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Analysis of the economic and financial performance of Romania's state-owned companies in 2018

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Abstract

This paper presents the results of the economic and financial performance analysis of Romanian state-owned companies (SOEs) during 2018. The continuous monitoring of these companies is a prerequisite for preventing the accumulation of losses and arrears in the SOE sector, which would pose a risk to the sustainability of public finances. The analysis was performed on a sample of 803 SOEs which was further divided into two sub-samples (the top five 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, despite positive evolutions in terms of total revenues, turnover, gross value added and labor productivity, the operating result and the net result registered a significant decline in 2018 compared to the previous year, leading to unfavorable evolutions of the profit margin, respectively of the rates of return on equity and assets. On the other hand, the profits of the private sector companies continued to increase, further widening the gap between SOEs and private companies which evidences the lower efficiency of the public sector. The risk analysis did not identify any pressing issues concerning the liquidity and solvency of SOEs, while the ratio of new investments continues to be characterized by high volatility, which was specific to the entire analyzed period. When eliminating the impact of the top five most profitable SOEs, the majority of the analyzed indicators exhibited significantly lower values. In what concerns financial discipline, the arrears of the SOE sector are set on a downward trend, reaching in 2018 their lowest share of GDP from the last decade, but they continue to be significantly higher than the contribution of the public companies to economic activity. A more detailed analysis reveals a chronicity of this problem in certain sectors, with arrears being concentrated in a small number of companies operating in the mining sector, the distribution of heat sector and the chemical industry. The general improvement of the economic and financial performance of SOEs 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 numerous firms and institutions to be exempted from applying corporate governance requirements, thus, putting at risk the progress that was recorded so far.

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

JEL No: G30, H83, L32

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Analysis of the economic and financial performance of Romania's state-owned companies in 2018

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 majority 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 2018, 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).

The analysis was performed on a number of 803 state-owned companies, the size and structure of the sample indicating no significant differences compared to 2017, when 807 companies were included in the analysis. Thus, it is expected that the results of this study will be comparable to those obtained in the previous years.

At the end of 2018⁵, a number of 1,843 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, the vast majority of them (over 600) claiming to be autonomous administrations. After correcting these errors, the final number of SOEs included in the analysis was 803, which is very close to the size of the sample in the previous year (807 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.

Moreover, in order to ensure for the analysis to correctly reflect the economic and financial performance of Romanian state-owned companies, the data sample was adjusted in order to eliminate the influence of factors found in the financial statements,

Also, 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, as follows:

- Compania Națională de Administrare a Infrastructurii Rutiere (CNAIR S.A.) registered a 68.2 billion lei increase in its intangible assets, compared to the previous year, as a result of signing a concession contract with the Ministry of Transportation regarding goods that are public property of

⁵ According to the data received from MPF on September 16, 2019. Thus, the analysis does not include the companies that had not submitted their 2018 financial statements until the respective date, and any corrections that were made subsequently.

but which do not reflect an actual change in performance.

the state⁶. Because these concession rights are not the result of investment activities (being assimilated to subsidies according to IFRS standards) and they have the potential to significantly influence the results of the study (leading to an increase of about 40% in the SOEs assets), they were eliminated from the analysis. At the same time, CNAIR's financial statements indicate a 10.5 billion lei decrease of the tangible assets under execution, counterbalanced by a similar increase of work-in-process inventories. Taking into account that this restructuring of the balance sheet⁷ has an important impact on liquidity indicators, respectively on the investments made by SOEs, it was eliminated from the analysis;

- Societatea Națională de Transport Feroviar de Marfă (SNTFM CFR Marfă S.A.) registered an increase of 4.3 billion lei in tangible fixed assets, compared to the previous year, as a result of a reevaluation process of all its tangible fixed assets and real estate investments⁸. Thus, the data will be treated with caution in the sense of recognizing the increase in the volume of SOE's assets (with an impact of around +2.5%), but without assimilating it to investments in fixed assets;
- The data on SOEs outstanding payments indicated a substantial reduction by approximately 7.8 billion lei (-36%), compared to the previous year, mostly given that no overdue payments were reported by CN 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)⁹. Since the lack of reports does not indicate the fulfillment of these outstanding payments due to the improvement in the performance of the two companies (more likely they are a consequence of the bankruptcy, respectively insolvency status in which they are currently found), the analysis was made assuming that the outstanding payments of CN a Huilei S.A., respectively of

⁶ According to clarifications received from CNAIR and MPF.

⁷ The 10.5 billion lei re-allocation from the category of fixed assets to that of inventories is, most likely, the result of accounting policies and conventions.

⁸ According to clarifications received from MPF.

⁹ According to clarifications received from MPF. Moreover, it must be mentioned that CN a Huilei S.A. is currently under the bankruptcy procedure, while Electrocentrale București SA is under insolvency procedure, so, these situations could be the reason why the two companies no longer reported outstanding payments.

Electrocentrale București S.A. remained at the levels recorded at the end of 2017.

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. Thus, from the sample considered for the year 2017, Societatea de Administrare a Participațiilor în Energie (SAPE) și Societatea Română de Televiziune (SRT) were eliminated as they significantly distorted the analysis of SOEs profitability due to the 401.2 million euros 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 a technical profit of over 2.3 billion lei (representing almost 48% of SOE total profits) as a result of the annulment of a significant part its debt. Therefore, the profit obtained by Oltchim was eliminated from the data sample for the year 2015.

The total revenues of state-owned companies increased by about 8.3%, and those of private companies registered a more pronounced advance of 13.4%. Positive evolutions were also recorded in the case of turnover, respectively of the gross value added, the state-owned companies managing to maintain their contribution to economic activity in terms of gross value added created at the national level.

Amid the favorable economic climate manifested in 2018, the total revenues¹⁰ of SOEs increased by about 4.2 billion lei (+8.3%), the growth rate being similar to the one recorded in 2017. This evolution was supported by the 3.8 billion lei advance (+7.6%) of the total turnover of SOEs, from 49.8 billion lei in 2017, to 53.6 billion lei in 2018. A significantly positive evolution was registered by private sector companies, which recorded an increase of 13.4% both at the level of total revenues and at the level of aggregate turnover. As a result, the gross value added exhibited an upward dynamic across the economy, but the growth differences between public and private companies were much reduced (+13.9% for SOEs; +13.8% for private companies), the private sector managing to recover the unfavorable difference of almost 3 pp registered in the previous year. Thus, in the light of the developments recorded in 2018, SOEs maintained their contribution to the economic activity (9.37% of total gross value added, compared to 9.36% in 2017), but they had

¹⁰ Total revenues are represented by the aggregate production of the financial exercise, calculated as the sum of sold output, stored output and revenues from the production of fixed assets.

a lower contribution from the perspective of revenues (3.52% of aggregate revenues, compared to 3.68% in 2017).

Labor productivity exhibited an upward trend in 2018, both for public sector (+6.4%) and private firms (+4.9%). The overall positive trajectory of this indicator was supported by increases in the gross value added by the companies operating in the domestic economy, but it was also influenced by the general downward trend in the number of employees of public companies.

2018 marked a reversal of the downward trend exhibited by the number of employees in public companies since 2011, this indicator increasing by almost 3 thousand people (+1.1%) compared to the previous year. Given the fact that the gross value added had a predominantly increasing trajectory (in 2018 increased by 7.6% in real terms¹¹ relative to the previous year, and by almost 6% compared to the 2008 level), labor productivity in SOEs advanced by 6.4% in 2018, reaching the maximum value for the analyzed period and, at the same time, being almost 50% higher than in 2008, mainly due to the significant reduction in the number of employees (by about 114 thousand people). By comparison, labor productivity in private companies had an upward evolution during the last 3 years (+4.8% in 2016, +3% in 2017, respectively +4.9% in 2018, especially due to the growth of gross value added, given that the number of employees was generally increasing), but the value of this indicator was significantly lower in comparison to SOEs during the analyzed period, the unfavorable gap deepening up to 31% in 2018.

Compared with 2017, when state-owned companies recorded the highest level of total net profit in the post-crisis period, the indicator decreased by 46.6% in 2018. On the other hand, the aggregate net profit obtained by private companies continued its upward trend, characterized by high growth rates over the last years.

The profitability of SOEs, measured through the total net profit, recorded a level of 2.6 billion lei in 2018, which represents a significant reduction (-2.2 billion lei, i.e. -46.6%) compared to 2017, when the indicator reached its maximum value during the post-crisis period, and marks the reversal of the upward trajectory from previous years. On the other hand, private sector companies registered an increasing aggregate net profit (+14.9 billion lei, denoting an advance of 23.6% compared to 2017), thus maintaining the upward trend recorded during the previous years, characterized by high rates of net profit growth (+82.7% in 2015, +55.2% in 2016, respectively +30.9% in 2017), in the context of the economic recovery over the post-crisis period.

¹¹ The price index used for expressing the gross value added in real terms is the GDP deflator (2010 = 100).

The analysis carried throughout the period under review evidenced that a small number of companies with substantial profits significantly influence the aggregate results of the public sector companies. 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 6 years, increasing almost every year, from 2.7 billion lei in 2013 to 4.6 billion lei in 2018 (+3.2% compared to the previous year). Analyzing the evolution of Top 5 it is worth mentioning that in 2017 and 2018 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 six years (2013-2018).

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

		2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Number of companies	SOEs	718	774	791	1,048	1,006	1,151	1,155	1,143	916	807	803
	All companies, non-financial sector	663,860	602,190	613,080	644,379	630,066	657,500	643,644	647,872	677,843	692,966	723,011
	Share of SOEs in all companies	0.11%	0.13%	0.13%	0.16%	0.16%	0.18%	0.18%	0.18%	0.14%	0.12%	0.11%
Total revenues, mil. lei	SOEs	56,660	50,756	55,022	58,511	49,853	51,208	44,487	48,578	46,586	50,432	54,640
	All companies, non-financial sector	977,619	845,396	920,600	1,056,190	1,072,777	1,101,386	1,113,445	1,186,900	1,269,290	1,369,313	1,550,721
	Share of SOEs in all companies	5.80%	6.00%	5.98%	5.54%	4.65%	4.65%	4.00%	4.09%	3.67%	3.68%	3.52%
Gross value added, mil. lei	SOEs	21,744	20,454	22,881	24,202	22,339	25,131	25,220	26,687	26,143	28,845	32,856
	All companies, non-financial sector	203,875	189,633	195,849	196,151	197,392	233,734	255,957	260,530	286,190	308,113	350,600
	Share of SOEs in all companies	10.67%	10.79%	11.68%	12.34%	11.32%	10.75%	9.85%	10.24%	9.13%	9.36%	9.37%
Gross value added in real terms, mil. lei (constant prices 2010)	SOEs	23,434	21,178	22,881	23,319	20,695	22,517	22,210	22,905	21,900	23,083	24,834
Employees, thousands of persons	SOEs	390	364	364	343	327	321	297	291	281	273	275.674
	All companies, non-financial sector	4,618	4,019	3,962	4,040	3,898	4,016	3,882	3,959	4,078	4,055	4,150
	Share of SOEs in all companies	8.44%	9.05%	9.19%	8.49%	8.40%	8.00%	7.64%	7.36%	6.89%	6.73%	6.64%
Labor productivity mil. lei /1,000 employees (constant prices 2010)	SOEs	60.09	58.18	62.86	67.99	63.29	70.15	74.78	78.71	77.94	84.55	90.08
Net profit, mil. lei	SOEs	-1,996	-3,443	-2,900	436	-1,425	938	2,401	1,200	3,108	4,818	2,574
	SOEs, excluding Top 5	-4,210	-4,573	-4,508	-2,926	-3,436	-1,787	-1,323	-2,034	-513	380	-2004.23
	Private companies	13,540	11,399	18,736	1,389	6,872	12,678	17,020	31,088	48,251	63,150	78,075
Arrears, mil. lei	SOEs	17,294	34,405	28,012	26,251	25,363	26,217	24,370	21,226	23,232	21,599	20,923
	Private companies	53,127	62,406	69,193	88,882	91,536	99,052	93,508	94,875	89,390	73,758	75,399
	Share of SOEs in all companies	24.56%	35.54%	28.82%	22.80%	21.70%	20.93%	20.67%	18.28%	20.63%	22.65%	21.72%
Arrears, % of GDP	SOEs	3.20%	6.48%	5.30%	4.69%	4.27%	4.13%	3.64%	2.98%	3.04%	2.52%	2.22%
Arrears, % of net turnover	SOEs	31.08%	68.90%	51.96%	45.61%	51.61%	52.10%	55.65%	44.60%	50.71%	43.32%	39.01%

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

Table 2: Top 5 SOEs with the largest net profits

Top 5 net profit in 2018			Top 5 net profit in 2017			Top 5 net profit in 2016		
	Company name	Net profit (million lei)		Company name	Net profit (million lei)		Company name	Net profit (million lei)
1	SPEEH HIDROELECTRICA SA	1,939.28	1	S.N.G.N. ROMGAZ S.A.	1,854.75	1	S.P.E.E.H. HIDROELECTRICA S.A.	1,227.67
2	S.N.G.N. ROMGAZ S.A.	1,360.55	2	S.P.E.E.H. HIDROELECTRICA S.A.	1,359.69	2	S.N.G.N. ROMGAZ S.A.	1,024.58
3	S.N.T.G.N. TRANSGAZ SA	495.68	3	S.N.T.G.N. TRANSGAZ S.A. MEDIAȘ	582.06	3	S.N.T.G.N. TRANSGAZ S.A. MEDIAȘ	594.56
4	SN NUCLEARELECTRICA SA	410.61	4	COMPANIA NATIONALĂ AEROPORTURI BUCUREȘTI S.A.	337.55	4	COMPANIA NATIONALĂ DE CĂI FERATE CFR S.A.	501.31
5	COMPANIA NATIONALA AEROPORTURI BUCURESTI SA	371.82	5	S.N. NUCLEARELECTRICA S.A.	303.88	5	C.N.T.E.E. TRANSELECTRICA S.A.	272.36
	Total	4,577.93		Total	4,437.93		Total	3,620.48
Top 5 net profit in 2015			Top 5 net profit in 2014			Top 5 net profit in 2013		
	Company name	Net profit (million lei)		Company name	Net profit (million lei)		Company name	Net profit (million lei)
1	S.N.G.N. ROMGAZ S.A.	1,194.29	1	S.N.G.N. ROMGAZ S.A.	1,409.88	1	S.N.G.N. ROMGAZ S.A.	995.55
2	S.P.E.E.H. HIDROELECTRICA S.A.	899.41	2	S.P.E.E.H. HIDROELECTRICA S.A.	941.54	2	S.P.E.E.H. HIDROELECTRICA S.A.	718.83
3	S.N.T.G.N. TRANSGAZ S.A. MEDIAȘ	488.73	3	S.N.T.G.N. TRANSGAZ S.A. MEDIAȘ	502.52	3	S.N. NUCLEARELECTRICA S.A.	423.39
4	C.N.A.D.N.R. S.A.	368.81	4	SOCIETATEA UZINA MECANICĂ CUGIR S.A.	442.01	4	S.N.T.G.N. TRANSGAZ S.A. MEDIAȘ	334.49
5	C.N.T.E.E. TRANSELECTRICA S.A.	360.05	5	C.N.A.D.N.R. S.A.	428.61	5	C.N.A.D.N.R. S.A.	253.19
	Total	3,311.29		Total	3,724.56		Total	2,725.46

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

Although the share of the state-owned companies' arrears in total outstanding payments across the economy has been relatively stable in recent years, it remains well above the public sector's contribution to economic activity.

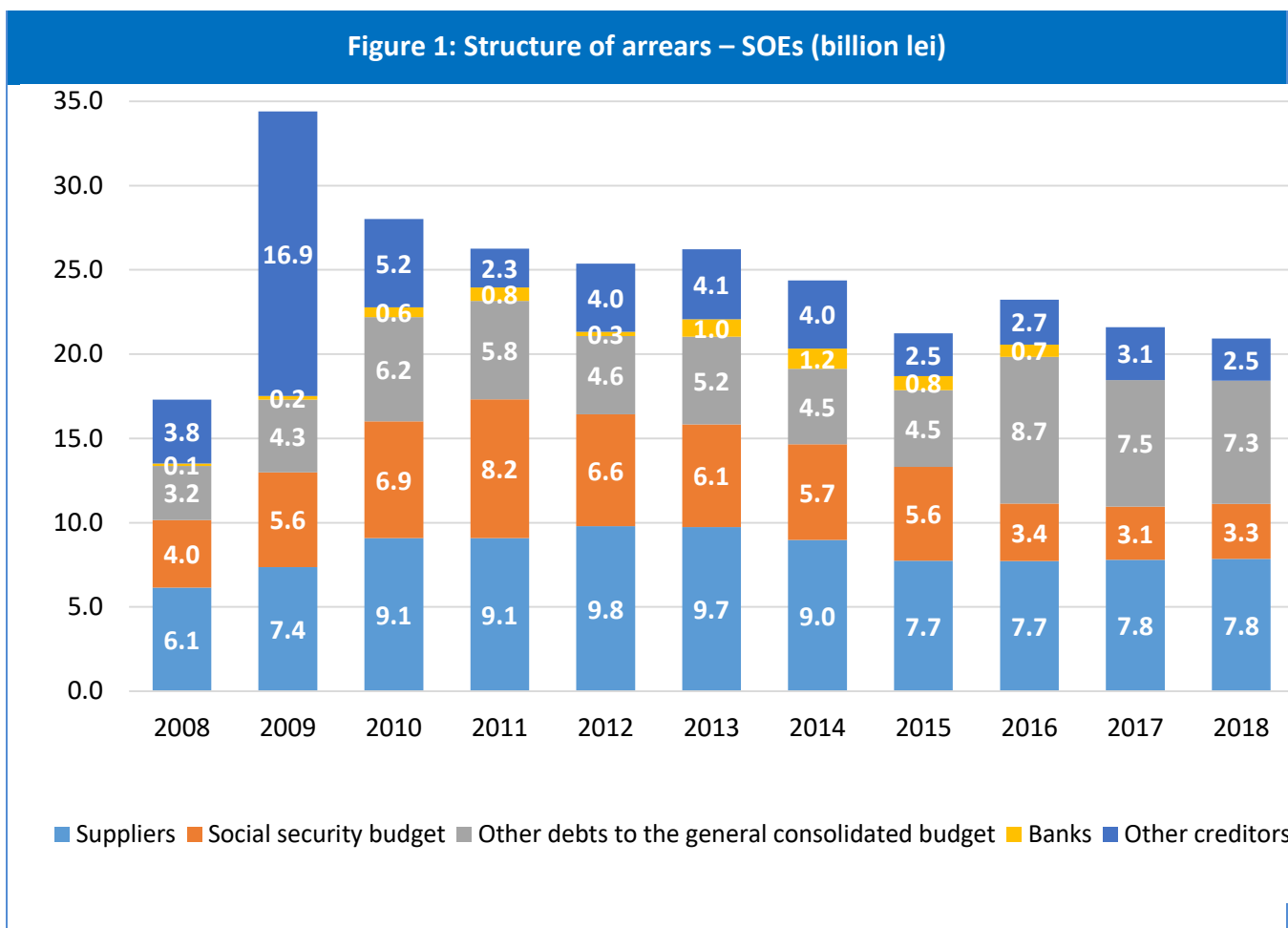
The evolution of the arrears¹² accumulated by SOEs includes the outstanding payments of C.N. a Huilei which is undergoing the bankruptcy procedure (5.4 billion lei at the end of 2017, but not reported for 2018) and by Electrocentrale București, which is in insolvency (1.7 billion lei at the end of 2017, but not reported for 2018). In the analyzed period arrears exhibited a general downward trend after reaching the maximum level of 34.4 billion lei in 2009, respectively a share in the total of outstanding payments across the economy of 35.5% in the 2011-2018 period, showing a clear tendency to stabilize at around 21%. 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 of 4.2% in the total revenues and 10.3% in the total gross value added during over the last 8 years, with a continuous diminishing trend from year to year, indicating a chronic problem of arrears in the public sector.

The arrears of state-owned companies as a share of GDP and of the total turnover exhibited a general downward trend since 2009, at the end of 2018 being recorded the lowest level of the two indicators over the analyzed period.

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 with slight discontinuities, the most important being manifested in 2016 when both shares recorded increasing values. However, the increase was only temporary and the decreasing trend resumed in 2017 and 2018 when SOEs' arrears reached the lowest level of their share in GDP over the analyzed period. Thus, due to the continuation of economic growth, 2018 marked a reduction of the arrears in the public sector as a share of GDP by 0.3 pp. Expressed as a share of total turnover, the arrears in the public sector represented 39% in 2018, compared to 43.3% in the previous year. The downward evolution of SOEs' arrears was also driven by the measures¹³ instituted through the two balance of payments agreements that were signed with international financial institutions (EC, IMF and WB) during 2009-2013.

¹² According to MPF, companies' arrears are delayed payments to banks, the state budget, the social security budget, suppliers and other creditors by more than 30 days against the contractual or legal terms, that generate payment obligations.

¹³ 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: Arrears to banks are computed as the sum of overdue loan and interest payments; starting with 2017, following the modification of the F30 reporting form, the data regarding this category is no longer available. For the year 2018, the arrears of the companies C.N. a Huilei and Electrocentrale București S.A. were included at the level of the last available records (the year 2017).

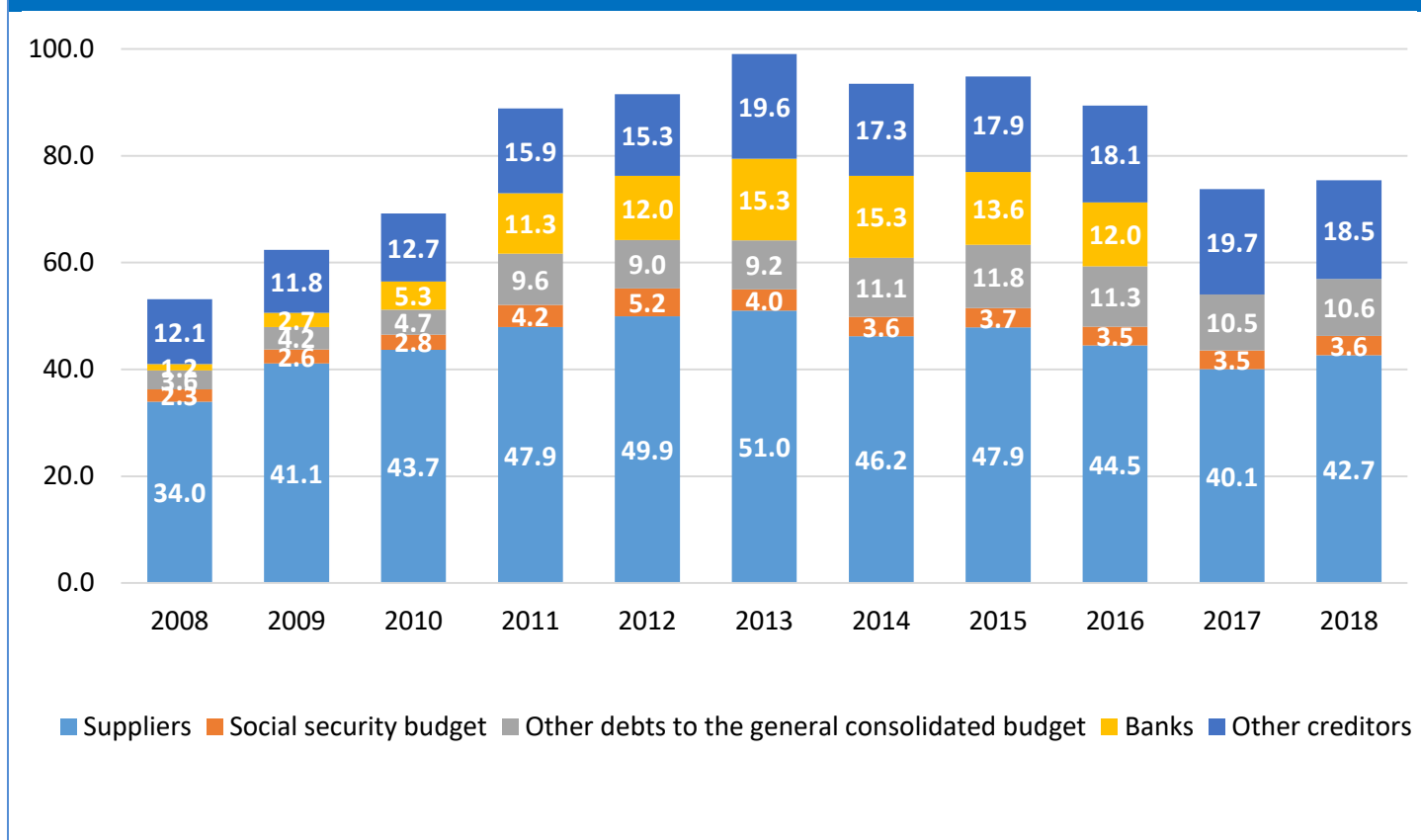
In 2018, about half of the arrears of state-owned companies were due to the general consolidated budget and approximately 38% represented overdue payments to suppliers. The decrease of arrears by 0.7 billion lei, as compared to the previous year, was mostly driven by the reduction of arrears to other creditors, the changes observed in other

Analyzing the structure of SOEs’ arrears in 2018, it can be observed that most outstanding payments are due to the *general consolidated budget*, representing 10.6 billion lei (which is by 90 million lei smaller compared to 2017), this value corresponding to a share of 50.5% in total arrears of the public sector.

Suppliers rank second in the hierarchy of SOEs’ arrears, the amount due to them being 7.8 billion lei (representing about 38% of total arrears) which is 45 million lei higher than in 2017. Compared to the previous year, only SOEs’ arrears to *other creditors* decreased significantly (-631 million lei), their share in total arrears being 24.5%. The evolution of the structure of SOEs’ arrears is presented in [Figure 1](#).

categories of outstanding payments being very small.

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: Arrears to banks are computed as the sum of overdue loan and interest payments; starting with 2017, following the modification of the F30 reporting form, the data regarding this category is no longer available.

In the case of private companies, arrears to suppliers have the highest share (56.6% of total arrears), followed at a considerable distance by overdue payments to other creditors (24.5% of total arrears) and to the general consolidated budget (18.9% of total arrears).

The analysis of the structure of private companies' arrears in 2018 (presented in *Figure 2*) shows that they have the highest volume of overdue payments to *suppliers*, amounting to 42.7 billion lei (almost 57% of total arrears), more than half of which have delays of more than a year. As compared to 2017, the evolution was unfavorable, the arrears of private companies increasing by 1.64 billion lei, the most significant advance (+2.6 billion lei) being registered by arrears to *suppliers* (especially by overdue payments delayed by more than a year which account for half of the increase). The advance of private companies' arrears to *suppliers* was partially offset by the reduction of arrears to *other creditors* (-1.26 billion lei), which represent 24.5%

of the total arrears of private companies. On the other hand, arrears to the *general consolidated budget* increased slightly (+0.3 billion lei), maintaining the same share in total arrears as in the previous year (18.9%).

The arrears of the 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 76% of the total arrears of SOEs, and the arrears of the company from the first place accounted for 26% of the total. Another worrying aspect is that many companies find themselves in Top 10 every year, indicating a chronicity of arrears in some 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*). As mentioned before, the analysis includes the arrears of C.N. a Huilei and of Electrocentrale București S.A. at the levels recorded at the end of 2017. In 2018, the Top 10 companies belong predominantly to the mining sector, the distribution of heat sector and the chemical industry and they have accumulated together 76% of the total arrears in the public sector. Comparing the Top 10 from the last three years, it is noted that seven companies were present in the ranking each year, which may indicate the chronicity of arrears for some companies and industrial sectors. Moreover, C.N. a Huilei ranked first during 2016-2018, at a considerable distance from the rest of the ranking, its outstanding payments accounting for 34% of the Top 10's total arrears, respectively almost 26% of the total outstanding payments of SOEs.

Concerning the top of arrears to the general consolidated budget (also presented in *Table 3*), persistency is also noted in the case of four companies who were included in the ranking in each of the last three years. Moreover, the prevalence of companies from the mining and heat distribution sectors is maintained, but compared to the Top 10 that was previously presented, the industrial sectors are more diverse. On the other hand, in the case of arrears to the general consolidated budget the concentration degree is higher, with the first 10 companies accumulating about 86% of the total arrears of SOEs to the general consolidated budget. At the same time, C.N. a Huilei (still ranking first in each of the three years) is characterized by a volume of arrears to the general consolidated budget accounting for 59% of the Top 10 companies and almost 51% of the total of SOEs.

Table 3: Top 10 SOEs with the largest arrears

Top 10 arrears in Dec. 2018

	Company name	Arrears (million lei)
1	COMPANIA NATIONALA A HUILEI S.A.	5,413.69
2	REGIA AUTONOMA DE DISTRIBUTIE A ENERGIEI TERMICE B	3,862.23
3	ELECTROCENTRALE BUCURESTI S.A.	1,752.02
4	SC COMPLEXUL ENERGETIC HUNEDOARA SA	1,423.22
5	SOCIETATEA NATIONALA DE TRANSPORT FERVIAR DE MARFĂ	884.30
6	OLTCHIM S.A.	645.77
7	COMPANIA NATIONALA A METALELOR PREȚIOASE SI NEFERO	573.79
8	SOCIETATEA NATIONALA A CARBUNELUI SA	551.80
9	APATERM S.A.	410.67
10	REGIA AUTONOMA DE DISTRIBUIRE A ENERGIEI TERMICE C	391.99
	% din total	76.04%

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

	Company name	Arrears (million lei)
1	COMPANIA NATIONALA A HUILEI S.A.	5,403.95
2	SC COMPLEXUL ENERGETIC HUNEDOARA SA	1,107.76
3	ELECTROCENTRALE BUCURESTI S.A.	952.23
4	SOCIETATEA NATIONALA A CARBUNELUI SA	536.27
5	ROMAERO SA	329.18
6	SC ELECTROCENTRALE CONSTANTA	229.70
7	AVERSA SA	162.37
8	REGIA AUTONOMA DE TRANSPORT PUBLIC IASI RA	147.50
9	SOCIETATEA NATIONALA "IMBUNATATIRI FUNCiare" S.A.	132.22
10	AVIOANE SA CRAIOVA	118.18
	% of total	86.24%

Top 10 arrears in Dec. 2017

	Company name	Arrears (million lei)
1	COMPANIA NATIONALĂ 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
	% din total	73.71%

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

	Company name	Arrears (million lei)
1	COMPANIA NAȚIONALĂ A HUILEI S.A.	5,403.95
2	ELECTROCENTRALE BUCUREȘTI S.A.	952.23
3	SC COMPLEXUL ENERGETIC HUNEDOARA S.A.	919.83
4	SOCIETATEA NAȚIONALĂ A CĂRBUNELUI S.A.	537.37
5	ROMAERO S.A.	281.95
6	SC ELECTROCENTRALE CONSTANȚA	216.37
7	REGIA AUTONOMĂ DE TRANSPORT PUBLIC IAȘI RA	181.66
8	AVERSA SA	162.18
9	SOCIETATEA NAȚIONALĂ "ÎMBUNĂTĂȚIRI FUNCiare" S.A.	138.17
10	SOCIETATEA COMERCIALĂ DE REPARAȚII LOCOMOTIVE C.F.	115.92
	% of total	83.56%

Top 10 arrears in Dec. 2016

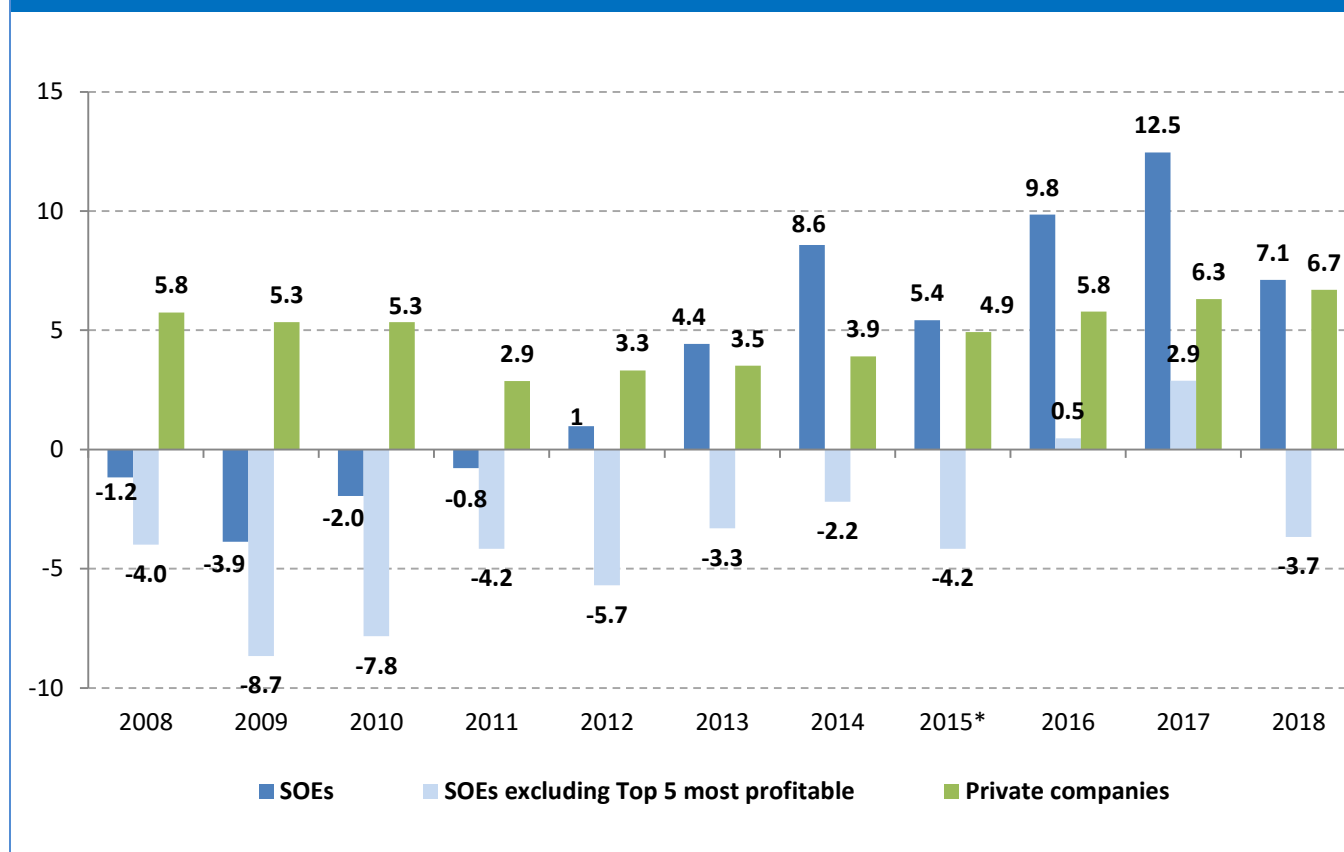
	Company name	Arrears (million lei)
1	COMPANIA NAȚIONALĂ A HUILEI S.A. ÎN LICHIDARE	5,413.69
2	RADET BUCUREȘTI	3,526.94
3	ELECTROCENTRALE BUCUREȘTI S.A.	1,426.22
4	S.C. OLTCHIM S.A.	1,180.49
5	S.C. COMPLEXUL ENERGETIC HUNEDOARA S.A.	1,048.55
6	REGIA AUTONOMĂ PENTRU ACTIVITĂȚI NUCLEARE R.A.	770.78
7	S.N.T.F.M. CFR MARFĂ S.A.	579.49
8	COMPANIA NAȚIONALĂ A METALELOR PREȚIOASE ȘI NEFEROASE REMIN S.A.	573.23
9	CENTRALA ELECTRICĂ DE TERMIFICARE IAȘI (C.E.T.) S.A.	560.98
10	SOCIETATEA NAȚIONALĂ A CĂRBUNELUI S.A.	550.47
	% din total	67.28%

Top 10 arrears to the general consolidated budget in Dec. 2016

	Company name	Arrears (million lei)
1	COMPANIA NAȚIONALĂ A HUILEI S.A. ÎN LICHIDARE	5,403.95
2	S.C. COMPLEXUL ENERGETIC HUNEDOARA S.A.	787.67
3	ELECTROCENTRALE BUCUREȘTI S.A.	735.7
4	SOCIETATEA NAȚIONALĂ A CĂRBUNELUI S.A.	537.35
5	REGIA AUTONOMĂ PENTRU ACTIVITĂȚI NUCLEARE R.A.	535.62
6	SOCIETATEA ROMÂNĂ DE TELEVIZIUNE	517.11
7	CENTRALA ELECTRICĂ DE TERMIFICARE IAȘI (C.E.T.) S.A	422.51
8	MOLDOMIN S.A.	260.41
9	ROMAERO S.A.	240.16
10	S.C. ELECTROCENTRALE CONSTANȚA	207.53
	% of total	79.57%

Source: MPF, based on the annual financial reports submitted by economic agents from the non-financial sector. For the year 2018, the arrears of the companies C.N. a Huilei and Electrocentrale București S.A. were included at the level of the last available records (the year 2017).

Figure 3: Operating margin (%)



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

Note: Operating surplus (%) = 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 has deteriorated significantly in 2018 compared to the previous year, dropping from 12.5% to 7.1%, but managed to maintain a higher level relative to private sector companies.

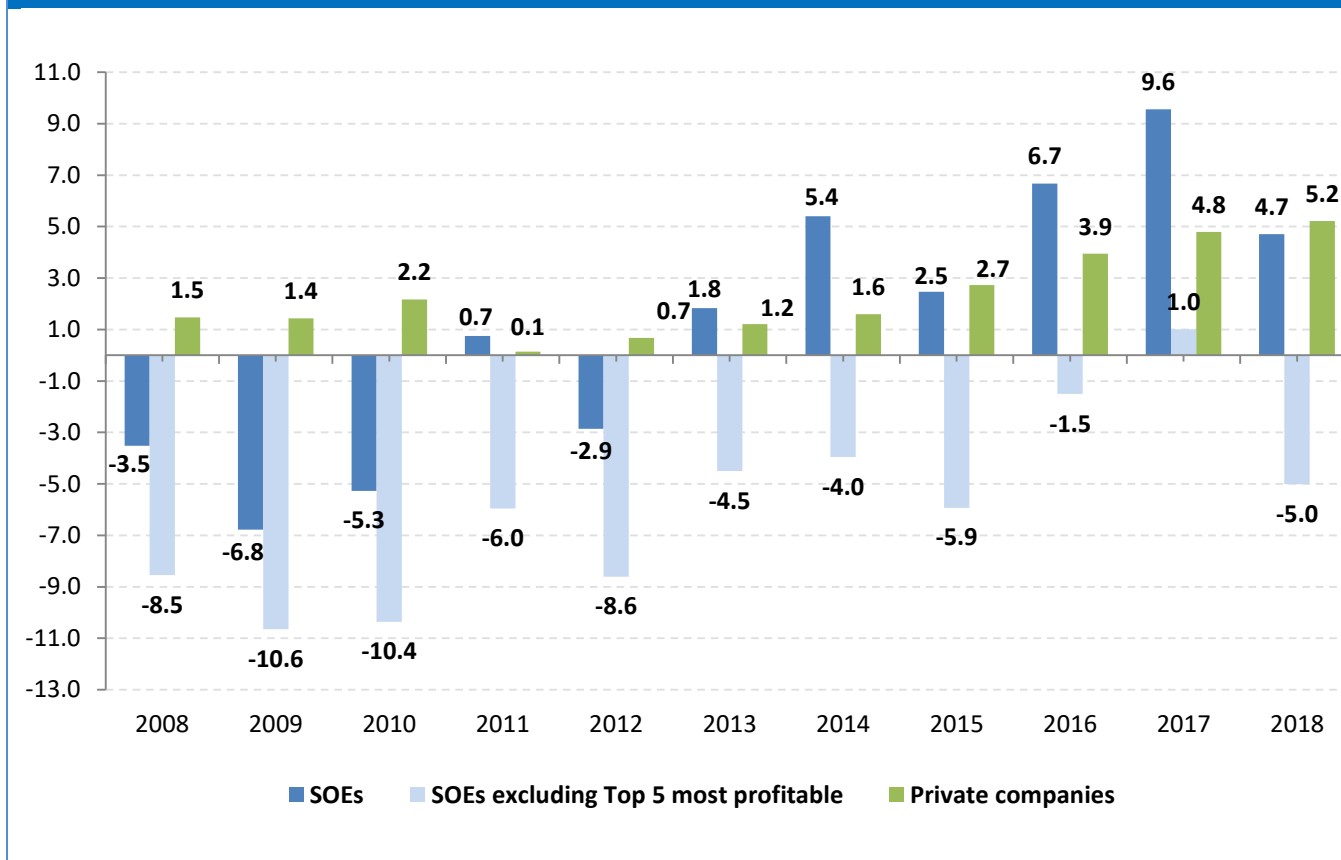
In 2018, the upward trend of the operating margin was interrupted (Figure 3), the indicator measuring the profitability of the core activity by comparing the earnings before the interest and profit tax payments to the total income. The level of the indicator dropped drastically from 12.5% in 2017 to 7.1% in 2018, however, staying above the level recorded by companies from the private sector, which increased by 0.4 pp compared to the previous year. In the case of SOEs, this evolution was mainly determined by a reduction of approximately 38% of the operating profits while total revenues advanced by 8.3%.

Excluding Top 5, the indicator is placed in the negative territory, after registering positive values and exhibited an upward trend over the last two years.

Excluding the Top 5 most profitable SOEs, the indicator is placed in the negative territory, with a value of -3.7%, the performance deteriorating considerably by 6.6 pp compared to the previous year. The difference recorded when the top five companies are excluded is considerable, suggesting their extremely high impact on the

aggregate level. In addition, the first five companies manage to achieve very good results that counterbalance the relatively low performance of the others, significantly improving the average of public sector companies.

Figure 4: Profit margin (%)



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

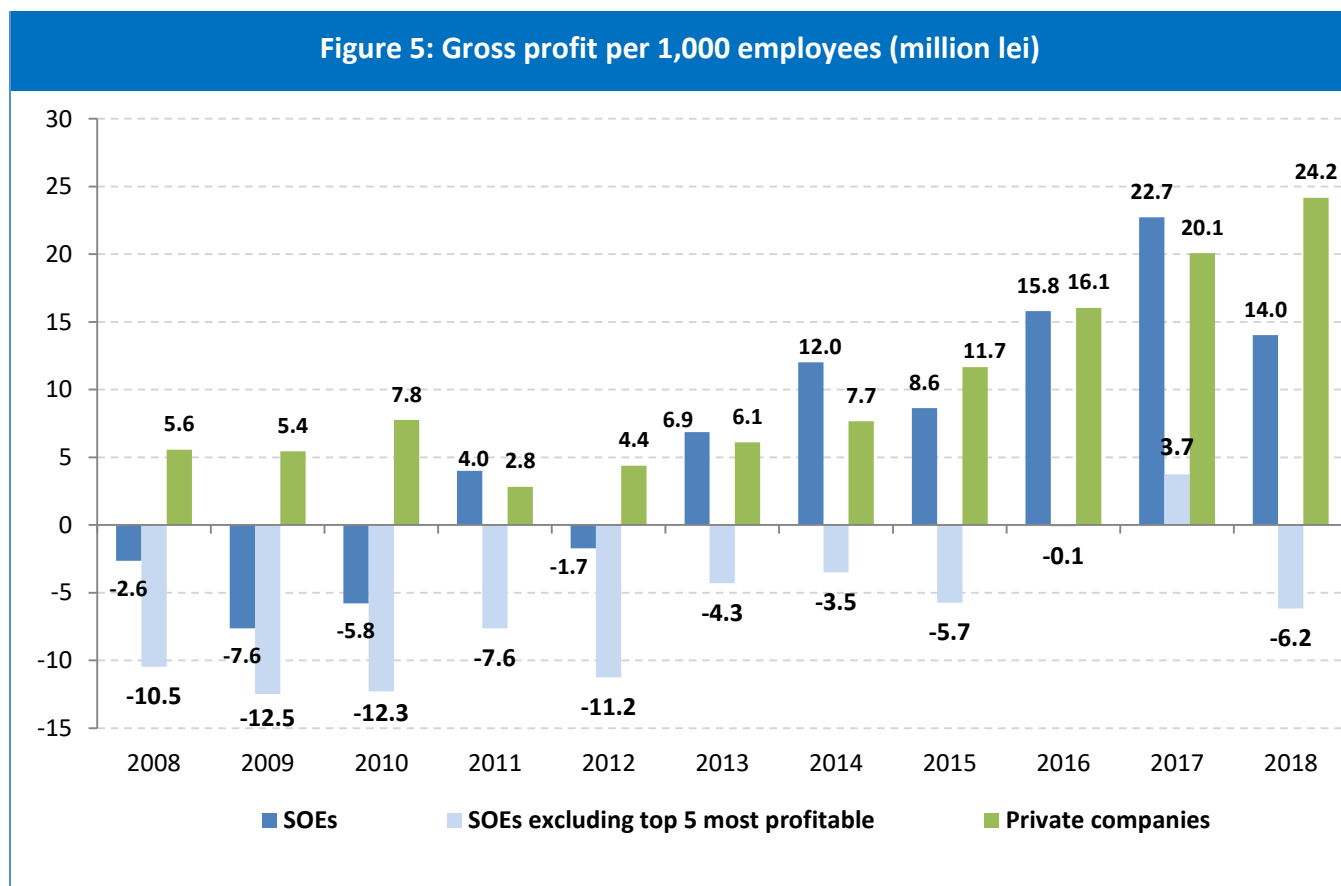
The profit margin of the state-owned companies has decreased significantly from 9.6% in 2017 to 4.7% in 2018. This evolution is in contradiction with both private sector and economic activity developments.

The worsening of the operational position of SOEs (certified by the operating margin) is also visible at the profit margin level (Figure 4). The indicator decreased considerably from 9.6% in 2017 to 4.7% in 2018 as a result of the significant drop in the net income by 46.6%, while total revenue increased by about 8.3%. In addition, the profit margin of SOEs was below the one registered by private sector companies, which increased from 4.8% in 2017 to 5.2% in 2018. Excluding the Top 5 companies, the indicator entered again in the negative territory (-5%), after recording its first positive value over

the analyzed period in 2017, exhibiting a significant worsening of 6 pp compared to the previous year.

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. Thus, due to the negative impact of interest expenses on the net income, the profit margin recorded lower values relative to the operating margin.

Figure 5: Gross profit per 1,000 employees (million lei)



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

The indicator gross profit per 1,000 employees has deteriorated in 2018 for state-owned companies due to a significant decrease in the gross profit both at the aggregated level and excluding the top five companies.

Gross profit per 1,000 employees is an indicator that measures the average profit generated by every 1,000 employees, assessing the company’s effectiveness in using its own employees to maximize profits.

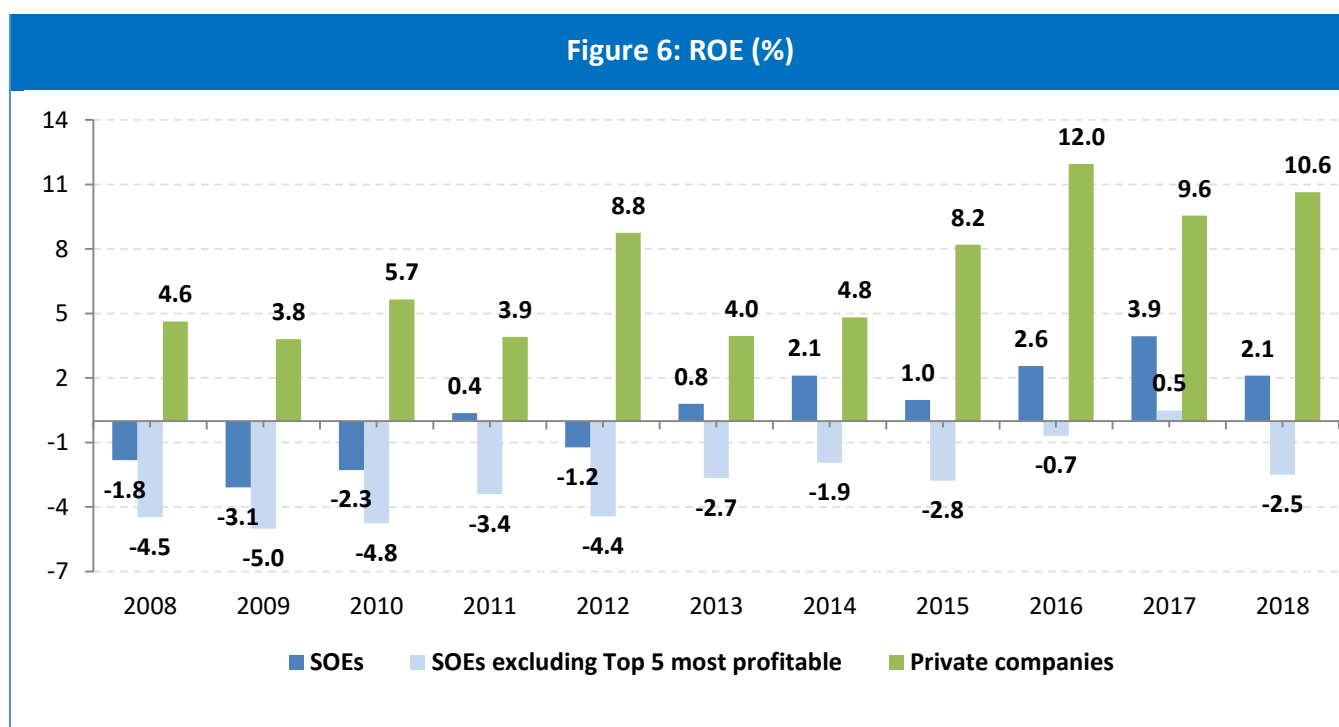
For SOEs, the indicator did not continue the upward trend started in 2016, and decreased by 8.7 million lei in 2018 compared to 2017, from 22.7 to 14 million lei (Figure 5). This development was recorded as a result of the sharp decrease of the gross result by 37.5%, coupled with the increase of the number of employees by approximately 1%.

Moreover, compared to the previous year, the level of gross profit per 1,000 employees was below the level recorded by the companies in the private sector by about 10 million lei, respectively by 42.1%.

However, the aggregate evolution of SOEs is influenced by the top five most profitable companies, that registered in 2018 a gross profit of 5,463 million lei, while the remaining SOEs recorded a gross loss of 1,595 million lei. Therefore, the gap between the top five companies and the other SOEs is considerable, and significantly influencing the overall evolution of the SOE's profitability in a positive sense. Nevertheless, when the top five companies are excluded, there is a notable deterioration of the indicator, which again entered in the negative territory in 2018 (-6.2 million lei), after registering the first positive value (+3,7 million lei) in 2017.

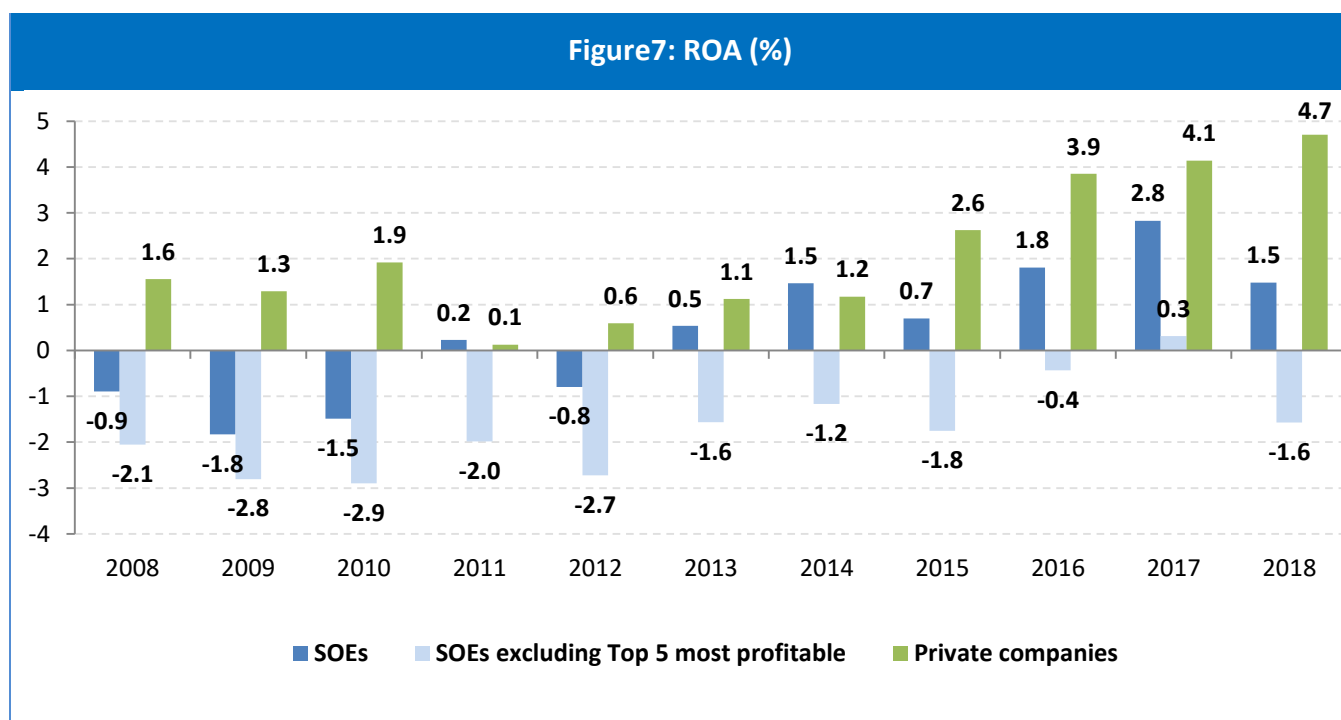
Private companies have continued the upward trend from previous years, and 2018 marks the maximum value for the analyzed period of time.

In 2018 the private companies registered a positive development of the gross profit per 1,000 employees which increased to 24.2 million lei from 20.1 million lei in 2017.



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

Note: $ROE (\%) = \text{Net Profit} / \text{Equity} * 100$



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

Note: $ROA (\%) = \text{Net profit} / \text{Total assets} * 100$

The return on equity generated by state-owned companies in 2018 was significantly lower than the one obtained by the private firms: 2.1% against 10.6%. Moreover, the level of the indicator decreased in 2018 compared to 2017, while the profitability for the private companies continued its upward trend, thus, the ability of state-owned companies to generate value for their shareholders being rather poor.

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

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

In 2018, the performance of state-owned companies worsened, both rates of return recording a decrease, caused mainly by the unfavorable dynamics of the net profit, which declined by about 46.6%. Thus, ROE reached the level of 2.1%, decreasing significantly, by 1.8 pp compared to the previous year (Figure 6), while ROA reached 1.5% from 2.8% in 2017 (Figure 7). This development, accompanied by the increase of the profitability rates for the private sector companies, deepens the gap between the two categories of companies.

The return on assets exhibited a similar evolution for state-owned companies, dropping

Excluding the influence of the top five most profitable companies, is notable again a clear deterioration of both rates of return, reaching negative values for ROE (-2.5%) and ROA (-1.6%).

from 2.8% in 2017 to 1.5% in 2018. During the same interval, the return on assets of private firms recorded an increase by 0.6 pp, from 4.1% to 4.7%.

Regarding the private companies, both ROA and ROE registered increases, sustained by the higher pace for the net profits' growth (+23%) as compared to the advance of equity (+11%) and assets (+8.7%). Thus, ROE increased to 10.6% from 9.6% in 2017, and ROA increased to 4.7% from 4.1% in 2017.

The ability of state-owned companies to cover their debt did not change significantly from 2017, but there is an uneven distribution of indebtedness, some companies having very low debt, while others are heavily indebted.

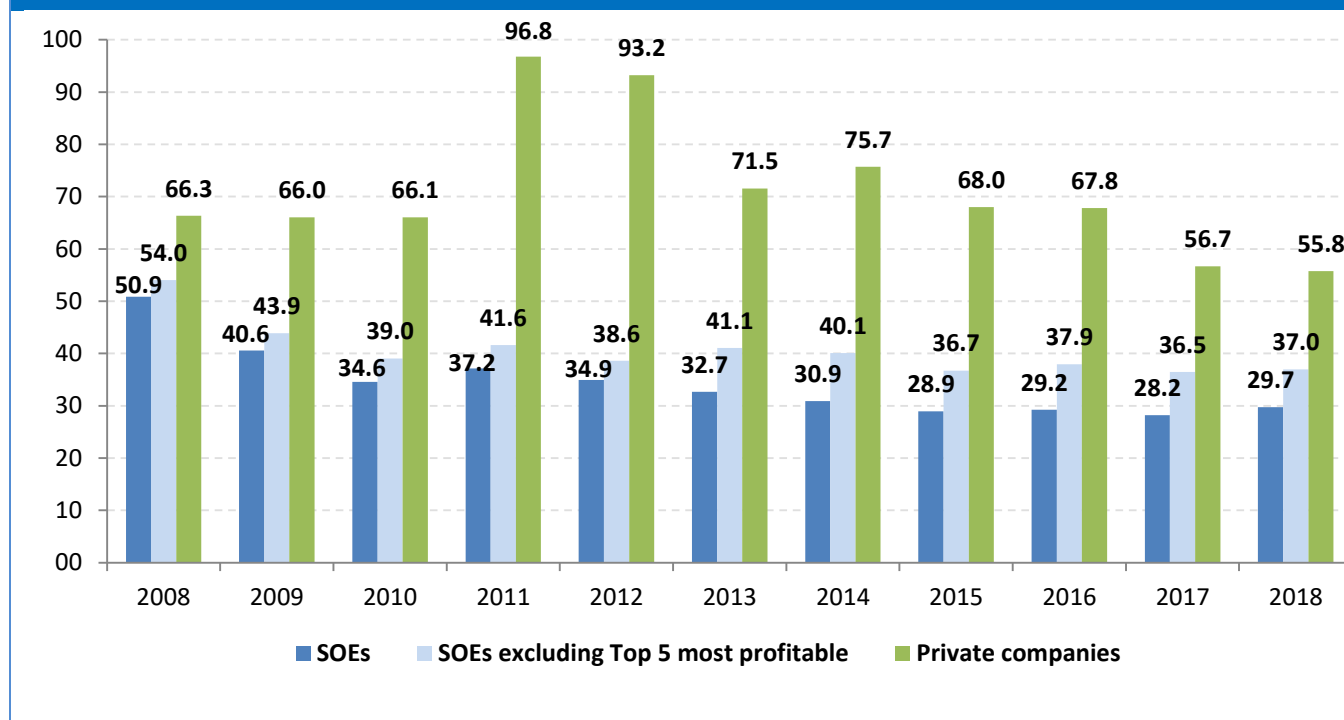
Concerning the indebtedness of SOEs, reflected by the ability to cover their debt with their assets, it has increased slightly from 28.2% in 2017 to 29.7% in 2018 (*Figure 8*). This result is explained by the fact that the total assets of the state-owned companies remained relatively stable, with a rate of growth of about 2.2%, while total debt increased by about 7.6%. The result is also influenced by the uneven distribution of indebtedness in the public companies, among them being found very large companies with low debt. Excluding the top five state-owned companies, the debt ratio recorded a value of 37%, relatively close to the level registered in 2017 (36.5%).

Overall, in 2018 the share of debt in total assets remains significantly lower for the state-owned companies compared to the private ones.

As for the private companies, the indicator reflects a significantly higher indebtedness compared to that of the state-owned companies, its level being 55.8%. However, it should be noted that this level is lower than in 2017 (56.7%).

In conclusion, the analysis of the indebtedness ratio both at the level of the state companies and at the level of the private companies shows a stability of the indicator, without major changes compared to the year 2017.

Figure 8: Indebtedness (%)



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

Note: $Indebtedness (\%) = \frac{Total\ debt}{Total\ assets} * 100$

In 2018, the interest coverage ratio of state-owned companies continued the upward trend from previous years, its level reaching 34.8 from 26 in 2017. However, this indicator must be interpreted with caution, being largely the result of the influence of the companies in the Top 5 in terms of profitability. Excluding Top 5, the value of the indicator is only 8.7, but it has increased significantly from 2.4 recorded in the previous year.

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 owed with its available earnings. Thus, it is calculated by dividing the earnings before interest and taxes (EBIT) to the amount of interest due over a one-year period. An interest coverage ratio below 1 indicates that the company does not generate sufficient revenues to cover interest expenses and will have to use its reserves for this purpose.

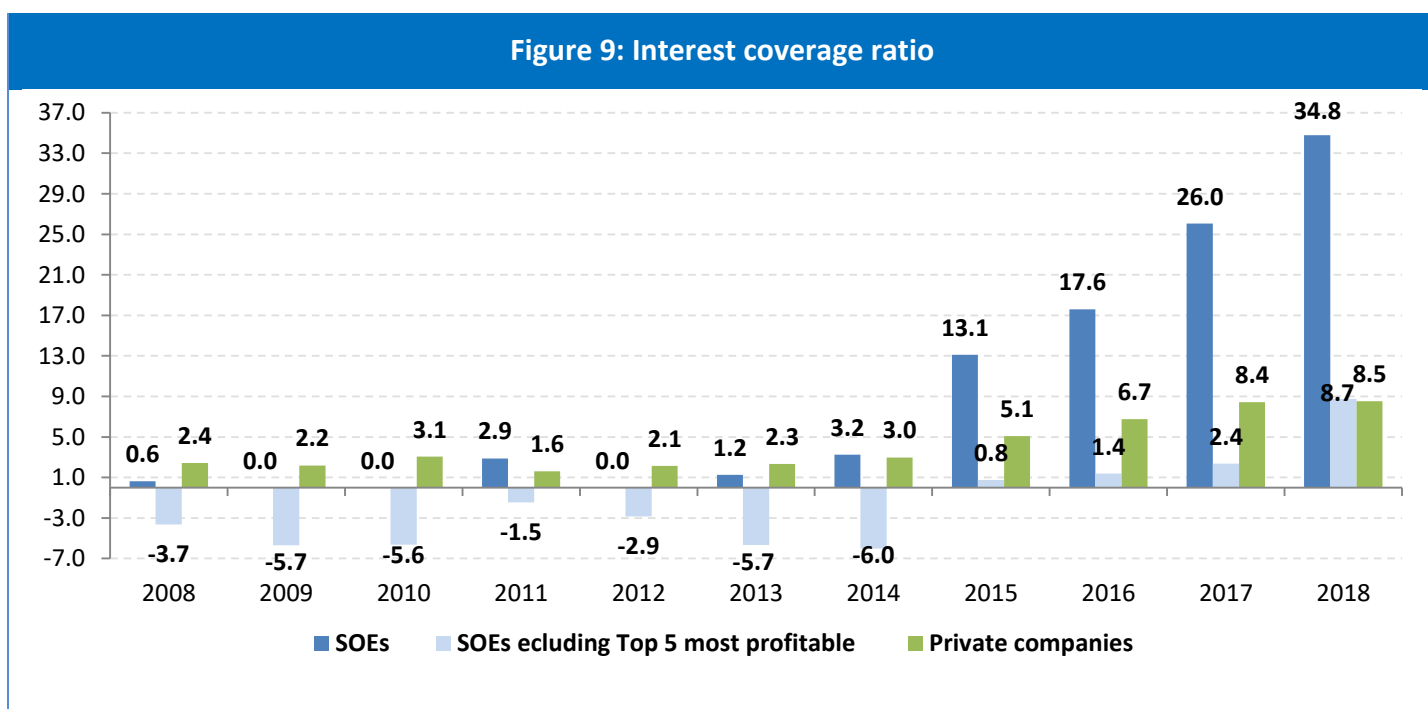
After a considerable increase between 2014 and 2015 (from 3.2 to 13.1), the interest coverage ratio of SOEs continued to grow, in 2018, reaching the value of 34.8 from 26 in 2017 (Figure 9). This evolution should be interpreted with caution because the indicator is strongly influenced by the top five companies in terms of profitability. Thus, on one hand, they recorded large operating profits and, on the other hand, they reported low interest expenses or even equal to 0 in the case of S.N.T.G.N. Transgaz S.A. Consequently, their interest coverage ratios are very high (reaching a maximum of 18,497,853 in the case of S.N.G.N. Romgaz S.A.) and the important weight of the top five

companies, relative to all SOEs, influences significantly the results of the indicator for the whole category.

Excluding the top five companies, the interest coverage ratio for the remaining SOEs has a smaller value, of just 8.7, but considerably higher in comparison with the 2.4 in 2017. It should be noted that during the analyzed period the value of this indicator is for the third consecutive year above the critical threshold of 1, continuing the favorable trend from 2015 when it returned to positive values. This increase could indicate a notable improvement in the solvency of SOEs.

The capacity of the private sector companies to cover interest expenses remained stable in 2018 due to the favorable dynamics recorded by the operating result and the net result.

The interest coverage ratio of companies in the private sector has remained almost constant compared to the previous year. The favorable evolution of this indicator over the last years is a sustainable one, being backed by significant increases in the operating result and the net result.



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

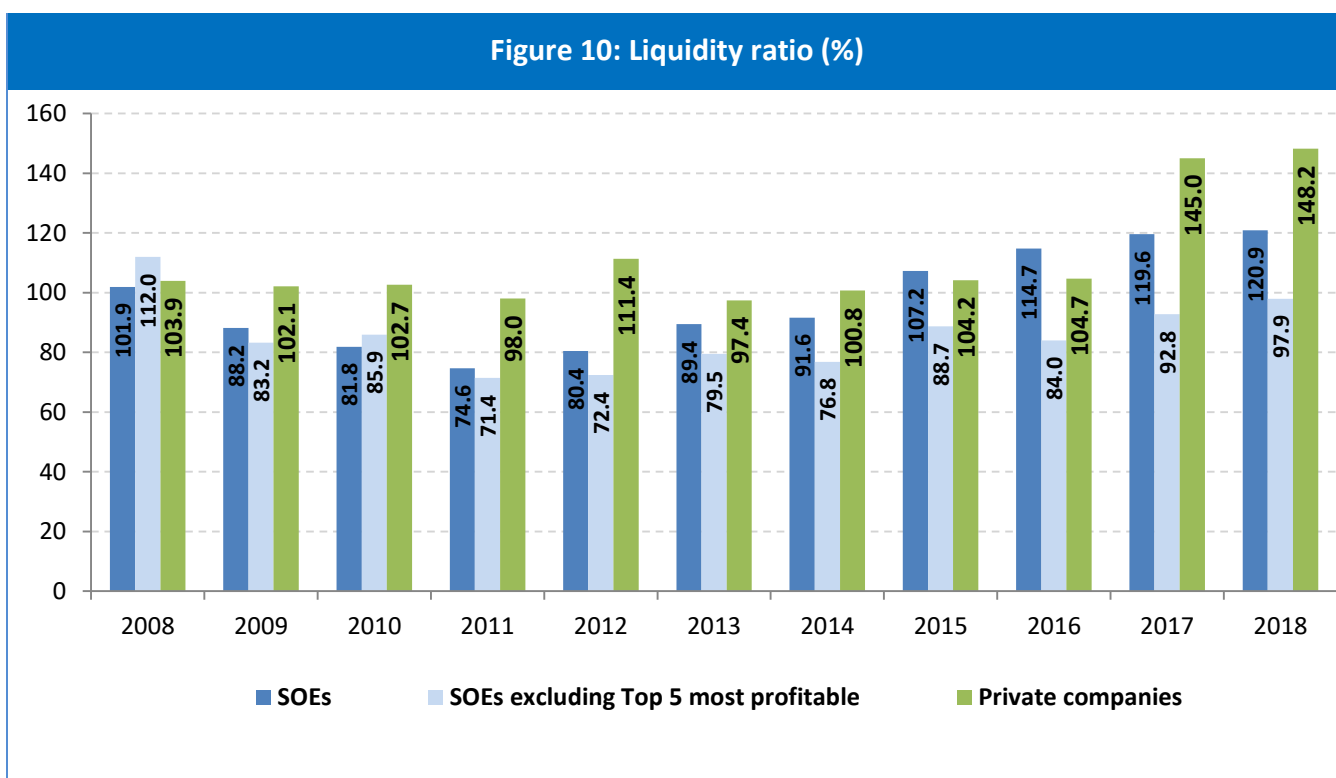
Note: Interest coverage ratio = (Current profit or loss + Financial profit or loss + Adjustments for provisions - Other revenues + Other expenses + Interest expenses - Interest revenues)/Interest expenses

In 2017, the liquidity ratio of state-owned enterprises registered a slight increase of just 1.2 pp compared to the previous year, reaching 120.9%. Similar with 2017, the indicator is below the level registered by the private sector companies, that increased in 2018 up to 148.2% from 145%.

The current liquidity ratio is an indicator that measures a company's ability to pay its short-term liabilities with current assets. The higher the ratio, the greater the ability of the company to pay its short-term liabilities, while a ratio below 1 may indicate that the company is unable to pay its outstanding debt. On the other hand, a high value of the indicator (greater than 3) does not necessarily imply that the company is in a state of exceptional liquidity. Depending on how the company's assets are allocated, a high current liquidity may suggest that the company does not use its assets in an efficient manner, or it doesn't attract funding.

Excluding the top five state-owned companies in terms of profitability, the improvement of the liquidity ratio is notable, but continues to be below the recommended threshold of 100%.

In 2018, the liquidity rate of state-owned companies registered a slight increase compared to the previous year, from 119.6% up to 120.9% (Figure 10). As in 2017, the level of the indicator is significantly lower than that registered by the private sector companies, which increased from 145% to 148.2%. However, it appears that both categories of companies exhibited liquidity ratios that can be considered adequate. Excluding the top five SOEs, there is significant improvement of the liquidity from 92.8% to 97.9%, but this value still remains below the recommended threshold of 100% for this category of firms.



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

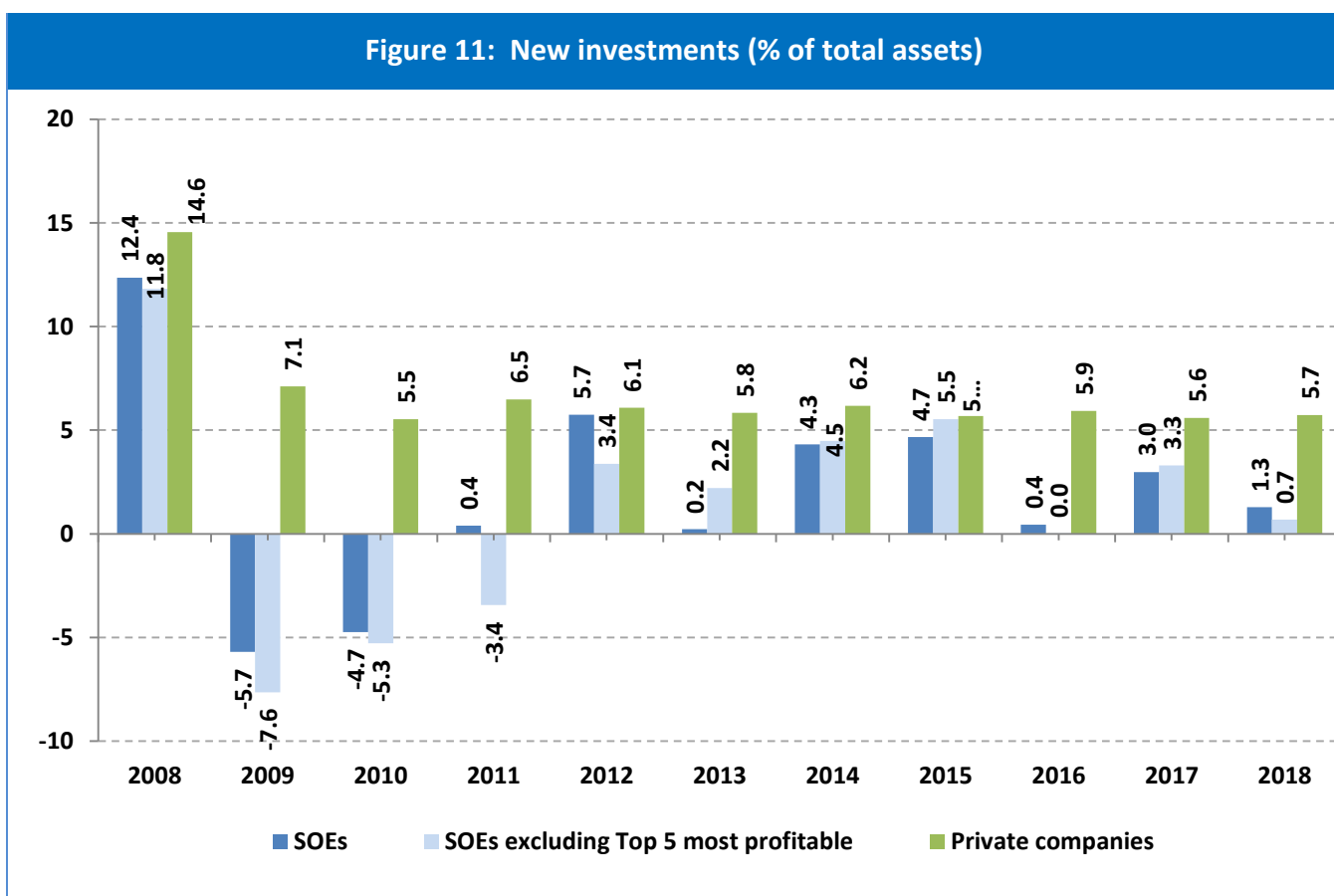
Note: Liquidity ratio (%) = Current assets/Short term debt *100

In 2018 the new investment ratio for state-owned companies has deteriorated, the reduction being more pronounced when the top 5 companies are excluded.

After in 2017 the new investments ratio in state-owned companies registered an important increase from values close to 0, in 2018 its level decreased. Thus, at aggregate level, the value of the indicator was 1.3% compared to 3% in 2017 (Figure 11). Excluding the 5 most profitable state-owned companies, the deterioration is much more evident, the rate of new investments reaching 0.7% in 2018 from 3.3% in the previous year. Thus, the results confirm that this indicator exhibits a high volatility in the case of SOEs, with sudden evolutions from one period to the next.

For the private companies, the indicator remained almost constant, at around 6%.

On the other hand, in the case of private firms the ratio of new investments has recorded an insignificant increase from 5.6% to 5.7%, thus, remaining around 6% for the entire 2010-2018 interval. At the same time, it should be noted that, for all the companies included in the analysis, the ratio of new investments is still considerably lower than its pre-crisis levels.



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 Emergency Ordinance no. 109/2011 regarding the corporate governance of public enterprises, there has been a visible progress in increasing the transparency and monitoring of the activity of state-owned companies. The improvement of SOEs' performance, beginning with 2015, was also supported by the legislative reforms embodied by the enforcement of the Emergency Ordinance no. 109/2011 regarding corporate governance of public enterprises. This represented a major step in the implementation of the best corporate governance practices and aimed at depoliticizing and professionalizing the management of SOEs, both regarding the selection, appointment and functioning of the Board of Directors and managers, and in terms of increasing the transparency and providing information in order to increase the public companies' accountability. In the year 2016, new regulations were formally introduced to promote corporate governance: Law no. 111/2016 with the associated implementing rules (Government Decision no. 722/2016), the establishment of a specialized department within the Ministry of Public Finance for overseeing the implementation of the provisions of GEO no. 109/2011, monitoring the activity of public enterprises with the obligation to report some performance indicators on the basis of which MFP draws up an annual report on the activity of public enterprises, and so on. Initially, the set of performance indicators on corporate governance was more complex¹⁴, but after the publication of Law no. 111/2016 approving the Emergency Ordinance no. 109/2011¹⁵, a number of legislative changes were introduced that led to the *de facto* non-application of the initial provisions aimed at strengthening corporate governance for SOEs. Thus, despite the recommendations of the international financial institutions aiming to consolidate the progress that has been made, according to the legislative proposal that was approved by the Chamber of Deputies in December 2017, there were exempted from the applicability of the provisions of GEO no. 109/2011 dozens of

Despite the recommendations of the international financial institutions to consolidate the progress, the amendments made in 2017 to the Law no. 111/2016 on approving

¹⁴ Referring to: developing executive management evaluation models, implementing the evaluation process and remuneration policies of the CEO; implementing the code of ethics, the corporate governance code, and ensuring transparency regarding public information; setting, reviewing and pursuing the performance indicators at the level of the public enterprise.

¹⁵ Legislation regarding promoting corporate governance has been amended several times between 2016-2018 through a series of Orders of the Minister of Public Finance. Thus, OMPF no. 41/2014 was repealed by OMPF no. 2873/2016 with application from May 2018, and this was also modified by OMPF no. 768/2017, while Order no. 2874/2016 was amended by Order no. 3233/2017, and, subsequently, in 2018 being abrogated by Order no. 1952/2018 regarding the regulation of the procedure for monitoring the implementation of the provisions of GEO no. 109/2011 on the Corporate Governance of Public Enterprises.

Emergency Ordinance no. 109/2011 (implemented in 2018) have severely limited the scope of the principles of good corporate governance practices in state-owned companies by restricting the number of state enterprises subject to this corporate governance law.

companies and institutions¹⁶, most of them in the defense sector, energy sector, chemical industry, road infrastructure, etc. Practically, at the entry into force of the law thus amended, the provisions of GEO no. 109/2011 on corporate governance no longer apply to most SOEs starting with 2018, even if in February 2018 Law no. 111/2016 was challenged¹⁷ at the Constitutional Court of Romania (CCR), the final form of law 111/2016 adopted by the Senate and applicable from June 4, 2018, remained virtually unchanged¹⁸ compared to the December 2017 version, the list of public companies exempted from the application of the GEO 109/2011 being even supplemented with R.A. Rasirom and C.N. Romtehnica S.A. Moreover, by law no. 111/2016 has been added the possibility of appointing "interim directors" and "interim administrators" with 4 months mandates, until the completion of the selection procedure, that, if suspended or canceled, will be in office until the appointment of a new director or administrator. Concluding, it can be seen the weakening of the commitment to apply the corporate governance principles based on professionalism, integrity, transparency and accountability, that are vital for ensuring the growth of the state-owned companies' value on medium and long-term. In addition, by imposing the obligation to distribute to the state dividends of at least 90% of the net profit, aimed at reducing the budget deficit, the investment capacity and, consequently, the long-term development of the most profitable state-owned companies were significantly affected.

The impact of the state-owned companies on the budget balance according to the European standards ESA 2010 was positive in the period 2013-2017, while in

The impact of state companies on the budget balance in European standards based on commitments (ESA10) may be an additional pressure on the budget deficit targets undertaken by the government in accordance with the Maastricht criteria (below 3% of GDP in ESA10 terms) and the Fiscal Compact (structural deficit below 1% of GDP). The impact on the budget deficit in ESA10 standards could manifest (i) by the

¹⁶ Among them are: Fabrica de Arme Cugir S.A., C.N. Poșta Română S.A. and the companies owned by it, Societatea Complexul Energetic Oltenia S.A., R.A., Tehnologii pentru Energia Nucleară, Hidroelectrică S.A. and the companies owned by it, S.N. ROMGAZ S.A. and so on. For the complete list of companies exempted from the applicability of the provisions of GEO no. 109/2011 – see <http://www.cdep.ro/comisii/economica/pdf/2017/rp226.pdf>.

¹⁷ In February 2018 the Law no. 111/2016 was appealed to the Constitutional Court of Romania, which admitted the objection of unconstitutionality of the Law, regarding the amendment of Article 1 paragraph (3) of GEO no. 109/2011, as a series of legislative and procedural technical norms were violated, among which the most important ones are the exclusion of 100 state-owned companies from the scope of the law, as well as the possibility of changing and completing the law by Government decrees, which are acts of inferior legal power.

¹⁸ Compared to that adopted in December 2017, it was removed the generic terminology "water and transport companies" for the companies that could be exempted from the provisions of GEO no. 109/2011.

2018 their contribution was a negative one, but of small amplitude. issuance of state guarantees (also subject to EU rules on state aid) and especially (ii) by the reclassification of the state enterprises within the public administration. The impact of state companies on the budget balance in European standards ESA10 was positive in 2013-2017, the contribution of the companies consolidated in central government sector (the first 20 companies) and local sector being between 0.5% of GDP in 2014 and 0.25% of GDP in 2017, but in 2018 this was slightly negative (-0.01% of GDP, mainly on the account of CFR S.A.). In the case of the state-owned companies included in the local public administration, their contribution to the evolution of the budget balance in ESA 2010 standards was small, its values alternating from negative (2014 and 2016) to positive (2015, 2017 and 2018), the last two years highlighting an increasing trend.

Following the analysis of the main economic and financial indicators of state companies in Romania, it can be noticed a significant reduction in the profitability during 2018. Thus, although the total revenue, the gross value added and the labor productivity continued to be on an increasing trend, the operating result and the net result registered a significant decline, causing unfavorable evolutions of the profit margins, respectively, of the rates of return on equity. However, as the private companies' profitability continued its ascending trend, the profitability gap between state-owned companies and private sector firms remained significant, reflecting the lower capacity for efficiently using resources in the case of state companies.

The results of the main risk indicators did not highlight pressing issues concerning the liquidity and solvency of the public sector companies, as these indicators respect the values recommended in the literature. Regarding the rate of new investments, it is to be noted their reduction following the upswing recorded in 2017, the indicator continuing to be characterized by high volatility, specific to the entire analyzed period. On the other hand, the rate of new investments for the private companies was relatively stable in recent years and constantly at a higher level compared to the state companies. However, as highlighted in the previous analyzes, the financial performance is not evenly distributed within the state companies, as there are some highly profitable companies influencing favorably the entire sector, but also many companies with problems, both in terms of arrears, and profitability. Thus, eliminating the impact of the best five companies in terms of net profit, there is a significantly reduced level for most of the analyzed indicators. Thus, the drastic reduction of the profitability of the state-owned companies in 2018 reversed the upward trend recorded until the previous year and marked the return of the net aggregate profit and the profitability rates (excluding Top 5) in the negative territory. Therefore, it can be concluded that a vast majority of state-owned companies continue to perform poorly, and a coherent program of measures is needed to increase the efficiency of this sector.

Regarding the financial discipline of public sector companies, following a slight deterioration in 2016, during 2017-2018 the arrears continued the decreasing trend, reaching the minimum level for their share in GDP in the period under review. However, it should be noted that the share of arrears of state-

owned companies in total arrears remains significantly higher than the contribution of these companies to the economic activity. At the same time, the evolution of the ranking of the companies with the largest volume of outstanding payments indicates a chronicity of the problem of arrears in certain sectors, as the same public companies continue to be found year by year in this ranking.

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
1. Total companies at central level	1,378.56	1,344.82	1,830.02	-419.97
C.N. de Căi Ferate CFR S.A.	424.50	524.4	1551.2	-85.3
C.N. de Autostrăzi și Drumuri Naționale	341.00	463.6	30.9	-110.9
SNTFC CFR Călători S.A.	308	-4.8	5	-103.7
COMPANIA NAȚIONALĂ DE INVESTIȚII S.A.	229.9	-13.9	60.3	0.7
S.N. RADIOCOMUNICAȚII S.A.	72	63.24	117.8	83.2
SOCIETATEA DE ADMINISTRARE A PARTICIPAȚIILOR ÎN ENERGIE S.A.	68.088	29.3	4.3	-31.7
SOCIETATEA ROMÂNĂ DE TELEVIZIUNE	51.29	50.97	88.18	15.53
SOCIETATEA ROMÂNĂ DE RADIODIFUZIUNE	25.90	25.13	12.23	-7.00
S.N. Aeroportul Internațional Mihail Kogălniceanu	1	-0.4	1.9	-4.9
C.N. Administrația Canalelor Navigabile Constanța S.A.	-33.8	83.7	-24.2	-40.5
Administrația fluvială Dunărea de Jos Galați	17.99	18.74	-17	13.6
Fondul Proprietatea	0	0	0	0
Institutul Național de Cercetare-Dezvoltare pentru Chimie și Petrochimie	-8.2	-1.7	-10	-4.1
S.N. ÎNCHIDERI MINE VALEA JIULUI S.A.	10.7	10.44	7.3	4.6
S.C. ELECTROCENTRALE GRUP S.A.	-9.9	-0.1	2	-0.4
R.A. TEHNOLOGII PENTRU ENERGIE NUCLEARĂ	-1.1	1.3	1.3	-0.1
S.C. CONVERSIM S.A.	-2.2	-1.5	-1.7	-0.5
S.N. CFR R.A	-42.6	-0.2	-0.6	-0.1
SCTMB Metrorex S.A.	-74	96.6	1.1	-148.4
2. Total companies at local level	29.1	-98.4	164.6	286.5
Local airports	13.1	-53.3	50.8	53.5
Heating stations with local subordination	-36.3	-28.4	-20.7	-36.1
Other local units	52.3	-16.7	134.5	269.1
3. Total SOEs	1,407.66	1,246.42	1,994.62	-133.47
% of GDP	0.20	0.16	0.23	-0.01

Source: NIS

In the post-crisis period, the improvement of the economic and financial performance of SOEs was also supported by the legislative reforms materialized through the enactment of the GEO no. 109/2011 on Corporate Governance of Public Enterprises. However, the implementation in 2018 of the amendments made during the 2016-2017 period of time, which allowed a significant number of companies and institutions to be exempted from applying GEO no. 109/2011 represents a significant weakening, *de facto* abolishing the functionality of the good corporate governance practices in most state-owned enterprises. Thus, by diminishing the commitment to corporate governance principles based on professionalism, integrity, transparency and accountability that can ensure the growth of the value of state corporations on medium and long-term, there is a risk that the progress made in recent years will be reversed in the near future.