

## Analysis of the economic and financial performance of Romania's state owned companies in 2016

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 (SOEs), 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. The present report analyzes the economic and financial performance of Romanian state owned companies in 2016 on the basis of the annual financial statements submitted by all companies to the Ministry of Public Finance (MPF).

*The reduction in the number of state-owned companies included in the analysis in 2016 may diminish to some extent the comparability with the previous years. However, the eliminated companies are of a relatively small size and the results of the study are expected to accurately highlight the trends in the performance of Romanian state-owned companies.*

At the end of 2016, an initial number of 1,740 companies reported in their financial statements that they belong to the SOEs' category. However, following a rigorous analysis of the organizational form and activity of these companies, it has been noticed that many limited liability companies have erroneously declared their ownership status, most of them (over 550) claiming to be autonomous administrations. After correcting these errors, the final number of SOEs included in the analysis was 916, down from 1,143 in 2015 (further information on the sample composition for each type of SOE can be found in [Table 1](#)). Taking into account this significant reduction in the number of companies included in the analysis, the results of the current study may not be fully comparable to those obtained in the previous years. However, it is expected that the study will accurately highlight the trends in the economic and financial performance of Romanian SOEs.

*A reduction in total revenues of state-owned companies by 4.1%, while private firms reported higher revenues by about 7%. This led to a decline in the share of state-owned companies in total revenues to a minimum of 3.7%.*

The total revenues of the SOEs that were included in the analysis decreased by about 2 billion lei from 48.6 billion lei in 2015 to 46.6 billion lei in 2016. This decrease can be explained by the decline of around 1 billion lei in the total turnover of the companies that were included in the sample, the remaining difference being attributed to the evolution of other revenues apart from the turnover and to the reduction in the number of companies that were included in the analysis. It can be observed that the latter factor has a limited contribution, the tendency of decreasing revenues in the SOE sector being correctly highlighted by the current sample. At the same time,

private firms reported higher revenues by about 7%, which led to a decline in the share of SOEs in total revenues to a minimum of 3.7%. The gross value added by SOEs followed the downward trend as well, decreasing by more than 0.5 billion lei to a share of 9.1% of the total economy.

***Similar to the previous years, the arrears of state-owned companies represent a higher share of total arrears in the economy compared to their contribution to the economic activity. Moreover, 2016 marks a stop to the trend of diminishing this weight. Thus, it seems that the financial discipline of state-owned companies has deteriorated.***

On the other hand<sup>1</sup>, SOEs accumulated arrears that account for 20.6% of the total outstanding payments across the economy, up from 18.3% in 2015, which was also the minimum of the 2008-2016 period. This weight is clearly higher than the contribution of these enterprises to the economic activity and may be partially explained by historical developments. Between 2008 and 2016, the share of SOEs' arrears in total arrears decreased from 24.6% to 20.6%. But, in 2016, the arrears of SOEs increased by about 2 billion lei, in stark contrast with the evolution of private companies' arrears, which decreased by about 5.5 billion lei. This situation may signal a deterioration in the financial discipline among SOEs and a reversal of the post-crisis arrears' reduction trend.

The development of the main financial and economic indicators of the Romanian SOEs is presented in [Table 2](#).

***Labor productivity in state-owned companies is significantly higher in 2016 than in 2008, but this was mainly achieved by reducing the number of employees.***

The number of employees in SOEs experienced a continuous decrease in the period 2008-2016 to a level of about 281 thousand persons, respectively by 10 thousand (or by 3.44%) lower compared to the previous year and by about 109 thousand lower than in 2008 (or 27.95%), as gross value added created in these companies increased in nominal terms by 20.23% compared to 2008, but decreased by 2.03% comparative with 2015 (also influenced by the reduction in the number of SOEs considered for analysis). Considering the values expressed in real terms<sup>2</sup>, gross value added decreased by 4% in 2016 compared to the previous year and by 6.78% compared to 2008. Under these conditions, the labor productivity of SOEs decreased by 0.59% in 2016 compared to the previous year when it recorded a historical maximum of the analyzed period but increased by 29.37% compared to

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<sup>1</sup> According to MPF, the companies' arrears are delayed payments to banks, the state budget, social security budget, suppliers and other creditors by more than 30 days against the contractual or legal terms, that generate payment obligations.

<sup>2</sup> The price index used for expressing values in constant prices is the GDP deflator.

2008, mainly due to the significant decrease of the number of employees.

***In 2016, the profitability of state-owned companies is at the post-crisis peak, if we exclude the profit that comes from the debt cancellation of S.C. Oltchim S.A. from the analysis for 2015. In the period 2013-2016, the gross profits obtained by state-owned companies are significantly better than those for the period 2008-2012.***

In terms of profitability of SOEs, measured through the level of the gross profit obtained, in 2016 it reached a level of 4.438 million lei, by 452 million lei less than the maximum recorded in the previous year, including the profit<sup>3</sup> reported last year by S.C. Oltchim S.A. which resulted from the debt cancellation of the company in insolvency. As has been shown in the previous report, it is appropriate to exclude the scriptic profit recorded by this company in 2015 from the detailed analysis that follows in order to obtain undistorted results. Thus, it can be appreciated that the profitability of the SOEs at an aggregate level experienced a significant improvement during the period 2013-2016, the gross profit obtained reaching a historical maximum at the end of the analyzed period, registering also net values significantly higher than in the interval 2008-2012.

***A small number of state owned companies generates a profit higher than the total, and the analysis will consider separately both the aggregated values and those obtained by excluding the five most profitable state owned companies - Top 5.***

The analysis of the profitability of SOEs may be extended by excluding from the total the Top 5 companies in terms of the level of gross profit obtained<sup>4</sup> (Top 5 from now - they are found in [Table 3](#)) provided that to a small number of companies are attributable significant profits that influence considerably the aggregate results. Thus, if we eliminate the influence of the best five SOEs on a profit basis, it can be noticed a negative overall result of the SOEs in 2008-2016, but with a decrease to -23 million lei in the year 2016, compared with a value of -1.527 million lei in 2015 or -957 million lei in 2014. The period 2008-2012 was characterized by high losses, but in the following years they have considerably diminished. On the other hand, SOEs in the Top 5 have consistently recorded significant profits, over the last four years their gross profit increased 1.81 times (from 2.465 million lei in 2012 to 4.461 million lei at the end of 2016).

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<sup>3</sup> If from the total profit of SOEs in 2015 we subtract the artificial profit recorded by S.C. Oltchim S.A. as a result of the cancellation of a significant part of the debts, we note that their gross profit is in fact decreasing in 2015 (to about 2,560 million lei) compared to the previous year (when it reached the value of 3,568 million lei), being very close to the value registered in 2013.

<sup>4</sup> S.C. Oltchim S.A. is not included in this Top from considerations mentioned above and all analyzes that include the indicator net/gross profit do not take into account the value from this company's debt cancellation.

It is worth noting that in 2016, the profit of the Top 5 SOEs amounts to 3,620.48 million lei, above the profit of the Top 5 SOEs in 2015 (3,311.29 million lei). We note the good profitability of S.P.E.E. Hidroelectrica S.A., S.N.G.N. Romgaz S.A. and S.N.T.G.N. Transgaz S.A. Medias which are in the Top 5 according to profit earned in the last four years (2013-2016).

There is thus a decisive influence of Top 5 SOEs on the aggregate performance of SOEs, and in this context, in order to analyze more rigorously the evolution of the financial performance of the whole sector of SOEs, the present evaluation refers to specific indicators, both at the aggregate level and eliminating the influence of Top 5.

**Table 1: The evolution of the number of SOEs that report financial statements by components**

	2008	2009	2010	2011	2012	2013	2014	2015	2016
Autonomous administrations	117	150	152	173	180	196	193	135	132
Companies owned 100% by the state	358	333	389	437	431	479	479	500	500
National companies and societies	41	45	50	61	48	45	46	43	32
Other companies entirely owned by state or where the state is the major shareholder	51	51	57	130	132	158	154	161	102
State-owned companies, local and foreign state capital (state capital >= 50%)	5	25	9	44	40	56	54	66	22
State-owned companies, local and foreign private capital (state capital >= 50%)	7	20	9	16	18	20	28	23	18
State-owned companies and with local private capital (state capital >=50%)	85	87	82	98	85	103	102	102	77
State-owned companies and with foreign private capital (state capital >=50%)	4	11	12	15	12	21	22	17	4
State-owned companies, privatized in the reporting year	50	52	31	74	60	73	77	96	29
<b>Total number of SOEs</b>	<b>718</b>	<b>774</b>	<b>791</b>	<b>1,048</b>	<b>1,006</b>	<b>1,151</b>	<b>1,155</b>	<b>1,143</b>	<b>916</b>

**Table 2: The evolution of certain financial indicators of Romanian companies that report financial statements considering the form of ownership**

	2008	2009	2010	2011	2012	2013	2014	2015	2016	
<b>Number of companies</b>	SOEs	718	774	791	1,048	1,006	1,151	1,155	1,143	916
	Total companies excluding financial sector	663,860	602,190	613,080	644,379	630,066	657,500	643,644	647,872	677,843
	Share of SOEs in total	0.11%	0.13%	0.13%	0.16%	0.16%	0.18%	0.18%	0.18%	0.14%
<b>Total income, mil. lei</b>	SOEs	56,660	50,756	55,022	58,511	49,853	51,208	44,487	48,578	46,586
	Total companies excluding 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
	Share of SOEs in total	5.80%	6.00%	5.98%	5.54%	4.65%	4.65%	4.00%	4.09%	3.67%
<b>Gross value added, mil. lei</b>	SOEs	21,744	20,454	22,881	24,202	22,339	25,131	25,220	26,687	26,143
	Total companies excluding financial sector	203,875	189,633	195,849	196,151	197,392	233,734	255,957	260,530	286,190
	Share of SOEs in total	10.67%	10.79%	11.68%	12.34%	11.32%	10.75%	9.85%	10.24%	9.13%
<b>Gross value added in real terms, mil. lei (constant prices 2010)</b>	SOEs	23,406	21,177	22,881	23,268	20,527	22,329	22,037	22,731	21,820
<b>Employees number, thousands of persons</b>	SOEs	390	364	364	343	327	321	297	291	281
	Total companies excluding financial sector	4,618	4,019	3,962	4,040	3,898	4,016	3,882	3,959	4,078
	Share of SOEs in total	8.44%	9.05%	9.19%	8.49%	8.40%	8.00%	7.64%	7.36%	6.89%
<b>Labor productivity mil. lei /1,000 employees (constant prices 2010)</b>	SOEs	60.02	58.18	62.86	67.84	62.77	69.56	74.20	78.11	77.65
<b>Percentage change in labor productivity (relative to the previous year)</b>	SOEs	2.6%	-3.1%	8.0%	7.9%	-7.5%	10.8%	6.7%	5.3%	-0.6%
<b>Gross profit, mil. lei</b>	SOEs	(1,026)	(2,777)	(2,101)	1,372	(561)	2,203	3,568	4,890	4,438
	SOEs, excluding best performing 5 comp.	(3,927)	(4,329)	(4,202)	(2,449)	(3,026)	(1,278)	(957)	(1,527)	(23)
	Private companies	23,513	19,914	27,934	10,421	15,623	22,570	27,479	42,753	60,950
<b>Arrears, mil. lei</b>	SOEs	17,294	34,405	28,012	26,251	25,363	26,217	24,369	21,226	23,232
	Private companies	53,127	62,406	69,193	88,882	91,536	99,052	93,508	94,874	89,390
	Total companies excluding financial sector	70,422	96,811	97,205	115,133	116,899	125,269	117,878	116,101	112,622
	Share of SOEs in total	24.56%	35.54%	28.82%	22.80%	21.70%	20.93%	20.67%	18.28%	20.63%
<b>Arrears, % of GDP</b>	SOEs	3.3%	6.7%	5.2%	4.6%	4.3%	4.11%	3.6%	3.0%	3.0%
	Private companies	10.1%	12.2%	13.0%	15.7%	15.4%	15.54%	14.0%	13.3%	11.7%

**Table 3: Top 5 SOE's net profit**

Top 5 net profit in 2016			Top 5 net profit in 2015			Top 5 net profit in 2014		
	Company name	Net profit (mil. lei)		Company name	Net profit (mil. lei)		Company name	Net profit (mil. 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. MEDIAŞ	594.56	3	S.N.T.G.N. TRANSGAZ S.A. MEDIAŞ	488.73	3	S.N.T.G.N. TRANSGAZ S.A. MEDIAŞ	502.52
4	COMPANIA NATIONALĂ DE CĂI FERATE CFR S.A.	501.31	4	C.N.A.D.N.R. S.A.	368.80	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>
Top 5 net profit in 2013			Top 5 net profit in 2012			Top 5 net profit in 2011		
	Company name	Net profit (mil. lei)		Company name	Net profit (mil. lei)		Company name	Net profit (mil. lei)
1	S.N.G.N. ROMGAZ S.A.	1,300.64	1	S.N.G.N. ROMGAZ S.A.	1,244.05	1	TERMoeLECTRICA S.A.	1,597.22
2	S.P.E.E.H. HIDROELECTRICA S.A.	901.58	2	S.N.T.G.N. TRANSGAZ S.A. MEDIAŞ	329.31	2	S.N.G.N.ROMGAZ S.A.	1,031.75
3	S.N. NUCLEARELECTRICA S.A.	517.69	3	C.N.A.D.N.R. S.A.	174.14	3	S.N.T.G.N. TRANSGAZ S.A. MEDIAŞ	379.57
4	S.N.T.G.N. TRANSGAZ S.A. MEDIAŞ	429.93	4	COMPANIA NATIONALĂ DE CĂI FERATE CFR S.A.	144.65	4	C.N.A.D.N.R. S.A.	246.29
5	C.N.A.D.N.R. S.A.	330.39	5	COMPLEXUL ENERGETIC OLTENIA S.A.	118.33	5	S.C. ELECTROCENTRALE BUCUREŞTI S.A.	106.85
	<b>Total</b>	<b>3,480.24</b>		<b>Total</b>	<b>2,010.47</b>		<b>Total</b>	<b>3,361.69</b>

Source: MPF, based on balance sheets data submitted by the economic agents from non-financial sector

***The share of outstanding payments in the economy as a percentage of GDP has declined substantially, from 35.4% of GDP in 2000 to 14.8% of GDP in 2016, recording a minimum value in 2008 (13.1% of GDP).***

Since 2000, the share of the accumulated outstanding payments in the economy has considerably declined, from 35.4% of GDP in 2000 to 13.1% of GDP in 2008 (a reduction in nominal value amounting to 41.7 billion lei), but the financial crisis that started in 2008 led to their increase to a maximum value of 20.5% of GDP in 2011, followed by a downward trend, reaching 14.8% of GDP in 2016.

***The arrears of the state-owned companies have registered a similar trend, with a decrease from 17.8% of GDP in 2000 to 3.0% in 2016, below the 2008 level (3.2% of GDP). But the year 2016 seems to signal a relaxation in the financial discipline, as the SOEs' arrears increased compared with the previous year.***

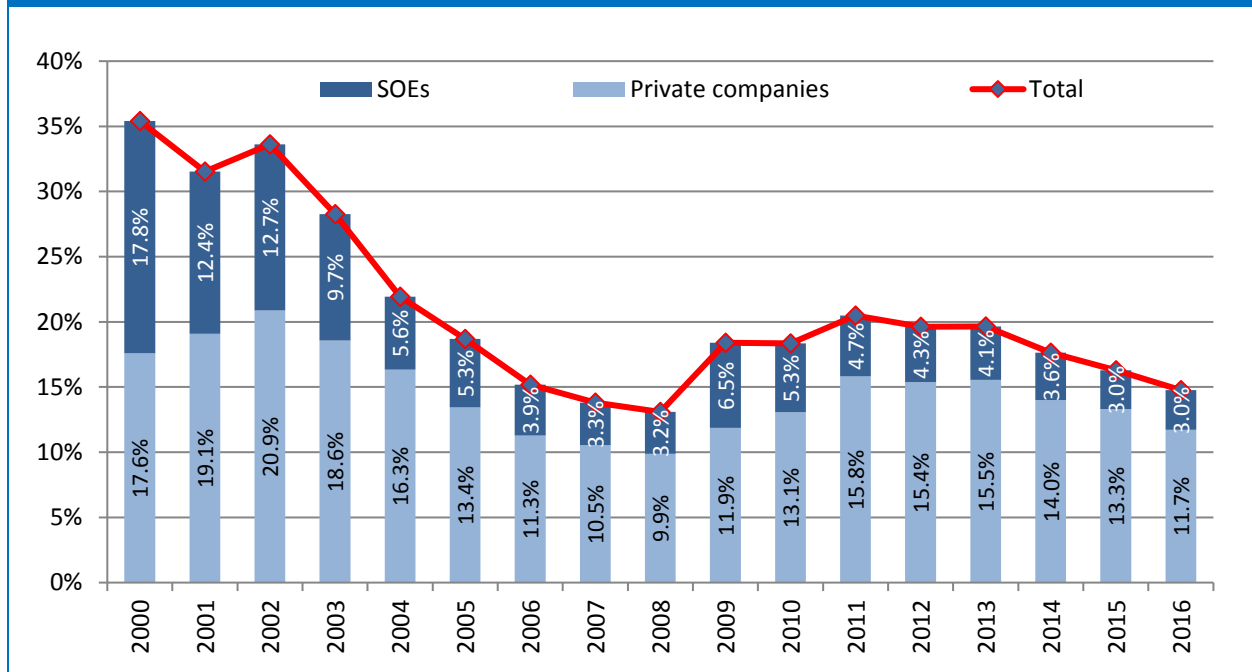
In the state-owned sector, if in 2000 the outstanding payments represented 17.8% of GDP (practically half of total arrears in the economy), there was a continuous and consistent decrease until 2008 (up to 3.2% of GDP), but in 2009 they increased to 6.5% of GDP, then declining continuously, reaching 3.05% of GDP in 2016. Therefore, on the background of the measures<sup>5</sup> agreed with the international financial institutions (European Commission, IMF, World Bank), in the context of the two balance of payments agreements in the period 2011-2015, was reached the minimum value of the share of SOEs' arrears in GDP of 2.98% in 2015. However, the increase of the arrears by about 2 billion lei in 2016 compared to 2015, despite the significant drop in the number of companies included in the analysis and a nominal GDP growth by 7%, could indicate that, starting with 2016 we can observe a loosening in the financial discipline at the level of the SOEs, and the reversal of the tendency of reducing their arrears between 2011 and 2015.

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<sup>5</sup> These measures aimed at framing the arrears in the quarterly indicative targets and included: budget transfers, placing SOEs into voluntary liquidation or insolvency or arrears' conversion into shares.



**Figure 1: The evolution of SOEs' and private companies' arrears (% of GDP)**

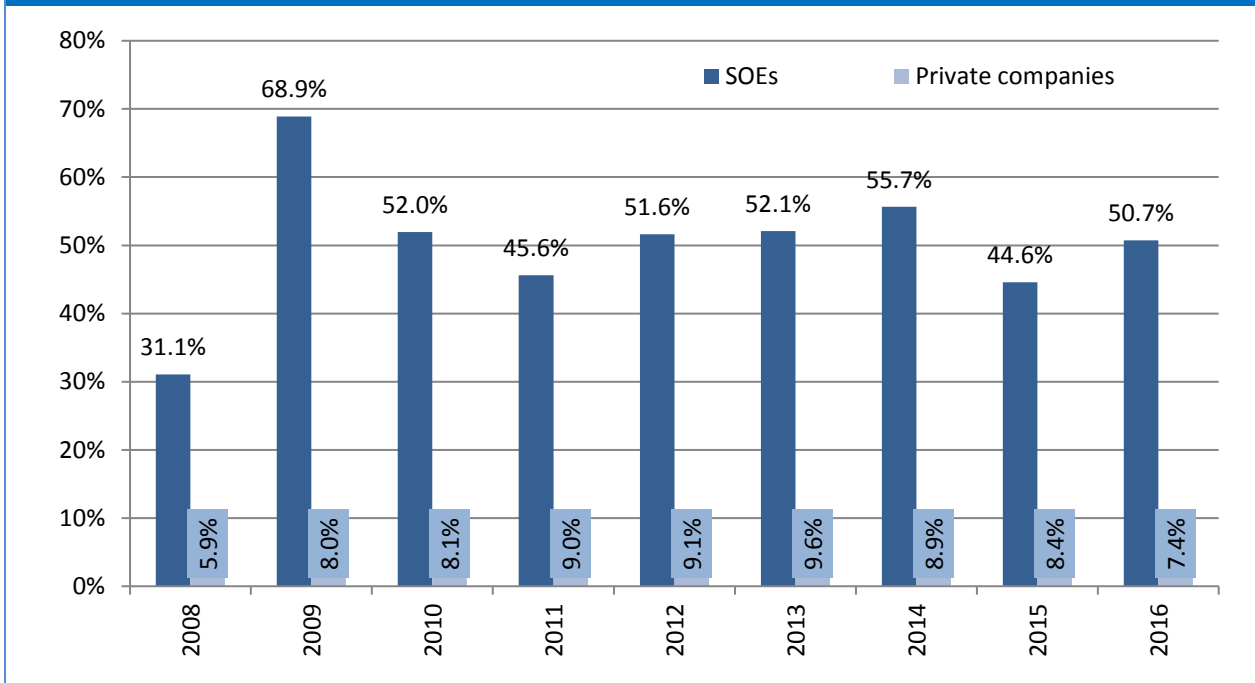


Source: MPF, based on balance sheets data submitted by the economic agents from non-financial sector

***In the private sector the share of arrears reached a peak in 2002 (20.9% of GDP), since then being on a downward trend until 2008 (9.9% of GDP), but on the background of the economic and financial crisis, they increased up to 15.8% of GDP in 2011; starting with 2012 the arrears were again on a downward trend, reaching a level of 11.6% of GDP at the end of 2016.***

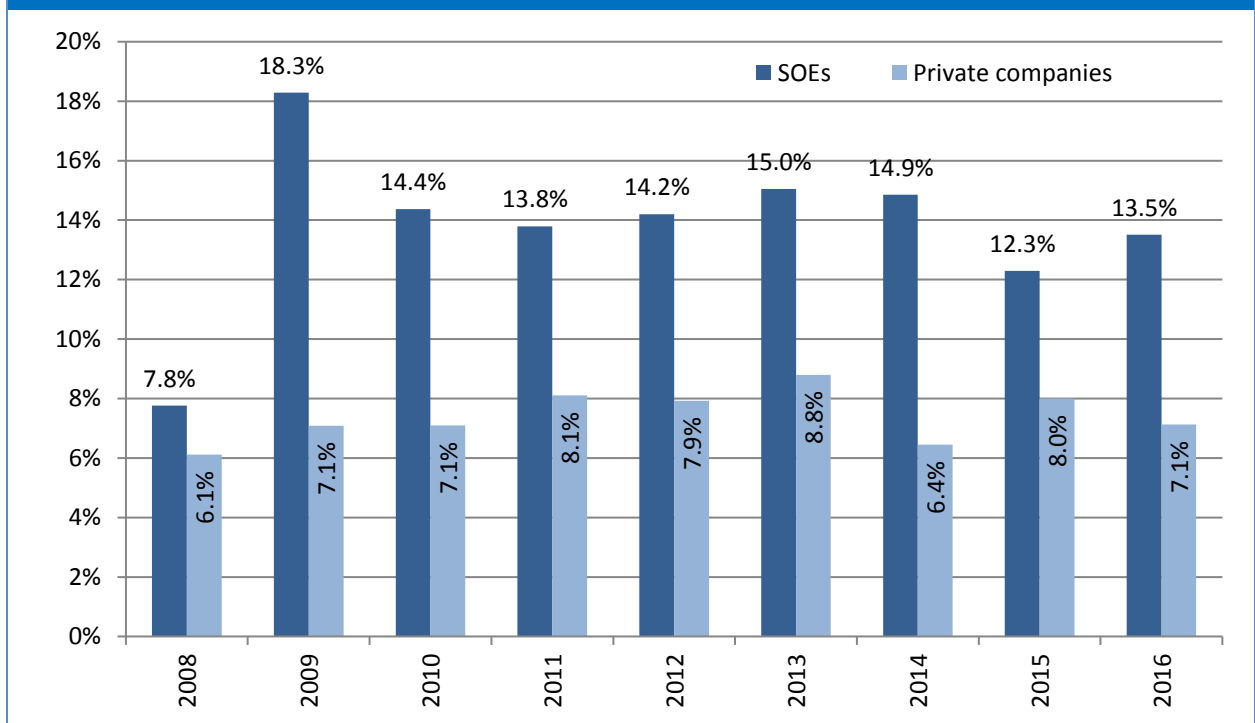
In the private sector the share of arrears in GDP recorded a peak in 2002 (20.9% compared to 17.6% in 2000), while during the 2003-2008 period of time it has been reduced significantly to 9.9% of GDP in 2008. The effects of the economic and financial crisis manifested starting 2008, led to the reversal of this trend, resulting a continuous accumulation of arrears in the 2009-2011 period of time (from 11.9% of GDP to 15.8% of GDP). Starting with 2012 the private companies succeeded to enter on a downward trend regarding the evolution of their arrears, being registered a level of 11.6% of GDP at the end of 2016. It should be noted that this result was achieved in the situation where, compared to 2015, the value of arrears of the private sector decreased by about 6% in 2016 compared to the previous year while the nominal value of GDP increased by 7%.

Figure 2: Arrears (% of turnover)



Source: MPF, based on balance sheets data submitted by the economic agents from non-financial sector

Figure 3: Arrears (% of total assets)



Source: MPF, based on balance sheets data submitted by the economic agents from non-financial sector

*The development of the share of arrears in the turnover for state-owned companies registered a significant reduction from the peak of 68.9% in 2009 to 50.7% at the end of 2016, but still slightly increased compared to previous year (44.6%). The share of arrears in total assets had a similar development, that, after a peak of 18.3% in 2009 registered a significant reduction in the period 2010-2015, but also in 2016 this indicator has experienced a deterioration compared to the previous year.*

*In the private sector, the share of arrears in the turnover recorded an upward trend in 2009-2013, with values ranging between 8.0% and 9.6%, followed by a continued reduction, at the end of 2016 reaching a level of 7.4%, being the first year in*

Analyzing the development of the share of SOEs' arrears in the turnover (see *Figure 2*), it can be noticed a peak in 2009, as a result of the financial crisis, this indicator recording a significant jump of over 100% (from 31.1% in 2008 to 68.9% in 2009). After a significant drop in the share of arrears in turnover in 2010-2011 (up to 45.6% in 2011), this indicator registered an upward trend between 2012 and 2014, when arrears have reached a share of 55.7% in turnover, but then recorded a significant reduction (to 44.6% at the end of 2015). However, at the end of 2016, the share of the SOEs arrears in turnover increased by 6.1 pp compared to 2015 (respectively, a share of 50.7%). The evolution in the last two years can be explained by the accelerated reduction of the value of the SOEs' arrears (-12.9%), together with the increase in their turnover (+8.7%) in 2015 compared to the previous year, while in 2016 compared to 2015, the value of arrears increased by 9.4%<sup>6</sup> and the turnover decreased by 3.7%. Regarding the evolution of the share of arrears of SOEs in total assets (*Figure 3*), this indicator was about 2.4 times higher in 2009 compared to 2008 (18.3% from 7.8%), subsequently entering on a significant diminishing trend to 12.3% in 2015 but followed in 2016 by an increase to 13.5%.

From the perspective of the evolution of the share of the private companies' arrears in the turnover (*Figure 2*), a significant increase was observed in 2009 compared to the previous year, respectively, from 5,9% in 2008 to 8%. Over the period 2010-2013, this indicator recorded slight increases up to a peak of 9.6% in 2013, after which it entered a downward trajectory, reaching 7.4% at the end of 2016. It is worth mentioning that in 2016, unlike the state companies, the private companies have managed to reduce arrears by 5.8% compared to the precedent year, due to the increase of the turnover by 7.3%, so that the

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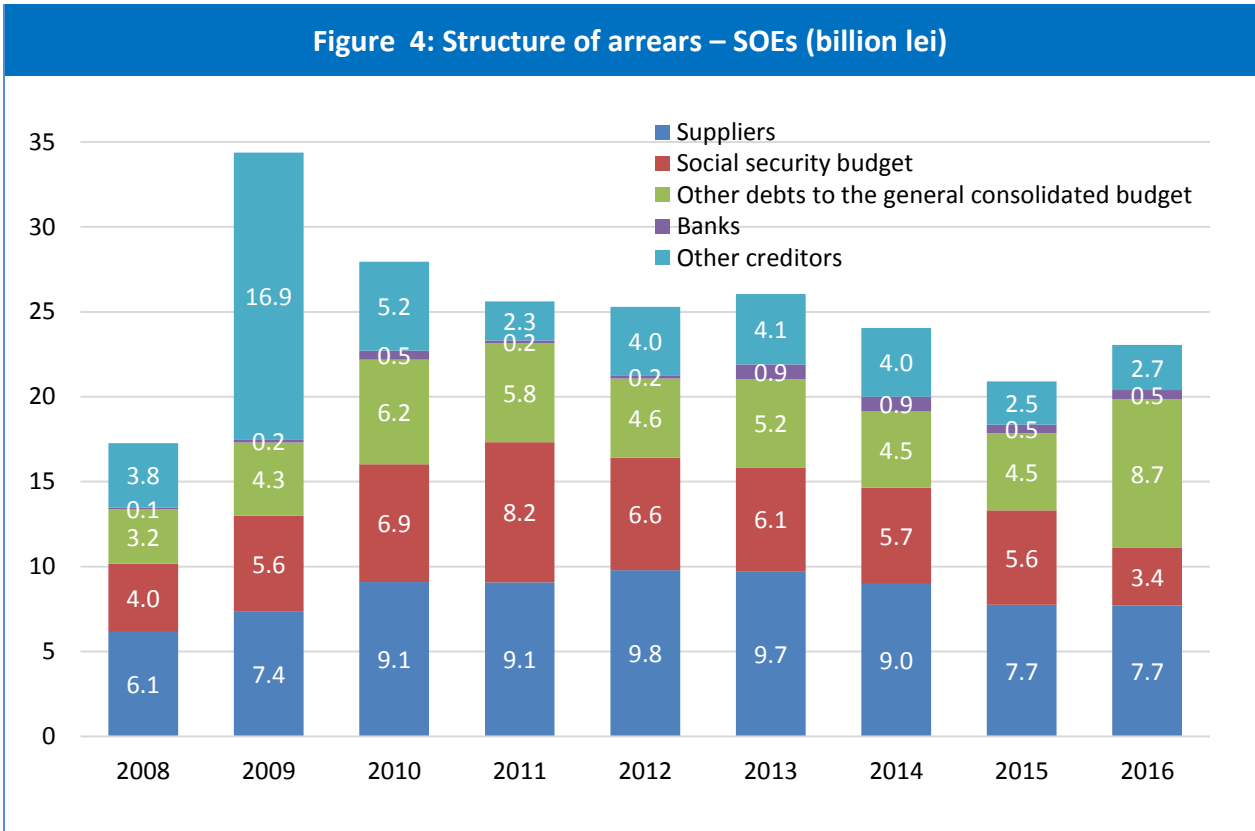
<sup>6</sup> Although in 2016 the Memorandum on the measures to be taken into account when preparing the budgets for 2016 for the economic operators to which the provisions of Emergency Ordinance no. 26/2013 are applied was approved by E.O no. 26/2013 it was decided to reduce the outstanding payments by at least 15% by the end of 2016 compared to those scheduled for the end of 2015, including for the line ministries.

*which this indicator was below the value of 2009. During the same period of time, the share of arrears in total assets for the private companies had a sinuous evolution, with values between 6.4% in 2014 and 8.8% in 2013, reaching a level of 7.1% at the end of 2016, similar to the 2009 level.*

*From the perspective of the structure by main creditors, in 2016 the state-owned companies recorded a share of 52% of total arrears to the general consolidated budget and 33% of the total arrears to suppliers. Compared to the previous year, the value of arrears of the state-owned companies to their creditors increased by over 2 billion lei, mainly to the consolidated general budget (by 20%).*

share of arrears in turnover decreased by 1 percentage point compared to 2015. Regarding the evolution of the share of the private companies' arrears in total assets (*Figure 3*), it can be noticed that the effect of the crisis was much less pronounced immediately after the economic and financial crisis started (an increase of the share from 6.1% in 2008 to 7.1% in 2009). Thereafter, this indicator had a sinuous evolution, from a maximum of 8.8% in 2013 to 6.4% in 2014 (the minimum of the 2009-2016 period), followed by an increase up to 8% in 2015, and then a reduction of almost 1 pp at the end of 2016, reaching the same level of the share of arrears of private sector companies in total assets as in 2009 (7.1%).

The total outstanding payments of SOEs in December 2016 to the general consolidated budget amounted to 12.1 billion lei (1.6% of GDP, by 2 billion lei more compared to last year, respectively plus 0.2 percentage points of GDP), out of which 3.4 billion lei to the social security budgets (0.4% of GDP, practically a 50% reduction compared to 2015) and 8.7 billion lei to other budgets, which doubled compared to the previous year (4.5 billion lei in 2015). Suppliers ranked second among the creditors of SOEs, the amount due to them being 7.7 billion lei, and 1.0% of GDP, respectively. The structure of arrears of the SOEs is presented in *Figure 4*. Most of the SOEs' arrears in 2016 were to the general consolidated budget (52% of total arrears), of which the majority was represented by arrears to the other budgets (72%, almost double compared to the previous year) and 28% to the social security budget), followed by arrears to suppliers (accounting for 33% of total arrears, of which 77% late payments for more than 1 year). Compared to the previous year, the value of the arrears of the SOEs to suppliers remained constant at the level of 2016, while the arrears due to the consolidated general budget increased significantly (by 20%), so that on the whole, the increase of SOEs' arrears to their main creditors was over 2 billion lei.

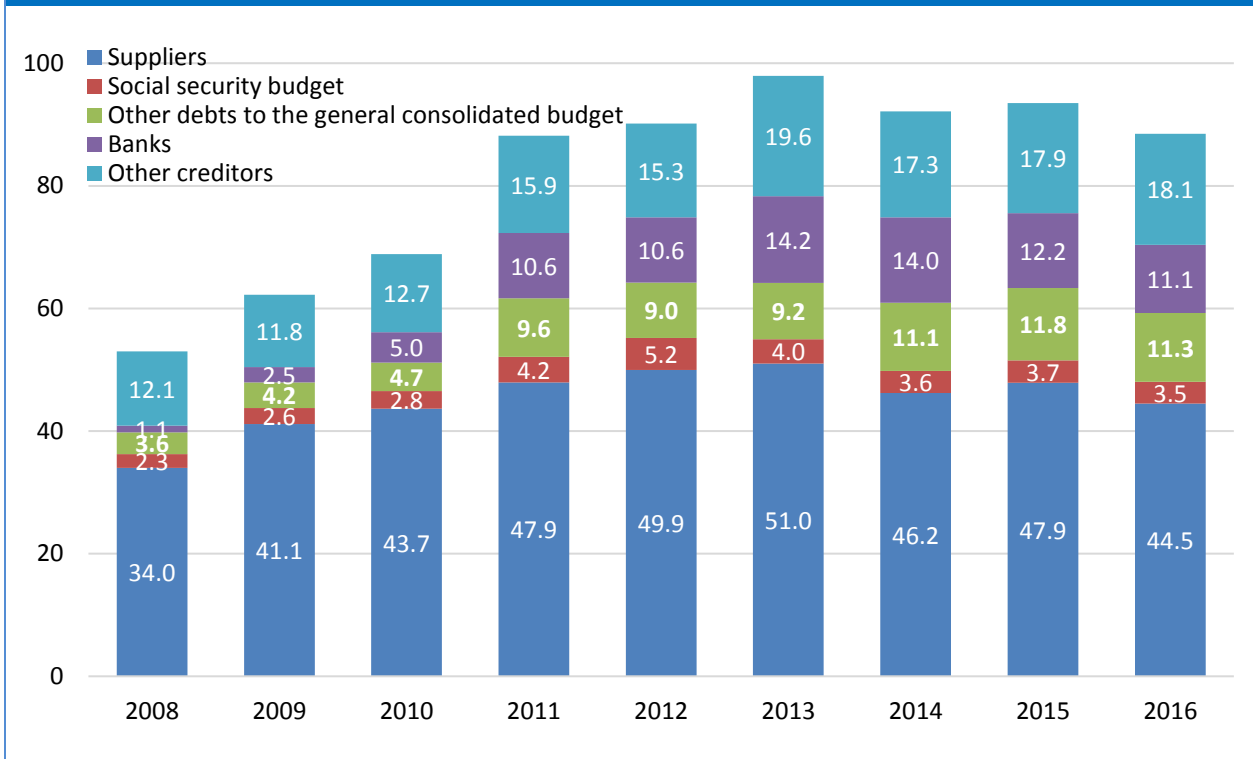


Source: MPF, based on balance sheets data submitted by the economic agents from non-financial sector

**The private companies accounted for 50% of total arrears to suppliers and 16.5% for the general consolidated budget and managed to reduce arrears to their creditors by about 5 billion lei compared to 2015.**

The private companies (*Figure 5*) accumulated arrears mostly to suppliers (44.5 billion lei, or 50% of the total arrears of the private sector). Of these, 59% were late payments for more than 1 year. The overdue payments to the general consolidated budget amounted to 14.8 billion lei (of which 76% represented arrears to the other budgets), respectively 16.5% of the total arrears. Compared to the previous year, the private sector’s companies reduced their arrears to their creditors by about 5 billion lei, mainly to: suppliers with 3.4 billion lei (-7%), the general consolidated budget by 0.7 billion lei (-4.4%) and banks (by 1.1 billion lei, respectively - 9.3%).

**Figure 5: Structure of arrears – private companies (billion lei)**



Source: MPF, based on balance sheets data submitted by the economic agents from non-financial sector

**The accumulation of outstanding payments by the companies in the public sector is concentrated in the following sectors: mining, distribution of heat and chemical industry and in a proportion of more than 67% is attributable to the first 10 SOEs ranked in terms of outstanding payments in total economy. Within the Top 10, the first 3 companies with the largest outstanding payments have accumulated over the**

Besides direct fiscal consequences generated by SOE's arrears – revenue shortfalls to the general consolidated budget - the accumulation of outstanding payments towards the private sector is likely to create liquidity problems and to hamper economic growth. The Top 10 companies in terms of outstanding payments account for over 67% of the total arrears of SOEs, the arrears being particularly high in the mining, distribution of heat and chemical sectors. Like in the previous years, the first five companies in the top are Compania Națională a Huilei, RADET București, Complexul Energetic Hunedoara S.A and S.C. Oltchim S.A. that together with the new entry in Top 5, Electrocentrale București S.A., have aggregate arrears representing over 81% of the Top 10's total arrears, or 54% of the total arrears of the public sector in 2016. Compared to the previous year, these 5 companies recorded significant increases in arrears, especially Electrocentrale București (from 0.5 billion lei to over 1.4 billion

*past three years over 80% of the total arrears for the Top 10.*

lei, due to the increase of RADET debts to them, causing the rapid accumulation of arrears to fuel suppliers).

The first 10 companies in the top of bad payers have accumulated at the end of 2016 about 80% of the total arrears of state owned companies towards the general consolidated budget, standing out Compania Națională a Huilei with over 56% of Top 10 arrears, respectively 45% of the total arrears of SOEs to the general consolidated budget and about a quarter (23%) of the total SOEs; arrears to the economy.

**Table 4: Top 10 SOE's arrears**

**Top 10 arrears in Dec 2016**

	Company name	Arrears (mil. 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 TERMOFICARE IAȘI (C.E.T.) S.A.	560.98
10	SOCIETATEA NAȚIONALĂ A CĂRBUNELUI S.A.	550.47
	<b>% total</b>	<b>67.28%</b>

**Top 10 arrears in Dec 2015**

	Company name	Arrears (mil. lei)
1	COMPANIA NAȚIONALĂ A HUILEI S.A. ÎN LICHIDARE	4,865.05
2	RADET BUCUREȘTI	3,407.85
3	S.C. OLTCHIM S.A.	1,224.82
4	S.C. COMPLEXUL ENERGETIC HUNEDOARA S.A.	662.83
5	COMPANIA NAȚIONALĂ A METALELOR PREȚIOASE ȘI NEFEROASE REMIN S.A.	572.35
6	SOCIETATEA ROMÂNĂ DE TELEVIZIUNE	559.39
7	CENTRALA ELECTRICĂ DE TERMOFICARE IAȘI (C.E.T.) S.A.	557.35
8	SOCIETATEA NAȚIONALĂ A CĂRBUNELUI S.A.	518.80
9	ELECTROCENTRALE BUCUREȘTI S.A.	498.46
10	S.N.T.F.C. CFR CĂLĂTORI S.A.	490.28
	<b>% total</b>	<b>62.93%</b>

**Top 10 arrears in Dec 2014**

	Company name	Arrears (mil. lei)
1	COMPANIA NAȚIONALĂ A HUILEI S.A. ÎN LICHIDARE	4,865.05
2	S.C. OLTCHIM S.A.	3,397.19
3	RADET BUCUREȘTI	3,157.86
4	REGIA AUTONOMĂ PENTRU ACTIVITĂȚI NUCLEARE R.A.	1,097.06
5	COMPANIA NAȚIONALĂ A METALELOR PREȚIOASE ȘI NEFEROASE REMIN S.A.	570.30
6	SOCIETATEA ROMÂNĂ DE TELEVIZIUNE	553.10
7	CENTRALA ELECTRICĂ DE TERMOFICARE IAȘI (C.E.T.) S.A.	545.38
8	SOCIETATEA NAȚIONALĂ A CĂRBUNELUI S.A.	518.77
9	FORTUS S.A.	405.21
10	CENTRALA ELECTRICĂ DE TERMOFICARE BRAȘOV S.A.	394.55
	<b>% total</b>	<b>63.62%</b>

**Top 10 arrears to consolidated general budget in Dec 2015**

	Company name	Arrears (mil. 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.	735.70
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 TERMOFICARE 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
	<b>% total</b>	<b>79.57%</b>

**Top 10 arrears to consolidated general budget in Dec 2015**

	Company name	Arrears (mil. lei)
1	COMPANIA NAȚIONALĂ A HUILEI S.A. ÎN LICHIDARE	4,851.92
2	S.C. COMPLEXUL ENERGETIC HUNEDOARA S.A.	531.69
3	SOCIETATEA NAȚIONALĂ A CĂRBUNELUI S.A.	505.68
4	SOCIETATEA ROMÂNĂ DE TELEVIZIUNE	459.49
5	CENTRALA ELECTRICĂ DE TERMOFICARE IAȘI (C.E.T.) S.A.	419.91
6	MOLDOMIN S.A.	261.41
7	SOCIETATEA NAȚIONALĂ A CĂILOR FERATE ROMÂNE R.A.	241.71
8	S.C. ELECTROCENTRALE CONSTANȚA	197.58
9	REGIA AUTONOMĂ PENTRU ACTIVITĂȚI NUCLEARE R.A.	174.39
10	AVERSA S.A.	160.93
	<b>% total</b>	<b>77.20%</b>

**Top 10 arrears to consolidated general budget in Dec 2015**

	Company name	Arrears (mil. lei)
1	COMPANIA NAȚIONALĂ A HUILEI S.A. ÎN LICHIDARE	4,851.92
2	SOCIETATEA NAȚIONALĂ A CĂRBUNELUI S.A.	505.66
3	SOCIETATEA ROMÂNĂ DE TELEVIZIUNE	454.51
4	CENTRALA ELECTRICĂ DE TERMOFICARE IAȘI (C.E.T.) S.A.	407.93
5	SC COMPLEXUL ENERGETIC HUNEDOARA S.A.	293.48
6	MOLDOMIN S.A.	260.77
7	SOCIETATEA NAȚIONALĂ A CĂILOR FERATE ROMÂNE R.A.	241.74
8	S.C. ELECTROCENTRALE CONSTANȚA	185.97
9	REGIA AUTONOMĂ PENTRU ACTIVITĂȚI NUCLEARE R.A.	175.80
10	INTERVENȚII FERVIARE S.A.	175.01
	<b>% total</b>	<b>74.27%</b>

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



**Table 5: SOEs arrears evolution by type of company (million lei)**

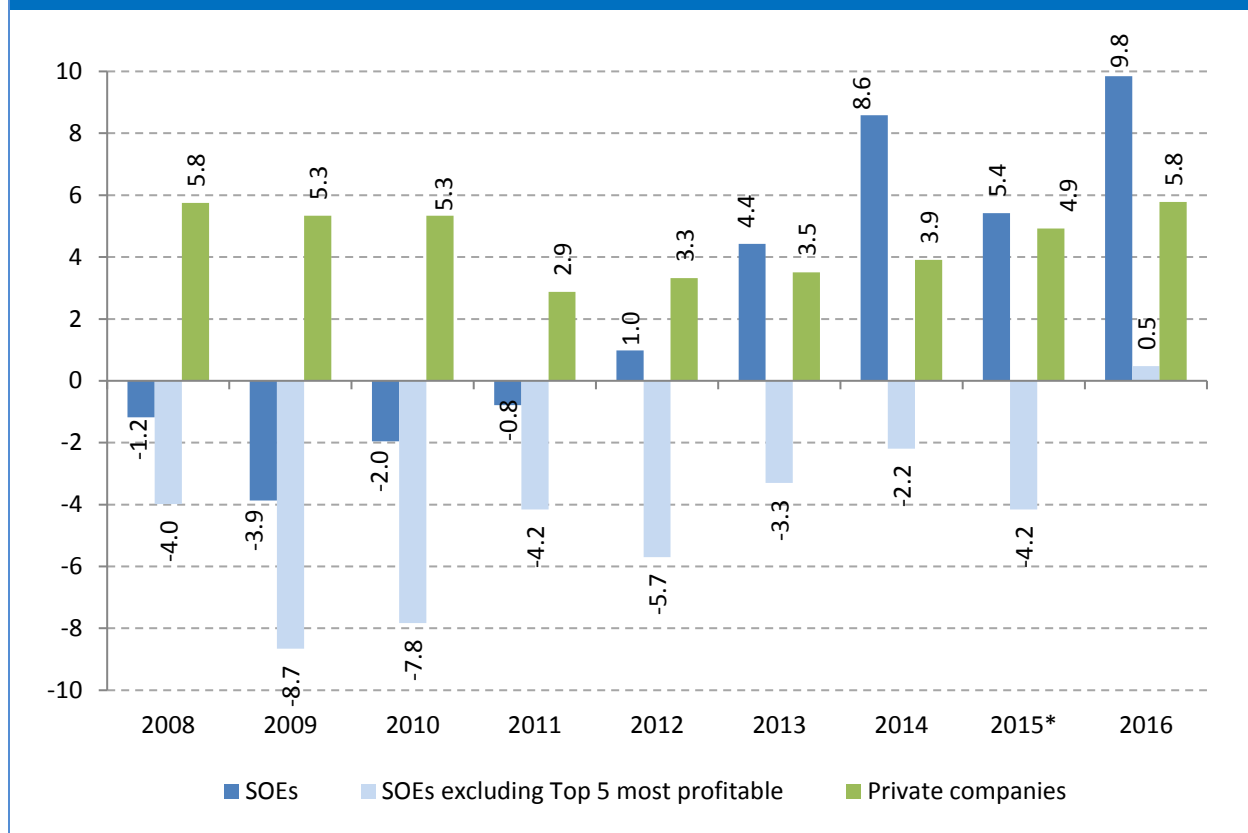
	2008	2009	2010	2011	2012	2013	2014	2015	2016
Autonomous administrations	1,130.70	1,411.14	2,019.32	3,153.75	3,662.52	4,541.85	5,515.00	5,110.99	5,198.17
Companies owned 100% by the state	6,802.97	8,102.41	9,648.19	7,670.87	5,605.94	6,341.70	5,378.51	5,174.00	5,532.35
National companies and societies	7,945.22	23,710.69	15,032.90	12,773.24	10,350.17	8,658.11	7,300.42	7,071.76	7,552.86
Other state – owned companies or majority-state – owned companies	77.60	184.32	298.81	769.32	879.87	1,484.98	1,187.36	914.92	924.64
State – owned companies, local and foreign state capital (state capital >= 50%)	5.52	1.05	0.26	46.28	3.27	0.81	1.76	2.60	1.51
State –owned companies, local and foreign private capital (state capital >=50%)	717.28	35.38	78.59	330.44	2,551.90	3,412.91	3,423.14	1,229.97	1,184.32
State –owned companies and with local private capital (state capital >=50%)	609.37	957.00	932.08	1,504.96	2,308.42	1,775.47	1,560.32	1,699.95	2,837.51
State –owned companies and with foreign private capital (state capital >=50%)	0.86	1.66	0.37	0.47	0.43	0.77	1.17	2.80	0.69
State –owned companies, privatized in the reporting year	4.81	1.38	1.79	2.06	0.62	0.51	1.80	19.30	0.00
<b>TOTAL arrears</b>	<b>17,294.33</b>	<b>34,405.02</b>	<b>28,012.31</b>	<b>26,251.39</b>	<b>25,363.13</b>	<b>26,217.11</b>	<b>24,369.48</b>	<b>21,226.29</b>	<b>23,232.05</b>

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

***The operating margin of state-owned companies improved from 5.4% in 2015 to 9.8% in 2016, registering again a higher level than the one obtained by the private sector. Excluding the top five companies, the indicator has a value of just 0.5%, but it is worth mentioning that this is the only positive value recorded since 2008.***

The year 2016 marked an improvement in the operating margin which measures the profitability of the core business activities by reporting earnings before interest and taxes to total revenues. In the case of SOEs, the indicator rose significantly from 5.4% in 2015 to 9.8% in 2016, exceeding by far the 5.8% recorded by private companies. This development was mainly driven by the increase of about 74% in operating earnings while total revenues declined by about 4%. Excluding the top five most profitable SOEs, the indicator is reduced to only 0.5%, but it is worth mentioning that this is the only positive value recorded since 2008. Excluding the top five companies, it is evidenced a sizeable gap, proving their high impact on SOEs' aggregate results. Therefore, the solid performance displayed by the top five companies is able to offset the poor results of the remaining companies, significantly improving the average of the entire SOEs' sector.

Figure 6: Operating margin (%)



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

Note: Operating surplus (%) = Operating surplus / Total income \* 100

\*In 2015 at the level of SOEs was excluded the profit of S.C. Oltchim S.A. originated from the cancellation of a part of debt.

\*\* The operating surplus does not include the interest expenses and those related to income taxes.

**The ability of state-owned companies to cover their debt has not changed significantly since 2015, but indebtedness is distributed unevenly among them, with some companies having very small amounts of debt, while others are heavily indebted. Overall, in 2016,**

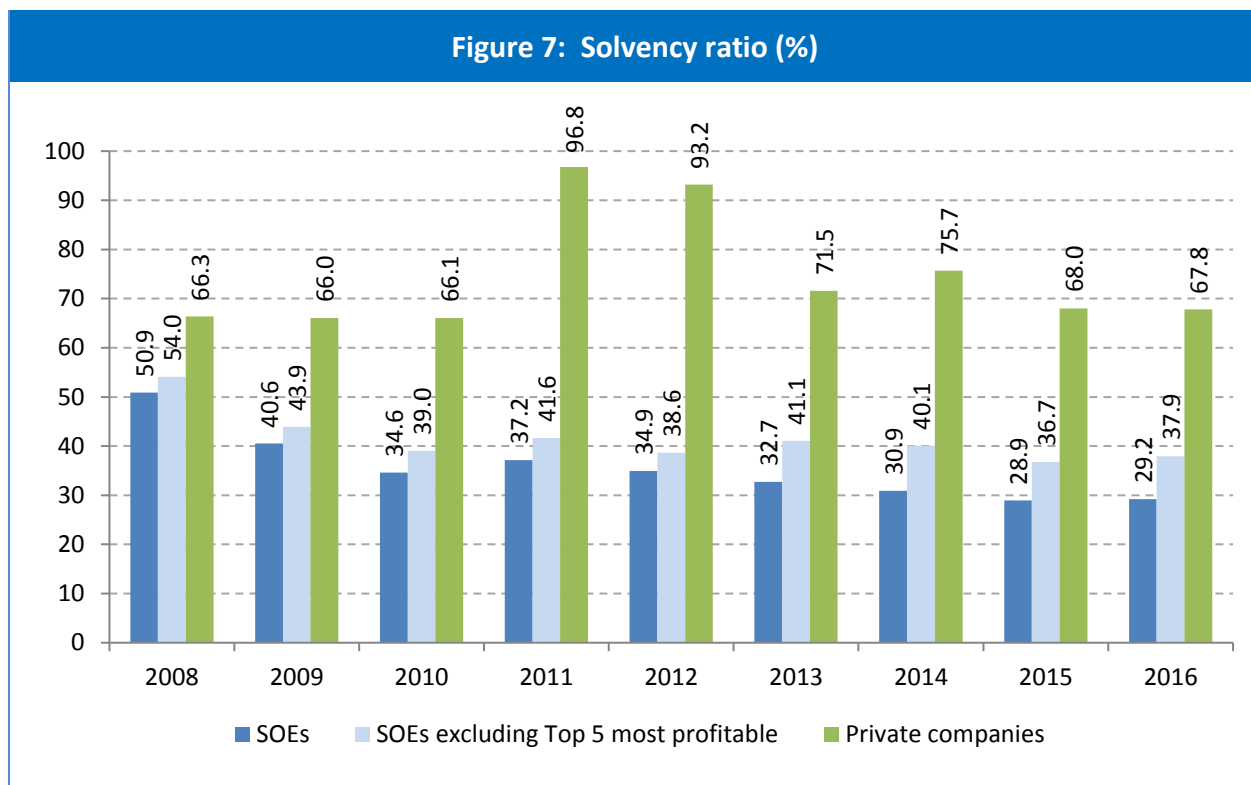
With regard to the solvency ratio of SOEs, reflected by the ability to cover their debt with their assets, it has undergone limited changes from 28.9% in 2015 to 29.2% in 2016. This result is justified by the fact that both the assets and the total debt of SOEs remained relatively stable with very small changes of less than 1%. The result is also influenced by the uneven distribution of debt across SOEs which include large firms with very low levels of indebtedness.

On the other hand, the indicator reflects a significantly higher indebtedness of private companies (67.8%), this level being very close to that recorded in 2015 (68%). Excluding the top five SOEs,

*the share of debt in total assets of state-owned companies remained well below the level recorded by the private ones.*

the solvency ratio is 37.9%, which in turn is very close to the level recorded in 2015 (36.7%).

In conclusion, the solvency analysis for all categories of companies included in the study highlights the stability of the indicator, with no significant changes relative to 2015.



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

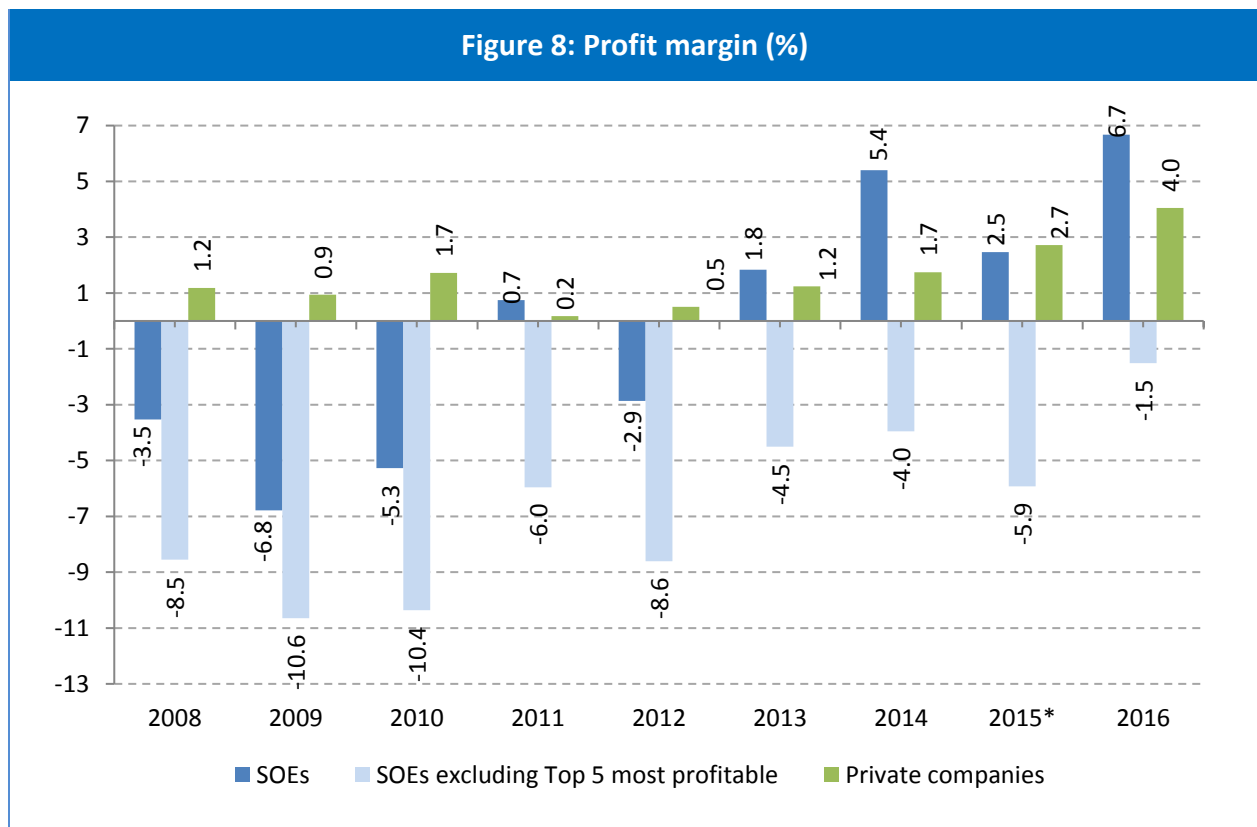
$$\text{Solvency ratio (\%)} = \text{Total debt} / \text{Total assets} * 100$$

*The profit margin of state-owned companies improved significantly from 2.5% in 2015 to 6.7% in 2016., exceeding the performance of private companies and being in line with the overall positive dynamics of economic activity.*

The improvement of the operational efficiency of SOEs (attested by the operating margin) is also visible at the level of the profit margin, which increased significantly from 2.5% in 2015 to 6.7% in 2016. Moreover, SOEs' profit margin exceeded the one recorded by private companies (3.9%, also higher in comparison with 2.7% in 2015). Excluding the top five companies, the profit margin recorded negative values throughout the analyzed period, but there was a significant improvement in 2016 (-1.5% versus -5.9% in 2015). Although it remains negative, it is

noteworthy that the -1.5% margin is the best result recorded since 2008.

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.



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

Note: Profit margin (%)=Net result/Total income\*100

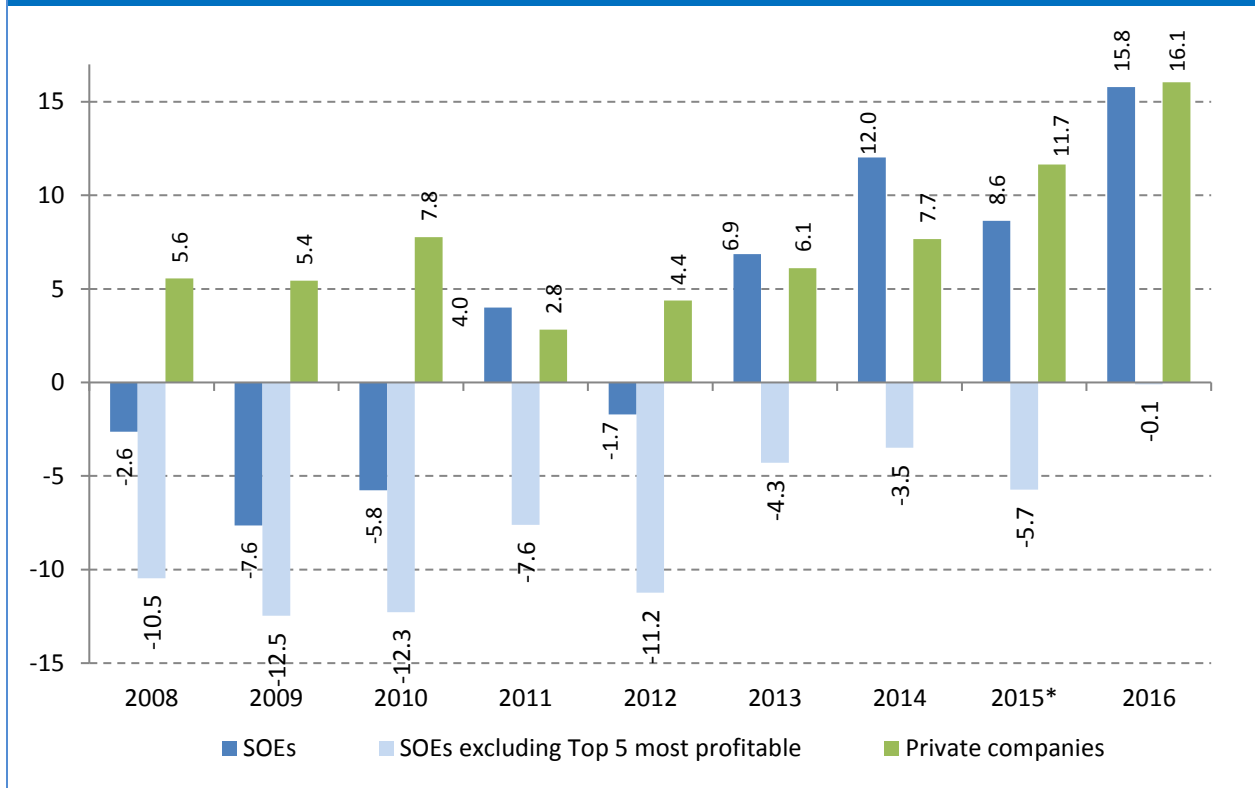
\*In 2015 at the level of SOEs was excluded the profit of S.C. Oltchim S.A. originated from the cancellation of a part of debt.

**In 2016, the gross profit per 1,000 employees exhibited a spectacular growth for state-owned companies mainly due to a** 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 recorded a spectacular growth of more than 80% compared to 2015, due

*considerable increase of the gross profit. Excluding the top five companies, the gross profit remains negative, but the results are significantly improved relative to 2015. Private companies have continued the upward trend from previous years and, for all the categories of companies included in the study, 2016 marks the maximum values of the gross profit per 1,000 employees since 2008.*

to an important increase of the gross profit (by about 76%) and further sustained by a drop of about 4% in the number of employees. It is worth noting that the strong dynamics of the indicator significantly reduced the gap towards private companies. However, the overall results of SOEs were substantially improved by the top five companies: in 2016 they registered a gross profit of 4,462 million lei, while the remaining SOEs recorded losses of 23 million lei. Therefore, the gap between the top five companies and the other SOEs is considerable, significantly influencing the overall results. Nevertheless, even when the top five companies are excluded, there is a significant improvement of the indicator: -0.1 million lei in 2016 compared to -5.7 million lei in 2015. Positive developments are also registered by private companies: their gross profit per 1,000 employees increased from 11.7 million lei in 2015 to 16 million lei in 2016. It is important to note that, for all the categories of companies included in the study, in 2016 the maximum values of the indicator since 2008 were recorded.

Figure 9: Gross profit per 1,000 employees (thousand lei)



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

\*In 2015 at the level of SOEs was excluded the profit of S.C. Oltchim S.A. originated from the cancellation of a part of debt.

**The return on equity generated by state-owned companies improved over the course of 2016, but continues to be significantly lower than the one obtained by private firms: 2.5% versus 12%. Thus, the ability of state-owned companies to generate value for their shareholders is 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 leu invested in equity by the shareholders);
- ROA measures the efficiency of assets (how many lei yields a leu invested in the company's assets).

*The return on assets exhibited a similar trend: state-owned companies rose from 0.7% in 2015 to 1.8% in 2016. During the same period, the return on assets of private firms increased from 2.6% to 3.8%.*

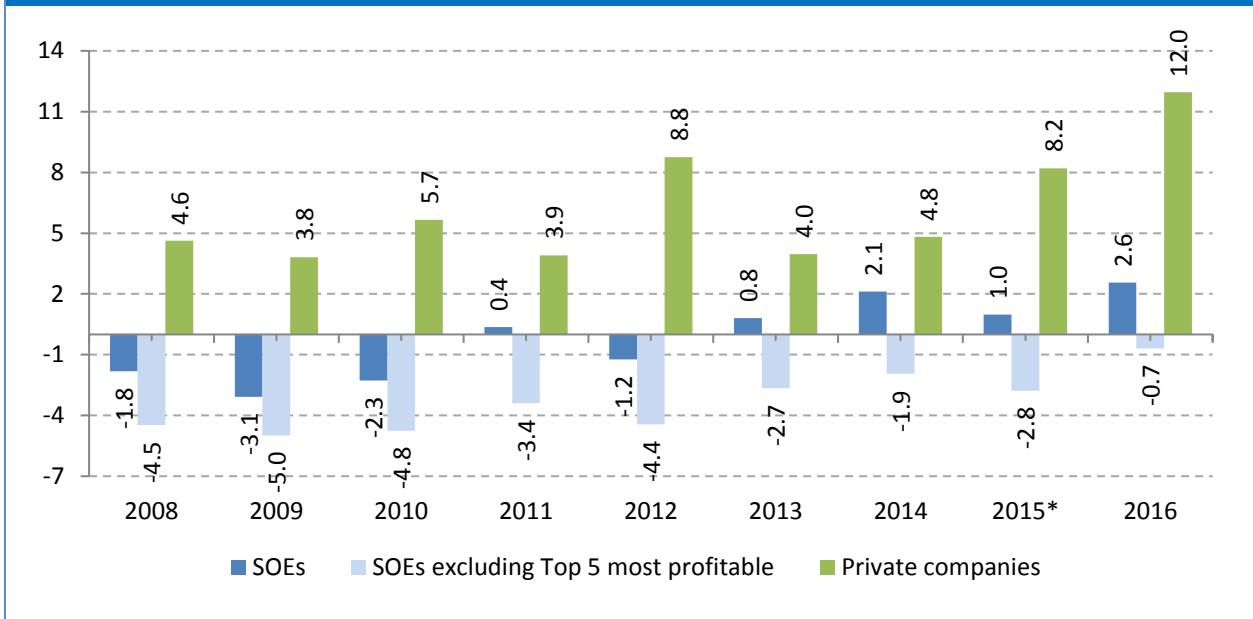
In 2016, SOEs recorded an improvement in both rates of return, mainly driven by the net income growth of nearly 160%. Thus, ROE reached 2.5% while ROA increased to 1.8%, both representing the maximum values recorded by SOEs since 2008. On the other hand, it should be noted that, despite these positive developments, the profitability of SOEs remains significantly lower than the profitability of private firms.

Excluding the top five companies, both rates of return continue to register negative values (-0.7% for ROE and -0.4% for ROA). However, once again there is a clear improvement, with ROE and ROA reaching the maximum levels throughout the analyzed period.

With regard to private firms, the upward trend from previous years continues in 2016, being sustained by a net income growth of more than 50%. Thus, ROE rose to 12% from 8.2% in 2015 while ROA increased to 3.8% from 2.6% in 2015.



Figure 10: ROE (%)

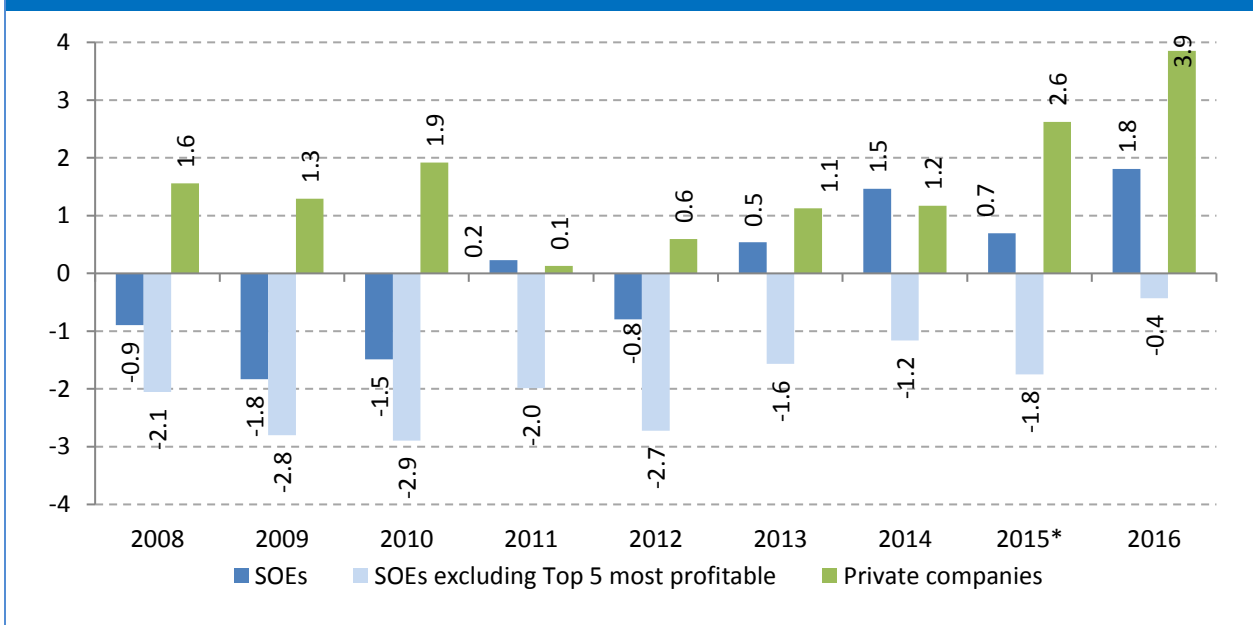


Source:MPF, based on the balance sheets submitted by the economic agents from non-financial sector

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

\*In 2015 at the level of SOEs was excluded the profit of S.C. Oltchim S.A. originated from the cancellation of a part of debt.

Figure 11: ROA (%)



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

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

\*In 2015 at the level of SOEs was excluded the profit of S.C. Oltchim S.A. originated from the cancellation of a part of debt.

***The interest coverage ratio of state-owned companies continued the upward trend from previous years, but after the considerable increase between 2014 and 2015, the pace of growth in 2016 was slower. However, this indicator should be interpreted with caution because its values are largely influenced by the top five companies in terms of profitability.***

***Private firms continued the upward trend in terms of the ability to repay interest expenses. Although the pace of growth was moderate, it is expected that the trend will be sustainable, being supported by significant increases in the operating and net profits.***

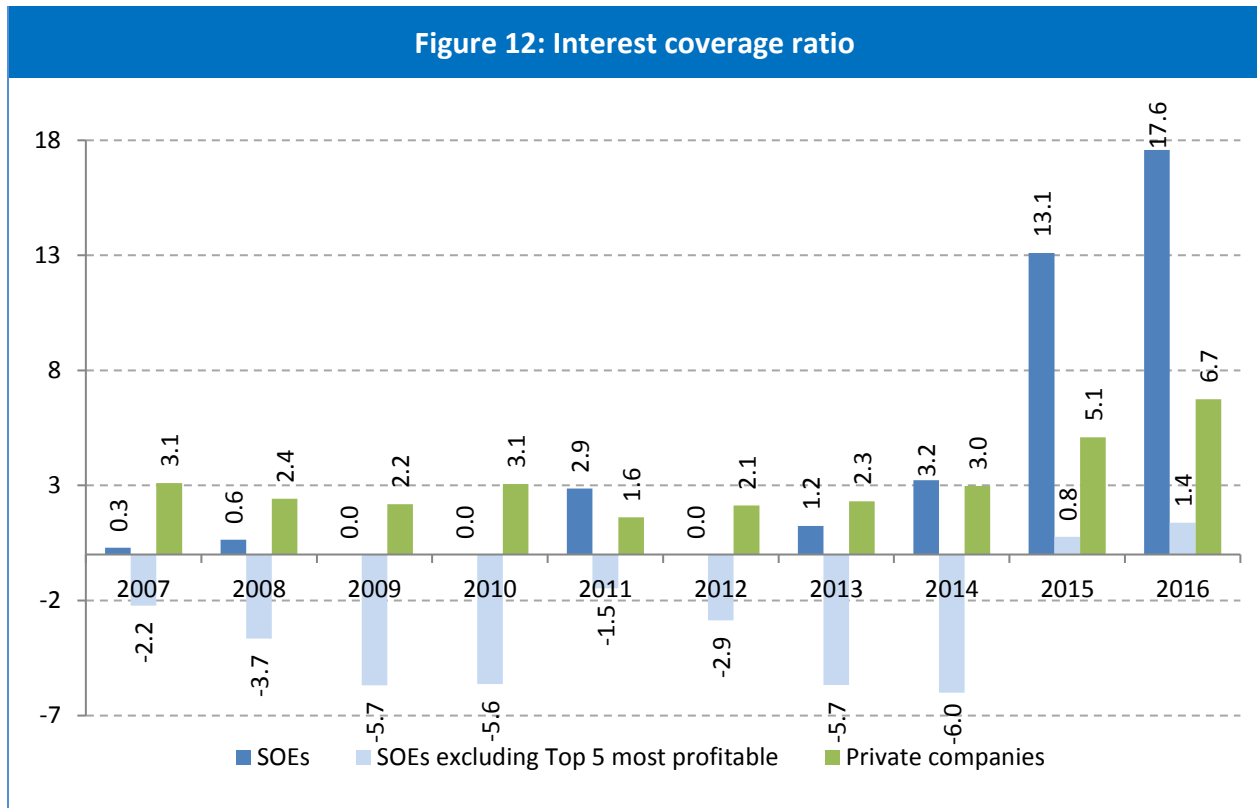
The interest coverage ratio is a solvency indicator that measures a company's ability to pay interest on the accumulated debt. In essence, this indicator shows how many times a company could pay the interest owed with its available earnings. Thus, it is calculated by dividing the earnings before interest 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 2016, but at a slower pace, reaching the value of 17.6. 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 90,384.8 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 entire category.

Excluding the top five companies, the interest coverage ratio for the remaining SOEs has a moderate value of just 1.4. It should be noted that, for the first time throughout the analyzed period, the interest coverage ratio is above the critical threshold of 1, continuing the favorable trend from 2015 when it returned to positive values. This increase could indicate a real improvement in the solvency of SOEs, as 2016 also exhibited positive values for the operating result.

Private firms continued the upward trend in terms of the ability to repay interest expenses, with the indicator rising from 5.1 in 2015 to 6.7 in 2016. Although this is not a major development, it

is expected to be sustainable, being supported by significant increases in the operating and net profits.



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

Note: Interest coverage ratio =  $(\text{Profit or current loss} + \text{Financial profit or loss} + \text{Adjustments for provisions} - \text{Other income} + \text{Other expenses} + \text{Interest expenses} - \text{Interest incomes}) / \text{Interest expenses}$

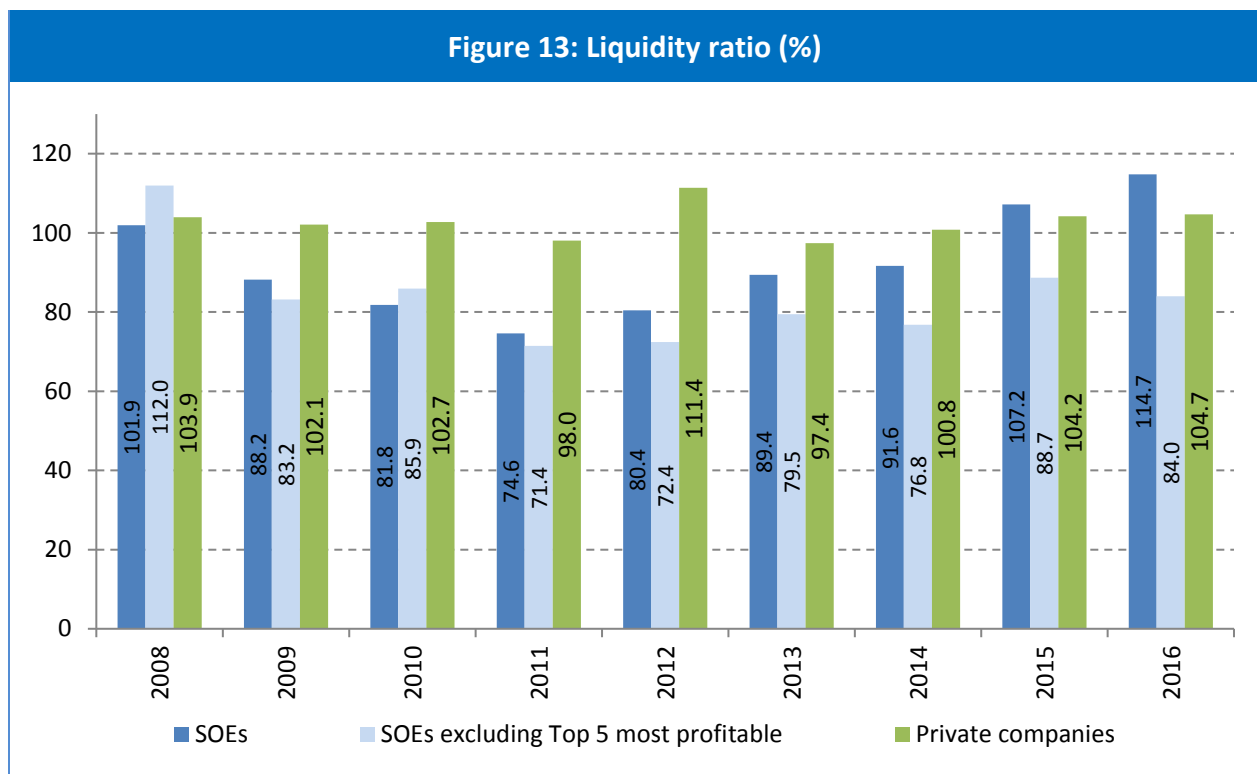
**In 2016, the liquidity ratio of state-owned companies continued to evolve on an upward trend, exceeding the value recorded by private firms.**

**Excluding the top five state-owned companies, the liquidity ratio suffered a deterioration of nearly 5 pp and continues to be well below the recommended threshold.**

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.

In 2016, the liquidity ratio of SOEs continued to evolve on an upward trend, reaching 114.7%. This level is superior to the liquidity ratio recorded by private firms which stabilized around 104%. Thus, both categories of companies exhibited liquidity ratios that can be considered adequate. However, excluding the top five SOEs, there is a worsening in liquidity from 88.7% to 84%, this value being well below the aggregate level and the recommended threshold of 100%.



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

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

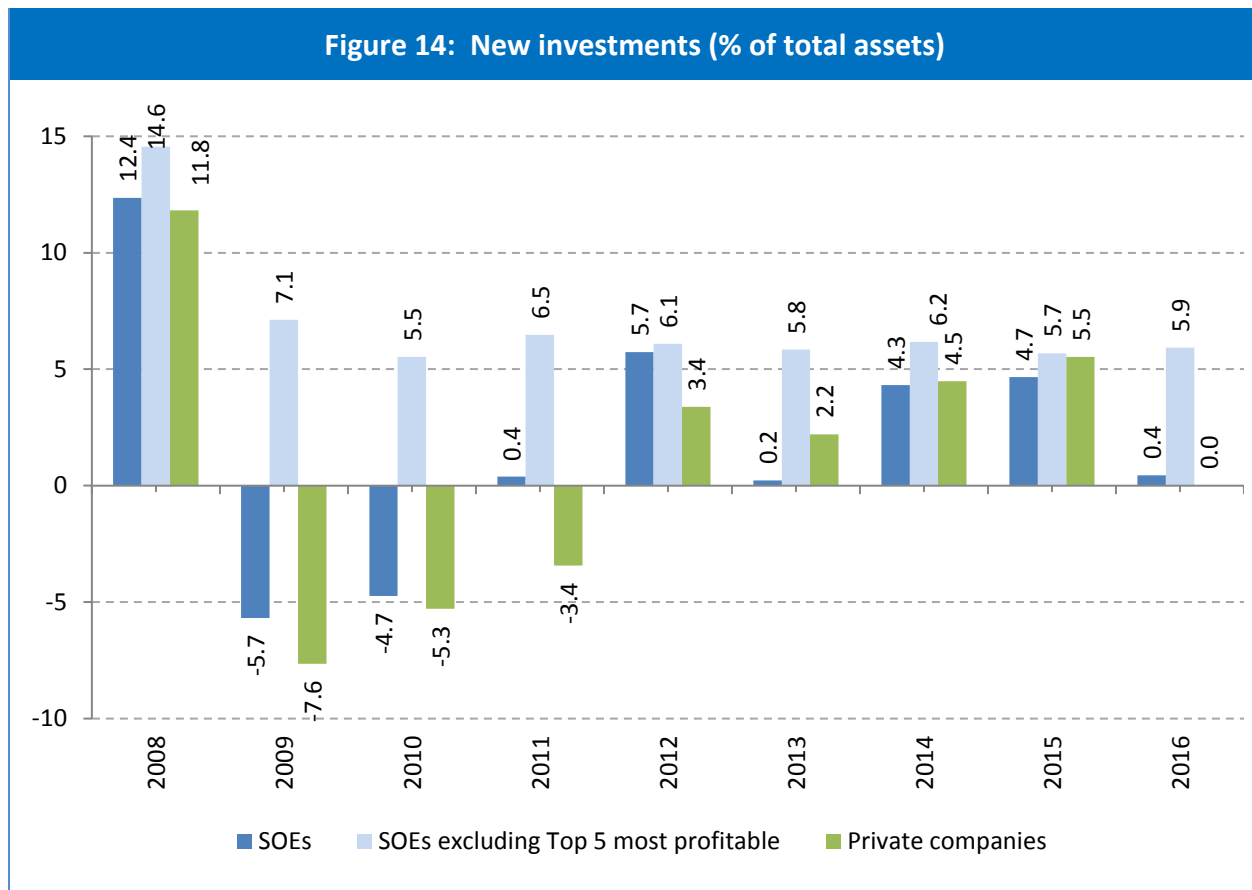
**2016 marked a significant drop in the ratio of new investments for state-owned companies, both in aggregate levels and**

While between 2014 and 2015 the new investments conducted by SOEs stabilized around 4.5% of total assets, in 2016 they suffered a drastic reduction to 0.4%. Excluding the top five SOEs, the decrease is even more pronounced, with the new investment ratio reaching close to 0. Thus, the results confirm that this indicator exhibits a high volatility in the case of SOEs, with

*excluding the top five companies.*

*On the other hand, the indicator has recorded a slight increase for private firms, while continuing to fluctuate around 6%.*

sudden evolutions from one period to the next. On the other hand, in the case of private firms the ratio of new investments has grown moderately from 5.7% to 5.9%, thus, remaining around 6% for the entire 2010-2016 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 balance sheets submitted by the economic agents from 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 on the corporate governance of public enterprises, there has been a visible progress*

The improvement of SOEs' performance 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

*in increasing the transparency and monitoring of the activity of state-owned companies.*

*Despite the recommendations of the international financial institutions to consolidate the progress and bring the financial performance of state-owned enterprises to a level comparable to that of the private sector, the latest amendments made in 2016-2017 to Emergency Ordinance no. 109/2011 on Corporate Governance of Public Enterprises practically abolishes the implementation of good corporate governance practices in the state-owned companies.*

management of SOEs, both regarding the selection, appointment and functioning of the Board of Directors and managers, and in terms of increasing transparency and providing information in order to increase the public companies' accountability. The overall performance of SOEs has improved also due to the entry in liquidation procedure of the National Coal Company, Termoelectrica and Oltchim S.A.<sup>7</sup>. In the year 2016, new regulations were formally introduced to promote corporate governance: Law no. 111/2016 with 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. Thus, in 2016, according to the Annual Report on the Public Enterprises Activity elaborated by the Ministry of Public Finance, regarding the fulfillment of indicators according to the mandate contracts, it is shown that the corporate governance indicators had the highest degree of non-compliance, respectively 6 out of 7 indicators, against financial indicators (1 out of 73) or non-financial ones (3 out of 20). Among the performance indicators on corporate governance, it includes: developing executive management evaluation models and implementing the valuation process and remuneration policies of the CEO; implementing the code of ethics, the corporate governance code, and ensuring transparency in relation to public information; setting, reviewing and pursuing the performance indicators at the level of the public enterprise. The report also shows that those SOEs that implemented the corporate governance system and have selected professional administrators, performed better in terms of optimizing their financial and operational efficiency. Nevertheless, and despite the recommendations of the international financial institutions

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<sup>7</sup> Its entry into the voluntary liquidation procedure was stipulated in the Memorandum sent to the IMF in 2013. In 2015 the reorganization plan was approved, stipulating the debts cancellation amounting to 2.4 billion lei (registered as scriptic income of this period of time, thus influencing the financial outcome for 2015 compared to the previous year).

aiming to consolidate the progress made and bring the financial performance of the SOEs to a level comparable to that of the private sector's companies, following the publication of the Law no. 111/2016 approving the Emergency Ordinance no. 109/2011 (which brought a number of changes that were difficult to apply in practice<sup>8</sup>), a number of legislative changes were proposed that led to the *de facto* non-application of the initial provisions aimed at strengthening corporate governance for SOEs. Thus, according to the legislative proposal 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 companies and institutions<sup>9</sup>, most of them in the field of 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 will no longer apply to most SOEs.

***The impact of state companies on the budget balance in European standards ESA10 was positive in 2013-2016, 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 0.2% of GDP in 2015-2016. Regarding the***

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 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.

According to the Eurostat methodology for accrual accounting (ESA10), several SOEs have been reclassified in the government sector. The 309 SOEs consolidated in central government sector

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<sup>8</sup> Even the reporting procedures were amended several times during 2016 and 2017 by Orders of the Minister of Public Finance (OMPF no. 41/2014 was repealed by OMPF no. 2873/2016 and amended by OMPF no. 768/2017).

<sup>9</sup> 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 at <http://www.cdep.ro/comisii/economica/pdf/2017/rp226.pdf>.

*state-owned companies consolidated in the local government the contribution was mainly negative (except 2015), but of small amplitude.*

had a positive influence on the general consolidated budget balance in ESA10 standards in 2013-2016. The table below shows the contribution to consolidated budget balance in ESA10 standards of the first 20 state owned companies included in the central government; they had positive contribution accounting 1428.5 million lei (0.2% of GDP) in 2016, slightly above 2015 level. Regarding the SOEs consolidated in the local government, in 2016 they had a negative contribution to the consolidated balance in ESA10 standards (-70.6 million lei), similarly to the 2013-2014 period of time. Cumulatively, the contribution of these consolidated state companies to the central and local government sector in 2016 accounted for around 0.2% of GDP.

**Table 6: Contribution of state companies included in the public sector to the consolidated budget balance (million lei), ESA10 standards**

	2013	2014	2015	2016
<b>1. Total companies at central level</b>	<b>2,861.3</b>	<b>3,498.4</b>	<b>1,344.8</b>	<b>1,428.5</b>
C.N. de Căi Ferate CFR S.A.	225.5	501.8	424.5	524.4
C.N. de Autostrăzi și Drumuri Naționale	2,171.6	2,244.2	341.0	463.6
CFR Călători S.A.	95.5	473.0	308.0	-4.8
Compania națională de investiții S.A.	44.5	85.3	229.9	-13.9
S.N. Radiocomunicații S.A.	138.3	102.4	72.0	63.2
Societatea de administrare a participațiilor în energie S.A.	0.0	-1.7	68.1	29.3
Societatea română de televiziune	56.3	-5.0	51.3	51.0
Societatea română de radiodifuziune	24.1	15.2	25.9	25.1
S.N. Aeroportul Internațional Mihail Kogălniceanu	0.3	3.2	1.0	-0.4
C.N. Administrația Canalelor Navigabile Constanța S.A.	13.2	-19.0	-33.8	83.7
Administrația fluvială Dunărea de Jos Galați	25.6	2.4	18.0	18.7
Fondul Proprietatea	0.0	0.0	0.0	0.0
Institutul Național de Cercetare-Dezvoltare pentru Chimie și Petrochimie	-0.1	-1.1	-8.2	-1.7
S.N. Închideri Mine Valea Jiului S.A.	14.2	11.2	10.7	10.4
S.C. Electrocentrale Grup S.A.	-55.9	11.2	-9.9	-0.1
R.A. Tehnologii pentru energie nucleară	21.7	0.6	-1.1	1.3



	2013	2014	2015	2016
S.C. CONVERSIM S.A.	-2.5	61.0	-2.2	-1.5
S.N. CFR R.A	-1.0	-0.6	-42.6	-0.2
C.N. Administrația Canalelor Navigabile Constanța S.A.	13.2	-19.0	-33.8	83.7
Metrorex	76.8	33.3	-74.0	96.6
<b>2. Total companies at local level</b>	<b>-235.2</b>	<b>-20.8</b>	<b>43.5</b>	<b>-70.6</b>
Local airports	-11.3	-19.1	13.1	-53.3
Heating stations with local subordination	-66.5	-23.9	-5.2	-23.1
Other local units	-157.5	22.2	35.6	5.8
<b>3. Total SOEs</b>	<b>2,626.1</b>	<b>3,477.6</b>	<b>1,388.3</b>	<b>1,357.9</b>
<b>% of GDP</b>	<b>0.41%</b>	<b>0.52%</b>	<b>0.19%</b>	<b>0.18%</b>

Source: NIS

Most economic and financial indicators of SOEs have improved during 2016 and this evolution reflects an increase in the efficiency of these companies. However, it is also a direct consequence of the position within the economic cycle, improvements and positive results being recorded throughout the entire economy. At the same time, it is important to note that the level of financial performance is not uniformly distributed among SOEs, as there are some particularly profitable companies that positively influence the average of the entire sector, but also many companies that experience problems concerning arrears and profitability. Moreover, as mentioned in the introduction of this study, since the sample of SOEs included in the analysis is smaller, the results indicate their overall performance, but they are not fully comparable to those obtained in the previous years and should be interpreted with caution.

On the other hand, the financial discipline of SOEs seemed to deteriorate during 2016. While the contribution of SOEs to economic activity is constantly decreasing, reaching in 2016 the minimum level for the entire period under review, the share of their arrears in total arrears is significantly higher and increased relative to 2015. Although the arrears of SOEs are partially the result of historical developments, this deterioration is in contradiction with the declining trend of outstanding payments in the private sector.

An overview of the main economic and financial indicators highlights a significant increase of the operating and net profits, also reflected in the improvement of ROE and ROA. However, the profitability gap between SOEs and private firms remained significant, indicating the lower efficiency of the public sector. The results of the main solvency and liquidity indicators did not highlight pressing issues concerning the "health" of SOEs, but an in-depth analysis showed that the values of the indicators are strongly influenced by the top five companies in terms of profitability. When their impact was eliminated, a deterioration of the liquidity ratio could be noticed, all the more worrying given that, since 2009, the values of the indicator remained below

the threshold recommended in financial literature. Another negative signal is given by the ratio of new investments to total assets: it continued to be highly volatile in the case of SOEs – attested by a drastic decline in 2016 – while the new investments of private firms remained relatively constant in recent years. An important aspect, with potential negative consequences for future economic growth, is that for all the companies included in the analysis, the ratio of new investments is still considerably lower relative to its pre-crisis levels.

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 Government Emergency Ordinance no. 109/2011 on Corporate Governance of Public Enterprises. However, its modification during the 2016-2017 period, which allowed a significant number of companies and institutions to be excepted from applying this ordinance, is practically abolishing the implementation of good corporate governance practices in most SOEs. Consequently, there is a significant risk that the progress made in recent years will be reversed.