



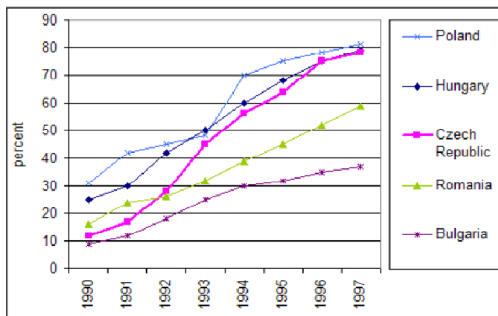
Lecture no. 9

## Privatizing Czechoslovakia



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## Development of Private Sector (% GDP)



Source: Hanousek et al: Tale of the Czech Transition

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## General Approach

- Privatization before OR after restructuring?

### Klaus et al.: FAST!

- + waiting creates uncertainty
- + "spontaneous" privatization, "tunneling"
- + getting the incentives right
- "selling off" for lower prices
- lack of institutional framework
- finding a credible owner takes time

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## Main Stages of Privatization

- **restitutions – property confiscated after 1948**
  - rather moral than economic issue
- **"small scale privatization"**
  - shops, restaurants, petty services etc.
  - based on auctions, relatively successful, finished early 1990's
- **"large scale privatization"**
  - "voucher privatization" (40 % of property)
  - direct sales (foreign investor; insiders-managers, employees)
  - centralized – "Ministry of Privatization"

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## Voucher Privatization

- 2 waves (1992, 1994)
- solution of unique situation: economic nationalism + lack of domestic savings
- vouchers bought for 1.000 CZK invested in companies or investment fund
  - 1492 enterprises
  - 300 bil. CZK
  - 8,5 mil people
    - not enough knowledge about investing
    - dispersed ownership
    - investment funds not interested in restructuring
    - "tunneling" and bankruptcies delays – lack of institutional framework

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## Later Development

- **voucher scheme:**
  - individual shares bought out by investment funds
  - investment funds owned/bought by banks
  - major banks still state-owned
  - RESULT: return of the property back to state hands via banks - "**banking socialism**" (72 % vouchers to investment funds)
  - privatization of banks through direct sales to foreign investors (ended 2001)
- **direct sales:**
  - "success stories" - Škoda, later banks: all sold without debts
  - additional costs for state: "cleaning agencies" - Czech Consolidation Agency and others
  - some companies still state-owned (Budvar, ČEZ, Czech Railways, Czech Post etc.)

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## Na kterých akciích se dalo nejvíce vydělat

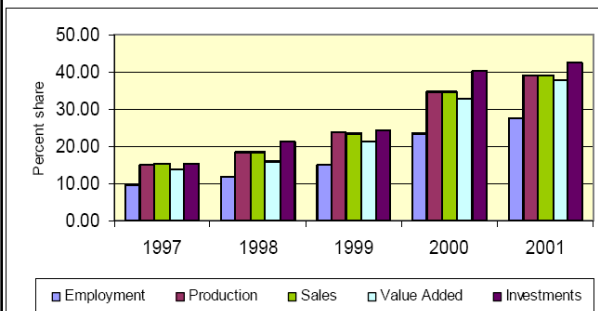


Pramen: archiv, výpočet MF Oneš

Název firmy	maximální kurz (Kč)	datum	počet akcií na knížku	zisk na knížku (Kč)
Elektrárny Opatovice	10 050	14. 3. 1994	50	502 500
ČKD Praha	1380	16. 3. 1998	360	496 800
Vodní stavby	2150	22. 2. 1994	140	301 000
Škoda Plzeň	1173	27. 2. 1997	210	246 330
Zetor Brno	425	11. 11. 1993	510	216 750
Vertex Litoměř	6844	13. 8. 1996	302	205 320

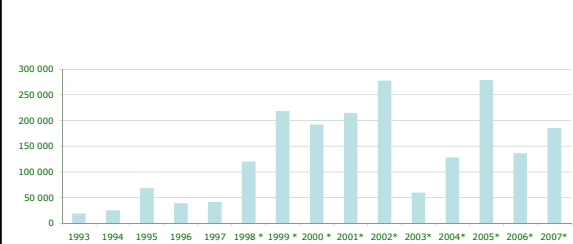
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## Foreign Investments (% share of foreign controlled enterprises)



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## FDI in mil CZK (inflows)



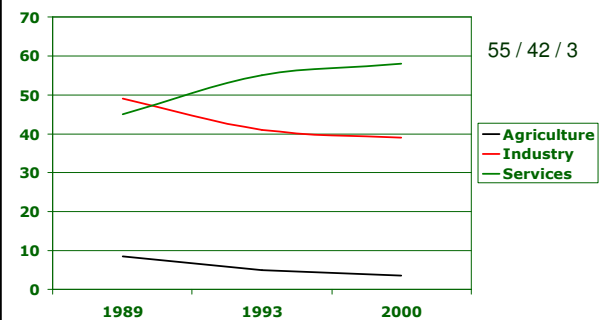
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## FDI and Restructuring

- access to foreign capital sources
  - corporate governance
  - transfer of technology
  - higher productivity
  - independence on local politics
- 
- possible shift to quality-based competitive advantage
  - depends on ability of domestic companies, technology spillovers, overall business environment...

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## Structural Changes (% share on gross value added in current prices)



Source: Spěváček a kol: Transformace české ekonomiky, p. 261 12