



**CONSILIUL FISCAL AL ROMÂNIEI**  
**ROMANIAN FISCAL COUNCIL**

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## **Analysis of the economic and financial performance of Romania's state-owned companies in 2019**

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Note:

This analysis was approved by the Chairman of the Fiscal Council, according to article 56, paragraph (2), letter d) of Law no. 69/2010, after being adopted by the members of the Council through vote, on January 18, 2021.

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# Analysis of the economic and financial performance of Romania's state-owned companies in 2019

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## Abstract

This paper presents the results of the economic and financial performance analysis of Romanian state-owned companies (SOEs) during 2019 and compares them with the performance of private sector companies. The analysis was performed on a sample of 827 SOEs which was further divided into two sub-samples (the Top 5 most profitable companies and the rest of SOEs) in order to account for the fact that a small number of companies with substantial profits significantly influence the results of the entire SOE sector. The study shows that the main economic and financial indicators of SOEs suffered a wide deterioration during 2019. Their total net result returned to negative territory after 6 years of positive values (2013-2018), registering an overall net loss of 1.8 billion lei. The decline of the net result in 2019 compared to 2018 is found in both the Top 5 most profitable SOEs - decrease in net profit from 4.6 billion lei to 3.7 billion lei -, but especially at the level of other companies which recorded an abrupt deepening of losses to 5.5 billion lei, from a previous level of 2 billion lei. The unfavorable evolution of the total net profit resulted in negative values of the economic and financial indicators, such as those regarding the profit margin and the financial and economic rates of return. The financial discipline of SOEs has worsened, as shown by the 20.7% increase in their arrears, compared to the previous year. It should be noted that the 2019 decline in SOEs' performance and financial discipline occurred despite the favorable economic climate and in opposition to the private sector companies which recorded increasing profits and a reduction in arrears. The general improvement of the economic and financial performance of SOEs after the economic crisis of 2009-2010 was also supported by legislative reforms aimed at the implementation of corporate governance practices in public companies. However, in recent years there was a deregulation trend which allowed for the majority of SOEs to be exempted from applying corporate governance practices. The effects of this legislative reversal were felt in 2019 as most performance indicators of SOEs recorded a significant decline. Consequently, it is necessary to reinstate solid corporate government practices in public sector companies according to the initial legislative reform. This matter is all the more important given that the Government wants to maintain control through majority stakes in companies of national strategic interest

**Key words:** state-owned enterprises, financial performance, arrears, corporate governance

**JEL codes:** G30, H83, L32

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# Analysis of the economic and financial performance of Romania's state-owned companies in 2019

## Introduction

A potential risk for the fiscal sustainability on the medium term is represented by the accumulation of losses and arrears in the sector of companies where the state is the major shareholder because, if these companies fail to streamline their activity, the Government will eventually be forced to intervene with public resources, which may lead to a deterioration of public finances, respectively increasing the budget deficit. As a consequence, it is necessary to continuously monitor the economic and financial performance of public sector companies. In this sense, the current report analyzes the results obtained by the Romanian state-owned enterprises (SOEs) during 2019, while also comparing them with the performance of private sector companies, based on the annual financial statements submitted by all non-financial companies that operate in Romania to the Ministry of Public Finance (MPF).

## Dataset

*The analysis was performed on a number of 827 state-owned companies, the size and structure of the sample indicating no significant differences compared to 2018, when 803 companies were included in the analysis. Thus, it is expected that the results of this study will be comparable to those obtained in previous years.*

At the end of 2019<sup>5</sup>, a number of 1,848 companies reported in their annual financial statements that they belong to the SOEs category. Following a careful analysis of their form of organization, object of activity and shareholder structure, it was observed that many limited liability companies have mistakenly reported their membership to the public sector, a vast majority of them claiming to be autonomous administrations. After correcting these errors, the final number of SOEs included in the analysis was 827, which is close to the size of the sample in 2018 (803 companies). Given the relative stability of the firms included in the analysis, both in number and structure, it is expected that the results of the present study will be comparable to those obtained in previous years.

*In order to ensure that the analysis correctly reflects the economic and financial performance of Romanian state-owned companies, the data sample was adjusted in order to eliminate the*

Correspondingly, in order to ensure for the analysis to correctly reflect the economic and financial performance of the state-owned sector, the sample of analyzed companies was adjusted. Thus, similar to 2018, the National Company for Road Infrastructure Management (CNAIR S.A.) reported concession rights in the amount of 65.5 billion lei (value remaining to be

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<sup>5</sup> According to the data received from MPF on September 21, 2020. Thus, the analysis does not include the companies that had not submitted their 2019 financial statements until the respective date, and any corrections that were made subsequently.

*influence of factors found in the financial statements, but which do not reflect an actual change in the companies' performance.*

amortized on December 31, 2019<sup>6</sup>) as a result of the concession contract signed with the Ministry Transport regarding goods that are public property of the state. As these concession rights are not the result of investment activities (being assimilated to subsidies according to IFRS<sup>7</sup>) and are likely to significantly affect the results of the study (leading to a substantial increase in the volume of assets, respectively the indebtedness rate of state-owned companies), they were eliminated from the analysis. At the same time, starting with 2018, the financial statements reported by CNAIR indicate a decrease in tangible fixed assets in progress (of about 10.5-11 billion lei), offset by a similar increase in the work-in-process inventories<sup>8</sup>. Given that these changes have an important impact on the indicators related to liquidity, respectively the level of investments made by state-owned companies, the indicators were adjusted accordingly.

Starting with 2018, no outstanding payments have been reported by Compania Națională a Huilei S.A. (5.4 billion lei outstanding payments at the end of 2017), respectively by Electrocentrale București S.A. (1.7 billion lei outstanding payments at the end of 2017), this being the reason why the arrears of state companies registered a significant decrease (of over 36%) in 2018 compared to the previous year. It should be noted that the lack of reporting does not indicate the extinction of these outstanding payments as a result of the improved performance of the two companies, but is most likely caused by the fact that, at that time, CN a Huilei S.A. was in bankruptcy proceedings, while Electrocentrale București S.A. was in insolvency.

Similar adjustments were made in the data samples from previous years in order to obtain a realistic assessment of the performance of state-owned companies, as follows:

- At the end of 2018, Societatea Națională de Transport Feroviar de Marfă (SNTFM CFR Marfă S.A.) reported an increase of 4.3 billion lei in tangible assets compared to the previous year as a result of a revaluation of tangible fixed assets and investments real estate. The

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<sup>6</sup> According to the notes on financial statements for 2019.

<sup>7</sup> International Financial Reporting Standards.

<sup>8</sup> The reclassification of these amounts is most likely the result of the accounting policies and conventions used.

information was treated with caution, in the sense of recognizing the increase in the volume of assets of state-owned companies, but this increase was not assimilated to investments in fixed assets;

- From the sample considered for the year 2017, Societatea de Administrare a Participațiilor în Energie (SAPE) and Societatea Română de Televiziune (SRT) were eliminated as they significantly distorted the analysis of SOEs profitability due to the 401.2 million euro received by SAPE from the Enel group (following the law suit won at the Court of Arbitration in Paris), respectively as a result of the substantial increase in the subsidy granted by the Romanian Government to SRT (from 95 million lei in 2016, to 946 million lei in 2017), in the context of cancelling the radio-TV tax, but also in order to repay the historical debt of the public television;
- A similar situation was recorded in 2015 when Oltchim S.A. obtained an accounting profit of over 2.3 billion lei (representing almost 48% of SOE total profits) as a result of the annulment of a significant part of its debt. Therefore, the profit obtained by Oltchim was eliminated from the data sample for the year 2015. Also in this case, the profit obtained by Oltchim was eliminated from the 2015 analysis.

## Results of the empirical analysis

*The total revenues of state-owned companies increased in 2019 compared to the previous year by approximately 4.5%, while private companies registered a much more pronounced advance of 9%. Positive developments, but with a slower growth rate compared to the previous year, were also recorded in the case of turnover, respectively of gross value*

Amid the favorable economic climate manifested in 2019, the total revenues of SOEs increased by about 2.44 billion lei (+4.5%), but then the growth rate declined by 3.8 pp compared to the level recorded in 2018. The total turnover of state-owned companies increased by 1.9 billion lei (+3.3%), from 53.6 billion lei in 2018 to 55.4 billion lei in 2019. A significant more pronounced positive evolution was recorded for private sector companies with an advance of about 9% both in total revenues and aggregate turnover. Consequently, in 2019 was registered a positive dynamic of gross value added at the level of the entire economy, but much lower compared to the previous year (6.1% compared to 13.9%), respectively below the dynamics of gross value added at the level of private companies (+11.9%). Thus, against the background of the

*added, and state-owned companies slightly reduced their contribution to the economic activity in terms of gross value added created at the national level.*

*Labor productivity in state-owned companies exhibited a decrease in 2019 (-1.8%), while in private sector companies increased by 5.5%. The evolution of this indicator is influenced by the dynamics of gross value added expressed in real terms and by the dynamics of the number of employees. Overall, labor productivity recorded a positive evolution, with an increase of 4.9%, owing to the private sector, where the number of employees decreased by 0.8%.*

*From the perspective of the total net profit evolution for the public companies, the year 2019 marked the re-entry in negative territory, after 6 years of positive evolutions, respectively a total net loss of 1.8 billion lei. On the other hand, the aggregate net profit obtained by private sector companies has continued its upward trend, characterized by high growth rates in recent years.*

developments recorded in 2019 compared to the previous year, state-owned companies slightly reduced their contribution to economic activity from the perspective of gross value added (8.93% of the total, compared to 9.37% in 2018), generating a lower contribution to the economic activity in terms of revenues (3.38% of total economy, compared to 3.52% in 2018).

In 2019, similar to the previous year, the growing trend for the number of employees in state-owned companies continued, the indicator increasing by about 3 thousand people (+1.1%) compared with the previous year. Given that the gross value added had a weaker evolution than in the previous year (in 2019 it depreciated in real terms by 0.76%), labor productivity in state-owned companies decreased by 1.8% in 2019 compared to from the previous year (when a maximum of the period 2008-2019 was registered), but still remains well above the average of the years 2008-2018. By contrast, labor productivity in companies with majority private capital increased by 5.5%, continuing its upward trend in recent years (+ 4.8% in 2016, + 3% in 2017 and + 4.9% in 2018, respectively), under the influence of the increase in gross value added in real terms by 4.6% while the number of employees slightly decreased (-0.8%). However, the value of this indicator in the private sector is positioned, as throughout the analyzed period, at a significantly lower level than for the state-owned companies, with a gap of 24.3%, decreasing by 5 pp compared to that recorded in 2018.

The profitability of the state companies, expressed as the total net profit obtained, re-entered in the negative territory after 6 years of positive values (2013-2018), registering a net loss of 1.8 billion lei. Thus, the net result decreased significantly compared to 2018, respectively by 4.4 billion lei, which marked the reversal of the upward trend in profitability registered in the 2013-2017 period.

On the other hand, private sector companies recorded an increasing total net profit (+15.1 billion lei, respectively an advance of 19.4% compared to the previous year), this result representing the continuation of the upward trajectory in recent years, characterized by high growth rates for the net profit (+82.7% in 2015, +55.2% in 2016, +30.9% in 2017, respectively, +23.67% in 2018), amid the economic recovery in the post-crisis period.

*The analysis carried throughout the period under review shows that a small number of companies with substantial profits significantly influence the aggregate results of SOEs. In this context, in order to highlight more accurately the overall financial performance of SOEs, the specific indicators will consider both the aggregate values and those obtained by excluding the five most profitable companies - Top 5.*

The profitability of SOEs can be further analyzed by highlighting separately the top 5 companies in terms of net profit (Top 5 – presented in [Table 2](#)). Thus, the Top 5 companies have recorded significant profits over the last 7 years, increasing almost every year, from 2.7 billion lei in 2013 to 3.7 billion lei in 2019 (but below the value recorded in the previous year by 0.9 billion lei). Analyzing the evolution of Top 5, it is noted that in 2018 and 2019 the ranking has the same composition (except for a few changes of position between companies), as well as mentioning S.P.E.E.H. Hidroelectrica S.A., S.N.G.N. Romgaz S.A. and S.N.T.G.N. Transgaz S.A. Mediaș that had a continuous presence in Top 5 during the last 7 years.

Eliminating the influence of Top 5 companies, which are characterized by a high profitability, it can be seen that the rest of SOEs recorded aggregate net losses during the entire analyzed period, the only exception being the year 2017 when they obtained a positive, but modest net aggregate result of just 0.4 billion lei. Thus, comparing the overall net profit of SOEs excluding Top 5 with the one of Top 5 companies, it becomes clear that a small number of public firms with substantial high profits have a significant impact on the aggregate results of the SOE analysis. In this context, in order to highlight the financial performance of the entire sector as accurately as possible, the current study will present and analyze the performance indicators both at the aggregate level and by eliminating the influence of Top 5 companies.

The development of the main economic and financial indicators of the Romanian SOEs is presented in [Table 1](#).



**Table 1: The evolution of the main financial and economic indicators of Romanian companies from the non-financial sector**

		2009	2010	2011	2012	2014	2015	2016	2017	2018	2019
<b>Number of companies</b>	SOEs	774	791	1,048	1,006	1,155	1,143	916	807	803	827
	All companies, non-financial sector	602,190	613,080	644,379	630,066	643,644	647,872	677,843	692,966	723,011	744,176
	Share of SOEs in all companies	0.13%	0.13%	0.16%	0.16%	0.18%	0.18%	0.14%	0.12%	0.11%	0.11%
<b>Total revenues. mil. lei</b>	SOEs	50,756	55,022	58,511	49,853	44,487	48,578	46,586	50,432	54,640	57,079
	All companies, non-financial sector	845,396	920,600	1,056,190	1,072,777	1,113,445	1,186,900	1,269,290	1,369,313	1,550,721	1,687,325
	Share of SOEs in all companies	6.0%	6.0%	5.5%	4.6%	4.0%	4.1%	3.7%	3.7%	3.5%	3.4%
<b>Gross value added, mil. lei</b>	SOEs	20,454	22,881	24,202	22,339	25,220	26,687	26,143	28,845	32,856	34,862
	All companies, non-financial sector	189,633	195,849	196,151	197,392	255,957	260,530	286,190	308,113	350,600	390,356
	Share of SOEs in all companies	10.8%	11.7%	12.3%	11.3%	9.8%	10.2%	9.1%	9.4%	9.4%	8.9%
<b>Gross value added in real terms, mil. lei (constant prices 2010)</b>	SOEs	21,189	22,881	23,319	20,745	22,252	22,804	21,805	22,984	24,654	24,468
	Private companies	175,258	172,967	165,703	162,564	203,581	199,816	216,900	222,519	238,428	249,500
<b>Employees, thousands of persons</b>	SOEs	364	364	343	327	297	291	281	273	276	279
	All companies, non-financial sector	4,019	3,962	4,040	3,898	3,882	3,959	4,078	4,055	4,150	4,120
	Share of SOEs in all companies	9.0%	9.2%	8.5%	8.4%	7.6%	7.4%	6.9%	6.7%	6.6%	6.8%
<b>Labor productivity, mil. lei /1,000 employees (constant prices 2010)</b>	SOEs	58,2	62,8	68.0	63,2	74,8	78,6	77,9	84,6	90,1	87.8
	Private companies	47,9	48,1	44,8	45,5	56,8	54,5	57,1	58,8	61,5	64,9
<b>Net profit, mil. lei</b>	SOEs	-3,443	-2,900	436	-1,425	2,401	1,200	3,108	4,818	2,574	-1,832
	SOEs, excluding Top 5	-4,573	-4,508	-2,926	-3,436	-1,323	-2,034	-513	380	-2,004	-5,509
	Private companies	11,399	18,736	1,389	6,872	17,020	31,088	48,251	63,150	78,075	93,189
<b>Arrears, mil. lei</b>	SOEs	34,405	28,012	26,251	25,363	24,370	21,226	23,232	21,599	13,757	16,598
	All companies, non-financial sector	62,406	69,193	88,882	91,536	93,508	94,875	89,390	73,758	75,399	69,544
	Share of SOEs in all companies	35.5%	28.8%	22.8%	21.7%	20.7%	18.3%	20.6%	22.6%	15.4%	19.3%
<b>Arrears, % of GDP</b>	SOEs	6.48%	5.30%	4.70%	4.29%	3.64%	2.98%	3.04%	2.52%	1.45%	1.57%
<b>Arrears, % of net turnover</b>	SOEs	68.9%	52.0%	45.6%	51.6%	55.6%	44.6%	50.7%	43.3%	25.65%	30.0%

*Source: MPF, based on the annual financial reports submitted by economic agents from the non-financial sector*

*Note: Starting with 2018, C.N. of Huila S.A. and Electrocentrale București S.A. did not report any overdue payments, which is the reason for the significant reduction of arrears compared to 2017.*

**Table 2: Top 5 SOEs with the largest net profits**

Top 5 net profit in 2019		Top 5 net profit in 2018		Top 5 net profit in 2017	
Company name	Net profit (million lei)	Company name	Net profit (million lei)	Company name	Net profit (million lei)
1 S.P.E.E.H. HIDROELECTRICA S.A.	1,386.54	1 S.P.E.E.H. HIDROELECTRICA S.A.	1,939.28	1 S.N.G.N. ROMGAZ S.A.	1,854.75
2 S.N.G.N. ROMGAZ S.A.	1,046.41	2 S.N.G.N. ROMGAZ S.A.	1,360.55	2 S.P.E.E.H. HIDROELECTRICA S.A.	1,359.69
3 S.N. NUCLEARELECTRICA S.A.	535.67	3 S.N.T.G.N. TRANSGAZ S.A.	495.68	3 S.N.T.G.N. TRANSGAZ S.A.	582.06
4 COMPANIA NAȚIONALĂ AEROPORTURI BUCUREȘTI S.A.	359.62	4 S.N. NUCLEARELECTRICA S.A.	410.61	4 COMPANIA NAȚIONALĂ AEROPORTURI BUCUREȘTI S.A.	337.55
5 S.N.T.G.N. TRANSGAZ S.A.	348.26	5 COMPANIA NAȚIONALĂ AEROPORTURI BUCUREȘTI S.A.	371.82	5 S.N. NUCLEARELECTRICA S.A.	303.88
<b>Total</b>	<b>3,676.49</b>	<b>Total</b>	<b>4,577.93</b>	<b>Total</b>	<b>4,437.93</b>
Top 5 net profit in 2016		Top 5 net profit in 2015		Top 5 net profit in 2014	
Company name	Net profit (million lei)	Company name	Net profit (million lei)	Company name	Net profit (million lei)
1 S.P.E.E.H. HIDROELECTRICA S.A.	1,227.67	1 S.N.G.N. ROMGAZ S.A.	1,194.29	1 S.N.G.N. ROMGAZ S.A.	1,409.88
2 S.N.G.N. ROMGAZ S.A.	1,024.58	2 S.P.E.E.H. HIDROELECTRICA S.A.	899.41	2 S.P.E.E.H. HIDROELECTRICA S.A.	941.54
3 S.N.T.G.N. TRANSGAZ S.A.	594.56	3 S.N.T.G.N. TRANSGAZ S.A.	488.73	3 S.N.T.G.N. TRANSGAZ S.A.	502.52
4 COMPANIA NAȚIONALĂ DE CĂI FERATE CFR S.A.	501.31	4 C.N.A.D.N.R. S.A.	368.81	4 SOCIETATEA UZINA MECANICĂ CUGIR S.A.	442.01
5 C.N.T.E.E. TRANSELECTRICA S.A.	272.36	5 C.N.T.E.E. TRANSELECTRICA S.A.	360.05	5 C.N.A.D.N.R. S.A.	428.61
<b>Total</b>	<b>3,620.48</b>	<b>Total</b>	<b>3,311.29</b>	<b>Total</b>	<b>3,724.56</b>

*Source: MPF, based on the annual financial reports submitted by economic agents from the non-financial sector*

*The arrears of state-owned companies increased in 2019 by 20.7% compared to the previous year, to the level of 16.6 billion lei (representing 19.3% of total outstanding payments in the entire economy). Although the share of arrears of state-owned companies in the total outstanding payments of the entire economy is well below the maximum level of 35.5% recorded in 2009, it remains well above the public sector's contribution to economic activity.*

The evolution of the arrears accumulated<sup>9</sup> by the state companies is analyzed considering that, starting with 2018, the Compania Națională a Huilei (outstanding payments of 5.4 billion lei at the end of 2017) and Electrocentrale București (outstanding payments of 1.7 billion lei at the end of 2017) did not report any overdue payments, this being the reason why the arrears of state companies registered in 2018 a significant decrease (of 36.3%) compared to the previous year. The lack of reporting does not indicate the payment of these outstanding obligations, but is most likely caused by the fact that, at that time, Compania Națională a Huilei S.A. was in bankruptcy proceedings, and Electrocentrale București S.A. was insolvent.

In 2019, the outstanding payments of state-owned companies increased by about 2.8 billion lei (+20.7%) compared to the previous year, up to 16.6 billion lei (representing 19.3% of the total outstanding payments across the economy). The increase in arrears of state-owned companies can be considered problematic, as it occurred before the manifestation of the economic effects of the COVID-19 pandemic, having the potential to accelerate the accumulation of arrears in the coming years. On the other hand, although the volume of arrears in the public sector is significantly lower than the maximum level of 34.4 billion lei reached in 2009 (representing 35.5% of total outstanding payments in the entire economy), there is a significant impact of the elimination, starting with 2018, of the arrears accumulated by the Compania Națională a Huilei and Electrocentrale București, which amounted to almost 7.2 billion lei.

It should be noted that the share of SOE arrears in the total outstanding payments across the economy is significantly higher than their contribution to the economic activity in Romania, respectively an average share over the last 10 years of 4.3% of total revenues and 10.3% of the total gross value added (these average shares being the result of a decreasing trend over the last decade), indicating a chronic problem of arrears in the public sector.

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<sup>9</sup> According to MPF, companies' arrears are delayed payments to banks, state budget, social security budget, suppliers and other creditors by more than 30 days against the contractual or legal terms, that generate payment obligations.

*The arrears of state-owned companies as a share of GDP and of the total turnover exhibited a general downward trend since 2009, until the end of 2018 when was recorded the lowest level of the two indicators over the analyzed period. The year 2019 recorded an increase in arrears of the public sector as a share of GDP, respectively of total turnover.*

*In 2019, almost half of the arrears of state-owned companies were to suppliers, and about 31% were overdue payments to the general consolidated budget. The increase in arrears by 2.8 billion lei compared to the previous year is due to the increase of all categories of outstanding payments of the state-owned companies.*

A similar evolution is observed when analyzing the share of SOE's arrears in GDP, respectively in the total turnover. After reaching the maximum levels of the analyzed period in 2009, the two indicators entered a general downward trend, in 2018 reaching the lowest level in the analyzed interval and against the background of eliminating the arrears accumulated by the Compania Națională a Huilei and Electrocentrale București. The year 2019 recorded a slight increase in arrears as share of GDP by 0.1 pp. Expressed as a share in total turnover, arrears in the public sector accounted for about 30% in 2019, compared to 25.7% in the previous year.

It should be noted that the generally favorable evolution of public sector arrears was also driven by the measures<sup>10</sup> agreed in the two balance of payments agreements concluded with the international financial institutions (EC, IMF and WB) in the period 2009-2013.

Analyzing the structure of SOEs' arrears in 2019, it can be observed that greatest part of the outstanding payments are due to *suppliers*, representing 8.2 billion lei (+1 billion lei compared to the previous year), corresponding to a share of 49.2% in total arrears of the public sector.

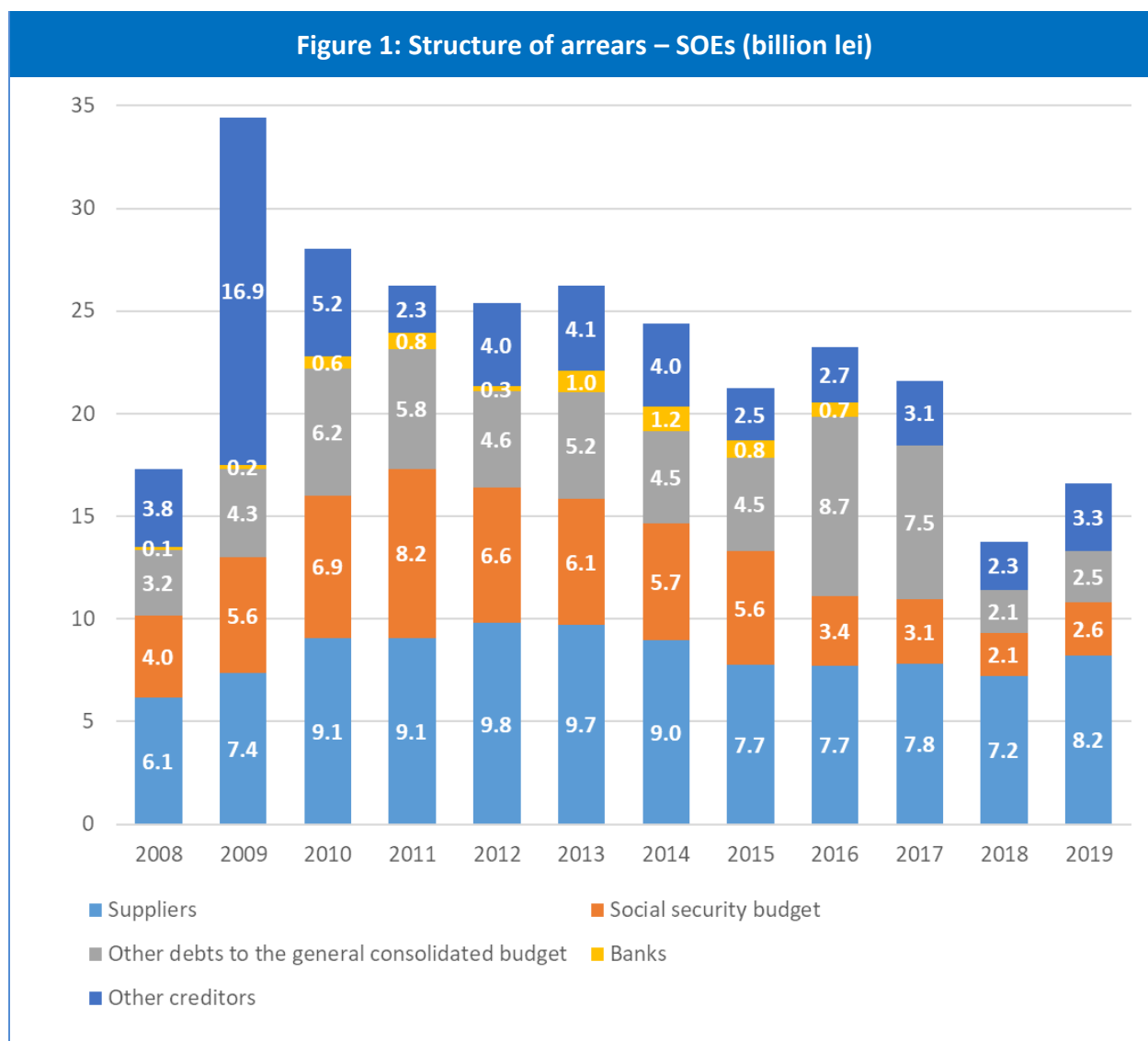
The arrears to the *consolidated general budget* rank on the second place in the hierarchy of SOEs' arrears with a level of outstanding payments of 5.1 billion lei (+0.9 billion lei compared to the previous year), representing 30.7% of the total.

SOEs' arrears to *other creditors* maintained on the last position with a level of 3.3 billion lei (+1 billion lei compared to the previous year), representing 20.1% of the total.

The evolution of the structure of arrears of state-owned companies is presented in [Figure 1](#).

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<sup>10</sup> Those measures aimed at framing the arrears within quarterly indicative targets and included budget transfers, placing SOEs into voluntary liquidation or insolvency and the conversion of arrears into shares.



Source: MPF, based on the annual financial reports submitted by economic agents from the non-financial sector

Note: Starting with 2017, following the modification of the F30 reporting form, the data regarding arrears to banks is no longer available. Starting with 2018, C.N. a Huilei S.A. and Electrocentrale București S.A. did not report any overdue payments, which is the reason for the significant reduction in arrears compared to 2017.

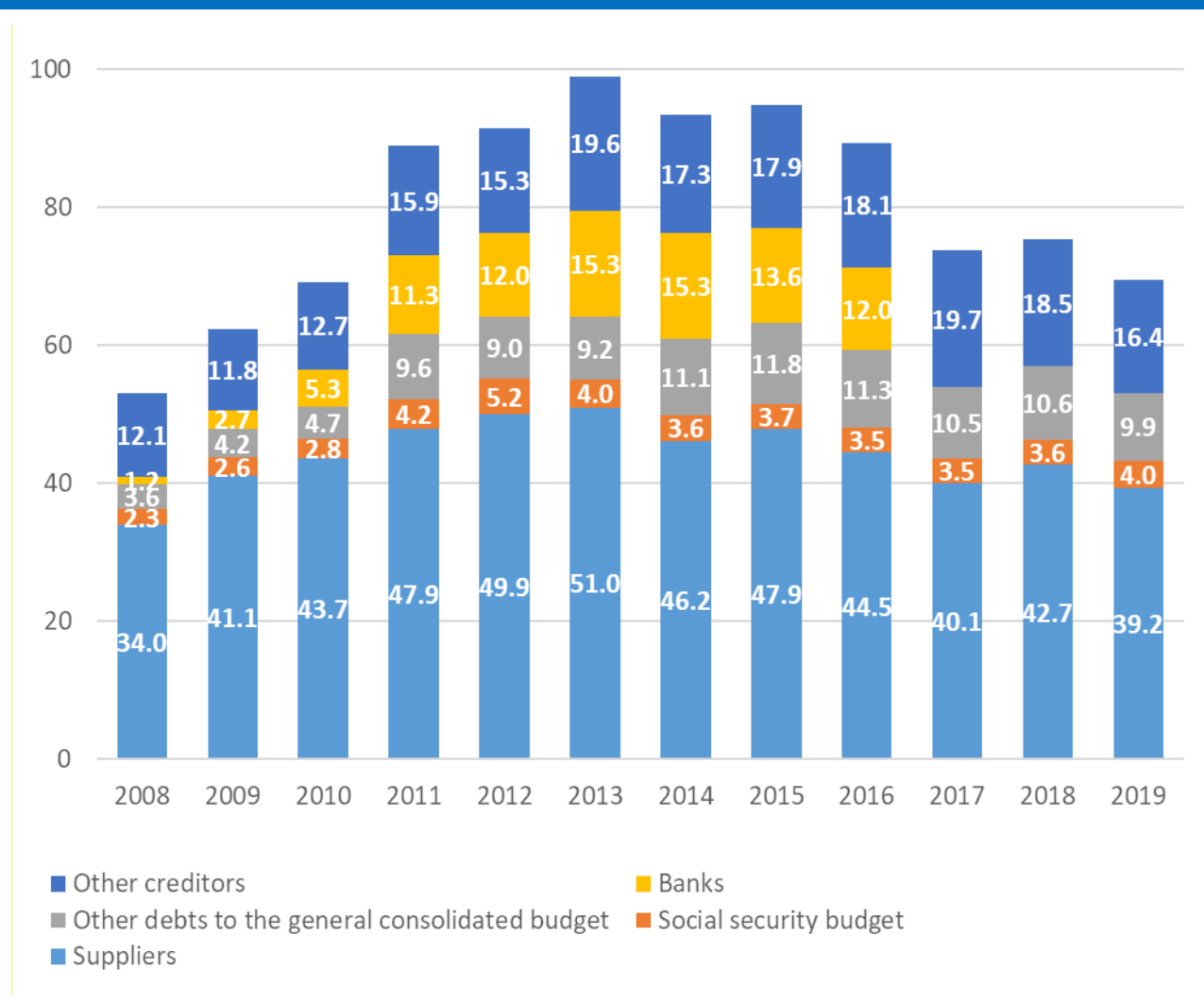
**In what concerns the arrears of private companies, in 2019 the highest share was recorded by arrears to suppliers (56.4% of the total), followed at a considerable distance by**

The arrears of private companies had a favorable evolution, decreasing by 5.9 billion lei (-7.8%) compared to the previous year, the largest reductions being registered by the outstanding payments to *suppliers* (-3.4 billion lei) and to *other creditors* (-2.1 billion lei). From the perspective of the structure of arrears, in 2019 private companies had the highest volume of outstanding payments to *suppliers*, amounting to 39.2 billion lei (56.4% of total

*outstanding payments to other creditors (23.6% of the total) and to the general consolidated budget (20% of the total).*

arrears), more than half of which were late payments within a year. Ranking the second, the outstanding payments to *other creditors* recorded 16.4 billion lei (representing 23.6% of the total), followed by outstanding payments to the *general consolidated budget* (13.9 billion lei, representing 20% of the total).

**Figure 2: Structure of arrears – Private companies (billion lei)**



*Source: MPF, based on the annual financial reports submitted by economic agents from the non-financial sector*

*Note: Starting with 2017, following the modification of the F30 reporting form, the data regarding arrears to banks is no longer available.*

*The arrears of state-owned companies are concentrated in a small number of companies operating in the mining sector, the distribution of heat sector and the chemical industry. Thus, the first 10 companies ranked in terms of volume of outstanding payments (Top 10) have accumulated 71% of the total arrears of state-owned companies. Another worrying aspect is that many companies are in the Top 10 every year, indicating a chronic problem of arrears in certain sectors.*

Proceeding to a more detailed analysis of SOEs' arrears, the top 10 companies in terms of outstanding payments were identified (Top 10 – presented in [Table 3](#)). In 2019, the Top 10 companies together accumulated about 71% of the total arrears of state-owned companies. Analyzing the structure of Top 10 over the last three years, we note that the majority of companies are in the mining sector, heat distribution and chemical industry, as well as seven companies were present in the hierarchy each year, indicating the chronicity of arrears in some companies and industrial sectors.

In what concerns the top of arrears towards the general consolidated budget (also presented in [Table 3](#)), persistency in accumulating arrears is also noted in the case of eight companies present in the hierarchy in each of the last three years. Also, the preponderance of companies in the mining sector and heat energy distribution is maintained, but compared to the Top 10 presented previously, the industrial sectors are more diverse. In the case of arrears to the general consolidated budget, the degree of concentration is similar to Top 10, the first 10 companies accumulating almost 72% of the total arrears of state-owned companies to the general consolidated budget. Given the conclusions drawn from the analysis regarding the top in terms of arrears of the state-owned companies, it is relevant to investigate the causes of the concentration of arrears in a small number of companies, as well as the chronicity of this problem in certain economic sectors.

**Table 3: Top 10 SOEs with the largest arrears**

**Top 10 arrears in Dec. 2019**

Company name	Arrears (mil. lei)
1 RADET BUCUREȘTI	4,030.59
2 OLTCHIM S.A.	2,095.30
3 S.C. COMPLEXUL ENERGETIC HUNEDOARA S.A.	1,895.20
4 S.N.T.F.M. CFR MARFĂ S.A.	937.97
5 COMPANIA NAȚIONALĂ A METALELOR PREȚIOASE ȘI NEFEROASE REMIN S.A.	577.37
6 SOCIETATEA NATIONALA A CARBUNELUI S.A.	552.13
7 RADET CONSTANȚA	470.66
8 REGIA AUTONOMA DE TRANSPORT BUCUREȘTI R.A.	441.67
9 APATERM S.A.	410.48
10 S.N. "IMBUNATĂȚIRI FUNCiare" S.A.	399.94
<b>% of total</b>	<b>71.16%</b>

**Top 10 arrears to the general consolidated budget in Dec. 2019**

Company name	Arrears (mil. lei)
1 SC COMPLEXUL ENERGETIC HUNEDOARA S.A.	1,486.99
2 SOCIETATEA NATIONALA A CARBUNELUI S.A.	536.65
3 ROMAERO S.A.	384.94
4 REGIA AUTONOMA DE TRANSPORT BUCUREȘTI R.A.	328.29
5 S.C. ELECTROCENTRALE CONSTANTA	237.84
6 AVERSA S.A.	155.09
7 REGIA AUTONOMĂ DE TRANSPORT PUBLIC IAȘI R.A.	143.88
8 S.N. "IMBUNATĂȚIRI FUNCiare" S.A.	138.31
9 AVIOANE S.A. CRAIOVA	128.22
10 S.C. DE REPARATII LOCOMOTIVE C.F.	115.92
<b>% of total</b>	<b>71.64%</b>

**Top 10 arrears in Dec. 2018**

Company name	Arrears (mil. lei)
1 RADET BUCUREȘTI	3,862.23
2 S.C. COMPLEXUL ENERGETIC HUNEDOARA S.A.	1,423.22
3 S.N.T.F.M. CFR MARFĂ S.A.	884.30
4 OLTCHIM S.A.	645.77
5 COMPANIA NAȚIONALĂ A METALELOR PREȚIOASE ȘI NEFEROASE REMIN S.A.	573.79
6 SOCIETATEA NATIONALA A CARBUNELUI S.A.	551.80
7 APATERM S.A.	410.67
8 RADET CONSTANȚA	391.99
9 FORTUS S.A.	355.82
10 ROMAERO S.A.	334.95
<b>% of total</b>	<b>68.58%</b>

**Top 10 arrears to the general consolidated budget in Dec. 2018**

Company name	Arrears (mil. lei)
1 S.C. COMPLEXUL ENERGETIC HUNEDOARA S.A.	1,107.76
2 SOCIETATEA NATIONALA A CARBUNELUI S.A.	536.27
3 ROMAERO S.A.	329.18
4 S.C. ELECTROCENTRALE CONSTANTA	229.70
5 AVERSA S.A.	162.37
6 REGIA AUTONOMĂ DE TRANSPORT PUBLIC IAȘI R.A.	147.50
7 S.N. "IMBUNATĂȚIRI FUNCiare" S.A.	132.22
8 AVIOANE S.A. CRAIOVA	118.18
9 S.C. DE REPARATII LOCOMOTIVE C.F.	115.92
10 RADET BUCUREȘTI	115.60
<b>% of total</b>	<b>71.00%</b>

**Top 10 arrears in Dec. 2017**

Company name	Arrears (mil. lei)
1 COMPANIA NAȚIONALĂ A HUILEI S.A.	5,413.69
2 RADET BUCUREȘTI	3,655.64
3 ELECTROCENTRALE BUCUREȘTI S.A.	1,752.02
4 S.C. COMPLEXUL ENERGETIC HUNEDOARA S.A.	1,180.64
5 OLTCHIM S.A.	1,145.41
6 S.N.T.F.M. CFR MARFĂ S.A.	837.35
7 COMPANIA NAȚIONALĂ A METALELOR PREȚIOASE ȘI NEFEROASE REMIN S.A.	582.7
8 SOCIETATEA NAȚIONALĂ A CĂRBUNELUI S.A.	550.48
9 APATERM S.A.	410.9
10 C.E.T. GOVORA S.A.	391.73
<b>% of total</b>	<b>73.71%</b>

**Top 10 arrears to the general consolidated budget in Dec. 2017**

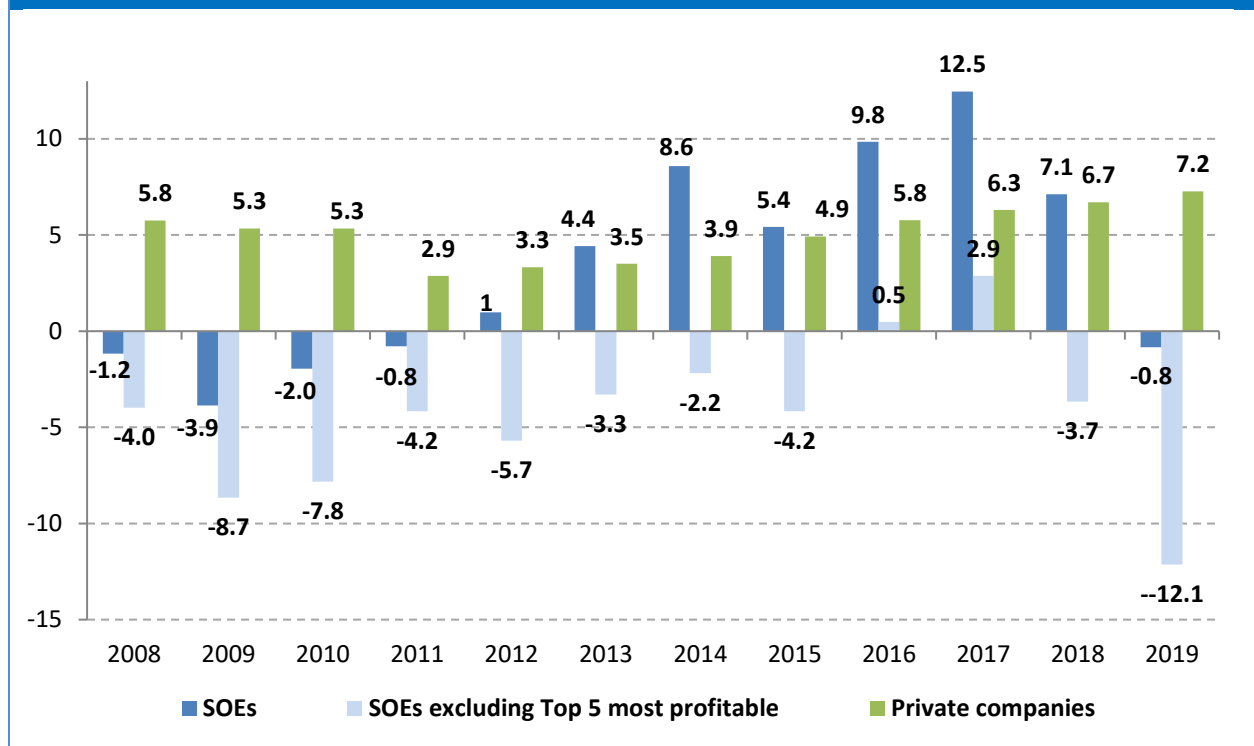
Company name	Arrears (mil. lei)
1 COMPANIA NAȚIONALĂ A HUILEI S.A.	5,403.95
2 ELECTROCENTRALE BUCUREȘTI S.A.	952.23
3 S.C. COMPLEXUL ENERGETIC HUNEDOARA S.A.	919.83
4 SOCIETATEA NATIONALA A CARBUNELUI S.A.	537.37
5 ROMAERO S.A.	281.95
6 S.C. ELECTROCENTRALE CONSTANTA	216.37
7 REGIA AUTONOMĂ DE TRANSPORT PUBLIC IAȘI R.A.	181.66
8 AVERSA S.A.	162.18
9 S.N. "IMBUNATĂȚIRI FUNCiare" S.A.	138.17
10 S.C. DE REPARATII LOCOMOTIVE C.F.	115.92
<b>% of total</b>	<b>83.56%</b>

*Source: MPF, based on the annual financial reports submitted by economic agents from the non-financial sector.*

*Note: Starting with 2018, C.N. a Huilei S.A. and Electrocentrale București S.A. no longer reported overdue payments, so these companies are no longer in the top of arrears in 2018 and 2019.*



Figure 3: Operating margin (%)



Source: MPF, based on the annual financial reports submitted by economic agents from the non-financial sector

Note: Operating margin (%) = Operating surplus/Total revenues\*100 (the operating surplus does not include interest expenses and those related to corporate income taxes).

**The operating margin of state-owned companies in 2019 deteriorated sharply, entering negative territory. Hence, it dropped to -0.8%, compared to 7.1% in the previous year, well below the private sector, which continued its upward trend to 7.2% in 2019, from 6.7% in 2018.**

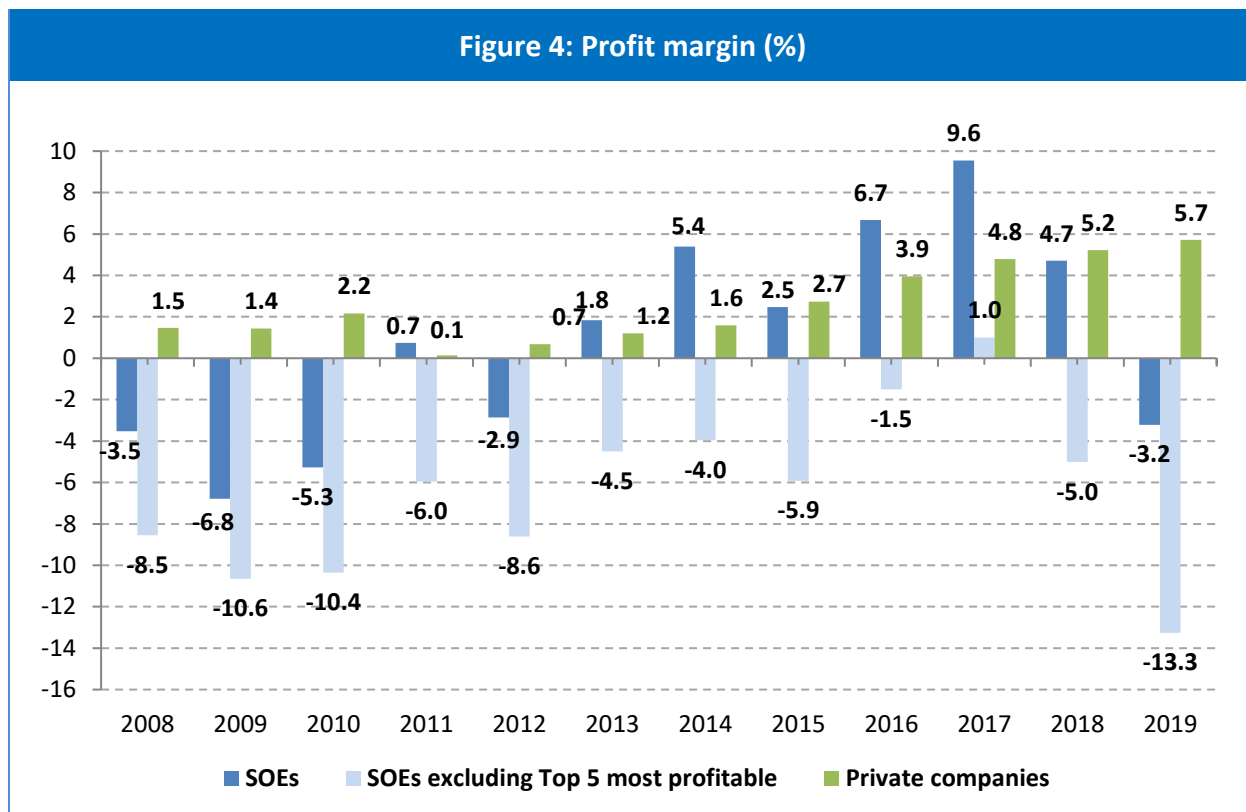
In 2019, the operating margin rate for state-owned companies entered in the negative territory, with -0.8%, from 7.1% in 2018 (Figure 3). The indicator measures the profitability of the core activity by comparing the earnings before the interest and profit tax payments to the total income. This development was mainly determined by the reduction in the aggregate operating profits - from a profit of 3,887.2 million lei in 2018, to a loss of 471.8 million in 2019 - while total revenues advanced by 4.5%. In contrast to state-owned companies, private companies stood on an upward trend, the value of the indicator improving by 0.5 pp in 2019 compared to 2018.

**Excluding Top 5, the indicator deteriorated by more than 8 pp, to a level of -12.1%,**

Excluding the Top 5 most profitable state-owned companies, the indicator deteriorated to a significant lower level, of -12.7%, representing a deterioration of 8.4 pp compared to

*representing the minimum of the analyzed period.*

the previous year. It should be noted that this value represents the minimum of the analyzed period and shows a high level of inefficiency of the activity of state-owned companies exclusively Top 5. However, the difference recorded when the top five companies are excluded is considerable, suggesting their extremely high impact on the aggregate performance of state-owned companies.



Source: MPF, based on the annual financial reports submitted by economic agents from the non-financial sector

Note: Profit margin (%) = Net profit/Total revenues\*100

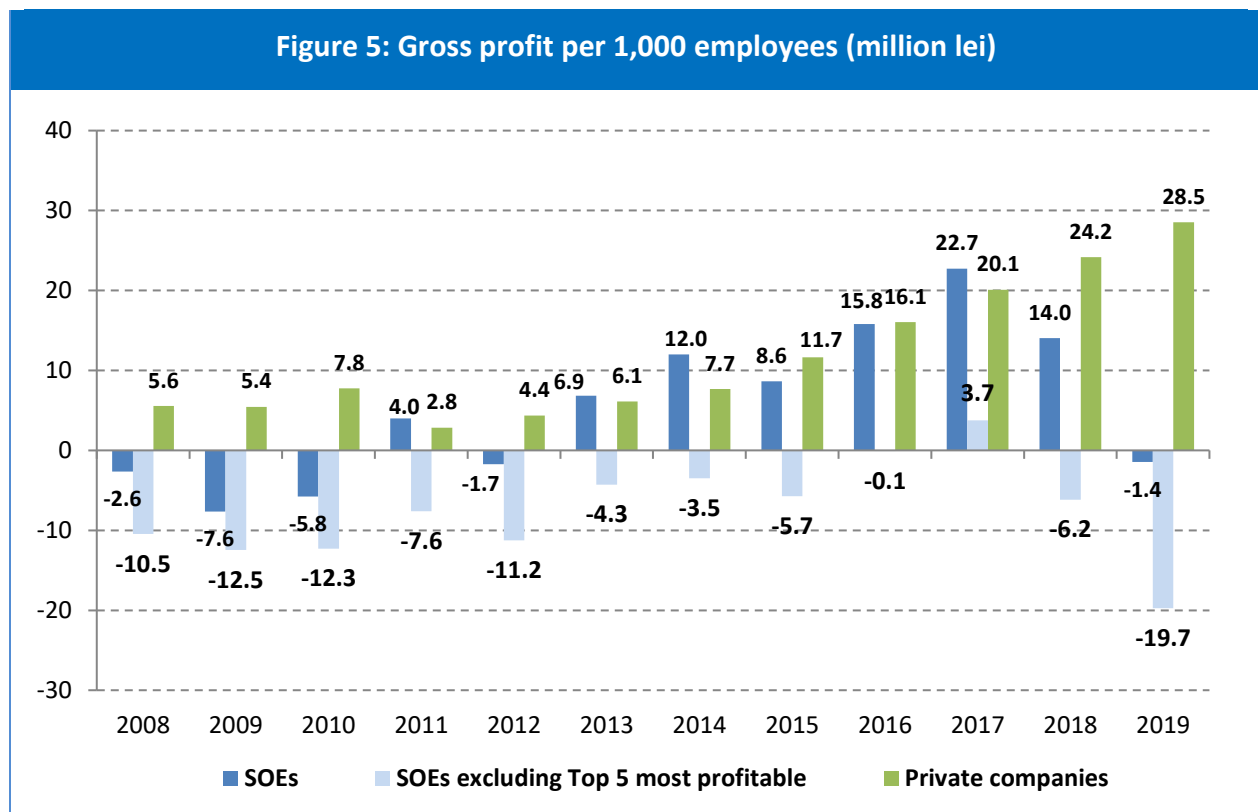
*The profit margin of state-owned companies, entered also in the negative territory in 2019, to a level of -3.2%, declining significantly from 4.7% in 2018. This evolution is in contradiction with both the private sector, which*

The worsening of the operational position of SOEs (certified by the operating margin) is also evident for the profit margin evolution (Figure 4). In 2019, the indicator also dropped in the negative territory, substantially reducing from 4.7% in 2018 to -3.2% in 2019. This development was mainly determined by the significant deterioration in the aggregate net result - from a net profit of 2573.7 million in 2018 to a net loss of 1832.2 million lei in 2019 - while total revenue growth was about 4.5%. Private

*recorded an increase of 0.5 pp, and economic activity developments.*

sector companies experienced an opposite evolution, their aggregate profit margin increased from 5.2% in 2018 to 5.7% in 2019 amid the positive dynamics of the economic activity. The differences between the operating margin and the profit margin are explained by the fact that the latter takes into account the financial and extraordinary results. Therefore, due to the negative impact of interest expenses on the net income, the profit margin recorded lower values relative to the operating margin.

Excluding Top 5 companies, after in 2017 the indicator recorded the only positive value of the analyzed period, the next two years recorded a rapid and substantial deterioration of the indicator, the profit margin falling to -5% in 2018 and -13.3% in 2019, this level representing the minimum of the analyzed period.



Source: MPF, based on the annual financial reports submitted by economic agents from the non-financial sector

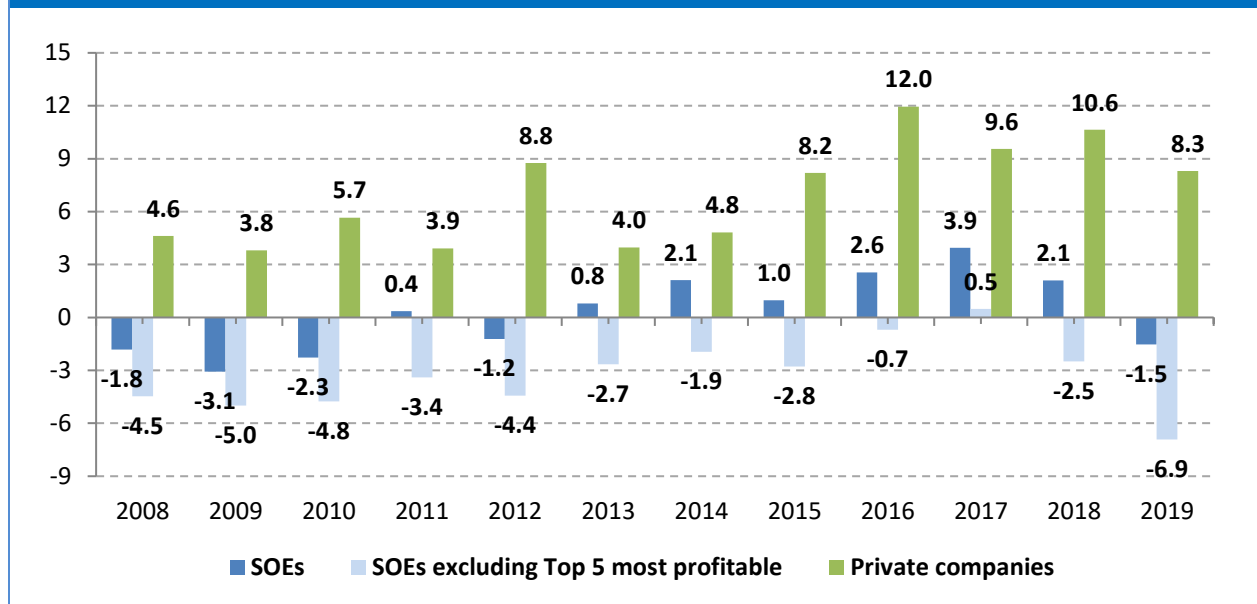
*The gross profit indicator per 1,000 employees experienced a significant deterioration at the level of state-owned companies amid losses, both at the aggregate level and excluding the Top 5. In contrast, private sector companies continued the upward trend from previous years, the value recorded in 2019 representing the maximum of the analyzed period.*

Gross profit per 1,000 employees is an indicator that measures the average profit generated by every 1,000 employees of the company, representing a measure of its efficiency in terms of using its own employees to maximize profit.

At the level of SOE's, the indicator experienced a sharp deterioration, registering a value of -1.4 million lei in 2019, compared to 14 million lei in 2018 (*Figure 5*). This evolution was determined by the considerable reduction of the aggregate gross result - from a gross profit of 3,868.9 million lei in 2018, to a gross loss of 400.8 million lei in 2019, to which is added the increase in the number of employees by approximately 1.1%. Moreover, similar to the previous year, the level of gross profit per 1,000 employees continued to be well below the level recorded by private companies that maintained an upward trajectory in terms of labor efficiency - from 24.2 million lei in 2018, to 28.5 million lei in 2019 -, this value representing the maximum of the analyzed period.

Excluding Top 5, there is again a significant worsening of the indicator, from -6.2 million lei in 2018, to -19.7 million lei in 2019, which also represents the minimum level recorded during the analyzed period.

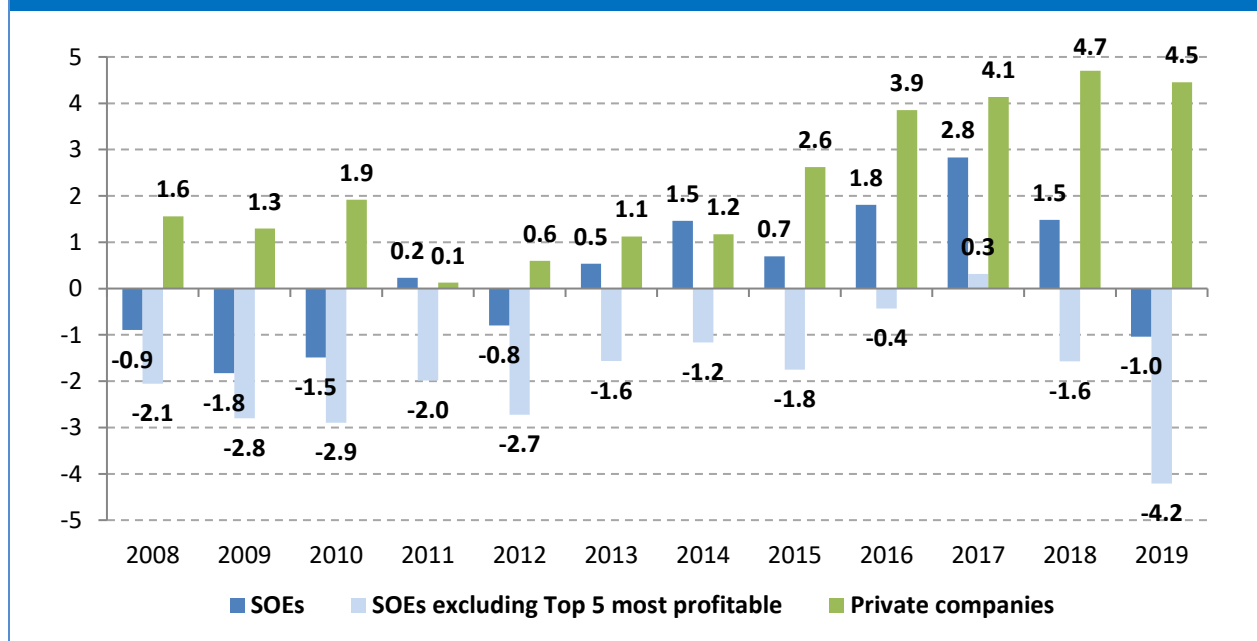
Figure 6: ROE (%)



Source: MPF, based on the annual financial reports submitted by economic agents from the non-financial sector

Note: ROE (%) = Net Profit/Equity \* 100

Figure 7: ROA (%)



Source: MPF, based on the annual financial reports submitted by economic agents from the non-financial sector

Note: ROA (%) = Net profit/Total assets \* 100

*The return on equity of state-owned companies registered in 2019 a level well below the one recorded by private sector companies: -1.5% compared to 8.3%, demonstrating the inability of state-owned companies to generate value for the shareholders in this year. The trend of the indicator is decreasing: -3.6 pp compared to the previous year in the case of state-owned companies, against the background of recording losses at the aggregate level, respectively -2.3 pp in the case of private companies due to the stronger dynamics of equity relative to the net profit.*

*The return on assets experienced similar evolutions, public companies registering a decrease from 1.5% in 2018, to -1% in 2019. For the same period, the economic profitability of the private sector companies dropped by only 0.2 pp., from 4.7% to 4.5%.*

The return on equity (ROE) and the return on assets (ROA) are two of the most conclusive indicators of a company's profitability:

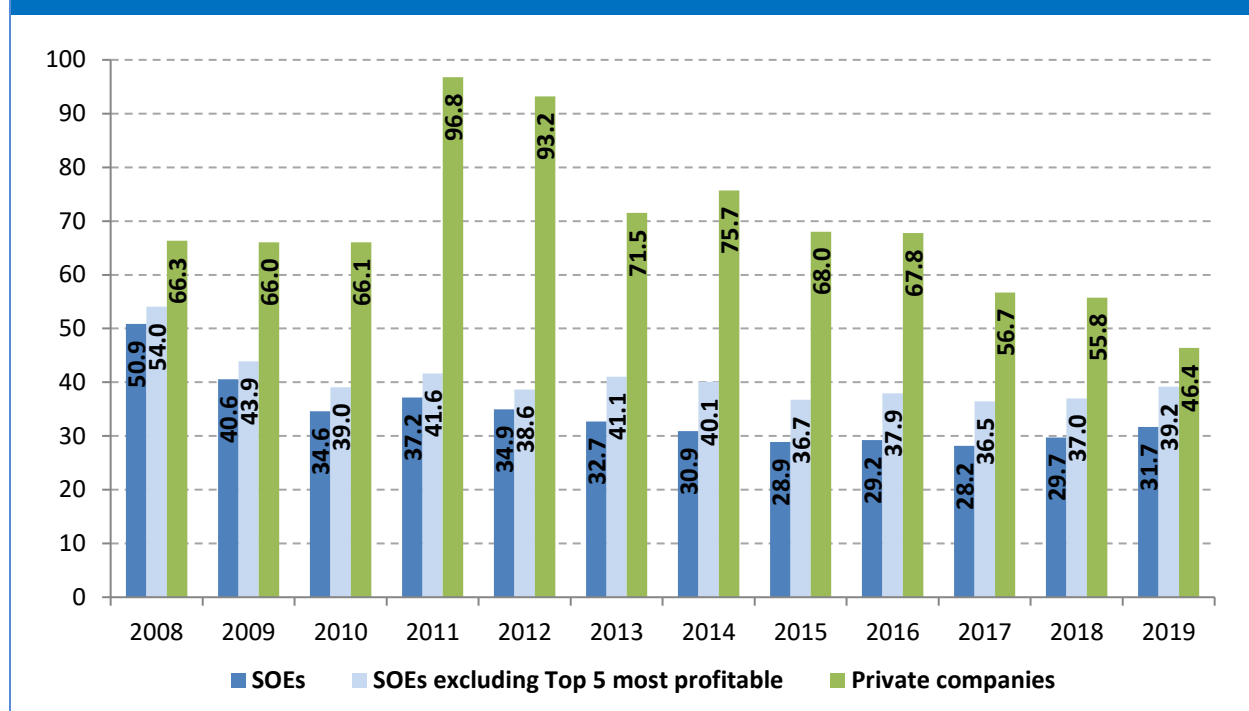
- ROE measures the efficiency of the use of equity ((how many lei of profit brings a leu invested in equity by the shareholders);
- ROA measures the efficiency of the use of assets ((how many lei yields a leu invested in the company's assets).

In 2019, as shown by the evolutions of other profitability indicators, there is a worsening of the performance of SOE's by reducing both rates of return caused mainly by the significant decrease in aggregate net income, from a net profit of 2,573.7 million lei in 2018, at a net loss of 1,832.2 million lei in 2019. Thus, ROE reached the value of -1.5%, decreasing by 3.6 pp compared to the previous year (*Figure 6*), while ROA reached -1%, from 1.5% in 2018 (*Figure 7*). The gap between the profitability of public and private companies continued to grow in 2018, although in the private sector there was a slight deterioration of these indicators.

Excluding the influence of the Top 5 most profitable state-owned companies, ROE decreased to -6.9%, while ROA to -4.2%, representing the minimum levels recorded by the two rates of return during the analyzed period.

With regard to private companies, both economic and financial profitability decreased less due to the slower growth of net profits (+19.4%) compared to equity (+52.8%) and total assets (+26%). Thus, ROA diminished slightly to 4.5%, from 4.7% in 2018, while ROE declined to 8.3%, from 10.6% in the previous year.

Figure 8: Indebtedness (%)



Source: MPF, based on the annual financial reports submitted by economic agents from the non-financial sector

Note: Indebtedness (%) = Total debt/Total assets \* 100

**The indebtedness of state-owned companies has not changed significantly compared to 2018, but there is an uneven distribution of it, some companies having very small levels of debt, while others are heavily indebted.**

Regarding the indebtedness of SOE's, reflected by the share of debts in total assets, it increased slightly from 29.7% in 2018 to 31.7% in 2019 (Figure 8). The evolution is explained by the fact that the total assets of SOE's remained relatively stable, the growth being about 1.2%, while the total debts increased by about 8%. The result is also influenced by the uneven distribution of the indebtedness at the level of state-owned companies, among which are very large companies with a low degree of indebtedness. Excluding the five best performing state-owned companies, the debt level has a significantly higher value, of 39.2%, remaining, in turn, relatively close to the level of 2018 (37%).

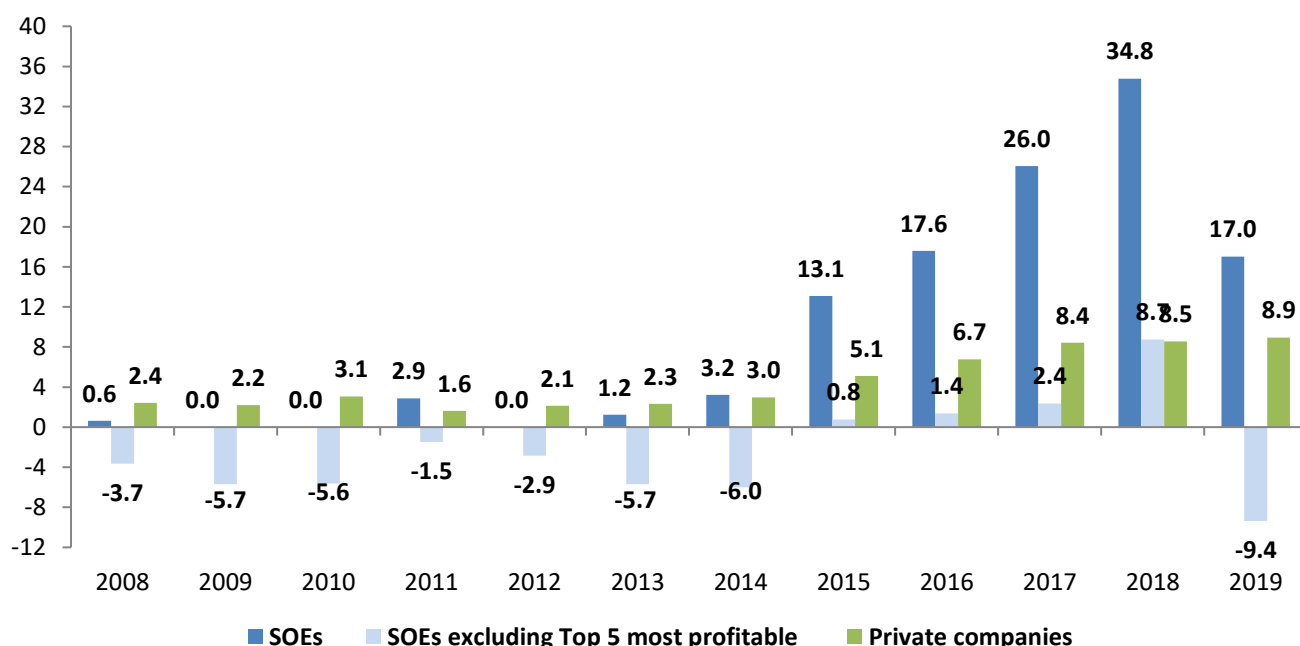
**Overall, in 2019 the share of debt in total assets remains lower at the level of state-owned companies compared to private ones, but the latter**

In the case of private companies, the indicator reflects a higher indebtedness compared to that of state-owned companies, its level being 46.4%. This can express the easier access to financing as a result of economic performance. At the same time, it is noted that this level is lower than that recorded in 2018 (55.8%). In

are on a trend of improvement for this indicator.

conclusion, the analysis of the degree of indebtedness at the level of state-owned companies highlights a stability of the indicator, without major changes compared to 2018, while at the level of private companies there is an improvement, the value of the indicator decreasing by 9.4 pp.

Figure 9: Interest coverage ratio



Source: MPF, based on the annual financial reports submitted by economic agents from the non-financial sector

Note: Interest coverage ratio = (Current profit or loss + Financial profit or loss + Adjustments for provisions - Other revenues + Other expenses + Interest expenses - Interest revenues)/Interest expenses

In 2019, the interest ratio coverage of state-owned companies ceased the upward trend of previous years, reaching 17, from 34.8 in 2018. However, this indicator must be interpreted with caution, being largely influenced by companies in the Top 5 in

The interest coverage ratio is a solvency indicator that measures a company's ability to pay interest on the accumulated debt. In essence, this indicator shows how many times a company could pay the interest due on its available earnings. A value below 1 indicates that the company does not generate enough revenue to cover interest expenses and will have to use its reserves for this purpose. After the considerable jump registered in the period 2014-2018 at the level of SOE's (from 3.2 to 34.8, the latter value representing the maximum of the analyzed period),



*terms of profitability. Excluding Top 5, the value of the indicator is -9.4, entering negative territory for the first time in the last five years, from the value of 8.7 recorded in 2018.*

the interest expense coverage rate decreased significantly in 2019, reaching a level close to the one from 2016 ([Figure 9](#)). This evolution must be interpreted with caution because the indicator is strongly influenced by companies in the Top 5 in terms of profitability. Thus, on the one hand, they recorded operating results of considerable size and, on the other hand, they reported interest expenses of small size or even equal to 0, as in the case of S.P.E.E.H. HIDROELECTRICA S.A. or S.N.G.N. ROMGAZ S.A. Consequently, the interest expense coverage rates have very high values, and the high share of these companies in the total of state-owned companies, influences significantly the results of the indicator at the level of the entire category.

Excluding the Top 5, the interest coverage ratio for state-owned companies has a much lower value, entering negative territory, down to a level of -9.4. This corresponds to a decrease from 8.7 in 2018 and is the minimum of the analyzed period. Thus, against the background of the registration of losses at the level of state-owned companies, the evolution of the interest rate coverage rate indicates a worsening of the solvency of these companies.

*The capacity of private sector companies to cover interest expenses has remained close to the level recorded in 2018.*

The interest coverage ratio for private companies remained at a level close to that recorded in 2018. The slightly increasing evolution of this indicator in recent years was supported by the favorable dynamics of operating income and net income.

*In 2019, the liquidity ratio of SOEs decreased by 14.4 pp compared to the previous year, reaching 106.4%. Similar to 2018, it is noted that the level of the indicator is well below the level of private companies, which increased in 2019 to 198%, from 148.2% in the previous year.*

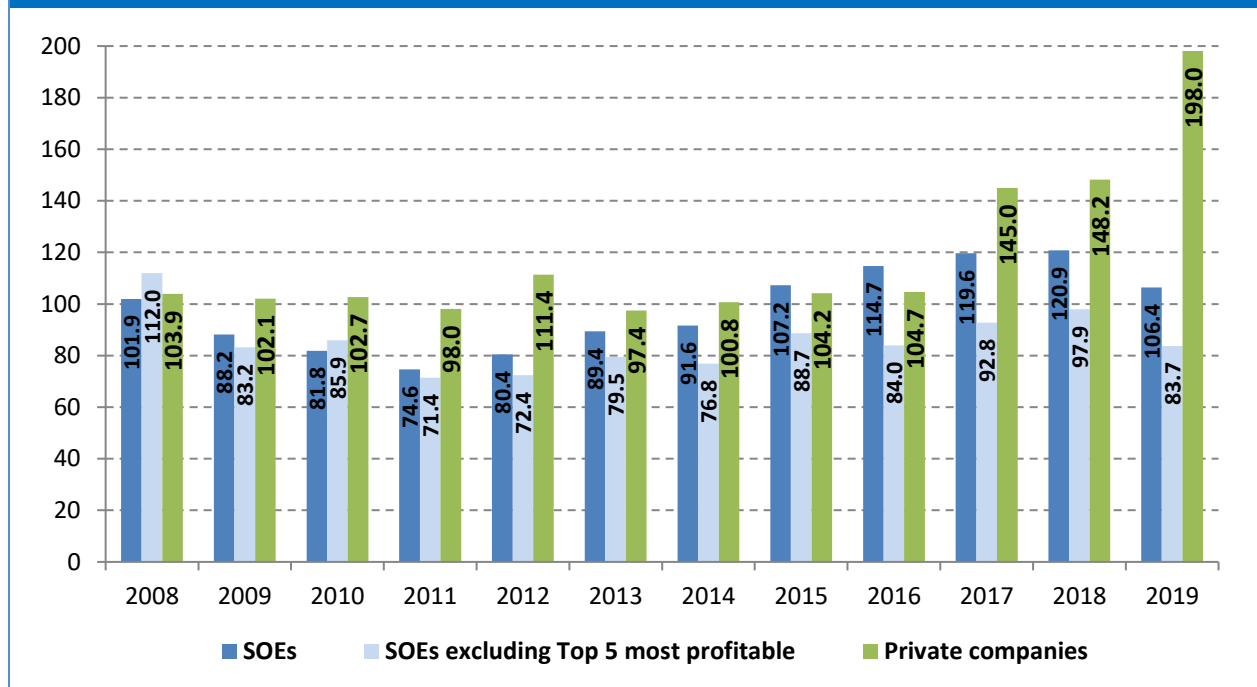
The current liquidity ratio is an indicator that measures a company's ability to pay its short-term liabilities using current assets. The higher this ratio, the greater the company's ability to pay its short-term liabilities, while a ratio below 1 may indicate that the company in question is unable to pay its outstanding debt. On the other hand, a high value of the indicator (more than 300%) does not necessarily imply that the company is in an exceptional situation in terms of liquidity. Depending on how the assets are allocated, a high amount of current liquidity may suggest that the company is not using its assets efficiently or it doesn't attract funding.

In 2019, the liquidity ratio of SOE's decreased compared to the previous year, reaching from 120.9% to 106.4% (*Figure 10*) amid the reduction of current assets of state-owned companies, simultaneously with the increase in long-term debts short. Similar to 2018, the level of the indicator is significantly lower than that recorded by private sector companies, which increased from 148.2% to 198%. However, it is found that both categories of companies have registered levels of liquidity rates that can be considered adequate, but the liquidity ratio of state-owned companies dropped quite close to the recommended threshold of 100%.

*Excluding Top 5, the indicator deteriorated by 14.2 pp and continues to be placed below the recommended threshold of 100%.*

Excluding the five best performing companies in terms of profitability, there is a worsening of liquidity from 97.9% to 83.7%. Despite the increase recorded in 2018, the deterioration of the indicator in 2019 makes the distance from the recommended threshold of 100% even higher for the state-owned companies excluding the influence of Top 5.

Figure 10: Liquidity ratio (%)



Source: MPF, based on the annual financial reports submitted by economic agents from the non-financial sector

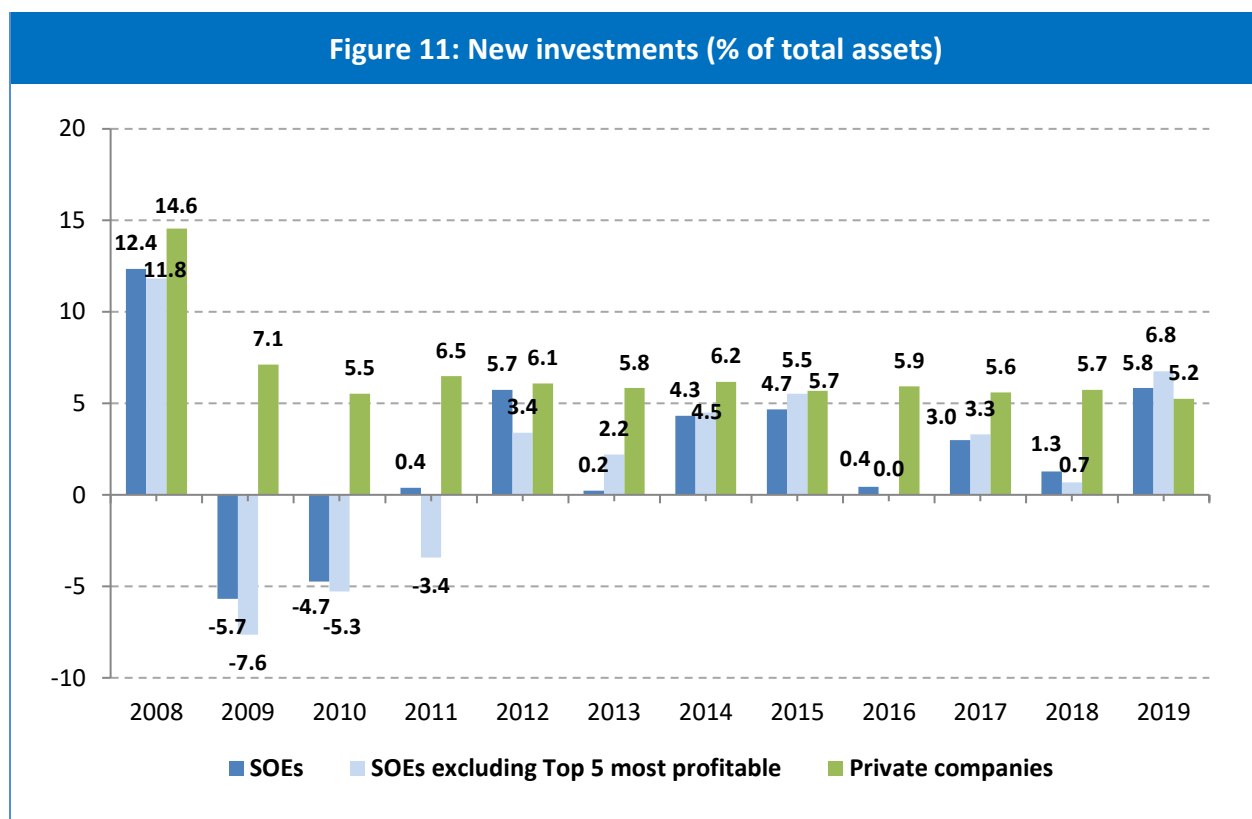
Note: Liquidity ratio (%) = Current assets/Short term debt \* 100

*In 2019, the rate of new investments for state-owned companies improved, but the evolution of the indicator is partially explained by the revaluation of R.A.-A.P.P.S. assets. Eliminating this influence, the rate of new investments is close to the level of 3,2%.*

The rate of new investments in state-owned companies has fluctuated during the analyzed period, in 2019 recording a significant increase to 5.8%, compared to 1.3% in 2018 (Figure 11). Excluding the 5 most profitable state-owned companies, the improvement is even more obvious, with the new investment ratio reaching 6.8% in 2019 from 0.7% in the previous year, but it should be noted that the increasing evolution of fixed assets in state-owned companies occurs on the background of the revaluation of R.A.-A.P.P.S. assets, which recorded an increase of 98.4%. Eliminating this influence, the rate of new investments in SOEs remains in positive territory, but registers a more moderate level, of about 3,2% (both on the whole sample and excluding the Top 5 companies), even under the conditions of the deterioration of the performance indicators and maintaining the decision to distribute a share of at least 90% of net profit in the form of dividends/payments to the state budget.

*In the case of private sector companies, the indicator did not register major changes, decreasing by only 0.5 pp.*

On the other hand, the indicator decreased in the case of private sector companies, from 5.7% to 5.2%, remaining relatively stable from 2010 to 2019. At the same time, it should be noted that, on the whole of all companies included in the analysis, the rate of new investment is still at considerably lower levels than in the pre-crisis period.



Source: MPF, based on the annual financial reports submitted by economic agents from the non-financial sector

Note: New investments are calculated as the change in non-financial assets + amortization and depreciation expenses.

*With the entry into force of the Government Emergency Ordinance no. 109/2011 on the corporate governance of public enterprises, there has been visible progress on increasing transparency and monitoring the activity of state-owned companies,*

The improvement of the performance of state enterprises in 2015-2018 was also favored by the legislative reforms materialized by the entry into force of the Government Emergency Ordinance no. 109/2011 on the corporate governance of public enterprises. This was an important step in the implementation of good corporate governance practices and aimed at depoliticize and professionalizing of the management of state-owned companies, both in terms of the process of selection, appointment and operation of the Board of

*materialized in increasing their performance between 2015 and 2018.*

*However, despite the recommendations of the international financial institutions to consolidate the progress made, the amendments brought by Law no. 111/2016 approving the Government Emergency Ordinance no. 109/2011 (implemented in 2018), drastically limited the scope of application of the principles of corporate governance practices in state-owned companies, by significantly restricting the number of state-owned companies subject to this law.*

*The effects of the reversal of this reform were felt starting with 2019, revealed by the decline of most of the performance indicators at the level of state-owned companies.*

Directors and managers, and in terms of increasing transparency and providing information to hold state-owned companies accountable. In 2016, the process continued with new regulations on the promotion of corporate governance: Law no. 111/2016 approving GEO no. 109/2011, the establishment of a specialized directorate within the Ministry of Public Finance for supervising the implementation of the provisions of GEO no. 109/2011, monitoring the activity of public enterprises with the establishment of the obligation to report some performance indicators on the basis of which the Ministry of Public Finance prepares an annual report on the activity of public enterprises, etc. Although initially, the set of performance indicators on corporate governance was more complex<sup>11</sup>, following the publication of Law no. 111/2016<sup>12</sup>, a series of legislative amendments were brought which led to a de facto non-application of the initial provisions aimed at strengthening corporate governance at the level of state-owned companies. Thus, despite the recommendations of the international financial institutions to consolidate the progress made, through the legislative proposal approved by the Chamber of Deputies in December 2017, they were exempted from the application of the provisions of GEO no. 109/2011<sup>13</sup> dozens of companies and institutions in the field of defense, energy, chemical industry, road infrastructure, etc. Practically, according to the approved amendments, the provisions of GEO no. 109/2011 on corporate management have not been applied to most state-owned companies since 2018, the list of public enterprises exempted from the application of GEO 109/2011 being supplemented in 2018. In 2019 there were no legislative changes, but the effects of the reversal of the reform regarding the corporate governance of the public enterprises, materialized in the

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<sup>11</sup> With reference to: the elaboration of the evaluation models of the executive management and the implementation of the evaluation process and of the remuneration policy of the general manager; implementing the code of ethics, the corporate governance code and ensuring transparency in relation to public information; establishing, reviewing and monitoring performance indicators at the level of the public enterprise.

<sup>12</sup> The legislation on the promotion of corporate governance was amended several times during 2016-2018 by a series of Orders of the Minister of Public Finance.

<sup>13</sup> The complete list of companies exempted from the application of the provisions of GEO no. 109/2011 - <http://www.cdep.ro/comisii/economica/pdf/2017/rp226.pdf>.

deterioration of most of the performance indicators at the level of state-owned companies, the net loss registering the highest value in the analyzed interval.

*It is necessary to return to the initial sphere of inclusion of state-owned companies in what regards the application of corporate governance practices in public enterprises, respectively, to the situation prior to implementing the provisions of Law no. 111/2016.*

The diminishing commitment to the principles of corporate governance based on professionalism, integrity, transparency and accountability, which are vital to ensuring the growth of the value of state-owned companies in the medium and long term, has led to a reversal of the upward trend in state-owned companies' performance in recent years. In addition, by imposing the obligation to distribute dividends to the state of at least 90% of net profit, in order to meet the budget deficit target, the investment capacity and, implicitly, the long-term development of the most profitable state-owned companies were also significantly impacted.

Consequently, it is necessary to return to the original sphere of inclusion of state-owned companies and the application of the principles on corporate governance of public enterprises, respectively, at the situation prior to the implementation of the provisions of Law no. 111/2016, by which they were exempted from the application corporate management most state-owned companies. This matter is all the more important given that the Government wants to maintain control through majority stakes in companies of national strategic interest.

*The influence of state-owned companies on the budget balance according to ESA 2010 standards was positive between 2013 and 2019, except for 2018 when their contribution was negative, but of small amplitude. In 2019, state-owned companies at the level of central public administration had a positive contribution, but state-owned companies at the local level registered a negative*

The impact of state-owned companies on the budget balance in European standards based on commitments (ESA10) may put additional pressure on the government deficit targets set by the Government, according to the Maastricht criteria (which provide for a ceiling below 3% of GDP in terms of ESA 2010) and the Fiscal Compact (structural deficit below 1% of GDP). The impact on the general consolidated budget, according to ESA10 standards, can be manifested by: (i) the issuance of state guarantees (these are also subject to EU state aid rules); (ii) the reclassification of state-owned enterprises in general government and the inclusion of their result in the budget balance. In the period 2013-2019, the contribution of companies in the central (top 20 companies) and local public administration was a positive one, except for 2018<sup>14</sup>, ranging from 0.5% of GDP in 2014 to 0.2% of

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<sup>14</sup> Small-scale negative contribution, respectively, - 0.01% of GDP, mainly due to C.N. of Railways C.F.R. S.A.

*contribution, so that, overall, the contribution of state-owned companies represented only 0.05% of GDP.*

GDP in 2015, 0.23% of GDP in 2017 and only 0.05% of GDP in 2019. In the case of state-owned companies included in local government, their contribution to the evolution of the budget balance in ESA 2010 standards was relatively small, alternating between negative values (2014, 2016 and 2019) and positive values (2015, 2017 and 2018), both on increasing trend (and in the opposite direction) in the last 2 years at the level of “other local units”.

**Table 4: Contribution of state companies included in the public sector to the consolidated budget balance (million lei), ESA 2010 standards**

	2015	2016	2017	2018	2019
<b>1. Total companies at central level</b>	<b>1,378.56</b>	<b>1,344.82</b>	<b>1,830.02</b>	<b>-419.97</b>	<b>797.50</b>
C.N. de Căi Ferate C.F.R. S.A.	424.50	524.4	1.551.2	-85.3	18.6
C.N. de Autostrăzi și Drumuri Naționale	341.00	463.6	30.9	-110.9	465.3
S.N.T.F.C. C.F.R. Călători S.A.	308	-4.8	5	-103.7	-23
COMPANIA NAȚIONALĂ DE INVESTIȚII S.A.	229.9	-13.9	60.3	0.7	111.1
S.N. RADIOCOMUNICAȚII S.A.	72	63.24	117.8	83.2	33.1
SOCIETATEA DE ADMINISTRARE A PARTICIPAȚIILOR ÎN ENERGIE S.A.	68.088	29.3	4.3	-31.7	-0.9
SOCIETATEA ROMÂNĂ DE TELEVIZIUNE	51.29	50.97	88.18	15.53	60.70
SOCIETATEA ROMÂNĂ DE RADIODIFUZIUNE	25.90	25.13	12.23	-7.00	0.70
S.N. Aeroportul Internațional Mihail Kogălniceanu	1	-0.4	1.9	-4.9	-1
C.N. Administrația Canalelor Navigabile Constanța S.A.	-33.8	83.7	-24.2	-40.5	-7.5
Administrația fluvială Dunărea de Jos Galați	17.99	18.74	-17	13.6	-18.9
Fondul Proprietatea	0	0	0	0	0
Institutul Național de Cercetare-Dezvoltare pentru Chimie și Petrochimie	-8.2	-1.7	-10	-4.1	-2.1
S.N. ÎNCHIDERI MINE VALEA JIULUI S.A.	10.7	10.44	7.3	4.6	4.9
S.C. ELECTROCENTRALE GRUP S.A.	-9.9	-0.1	2	-0.4	-1.5
R.A. TEHNOLOGII PENTRU ENERGIE NUCLEARĂ	-1.1	1.3	1.3	-0.1	-2.1
S.C. CONVERSIM S.A.	-2.2	-1.5	-1.7	-0.5	-1
S.N. C.F.R. R.A.	-42.6	-0.2	-0.6	-0.1	18.6
S.C.T.M.B. Metrorex S.A.	-74	96.6	1.1	-148.4	142.5
<b>2. Total companies at local level</b>	<b>29.1</b>	<b>-98.4</b>	<b>164.6</b>	<b>286.5</b>	<b>-295</b>
Local airports	13.1	-53.3	50.8	53.5	24.3
Heating stations with local subordination	-36.3	-28.4	-20.7	-36.1	-20.8
Other local units	52.3	-16.7	134.5	269.1	-298.5
<b>3. Total SOEs</b>	<b>1,407.66</b>	<b>1,246.42</b>	<b>1,994.62</b>	<b>-133.47</b>	<b>502.50</b>
<b>% of GDP</b>	<b>0.20</b>	<b>0.16</b>	<b>0.23</b>	<b>-0.01</b>	<b>0.05</b>

Source: NIS



## Conclusions

The results of the study show that the main economic and financial indicators of SOEs suffered a wide deterioration during 2019. Their profitability, assessed in terms of the total net result, returned to negative territory after 6 years of positive values (2013-2018), registering an overall net loss of 1.8 billion lei in 2019, which denotes a 4.4 billion lei decrease relative to the previous year. The decline of the net result in 2019 compared to 2018 is found in both the Top 5 most profitable SOEs - decrease in net profit from 4.6 billion lei to 3.7 billion lei - but especially at the level of other companies which recorded an abrupt deepening of losses to 5.5 billion lei, from a previous level of 2 billion lei. The unfavorable evolution of the total net profit resulted in negative values of the economic and financial indicators, such as those regarding the profit margin and the financial and economic rates of return, etcetera. **Moreover, the magnitude of the negative result generated, in several cases, the placement of performance indicators at the minimum of the analyzed period, especially in the case of state-owned companies excluding Top 5.** There was also an increase in arrears of state-owned companies by 20.7% in 2019 compared to the previous year, up to the level of 16.6 billion lei (representing 19.3% of the total outstanding payments in the entire economy). These developments took place despite the fact that 2019 was characterized by a favorable economic climate, at the level of the whole economy being registered a high economic growth. The profitability of private sector companies continued to be on an upward trend, with the profitability gap between state-owned companies and private sector companies increasing significantly to the detriment of public enterprises. Also, the arrears of private companies continued to decrease in 2019, respectively by about 7.8% compared to the previous year, contrary to the evolution registered by the state-owned companies.

In the period following the economic crisis of 2009-2010, the improvement of the financial and economic performance of the state-owned companies was also favored by legislative reforms materialized by the entry into force of the Emergency Ordinance no. 109/2011 on the corporate governance of public enterprises. However, the implementation in 2018 of the amendments brought to it during 2016-2017, by excluding a significant number of companies and institutions from the scope of GEO no. 109/2011, represented a significant setback, *de facto* abolishing the functionality of corporate governance practices in most state-owned enterprises. The effects of this reversal of the reform were felt starting with 2019 as most performance indicators of state-owned companies recorded a significant decline. Consequently, **it is necessary to return to the initial sphere of inclusion of state-owned companies in what regards the application of corporate governance practices in public enterprises, respectively, to the situation prior to implementing the provisions of Law no. 111/2016.** This matter is all the more important given that the Government wants to maintain control through majority stakes in companies of national strategic interest.