the Chinese company Cosco to manage the Port of Piraeus for €3.09 billion;

- The emergence of **China** as the world's largest privatizer, with deals in 2007 alone that surpassed those of all 25 countries in the expanded European Union;

- The huge sale of shares in **Brazil**'s state-owned Compania Vale do Rio Doce, which brought in €8.68 billion ($12.06 billion).

Nor does this activity seem likely to stop in the near future. To the contrary, several countries, among them Sweden, Turkey, and South Korea suspended ambitious privatization programs due to market conditions in 2008 and will resume them once market conditions improve. Significant future privatization activity has already been announced by governments in such disparate places as Egypt, India, Spain, Kosovo, Ukraine, the Czech Republic, Germany, Kenya, Pakistan, and Poland, suggesting that the pipeline of privatization deals has hardly run dry. In fact, the economic crisis of 2008-09, by causing governments around the world to "bulk up" on formerly private companies that were considered "too big to fail," has led experts to expect an enormous spurt of privatization actions once markets stabilize and governments begin divesting the assets they acquired during the crisis. [5]

For the most part, the proceeds of these sales are going directly into public budgets, though in some cases they also end up in the bank accounts of political officials or the pockets of board members of formerly nonprofit organizations. In a number of cases, however, all or a portion of privatization, or privatization-like, transactions have been used to seed the endowments of charitable foundations, some of them quite huge. In 1990, for example, Italy converted its network of small, nonprofit, and quasi-public, savings banks into joint stock companies, but vested the ownership of the resulting stock in a set of foundations, some of them newly formed and some already in existence as operating arms of the former savings banks. By the time the foundations were authorized to sell this stock in 1994, its value exceeded €24 billion, and since then the assets of these "foundations of banking origin" have climbed further, producing a literal revolution in the philanthropic landscape of Italy. As of 2008, the combined assets of Italy's foundations of banking origin exceeded €50 billion. Cariplo and Compagnia di San Paolo, two of the largest of these foundations, both have assets in excess of €9 billion each, or approximately US$13 billion, which puts both of them ahead of such major U.S. foundations as the Rockefeller Foundation ($3.1 billion in assets as of 2008), and the Ford Foundation, America's second largest ($11 billion in assets as of 2008).[6]

While the story of the Italian bank foundations is notable, it is not unique. Numerous other cases of this "philanthropication thru privatization" exist around the world, though no one has thought to assemble them. They therefore remain known only locally and considered *sui generis* rather than being seen as possible templates for a potential new strategy for foundation formation.

In New Zealand in the 1980s, for example, a story virtually identical to the Italian savings bank story unfolded, with the transformation of a network of nonprofit savings banks into stock companies and the vesting of ownership of the stock of the resulting banks in a network of twelve "community trusts," which now form the backbone of New Zealand's philanthropic community. Decades earlier, the Government of Germany privatized the former Nazi-owned Volkswagen company and placed 60 percent of the resulting stock into a new Volkswagen Foundation dedicated to the improvement of German science. This foundation now boasts €2.3 billion in assets and a long history of substantial grant-making.[7] More recently, the purchase of a number of nonprofit health insurance organizations and hospitals by for-profit firms in the United States has led to the creation of over 100 so-called "conversion foundations," including, the $725 million California Wellness Foundation resulting from the privatization of California's Blue Cross/Blue Shield nonprofit health insurance provider.[8]

Not only would such a strategy provide a critical boost to democracy and civil society in the affected countries, however. It could also help to defuse the growing popular resentment over privatization. One recent survey in Central and Eastern Europe, for example, revealed that 80 percent of respondents opposed the status quo achieved through privatization and wanted to change it in some way. Interestingly, only 29 percent favored returning the assets to government control, suggesting that respondents favor private ownership if they can see some more tangible benefit from the transactions that lead to it, and similar results are evident in other regions.[9] But scientific research is not needed to demonstrate the push-back on privatization. Citizens have increasingly taken to the streets to demonstrate it. The original deal for Ukraine's Kryvorizhstal steel plant helped generate Ukraine's Orange revolution. Such protests have even penetrated China, as one Chinese provincial government was forced to halt the privatization of a state-owned steel mill this past August after thousands of workers took to the streets, this on the heels of another protest three weeks earlier in another Chinese province that led to the beating death of an executive overseeing the sale of another state-owned steel company.[10] These protests and negative sentiments have made privatization politically treacherous, with consequent recent delays in such countries as Sweden, Germany, France, and Italy.

Given this popular opposition, both governments and companies purchasing privatized assets might well see the practical and public-relations value of diverting at least some part of the proceeds of privatization sales into the creation of community-based philanthropic endowments. Evidence of the positive impact this could have can be found in the decision of the Sarkozy government in France to pledge the €3.7 billion proceeds from the sale of

France's Electricité de France in 2007 to capital investments in France's aged university facilities as a way to silence opposition to the sale.[11]

The PtP Project

To promote this option, a Philanthropication thru Privatization initiative has been launched under the direction of this author in cooperation with the East-West Management Institute, a nonprofit organization in promoting the rule of law, civil society, and free market systems globally. This initiative has four principal objectives:

- ***First,* to build the case for PtP** by identifying, analyzing, and publicizing the many past examples of the phenomenon;
- ***Second,* to develop best practice materials** based on these past cases to guide efforts to implement the PtP option or to make mid-course corrections on past implementations.
- ***Third,* to disseminate these various materials broadly** in order to create awareness of this option and incentivize local civil society leaders to promote it; and
- ***Fourth,* to work with local partners to implement the PtP concept** in a pilot set of 3-4 locales.

To pursue these objectives, the PtP Initiative is proceeding along two principal tracks: first, a case-building track designed to build the case for the Philanthropication thru Privatization option; and second, an implementation track designed to put this approach into operation in a pilot set of field sites where privatization activity is under way.

Partial support for this effort has been provided by a number of the Italian foundations of banking origin and by the U.S.-based Charles Stewart Mott Foundation. In addition, pro bono legal aid has been offered by the international law firm of DLA Piper.

Work to date has focused on identifying as complete a set of past PtP cases as possible with the aid of an international network of Discovery Associates. Two conclusions have emerged from this work to date.

- First, that the PtP phenomenon is even more widespread than we thought. Altogether, 415 cases have been identified so far;
- Second, that while all PtP cases share some common features, the phenomenon can take a variety of forms. In fact, we have identified five distinct "types."

A first step in investigating PtP cases was to clarify the definition of this concept. For this purpose, three crucial features were identified as fundamental:

1. A public or quasi-public asset--that is, an asset that is either (i) government-owned or controlled, or (ii) privately owned but enjoying some significant government benefit and dedicated to charitable or other public purposes;

2. A process of transformation of this asset from public or quasi-public hands to charitable use; and

3. A resulting charitable endowment, that is, a pool of resources or a guaranteed stream of revenue available over an extended period of time that is under the control of a privately operated institution dedicated to using it for charitable purposes.

With this definition in place, it was possible to identify five more or less distinct types of PtP. These include:

Type I: A state-owned enterprise or other asset is sold or transferred in whole or in part to a private, for-profit business with all or a part of the proceeds going to a foundation or nonprofit.

This is perhaps the classic form of PtP. Examples include the Volkswagen example cited earlier; the Czech Republic's decision in the early 1990s to devote 1 percent of the proceeds from the sale of 485 state-owned companies to a Foundation Investment Fund, yielding some 2.823 billion Czech Crown that were ultimately distributed to38 foundations; or the creation of the Deutsche Bundestiftung Umwelt (German National Foundation for Environment) from the proceeds of the privatization of the Saltzgitter A.G. company following reunification of Germany.

Type II: A government-owned or controlled resource (e.g. unclaimed or stranded assets left in banks or in trusts, the proceeds of a class action lawsuit, a penalty levied against a company, a cultural institution) is transferred to a foundation or nonprofit organization.

The famous Italian opera company, La Scala, was transformed from a state institution into a private foundation in possession of the assets of the former state organization. The Slovak Youth Foundation received real estate and other assets worth $14 million formerly belonging to the Socialist Union of Youth.

Type III: The government establishes a national lottery or sells another resource under its control (e.g. air wave rights) and dedicates all or a portion of the revenues secured as a consequence to a foundation or other nonprofit or charitable institution(s) for an extended period.

Example: A set proportion of the proceeds of the Belgian national lottery is dedicated to the support of the King Baudouin Foundation. A similar arrangement channels the proceeds of the Spanish lottery to organizations serving the blind.

Type IV: All or a portion of the foreign debt of a country is forgiven by the creditor country, or purchased by a nonprofit organization and sold to the debtor nation, in return for the debtor nation's contribution of a specified amount of its own currency to a foundation or other nonprofit institution for support of charitable purposes.

Example: The Government of Canada forgave 75 percent of the C$22.7 million face value of bilateral debt owed to it by Peru, and as part of the forgiveness the Peruvian Ministry of Economics and Finance paid 25 percent of the debt amount in local currency (C$5.69mn) to several foundations or nonprofit organizations, including PROFONANPE the Peruvian environmental trust fund controlled by a joint board of representatives of the government, NGOs, and an international aid agency.

Type V: A quasi-public organization (e.g. a nonprofit organization or mutual association),) is sold to or transformed into a for-profit company and all or a portion of the proceeds generated by the sale or transfer are placed into a foundation or nonprofit organization.

This is the case of the U.S. health conversion foundations and the Italian and New Zealand savings bank conversions. A similar process produced the Erste Foundation in Austria following the privatization of that country's Sparkasse, or nonprofit savings banks.

Conclusion

The current efforts to build community-based philanthropic endowments in the less developed regions of the world hold enormous promise for unleashing new energies for social problem-solving. These efforts could end up generating deep frustration, however, if meaningful sources of capital do not become available. While some of this capital needs to come from local citizens and corporations, it seems clear that relying on these sources alone may well consign these fledgling institutions to a long path toward viability and effectiveness.

This is all the more frustrating in view of the fact that side-by-side with these efforts in many of these same countries enormous privatization sales are going forward involving billions and billions of dollars of public assets. Capturing even a small fraction of these assets for the embryonic community foundations would set these institutions on a very different developmental path very quickly. Similarly, the same process could usefully be adopted in more developed regions where true philanthropic endowments are also too scarce.

To be sure, there is nothing automatic about such an option. Convincing governments to part with even a fraction of the proceeds of privatization sales may be a difficult sales job. But the privatization juggernaut has hit enough bumps in the road around the world to open the minds of even the most resistant governments to the need for new approaches, and the option of accompanying future sales with the creation of sizable charitable endowments targeted on the needs of local citizens could help soothe some of the hostility that privatization has engendered. By documenting the numerous past cases of such Philanthropication thru Privatization, disseminating these experiences broadly, carefully generating materials showing how this option can be applied, and undertaking a pilot implementation effort, the Initiative outlined here could significantly increase the chances that this option will receive a reasonable hearing. In addition, the information gathered through this effort will be of considerable help to existing philanthropic endowments created out of previous privatization efforts.

With billions of privatization deals in play, even a few successes could yield new charitable endowments reaching into the hundreds of millions of dollars in countries where such endowments are currently non-existent. Surely this option deserves a serious try.

[1] On the relationship between civil society organizations, democracy and functioning markets, see: Francis Fukuyama,1995. Trust: Social Virtues and the Creation of Prosperity. New York: Simon and Schuster; Putnam, R., Leonardi, R., and Nanetti, R. (1993). Making Democracy Work: Civic Traditions in Modern Italy. Princeton: Princeton University Press.

[2] Bernardo Bortolotti and William L. Megginson, "Privatization Trends and Major Deals in 2008," The PB Report 2008. (Milan: Fondazione Eni Enrico Mattei, n.d.), p. 6.
[3] Bortolotti and Megginson, "Privatization Trends in 2008," p. 6.
[4] Sources here include: Reuters (May 24, 2007), Reuters, (October 31, 2006); New York Times (October 24, 2005); China Daily (July 19, 2005);Bortolotti and Megginson, "Privatization Trends," The PB Report, 2006, 2007, 2008.
[5] "Executive Summary," The PB Report 2008, p. 3.
[6] Data on U.S. foundations from Foundation Center, Foundation Yearbook: Facts and Figures on Private and Community Foundations. 2008 Edition. (New York: the Foundation Center, 2008), p. 18. Data on Ford Foundation accessed on February 6, the 2010 from:http://www.fordfound.org/about. The largest U.S. Foundation is the Bill and Melinda Gates Foundation with $33 billion in assets as of 2006.
[7] http://www.volkswagenstiftung.de/foundation/assets.html?L=1, accessed February 6, 2010.
[8] http://www.calwellness.org/assets/docs/annual_report/TCWF_FS_2008.pdf, accessed February 6, 2010
[9] Timothy Frye and Ekaterina Zhuravskaya, "Support for Revising Privatization in the Postcommunist World," The PB Report 2007. (Milan: Fondazione Eni Enrico Mattei, n.d.), pp. 49-54. For comparable evidence in Latin America, see: Carol Graham and Sandip Sukhtankar, "Does Economic Crisis Reduce Support for Markets and Democracy in Latin America?" Journal of Latin American Studies, 36, pp. 349-377.
[10] Keith Bradsher, "Bowing to Protests, China Halts Sale of Steel Mill," New York Times, August 17, 2009.
[11] William Megginson, "Major Deals of 2007: A Tale of Two Semesters," The PB Report 2007. (Milan: Fondazione Eni Enrico Mattei, n.d.), p. 22.

Selected News

AUSTRIA

2009-02-05 - **OeIAG CEO: Will Recommend A Sensible Telekom Austria Merger**
VIENNA (Dow Jones)--**Telekom Austria AG**'s supervisory board and largest stakeholder is prepared to recommend a merger and full privatization if the right opportunity comes along, supervisory board chairman Peter Michaelis said Thursday. Michaelis, who is also chief executive of the Austrian state's privatization and holding company OeIAG, which holds a 27.4% stake in Telekom Austria, said the conditions for a full privatization of the telecommunications company are present. "The original privatization mandate foresees the privatization of up to 100% of the shares, and the premises for a privatization have been met," Michaelis said, adding, however, that a decision to divest the Austrian state's effectively controlling stake must be made by the government. "If consolidation efforts are initiated and Telekom Austria ought to participate - if it makes good sense - I will go to the Austrian government and give my recommendation," Michaelis said.

CZECH REPUBLIC

2009-08-26 - **Czech Finance Minister: CSA Czech Airlines Privatization Will Continue**
PRAGUE (Dow Jones)--The Czech government's privatization of state-owned flag carrier **CSA Czech Airlines** will continue despite the company Wednesday posting its worst-ever first half net loss and despite only one bidder continuing in the tender, the Czech Minister of Finance Eduard Janota said. "The process will continue," Janota said at a press conference, adding that in the meantime the airline will follow through on restructuring steps outlined earlier in the day by CSA. The Czech state hopes to generate about $270 million in a public tender by selling its 91.5% stake in Czech Airlines, which is a member of the Air France-KLM-led Sky Team alliance. The sole bidder remaining in the tender is a consortium of Czech financial firm Unimex and charter airline Travel Service for the privatization's shortlist. Icelandic airline Iceland Air Group Holding is a shareholder in Travel Service. Nevertheless, the airline continues to shoulder 1.4 billion koruna ($71.2 million) in accumulated losses from past years, which it intends to eliminate by 2013. CSA Czech Airlines operates 51 planes, including 36 medium-haul, 12 short-haul and 3 long-haul aircraft. The fleet is mostly made up of Airbus and Boeing Co. jets.

2009-12-01 - **Czech Prime Minister Sees No Reason To Privatize Prague Airport**
PRAGUE (Dow Jones)--There isn't currently any reason for the Czech state to privatize **Prague international airport**, the interim Prime Minister said, Czech news agency CTK reported. Previous governments planned to offer up the state's majority stake in the airport for sale to raise revenues. Prime Minister Jan Fischer's comments come after a vote in the lower house of the Parliament in September for a bill which, if finally approved, would make privatization of state-run airport much more difficult. Earlier this year, the government estimated it would generate a minimum 100 billion koruna ($5.7 billion) through the airport sale, then expected to be carried out in 2010. The bill stipulates that the owner of the airport and all of its underlying assets "must be either the state of the Czech Republic or a company 100% owned by the state." Fischer's comment, together with the bill, may kill one of the last remaining large-scale privatizations of the Czech government. The government recently scrapped plans to sell flag-carrier Ceske Aerolinie, or CSA Czech Airlines.

FRANCE

2009-07-29 - **French Government Plans To Turn Mail Service Into Joint Stock Company**
PARIS (Dow Jones)--The French cabinet approved a bill that will turn the nation's postal service **La Poste** into a joint-stock company on Jan. 1, a first step toward a possible privatization. The government initially would own almost all the shares in the group, directly and indirectly. It would inject EUR2.7 billion of fresh capital into la Poste in partnership with the State investment bank Caisse des Depots and Consignations, which would also be a shareholder. A bill allowing for the change will now be submitted to Parliament for approval. the UMP conservative

party of President Nicolas Sarkozy and its allies have a firm majority in Parliament, so the bill's passage is assured. "We need to give La Poste the means of pursuing its modernization and its development," French Finance Minister Christine Lagarde said. Starting in 2011, mail services will be opened to competition in the European Union. She noted that the company will remain owned by the state, but for the shares that may be attributed to employees. Although no plans have been announced yet, the French government has in the past privatized national phone operator France Telecom, as well as energy companies Gaz de France and Electricite de France SA. Both were turned into joint-stock companies before shares were sold on the market. Civil servants working at the national mail operator, half of its 299,000 workforce, will keep their statute and all the attached rights, the ministry said.

2009-07-29 - **French Government Commission Meets On Areva T&D Sale**
PARIS (Dow Jones)--A French government commission was expected to meet Thursday as part of the process to determine which of three bidders will acquire French state-controlled nuclear group Areva's transmission and distribution unit **Areva T&D**, several people familiar with the selling process told Dow Jones Newswires. The French privatization commission will assess the value of Areva T&D and set a minimum sale price for the asset. It will also determine whether the received bids conform to the sale conditions. Japan's Toshiba Corp, U.S.-based General Electric Co., and an all-French consortium comprised of engineering group Alstom SA and electric equipment maker Schneider SA, have all bid for the Areva unit. Areva is being forced by the French state, its main shareholder, to sell T&D in order to contribute to the company's EUR11 billion investment plan. The commission's ruling is binding, and forbids the government to sell below the price it at which it values Areva T&D. By law, the commission is also required to make recommendations on a preferred buyer in the sale of any French government asset that isn't carried out in the financial markets. In December 1996, the French government was forced to drop its plan to sell defense-to-consumer electronics group, Thomson SA, after the commission rejected as unacceptable an offer from French defense group Lagardere SCA. Lagardere planned at the time to dismantle Thomson and sell a unit to South Korea's Daewoo. Thursday's meeting marks an early stage in the commission's decision process with its members having to carefully assess each of the three offers made for Areva T&D before reaching a conclusion. No decision is expected Thursday, two of the people familiar with the process noted. The commission bases it's valuation of the asset on documentation provided by the seller. Their recommendation is reached after comparing their assessment with the prices submitted by the various bidders as well as several other unspecified criteria, a person close to the talks said. A spokesman for the French finance ministry and a spokeswoman for Areva both declined to comment. The French state, directly and indirectly, controls 93% of Areva. The government recently made clear the bid price would be a key element in choosing the buyer of Areva's T&D division, but said the industrial plan and the social implications of the winning bid would also be crucial. People close to the situation told Dow Jones Newswires last week that Toshiba has offered EUR4.2 billion for Areva's T&D assets, while General Electric is willing to pay EUR4 billion. The Alstom-Schneider consortium has also offered around EUR4 billion, but this includes a variable component that could result in a lower bid price, according to several people close to the talks. The decision regarding the choice of a preferred, or even several preferred, bidders was initially expected on Monday, Nov.16. But the process has been extended, people familiar with the situation told Dow Jones Newswires last week, and a decision is unlikely until later this month.

GERMANY

2010-02-04 - **German Government Still Seeks Partial Privatization Of Deutsche Bahn**
BERLIN (Dow Jones)--The German government is still seeking a partial privatization of German rail operator **Deutsche Bahn AG**, the finance ministry confirmed Thursday. "As long as the capital market allows it, we will commence a gradual, yield-optimized privatization of the transport and logistic sectors," the government said. It made the comments in its Stability & Growth Pact report on wider fiscal policy, which European Union member states are required to produce annually. Deutsche Bahn's infrastructure sectors won't be privatized, since they count as part of the government-owned infrastructure. The report said reform of Germany's railways, which began in 1994, will be taken a step further with the partial privatization of Deutsche Bahn. The German cabinet is set to approve the Stability & Growth Pact report Feb. 10. It will then submit it to the European Commission, which oversees national fiscal policies within the EU.

GREECE

2009-02-12 - **Greek Privatization Program Hit By Econ Crisis**
PIRAEUS, Greece (Dow Jones)--Greece's **privatization program** is facing difficulties as a result of the economic crisis, a government minister conceded Thursday, following the failure of two privatization tenders in as many weeks. Late Wednesday, the Thessaloniki Port Authority SA - the state-owned company that manages Greece's second largest port - formally invalidated a bid by Hong Kong-based ports operator Hutchison Whampoa Ltd, after the company withdrew its winning bid. And earlier this month the government canceled the long-awaited and closely-watched privatization tender for loss-making national carrier Olympic Airlines after failing to receive satisfactory bids. "The lack of interest in Olympic and the lack of interest in the Thessaloniki port...shows that there is a problem arising out of the international crisis," said Merchant Marine Minister Anastasios Papaligouras. "And especially with the difficulty investors have in finding financing during this crisis." Late in December, a consortium led by Hutchison Whampoa withdrew its winning EUR419.5 million bid because of difficulty in securing bank financing for the project. The announcement by the Thessaloniki Port Authority means that the Hutchison bid has now been formally rejected, possibly opening the way for a new tender.

HUNGARY

2010-02-27 - **Hungary Renationalizes Airline Malev As Privatization Fails**
BUDAPEST (Dow Jones)--The Hungarian government will gain a 95% stake in Hungarian airline **Malev Zrt.** to keep the firm operational since its 2007 privatization has failed, the Hungarian Finance Ministry said Saturday. Hungary will inject 25.2 billion forints ($126.4 million) into the airline, partly through converting debt into equity, with contribution in kind, and also in the form of cash, the ministry said in a release. Current main owner AirBridge, which is 49% owned by Russian Vnesheconombank and 51% by a Hungarian private individual, will retain a 5% stake in Malev. "The restructuring of Malev needs to continue so that its operation will consume the lowest amount of taxpayer money and also that the European Union won't regard the Hungarian government's step as unlawful state support," the ministry said. As part of the deal, Vnesheconombank will pay the government the EUR32 million in bank guarantees already pledged in the privatization transaction, and it will also convert Malev's "relatively unfavorable" loans into a debt with a lower interest rate, the ministry said. The government targets to turn Malev profitable by 2012 the latest. The government plans "tough steps," which will include further layoffs and a renegotiation of the company's supply contracts, trade union agreements, the ministry added.

ITALY

2010-02-09 - **Acea Privatization Can Start This Year**
ROME (Dow Jones)--The privatization process of Italian utility **Acea SpA** can start this year, Rome's mayor Gianni Alemanno said Tuesday. Alemanno added however that the privatization process would have to take into account market conditions. Rome's mayor said "there's no rush" on the sale and added the process has to be managed with the maximum transparency, aiming at the best result for both the citizens and the local administration. GDF Suez SA owns a 9.9% stake in Acea and the companies have an electricity venture. Rome City Hall owns a 51% stake in utility. Relations between GDF Suez and Acea have been strained since last year, when Rome Mayor Gianni Alemanno expressed concern over the dominant role GDF Suez would have in a bigger alliance that would include natural gas.

2010-02-19 - **Tirrenia Gets Many Bids For Tirrenia Privatization**
ROME (Dow Jones)--There have been "many" expressions of interest for the privatization of Italian ferry company **Tirrenia di Navigazione SpA**, allowing for the process to stick to its Sept. 3 deadline, Transport Minister Altero Matteoli said Friday. In a statement, Matteoli said Friday was the last day for expressions of interest to be lodged. The number of requests is "excellent news." Tirrenia is owned by holding company Fintecna SpA, and operates ferries between the Italian peninsula and Sardinia, Sicily, Albania and other destinations. With a fleet of nearly 100 ferries, Tirrenia transports some 13 million passengers and 2 million cars each year.

POLAND

2009-08-11 - **Polish Prime Minister: Cabinet OKs Updated 2009-2010 Privatization Plan**

WARSAW (Dow Jones)--The Polish government Tuesday cleared a plan to raise **36.7 billion zloty ($12.4 billion) in privatization revenue by the end of 2010** to help finance the widening budget deficit. The Treasury ministry aims to sell stakes in strategic companies including copper miner Polska Miedz SA and refiner Grupa Lotos SA. The ministry also plans to sell stakes in power companies Tauron, PGE and Energa, and proceed with the previously announced sales of chemical companies, offer of minority stakes in listed companies and the sale of the Warsaw Stock Exchange.

2009-09-09 - **Poland Set To Increase Privatization Drive**

TARNOW (AFP)--Poland is revving up its privatization drive as it scrambles to bridge what is expected to be a record public deficit in 2010. "Thirty-six billion zloty (EUR8.8 billion), that's the amount we want to earn from privatization in 2009-2010. This money will certainly support the state budget," Adam Leszkiewicz, a senior Polish State Treasury official told leaders of state-owned companies gathered at a privatization forum in Tarnow, southern Poland, this week. "Of course, in times of crisis you could say that you sell more for less," he admitted. "But on the other hand privatization in difficult times can save companies, facilitate their development and be a source of capital for investment when the state budget is weak." Poland expects the 2010 state budget deficit to hit a record PLN52.2 billion or 3.8% of gross domestic product, twice the 2009 deficit. The overall public deficit is expected to balloon to 6.0% of GDP this year and up to 7.0% in 2010, far exceeding the 3.0% of GDP ceiling required for entry into the eurozone. This, and a drastic decline in the value of its currency amid the crisis, has forced Poland to drop its 2012 deadline to adopt the euro. No new target date has been set. On the bright side, with its population off 38 million, Poland is the only state in the 27-member E.U. to sustain economic expansion this year and is expected to score around one percent annual GDP growth. **Its ambitious privatization drive targets over 700 companies between 2008-2011**, including the Warsaw Stock Exchange, KGHM, Europe's second- ranked copper miner, energy companies Enea, Tauron, PGE and Energa and chemicals giant Ciech. Shares in TP, Poland's main telecoms operator, leading bank Pekao, as well as PKO BP, and the Lotos Group fuels company are also on offer, as are stakes in hundreds of others ranging from pharmaceutical companies to health spas. "At the moment we're conducting 500 privatisation procedures and 200 have already been completed," Leszkiewicz said. Poland has earned PLN3.9 billion in privatisation revenue so far this year, less than half of the PLN12 billion target for 2009, according to state treasury figures. The spectacular failure last month of a high-profile deal to sell two ailing Polish shipyards to Qatari investors has cast doubt as to whether mass privatisation is indeed realistic in the midst of a global recession. "In the first half of this year we couldn't find investors for 50 companies - this number is increasing and it is a clear indicator that it's more difficult to privatise in times of crisis," Leszkiewicz said. "But on the other hand why should we wait and is it indeed worth waiting?"

PORTUGAL

2010-03-16 - **Portugal Announces Mass Privatization To Fight Rising Debt**

LISBON (AFP)--Portugal, under strong European Union pressure to correct its public finances, Tuesday announced sweeping privatization measures affecting its airline, rail transport, postal, energy and paper industries, in order to fight a rise in debt. Also covered by the program are bank and insurance activities. The privatization would raise about EUR6 billion ($8.22 billion) by 2013, bringing in EUR1.2 billion this year and EUR1.8 billion next year, the government said. The sales would lead to "increased productivity in these sectors and contribute to the essential reduction of the public debt," which currently amounts to EUR142.91 billion. The expected contribution from the privatizations to reducing debt amounts to about 4.19% of the total debt. The measures, being outlined by Finance Minister Fernando Teixeira Santos to European Union finance ministers in Brussels Tuesday, are to be debated by parliament here on March 25 and then submitted to EU authorities. The urgent program presented Tuesday resumed privatizations for 2010-2013, which had been suspended in 2007 because of the financial crisis. The Socialist government intends to sell great chunks of the Portuguese economy.

It will sell its holding of 8.0% in **Galp Energias S/A**, 25.73% in **Energias de Portugal**, a 51.08% in electricity distributor **REN-Redes Energeticas Nacionais SGPS SA** while retaining a strategic interest.

It also intends to sell its interest of 32.7% in **Inapa-Investmentos Participacoes Gestao S/A**, the fourth-biggest distributor of paper in Europe.

The privatization program also covers the entrance of private capital into the shipyards **Viana do Castelo** and the sale of shares in companies in the industrial and defense sectors, the opening of the capital **TAP Portugal** airline and the sale of **Aeroports du Portugal**. **Rail freight transport** will also be sold to the private sector, and the **postal service CTT** will be opened to private capital. The government said it would re-privatize BPN bank which was taken under state control during the financial crisis, and sell part of the insurance activities of **Caixa Geral de Depositos**, or CGD, bank.
The government raised slightly its estimated debt to 86% of output in 2010, from a previous estimate of 85.4% percent of output this year. The debt will rise to 89.4% of gross domestic product in 2011, 90.7% in 2012 and then turn down to 89.8% in 2013. These figures are far above ceiling levels for countries in the European Union, and specifically the eurozone as is the case for Portugal. There is widespread concern that if the debt crisis in Greece, the subject of the EU ministerial meeting in Brussels Tuesday, isn't contained other countries with big deficit and debt problems could come under pressure on financial markets. EU rules state that a member country must not run a public deficit of more than 3% of output, and that debt should not exceed 60%, or if it does, must fall structurally to below that figure. Portugal intends to cut its annual public deficit from 8.3% of output this year to 2.8% in 2013. Such a reduction is widely considered to be huge. Before the financial crisis, several countries already had structural difficulties in switching their public finances into a strong condition, and the cost of supporting economies through the crisis has raised public deficits and debt in many countries to far above the limits. Data from the national statistics institute published last week showed that the economy shrank by 0.2% in the last quarter of last year from output in the previous quarter.

SPAIN

2009-03-10 - **Spain Government To Privatize REE, Enagas Transport Network**
MADRID (Dow Jones)--The Spanish government plans to privatize the country's gas and electricity networks operated by **Enagas SA** and **Red Electrica de Espana SA**, Cinco Dias reports citing government sources. The measure could be approved as soon as this Friday, the paper says, as part of a broader energy bill. According to Cinco Dias, the government would also merge the two companies into a single state-owned entity that would operate the country's gas and electricity systems.

UK

2009-10-13 - **UK Considers Privatizations To Cut Its Debt**
LONDON (WSJA)--The U.K. government, in a bid to reduce its debt, is exploring a novel way to raise funds, people familiar with the matter say: bundling government activities such as human resources and information-technology management into commercial companies and selling or listing them. Advisers want the government to consider privatizing any government function that is also performed by private industry, these people say. The companies, in theory, would eventually compete for contracts outside government. The government believes that, given their steady cash flows, they could be marketed to investors seeking dependable returns. The **British public sector manages an asset base valued at well over GBP 800 billion ($1.3 trillion)**, according to the Treasury. The idea of expanding asset sales to include human resources, IT management and other government services has been pitched to the government by advisors including Gerry Grimstone, the chairman of life insurer Standard Life, and Martin Read, former CEO of Logica, an IT-services company, according to people familiar with the matter. The U.K. Treasury in July 2008 asked Messrs. Grimstone and Read, as well as other business leaders, to examine the privatization process and public-sector efficiency. At present this is a "potential rather than an actual plan," one of the people familiar with the sales proposals said. But the move would dovetail with previous efforts by the government to tap the private sector to improve efficiencies, such as a joint venture between the National Health Service and business-services firm Steria Ltd. in which the two work together on business services such as payroll and accounting. On Monday, Prime Minister Gordon Brown said the government would sell GBP 16 billion ($25.35 billion) of real estate and assets such as the state betting organization and books of student loans, confirming plans largely previously announced. However, in a statement on Sunday previewing Monday's announcement, Mr. Brown hinted at the exploration of a program to privatize government functions, saying the plan "marks the beginning of a radical program" in which his government will examine what other noncore state activities can be sold. "This can best be done in, or in partnership with, the private sector, including potentially through new forms of public service companies," the prime minister

said. In Britain, modern-day privatization took off in the early 1980s under Margaret Thatcher, who throughout that decade sold off much of the country's state-owned industry. This included its gas, car, telecom, and aerospace industries and the sugar company, British Sugar. For Mrs. Thatcher it was a way of raising funds, expanding share ownership to individuals and transferring ownership to what she saw as the more efficient private sector. The model was copied throughout Europe, as countries from France to Germany and the former communist states of Eastern Europe began to sell off assets. But even if a new project to sell or list entire large government-service functions is given the green light, the government could face significant hurdles in seeing this project to fruition, especially with a national election coming no later than next spring. Privatizing such activities could face objections from trade unions and the Labour Party's core working-class supporters. Earlier this year the government had to abandon plans to privatize portions of the Royal Mail postal service after objections from unions and some Labour politicians. There may also be confidentiality issues when dealing with functions that deal with national security. Already Monday, the government's plans to raise cash from more-traditional asset and real-estate sales came under fire from critics. The Local Government Association said it was disappointed that the government didn't consult local authorities when announcing it would be selling billions of pounds of assets that they manage. "Local government will dispose of assets if they are not required, but, given the current financial climate, this is not a good time to sell," Margaret Eaton, chairwoman of the Local Government Association, said in a statement. The financial crisis already has stopped the government from moving ahead on some of its asset sales. However, the U.K. government needs the money, given that next year it will have to borrow an additional GBP 175 billion and will have a budget deficit that has been estimated at between 12% and 14% of GDP. "The announcements of asset sales [Monday] are a drop in the ocean compared with the scale of cutbacks required to restore order to the public finances," said Peter Spencer, the chief economist at the Ernst & Young ITEM club of economic forecasters.

2009-12-08 - 10:07:00 - **UK Government To Propose Navy Supplies Privatization**
LONDON (Dow Jones)--The U.K. government plans to privatize the **Royal Fleet Auxiliary**, which supplies food, fuel and ammunition to the Royal Navy, as a consequence of GBP20 million cuts imposed on the Ministry of Defense by the Treasury, the Rail, Maritime & Transport union said Tuesday. The union, which opposes the move, said a review of the RFA including the privatization option would be made as part of this week's pre-Budget report. The RFA, a civilian-manned fleet owned by the Ministry of Defence, has a flotilla of 16 ships and employs over 2,000 people.

The electronic version of the PB Report is available at www.privatizationbarometer.net/newsletter