



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

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# **Analysis of the economic and financial performance of Romania's state-owned companies in 2021**

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# Analysis of the economic and financial performance of Romania's state-owned companies in 2021

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## Abstract

This paper analyses the economic and financial performance of state-owned companies in Romania during 2021, while also comparing it with the performance of private sector companies. The study was performed on a sample of 787 public sector companies, which was later divided into the Top 5 companies in terms of net profit and the rest of the state-owned companies, because a small number of companies with substantial profits significantly influence the aggregate performance of public sector companies.

Unlike 2020, which recorded a severe impact of the COVID-19 pandemic on Romanian companies – both private and public –, 2021 saw a rapid return of economic activity to pre-pandemic levels. In this context, the aggregate financial statements of Romanian companies indicate an improvement in the economic and financial performance indicators during 2021. This evolution should be judged considering that, although some governmental support measures initiated in 2020 were continued, the amount of the financial aid granted by the state to companies was reduced in 2021 compared to the previous year.

Romanian state-owned companies registered increases in total revenues, turnover and gross value added in 2021, achieving a total net profit of 4.1 billion lei, 3.2 billion lei higher than the one obtained in 2020. The favourable evolution of the net result in nominal terms can be found both at the level of the Top 5 most profitable state-owned companies – increase of the net profit from 4.2 billion lei to 6.4 billion lei –, but also at the level of the other companies – reduction of the aggregate loss from 3.3 billion lei to 2.3 billion lei, although they continue to be unprofitable, similar to the situation recorded in most of the previous years. The increase in the net result obtained by state-owned companies determined the improvement of all their performance indicators, such as those regarding profit margins, return on assets (ROA) and return on equity (ROE). On the other hand, it can be noted the rather low contribution of state-owned companies to the economic activity in Romania. In 2021, the share of their revenues in total revenues across the economy was 3.1%, and that of the gross value added was 8.1%. Also, 2021 recorded favourable developments for the liquidity and solvency indicators of state-owned companies, while new investments reached their peak level for the 2009-2021 period. Given the rapid comeback of economic activity, private sector companies also recorded a significant increase in profitability, with favourable developments in almost all economic and financial indicators.

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The increase in economic and financial performance was reflected in the evolution of state-owned companies' arrears, which decreased significantly, by 23.5% (-5.2 billion lei) compared to the previous year, to the level of 17 billion lei (representing 20.9% of total overdue payments across the economy, compared to 24.1% in 2020). It should be noted that the share of state-owned companies' arrears in total arrears remains significantly higher than the contribution of these companies to economic activity. Moreover, the ranking of the companies with the largest volume of outstanding payments indicates a chronicity of arrears in certain sectors, a few state-owned companies being found in this ranking each year. As for the arrears of private companies, they too had a favourable evolution, decreasing by 7.6% (-5.3 billion lei) compared to 2020.

The improvement of the economic and financial performance of state-owned companies between 2015 and 2017 was also favoured by legislative reforms implemented through GEO no. 109/2011 on the corporate governance of public enterprises. However, despite the progress made, a series of amendments were subsequently implemented that exempted most state-owned companies from applying the provisions of GEO no. 109/2011, *de facto* abolishing the functionality of corporate governance practices at their level. In this sense, the OECD Review of the Corporate Governance of State-Owned Enterprises in Romania highlighted the existence of important shortcomings in the adequate implementation of the existing legal framework. The decrease in commitment to the principles of corporate governance based on professionalism, integrity, transparency and accountability overlapped, starting in 2018, with the decline of most performance indicators of state-owned companies. Thus, although 2021 showed a significant improvement of these indicators, most of them continue to be below the values recorded in 2017, both in terms of aggregate net profit (0.7 billion lei lower in nominal terms), and main rates of return (negative difference of 1.1 percentage points (pp) in the case of ROE, respectively of 0.8 pp in the case of ROA). The Fiscal Council advocates for the appropriate application of the existing legal framework regarding the corporate governance of state-owned companies in Romania, effectively reversing the exemption of state-owned companies from the application of corporate governance principles. This goal is even more important given that the Government wants to maintain control through majority stakes in companies of national strategic interest.

**Key words:** state-owned companies, financial and economic performance, arrears, corporate governance

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

# Analysis of the economic and financial performance of Romania's state-owned companies in 2021

## Introduction

The accumulation of losses and arrears by companies in which the state is the majority shareholder represents a potential medium-term risk to fiscal-budgetary sustainability because, if they fail to make their business more efficient, it will be necessary for the Government to intervene with public resources, which can lead to an increase in the budget deficit. Therefore, it is necessary to continuously monitor the economic and financial performance of public sector companies. In this regard, the current report analyses the results obtained by Romanian state-owned companies in 2021, while also comparing them to the performance of private sector companies, based on the annual financial statements submitted to the Ministry of Finance (MF) by all companies operating on Romania's territory.

It should be noted that, unlike 2020, which recorded a severe impact of the COVID-19 pandemic on Romanian companies (both private and public), in 2021 there was a rapid return of economic activity to pre-pandemic levels. This evolution was mainly determined by the following factors: a strong base effect (primarily located in the second quarter of 2021), the positive impact of the continuation of some government measures to support the economy, as well as renewed confidence of economic operators, who also had access to the forced savings from the previous period.

In this context, the economic and financial performance of state-owned and private companies must be judged taking into account that, although some government support schemes from the previous year were continued<sup>5</sup> (such as programs to support small and medium-sized enterprises, commercial credit guarantee programs and the state aid scheme associated with it, the granting of allowances during the temporary suspension of the individual employment contract at the initiative of the employer etc.), the financial support granted by the state to companies was reduced in 2021 compared to the previous year. Thus, the significant increase in the aggregate financial results obtained by Romanian companies shows that the favourable effect of the 2021 relaunch of economic activity far exceeds the unfavourable effect of the partial withdrawal of the support granted by the state. In this sense, it should be mentioned that the improvement of the economic and financial situation of the Romanian companies even allowed the recovery beyond expectations of the tax obligations deferred from payment by economic agents in 2020, given that the facility of deferring the payment of certain taxes and fees represented one of the main measures to support the business environment during the previous year.

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<sup>5</sup> According to *The Report concerning the final budget execution of 2021*, <https://mfinante.gov.ro/domenii/bugetul-de-stat/informatii-executie-bugetara>

## Dataset

*The analysis was performed on a number of 787 state-owned companies, the size and structure of the sample indicating no significant differences compared to 2020, when 793 companies were included in the analysis. Thus, it is expected that the results of this study will be comparable to those obtained in previous years.*

*In order to ensure that the analysis correctly reflects the economic and financial performance of Romanian state-owned companies, the data sample was adjusted in order to eliminate the influence of factors found in the financial statements, but which do not reflect an actual change in the companies' performance.*

At the end of 2021<sup>6</sup>, a number of 1,591 companies reported in their annual financial statements that they belong to the SOEs (state-owned enterprises) category. Following a careful analysis of their form of organization, object of activity and shareholder structure, it was noticed that many limited liability companies have mistakenly reported their membership to the public sector, a vast majority of them claiming to be autonomous public bodies. After correcting these errors, the final number of SOEs included in the analysis was 787, which is close to the size of the 2020 sample (793 companies). Considering 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.

To ensure that the analysis correctly reflects the economic and financial performance of the state-owned companies, the data sample was adjusted. Thus, similar to the 2018-2020 period, the National Company for Road Infrastructure Management (CNAIR S.A.) reported concession rights, as a result of the concession contract signed with the Ministry of Transport, regarding goods that are public property of the state. The remaining value of the contract on December 31, 2021 was 62.3 billion lei<sup>7</sup>. As these concession rights are not the result of investment activities (being assimilated to subsidies, according to IFRS<sup>8</sup>) and are likely to significantly affect the results of the study (leading to a substantial increase in the volume of assets, respectively the indebtedness rate of state-owned companies), they were eliminated from the analysis. At the same time, starting with 2018, the financial statements reported by CNAIR indicate a decrease in tangible fixed assets in progress (of over 10 billion lei), offset by a similar increase in the work-in-process inventories<sup>9</sup>. Given that these changes have an important impact on the indicators related to liquidity, respectively the level of investments made by state-owned companies, the indicators were adjusted accordingly.

Also, in 2021, Oltchim S.A. reported an accounting profit of 1.7 billion lei, representing approximately 29% of state-owned companies total profit. Considering that this company is in bankruptcy (with a liquidator appointed in 2019), the profit reported by Oltchim was eliminated from

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<sup>6</sup> According to the data received from MF on September 21, 2022. Thus, the analysis does not include the companies that had not submitted their 2021 financial statements until the respective date, and any corrections that were made subsequently.

<sup>7</sup> According to the notes to the 2021 financial statements of CNAIR S.A.

<sup>8</sup> International Financial Reporting Standards.

<sup>9</sup> The reclassification of these amounts is most likely the result of the accounting policies and conventions used.

the 2021 analysis, because it would lead to an artificial increase of the state-owned companies' total profit and to a misrepresentation of the overall results of the analysis.

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

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

- At the end of 2018, S.N.T.F.M. CFR Marfă S.A. reported an increase of 4.3 billion lei in tangible assets compared to the previous year as a result of a revaluation of tangible fixed assets and real estate investments. The information was treated with caution, in the sense of recognizing the increase in the volume of assets of state-owned companies, but this increase was not assimilated to investments in fixed assets;
- From the 2017 data sample, the Company for Energy Stakes Management (SAPE) and the Romanian Television Company (SRT) were eliminated as they significantly distorted the analysis of SOEs profitability due to the 401.2 million euro received by SAPE from the Enel group (following the law suit won at the Court of Arbitration in Paris), respectively as a result of the substantial increase in the subsidy granted by the Romanian Government to SRT (from 95 million lei in 2016, to 946 million lei in 2017), in the context of cancelling the radio-TV tax, but also in order to repay the historical debt of the public television;
- A similar situation was recorded in 2015 when Oltchim S.A. obtained an accounting profit of over 2.3 billion lei (representing almost 48% of SOE total profits) as a result of the annulment of a significant part of its debt. Therefore, the profit obtained by Oltchim was eliminated from the data sample for the year 2015.

## Results of the empirical analysis

*In 2021, against the background of a recovery in economic activity, supported also by the extension of government measures adopted in 2020, the total revenues, the turnover and the gross value added for the companies from the non-financial sector recorded significant increases.*

*Specifically, total revenues of state-owned companies increased by 21.3%, while those of private sector companies by 21.1%. This evolution has been accompanied by the increase of the turnover (+24% for state-owned companies and 20.7% for private companies) and of the gross value added (+21.6% for state-owned companies and +20.2% for private companies).*

*State-owned companies maintained their low contribution to the overall economic activity, in terms of gross value added created at national level.*

*Labour productivity for state-owned companies increased by 20.4% in 2021, reaching a peak value for this indicator over the period from 2008 to 2021. Labour productivity also increased for private companies by 13%, compared to previous year.*

In 2021, against the background of a recovery in economic activity, total revenues of state-owned companies increased by 10.9 billion lei (+21.3%), compared to the previous year, while the turnover increased by 11.9 billion lei (+24%). Similar developments can be noticed for private companies, as their total revenues increased by 21.1%, while their turnover increased by 20.7%.

In nominal terms, the gross value added had a positive dynamic for the whole economy (+20.3%), to which both state-owned companies (21.6%, representing +6.8 billion lei) and private sector companies (20.2%, representing +73 billion lei) contributed. Therefore, 2021 has recorded a significant rebound of the gross value added, after the modest data from 2020 (-9.2% for state-owned companies and +1.7% for private companies).

Also, it should be highlighted the low contribution of state-owned companies to the economic activity in Romania. Specifically, in 2021, for state-owned companies, the share of total revenues in the total economy was 3.1% (similar to the previous year), the share of turnover was 3.1% (compared to 3% in the previous year), and the share of gross value added was 8.1% (a similar value to that from the previous year).

In 2021, the number of employees in state-owned companies continued to drop. Therefore, this indicator decreased by approximately 10.500 persons (-4%), compared to the previous year. Furthermore, in 2021, it has been reached the minimum number of employees in state-owned companies, over the period from 2008 to 2021, of approximately 255.000 persons. An opposite evolution can be noticed for the private sector companies, where the total number of employees increased by 42.500 persons (+1.1%), compared to the previous year.

Considering that the gross value added had an upward path in 2021 (+15.6% for state-owned companies and 14.3% for private companies), superior to that of the number of employees, the labour productivity recorded a positive dynamic. Specifically, the labour productivity in state-owned companies increased by 20.4% (the higher gross value added in real terms overlapping with a lower number of employees), being reached a peak value for this indicator over the period from 2008 to 2021. The labour productivity also increased for private companies (+13%). It should be emphasized that 2020 had brought a deterioration of labour productivity for state-owned companies (-8.6%), while for private companies the labour



productivity was relatively constant, around the value of 66.1 million lei/ 1,000 employees.

***Given the strong rebound of the economic activity in 2021, the aggregate net profit obtained by non-financial companies increased by 44.9 billion lei in nominal terms (+43.2%). On the one side, the total net profit of state-owned companies was 4.1 billion lei (+3.2 billion lei relative to 2020). On the other side, the total net profit of private sector companies recorded a significant rise (+41.7 billion lei, representing +40.5%, compared to the previous year), this result denoting a continuation of the growth trajectory from past years.***

***The analysis carried throughout the sample period shows that a small number of companies with substantial profits significantly influence the aggregate results of SOEs. In this context, in order to highlight more accurately the overall financial performance of SOEs, the specific indicators will be analysed both at the aggregate level and by excluding the five most profitable companies – Top 5.***

Given the strong rebound of economic activity in 2021, supported by the return of confidence and by the extension of government measures, aimed at supporting the economic activity, the aggregate net profit obtained by all companies (excluding the financial sector) had a major upward trend, increasing by 44.9 billion lei in nominal terms (+43.2%). The total net profit recorded by state-owned companies was 4.1 billion lei (+3.2 billion lei compared to previous year), a value that is lower by approximately 0.7 billion lei compared to the peak value for the 2008-2021 period, i.e., 4.8 billion lei in 2017.

The total net profit recorded by private sector companies recorded a significant rise (+41.7 billion lei, which accounts for an advance of 40.5%, compared to the previous year), this result representing a continuation of the growth trajectory from the previous years (+55.2% in 2016, +30.9% in 2017, +23.67% in 2018, +19.4% in 2019 and +10.5% in 2020). It is worth noting the significant rise in net profit for both private and public companies, against the background of a favourable macroeconomic environment while also considering the extension of government measures aimed at supporting the economic activity.

The analysis regarding the profitability of state-owned companies can be nuanced by highlighting separately the 5 best performing companies from the perspective of the net profit obtained (Top 5 – presented in [Table 2](#)). Thus, the companies included in Top 5 recorded significant profits over the last 6 years, increasing almost every year, from 3.6 billion lei in 2016 to 6.4 billion lei in 2021<sup>10</sup> (+2.2 billion lei relative to 2020). Analysing the evolution of Top 5, it is noted that the ranking is quite stable over the past 6 years, as state-owned companies from the energy sector are dominant. Therefore, in the past 6 years, Hidroelectrica S.A. and Romgaz S.A. have been in Top 5 every year, while Nuclearelectrica S.A. and Transgaz S.A. have been in Top 5 for five and, respectively, four times. It should also be noted the performance of C.N. Aeroporturi București S.A., which has been in Top 5 for four times in the past 6 years.

Eliminating the influence of the Top 5 companies, which are characterized by a high profitability, it is observed that the rest of the state-owned companies recorded net losses at an aggregate level

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<sup>10</sup> As previously mentioned, the profit reported by Oltchim was excluded from the 2021 analysis, as the company is in bankruptcy. This adjustment was necessary as the profit reported is quite substantial (Oltchim is ranked in the 3<sup>rd</sup> place in Top 5 most profitable state-owned companies – see [Table 2](#)), which would have led to an artificial increase of the state-owned companies' total profit and to a misrepresentation of the overall results of the analysis.

during the entire analysed period, the only exception being 2017, when they obtained a positive, but modest aggregate net result of only 0.4 billion lei. In 2021, the gap between the Top 5 state-owned companies and the rest (8.7 billion lei) deepened compared to 2020 (7.5 billion lei), due to the significant increase of the total profit obtained by the Top 5 companies. Excluding the influence of the most profitable state-owned companies, the rest recorded a net loss of 2.3 billion lei, compared to a loss of 3.3 billion lei in 2020. Comparing the overall net profit of state-owned companies, excluding Top 5, with that of the Top 5 companies, it is found that a small number of companies with significant profits have a substantial impact on the aggregate results of state-owned companies. In this context, in order to highlight as rigorously as possible the financial performance of the entire sector, this study will present and analyse specific indicators, both at the level of all state-owned companies and eliminating the influence of Top 5.

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 economic and financial indicators of the Romanian companies from the non-financial sector**

		2009	2013	2014	2015	2016	2017	2018	2019	2020	2021
<b>Number of companies</b>	SOEs	774	1,151	1,155	1,143	916	807	803	827	793	787
	All companies, non-financial sector	602,190	657,500	643,644	647,872	677,843	692,966	723,011	744,176	790,635	828,724
	Share of SOEs in all companies	0.13%	0.18%	0.18%	0.18%	0.14%	0.12%	0.11%	0.11%	0.10%	0.09%
<b>Total revenues, mil. lei</b>	SOEs	50,756	51,208	44,487	48,578	46,586	50,432	54,640	57,079	51,384	62,317
	All companies, non-financial sector	845,396	1,101,386	1,113,445	1,186,900	1,269,290	1,369,313	1,550,721	1,687,325	1,665,158	2,016,759
	Share of SOEs in all companies	6.0%	4.6%	4.0%	4.1%	3.7%	3.7%	3.5%	3.4%	3.1%	3.1%
<b>Gross value added, mil. lei</b>	SOEs	20,454	25,131	25,220	26,687	26,143	28,845	32,856	34,862	31,660	38,503
	All companies, non-financial sector	189,633	233,734	255,957	260,530	286,190	308,113	350,600	390,356	393,044	472,892
	Share of SOEs in all companies	10.8%	10.8%	9.9%	10.2%	9.1%	9.4%	9.4%	8.9%	8.1%	8.1%
<b>Gross value added in real terms, mil. lei (constant prices 2010)</b>	SOEs	21,663	22,965	22,659	23,219	22,165	23,369	25,061	24,897	21,717	25,103
	Private companies	179,177	190,625	207,305	203,453	220,474	226,245	242,361	253,875	247,895	283,213
<b>Number of employees, thousands of persons</b>	SOEs	364	321	297	291	281	273	276	279	266	255
	All companies, non-financial sector	4,019	4,016	3,882	3,959	4,078	4,055	4,150	4,120	4,016	4,048
	Share of SOEs in all companies	9.1%	8.0%	7.6%	7.4%	6.9%	6.7%	6.6%	6.8%	6.6%	6.3%
<b>Labour productivity, mil. lei/1,000 employees (constant prices 2010)</b>	SOEs	59.56	71.50	76.34	79.68	78.86	85.68	90.91	89.37	81.65	98.28
	Private companies	49.02	51.59	57.82	55.47	58.06	59.82	62.56	66.08	66.11	74.68
<b>Net profit, mil. lei</b>	SOEs	-3,443	938	2,401	1,200	3,108	4,818	2,574	-1832	918	4,131
	SOEs, excluding top 5	-4,573	-1,787	-1,323	-2,034	-513	380	-2,004	-5,509	-3,267	-2,300
	Private companies	11,399	12,678	17,020	31,088	48,251	63,150	78,075	93,189	102,967	144,663
<b>Arrears, mil. lei</b>	SOEs	34,405	26,217	24,370	21,226	23,232	21,599	13,757	16,598	22,171	16,957
	Private companies	62,406	99,052	93,508	94,875	89,390	73,758	75,399	69,544	69,631	64,348
	Share of SOEs in all companies	35.5%	20.9%	20.7%	18.3%	20.6%	22.6%	15.4%	19.3%	24.1%	20.9%
<b>Arrears, % of GDP</b>	SOEs	6.5%	4.20%	3.6%	3.0%	3.1%	2.5%	1.4%	1.6%	2.1%	1.4%
<b>Arrears, % of net turnover</b>	SOEs	68.9%	52.1%	55.7%	44.6%	50.7%	43.3%	25.7%	30.0%	45.1%	27.8%

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

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

Table 2: Top 5 SOEs in terms of net profit

Top 5 net profit in 2021		Top 5 net profit in 2020		Top 5 net profit in 2019	
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.	3,019.51	1 S.P.E.E.H. HIDROELECTRICA S.A.	1,451.58	1 S.P.E.E.H. HIDROELECTRICA S.A.	1,386.54
2 S.N.G.N. ROMGAZ S.A.	1,962.51	2 S.N.G.N. ROMGAZ S.A.	1,278.88	2 S.N.G.N. ROMGAZ S.A.	1,046.41
3 S.C. OLTCHIM S.A.	1,701.27*	3 S.N. NUCLEARELECTRICA S.A.	699.32	3 S.N. NUCLEARELECTRICA S.A.	535.67
4 S.N. NUCLEARELECTRICA S.A.	1,036.26	4 SAPE S.A.	396.63	4 COMPANIA NAȚIONALĂ AEROPORTURI BUCUREȘTI S.A.	359.62
5 ELECTROCENTRALE BUCUREȘTI S.A.	412.94	5 ELECTROCENTRALE BUCUREȘTI S.A.	358.72	5 S.N.T.G.N. TRANSGAZ S.A.	348.26
<b>Total</b>	<b>6,431.22*</b>	<b>Total</b>	<b>4,185.13</b>	<b>Total</b>	<b>3,676.49</b>
Top 5 net profit in 2018		Top 5 net profit in 2017		Top 5 net profit in 2016	
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.	1,939.28	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 S.A.	495.67	3 S.N.T.G.N. TRANSGAZ S.A.	582.06	3 S.N.T.G.N. TRANSGAZ S.A.	594.56
4 S.N. NUCLEARELECTRICA S.A.	410.61	4 COMPANIA NAȚIONALĂ AEROPORTURI BUCUREȘTI S.A.	337.55	4 COMPANIA NAȚIONALĂ DE CĂI FERATE CFR S.A.	501.31
5 COMPANIA NAȚIONALĂ AEROPORTURI BUCUREȘTI S.A.	371.82	5 S.N. NUCLEARELECTRICA S.A.	303.88	5 C.N.T.E.E. TRANSELECTRICA S.A.	272.36
<b>Total</b>	<b>4,577.93</b>	<b>Total</b>	<b>4,437.93</b>	<b>Total</b>	<b>3,620.48</b>

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

\* The profit reported by Oltchim was not included in the 2021 analysis (being also excluded from the total net profit of the Top 5 companies), as the company is in bankruptcy. Therefore, from the perspective of the SOEs' performance indicators, Top 5 in 2021 includes only 4 companies, because the inclusion of Oltchim would have artificially improved SOEs performance.

***The arrears of state-owned companies decreased in 2021 by 23.5% compared to the previous year, to the level of 17 billion lei (representing 20.9% of total outstanding payments in the entire economy). Although the share of arrears of state-owned companies in total outstanding payments across the entire economy is well below the maximum level of 35.5%, recorded in 2009, it remains significantly above the public sector's contribution to economic activity.***

The evolution of the arrears<sup>11</sup> accumulated by state companies is analysed considering that, starting with 2018, Compania Națională a Huilei S.A. (outstanding payments of 5.4 billion lei at the end of 2017) and Electrocentrale București (outstanding payments of 1.7 billion lei at the end of 2017) did not report any overdue payments, this being the reason why the arrears of state companies registered in 2018 a significant decrease (of 36.3%, representing -7.8 billion lei) compared to the previous year. The lack of reporting does not indicate the payment of these outstanding obligations, but was most likely caused by the fact that, at that time, C.N. a Huilei S.A. was in bankruptcy proceedings, and Electrocentrale București S.A. was insolvent.

In 2021, we notice a significant decrease of the state-owned companies' outstanding payments (-5.2 billion lei or -23.5%, compared to the previous year), to the level of 17 billion lei, which represents 20.9% of the total outstanding payments throughout the entire economy (see [Figure 1](#)). An increase in arrears can be noticed only for S.N.T.F.M. CFR Marfă S.A. (+174 mil. lei, compared to the previous year), which is offset by a decrease in the arrears of the other Top 10 companies (see [Table 3](#)). Although the volume of arrears in the public sector is substantially lower than the maximum level of 34.4 billion lei reached in 2009 (representing 35.5% of the total outstanding payments throughout the economy), there is a solid impact of eliminating from the data, starting with 2018, of the arrears accumulated by C.N. a Huilei S.A. and Electrocentrale București S.A., in the amount of about 7.2 billion lei.

At the same time, it should be mentioned that the share of arrears of state-owned companies in the total outstanding payments across the entire economy is clearly higher than their contribution to economic activity in Romania, respectively an average share over the last 10 years of 3.8% of total revenues and 9.5% of the total gross value added (these average weights being the result of a decreasing trend over the last decade), which signals a chronic problem regarding the arrears of public sector companies.

***Analysing the evolution of the arrears of state-owned***

The evolution of state-owned companies' arrears as a percentage of GDP and total turnover shows a similar trend. After reaching their

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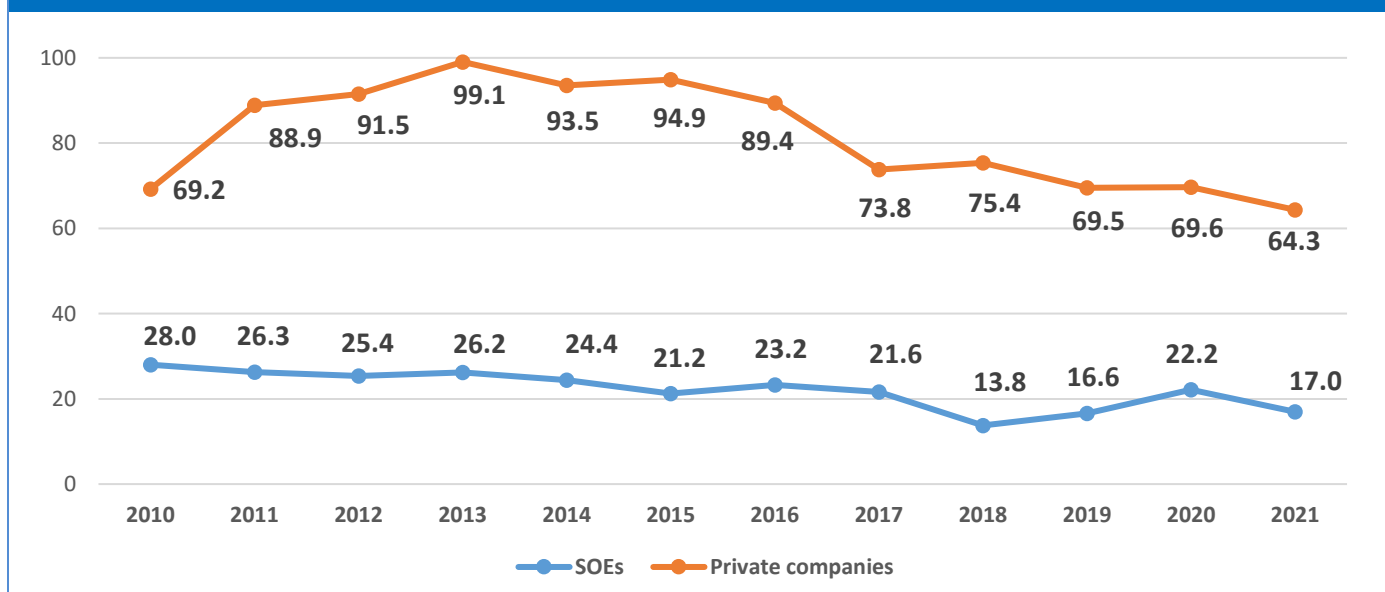
<sup>11</sup> According to MF, companies' arrears are delayed payments to banks, state budget, social security budget, suppliers and other creditors by more than 30 days against the contractual or legal terms that generate payment obligations.

*companies as a percentage of GDP and total turnover, a general decreasing trend is observed, with the lowest level of these ratios being recorded at the end of 2018. After a rise in public sector arrears in 2020 due to the COVID-19 pandemic, the economic recovery in 2021 led to a significant decrease in their share of both GDP and total turnover.*

maximum levels in 2009, there was a general downward trend, with the lowest level of the analysed interval being reached in 2018 due to the elimination of arrears accumulated by C.N. a Huilei and Electrocentrale București. In 2020, arrears as a percentage of GDP increased by 0.5 pp due to the COVID-19 pandemic, but the economic recovery in 2021 led to a decrease of 0.7 pp in their share of GDP to 1.4%. Expressed as a percentage of total turnover, after a 15.2 pp increase in 2020 compared to 2019, arrears in the public sector represented 27.8% of the aggregate turnover in 2021, compared to 45.1% in the previous year (-17.3 pp).

Note that the generally favourable evolution of arrears in the public sector, starting from 2010, was also boosted by the measures<sup>12</sup> agreed upon within the two balance of payments agreements concluded with international financial institutions (EC, IMF and WB) during the period of 2009-2013.

**Figure 1: Evolution of arrears – SOEs and private companies (billion lei)**



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

Note: Starting with 2018, C.N. a Huilei and Electrocentrale București no longer reported overdue payments, which is the reason for the significant decrease in state-owned companies' arrears compared to 2017.

<sup>12</sup> These measures aimed to bring arrears within quarterly indicative targets and included budget transfers, placing state-owned enterprises in voluntary liquidation or insolvency, as well as converting arrears into shares.

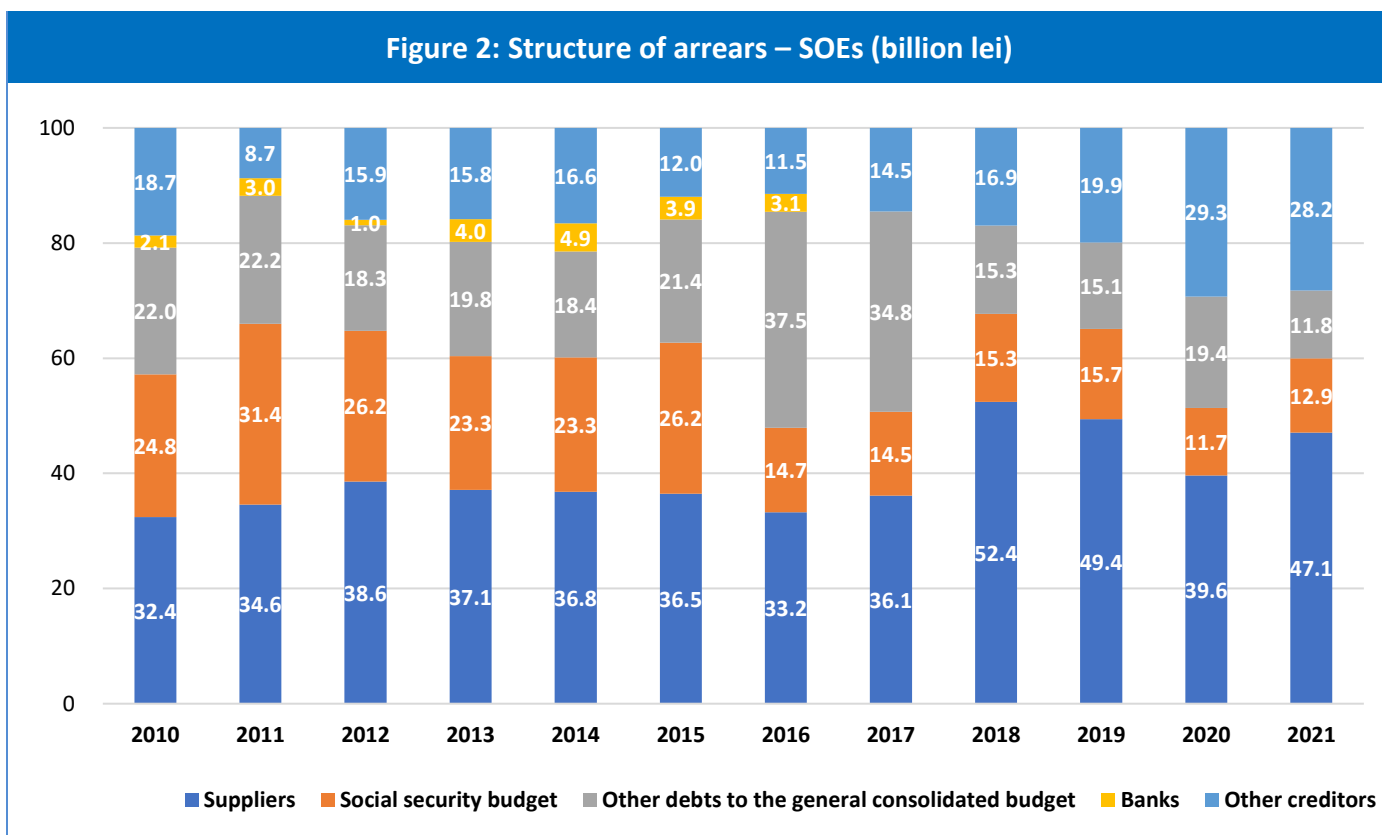
**In 2021, approximately 47% of the arrears of state-owned companies were towards suppliers, about 28% towards other creditors and nearly 25% represented overdue payments towards the general consolidated budget. The decrease of the arrears by 5.2 billion lei compared to the previous year is due to the reduction of all categories of overdue payments of state-owned companies, especially towards the general consolidated budget.**

Analysing the structure of the arrears of state-owned companies in 2021, it can be observed that most of the overdue payments are owed to *suppliers*, with a level of 8.0 billion lei (however, lower by 0.8 billion lei compared to the previous year), representing 47.1% of the total arrears recorded at the level of state-owned companies.

Arrears towards *other creditors* rank second in the hierarchy, with a level of overdue payments of 4.8 billion lei (-1.7 billion lei compared to the previous year), representing 28.2% of the total.

Compared to the previous year, arrears of state-owned companies towards the general consolidated budget significantly decreased (-2.7 billion lei), their share in the total being 24.7%.

The evolution of the structure of state-owned companies' arrears is presented in *Figure 2*.



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

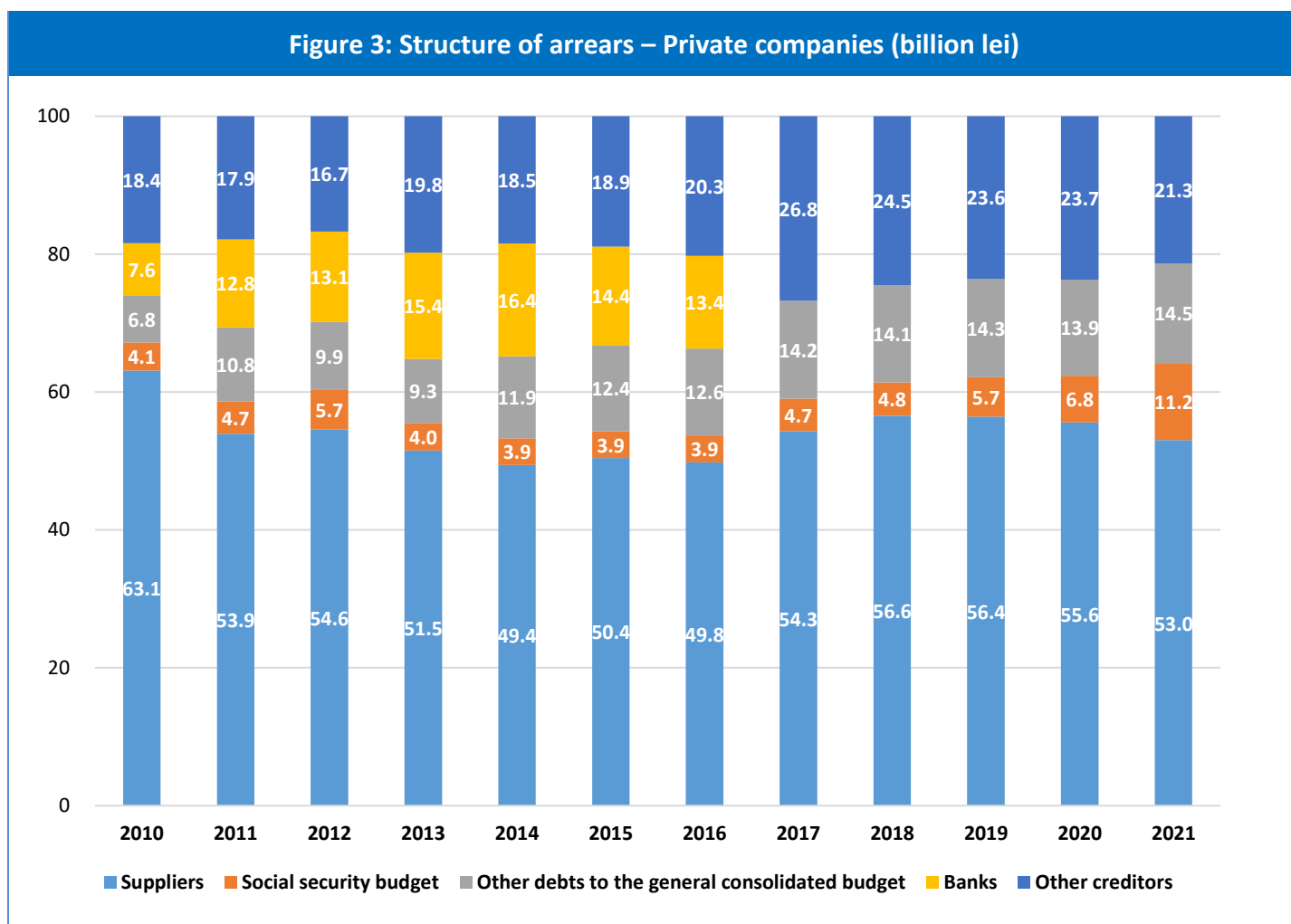
Note: Starting from 2017, due to changes in the reporting form F30, data on arrears towards the banking sector is no longer available.

**In what concerns the arrears of private companies, in 2021 the highest share was recorded by arrears to suppliers (53% of the total), followed at a considerable distance by overdue payments to the general consolidated budget (25.7% of the total) and to other creditors (21.3% of the total).**

In what concerns the structure of arrears of private companies, in 2021 the highest volume of overdue payments was towards *suppliers* (53% of the total arrears), over half of which were payments delayed by over a year.

In second place are overdue payments to the *general consolidated budget* (25.7%), followed by overdue payments to other creditors (21.3% of the total).

The evolution of the structure of private companies' arrears is presented in *Figure 3*.



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

Note: Starting from 2017, due to changes in the reporting form F30, data on arrears towards the banking sector is no longer available.



*The arrears of state-owned companies are concentrated in a small number of companies that operate mainly in the mining sector, thermal energy distribution and chemical industry. Thus, the first 10 companies in terms of the volume of overdue payments (Top 10) accumulated about 74% of the total arrears of state-owned companies. Another worrying aspect is that numerous companies are consistently present in the Top 10 year after year, indicating a chronicity of the arrears in certain sectors.*

By conducting a more detailed analysis of the arrears of state-owned companies, the first 10 companies in terms of the volume of overdue payments (Top 10 – presented in [Table 3](#)) were identified. In 2021, the companies in the Top 10 accumulated 74.4% of the total arrears of state-owned companies. Analysing the Top 10 from the last three years, there is a predominance of enterprises in the mining sector, thermal energy distribution and chemical industry. It can also be noted that eight companies have been present in the ranking each year, which demonstrates the chronicity of the arrears in certain companies and industrial sectors.

In what concerns the largest arrears towards the general consolidated budget (also presented in [Table 3](#)), there is also a trend of persistent overdue payments, six companies appearing in the ranking in each of the last three years. Similarly, there is a predominance of companies in the mining and thermal energy distribution sectors. In the case of arrears to the general consolidated budget, the Top 10 companies accumulated 65.9% of total arrears. Considering the analysis of the largest arrears of state-owned companies, it is relevant to note once again the concentration of arrears in a small number of companies and the chronicity of this problem in certain sectors of the economy.

**Table 3: Top 10 SOEs with the largest arrears**
**Top 10 arrears in Dec. 2021**

	Company name	Arrears (mil. lei)
1	S.N.T.F.M. CFR MARFĂ S.A.	4,121.89
2	RADET BUCUREȘTI	4,035.91
3	REGIA AUTONOMĂ DE TRANSPORT BUCUREȘTI R.A.	877.71
4	COMPANIA NAȚIONALĂ A METALELOR PREȚIOASE ȘI NEFEROASE REMIN S.A.	655.25
5	RADET CONSTANȚA	608.83
6	SOCIETATEA NAȚIONALĂ A CĂRBUNELUI S.A.	552.47
7	OLTCHIM S.A.	513.21
8	S.C. ELECTROCENTRALE CONSTANȚA	445.32
9	APATERM S.A.	410.01
10	S.N. "ÎMBUNĂȚĂȚIRI FUNCiare" S.A.	400.55
	<b>% of total</b>	<b>74.4%</b>

**Top 10 arrears to the general consolidated budget in Dec. 2021**

	Company name	Arrears (mil. lei)
1	REGIA AUTONOMĂ DE TRANSPORT BUCUREȘTI R.A.	836.44
2	SOCIETATEA NAȚIONALĂ A CĂRBUNELUI S.A.	536.99
3	S.N.T.F.M. CFR MARFĂ S.A.	412.02
4	S.C. ELECTROCENTRALE CONSTANȚA	269.49
5	REGIA AUTONOMĂ DE TRANSPORT PUBLIC IAȘI R.A.	142.76
6	SOCIETATEA NAȚIONALĂ "ÎMBUNĂȚĂȚIRI FUNCiare" S.A.	135.25
7	S.C. DE REPARAȚII LOCOMOTIVE C.F.	120.45
8	RADET BUCUREȘTI	109.05
9	SOCIETATEA COMERCIALĂ "UZINA MECANICĂ SADU" S.A.	100.67
10	CENTRALA ELECTRICĂ DE TERMOCIFICARE IAȘI (C.E.T.) S.A.	91.01
	<b>% of total</b>	<b>65.9%</b>

**Top 10 arrears in Dec. 2020**

	Company name	Arrears (mil. lei)
1	RADET BUCUREȘTI	4,103.90
2	S.N.T.F.M. CFR MARFĂ S.A.	3,947.71
3	OLTCHIM S.A.	2,305.09
4	S.C. COMPLEXUL ENERGETIC HUNEDOARA S.A.	2,149.92
5	COMPANIA NAȚIONALĂ UNIFARM S.A.	1,173.42
6	REGIA AUTONOMĂ DE TRANSPORT BUCUREȘTI R.A.	955.21
7	COMPANIA NAȚIONALĂ A METALELOR PREȚIOASE ȘI NEFEROASE REMIN S.A.	651.80
8	SOCIETATEA NAȚIONALĂ A CĂRBUNELUI S.A.	552.34
9	RADET CONSTANȚA	474.35
10	APATERM S.A.	410.36
	<b>% of total</b>	<b>75.4%</b>

**Top 10 arrears to the general consolidated budget in Dec. 2020**

	Company name	Arrears (mil. lei)
1	S.C. COMPLEXUL ENERGETIC HUNEDOARA S.A.	1,638.12
2	COMPANIA NAȚIONALĂ UNIFARM S.A.	1,172.31
3	REGIA AUTONOMĂ DE TRANSPORT BUCUREȘTI R.A.	876.06
4	SOCIETATEA NAȚIONALĂ A CĂRBUNELUI S.A.	536.86
5	S.C. ELECTROCENTRALE CONSTANȚA	249.96
6	AVERSA S.A.	205.88
7	REGIA AUTONOMĂ DE TRANSPORT PUBLIC IAȘI R.A.	143.48
8	S.N. "ÎMBUNĂȚĂȚIRI FUNCiare" S.A.	138.42
9	AVIOANE S.A. CRAIOVA	120.11
10	S.C. DE REPARAȚII LOCOMOTIVE C.F.	115.92
	<b>% of total</b>	<b>75.0%</b>

**Top 10 arrears in Dec. 2019**

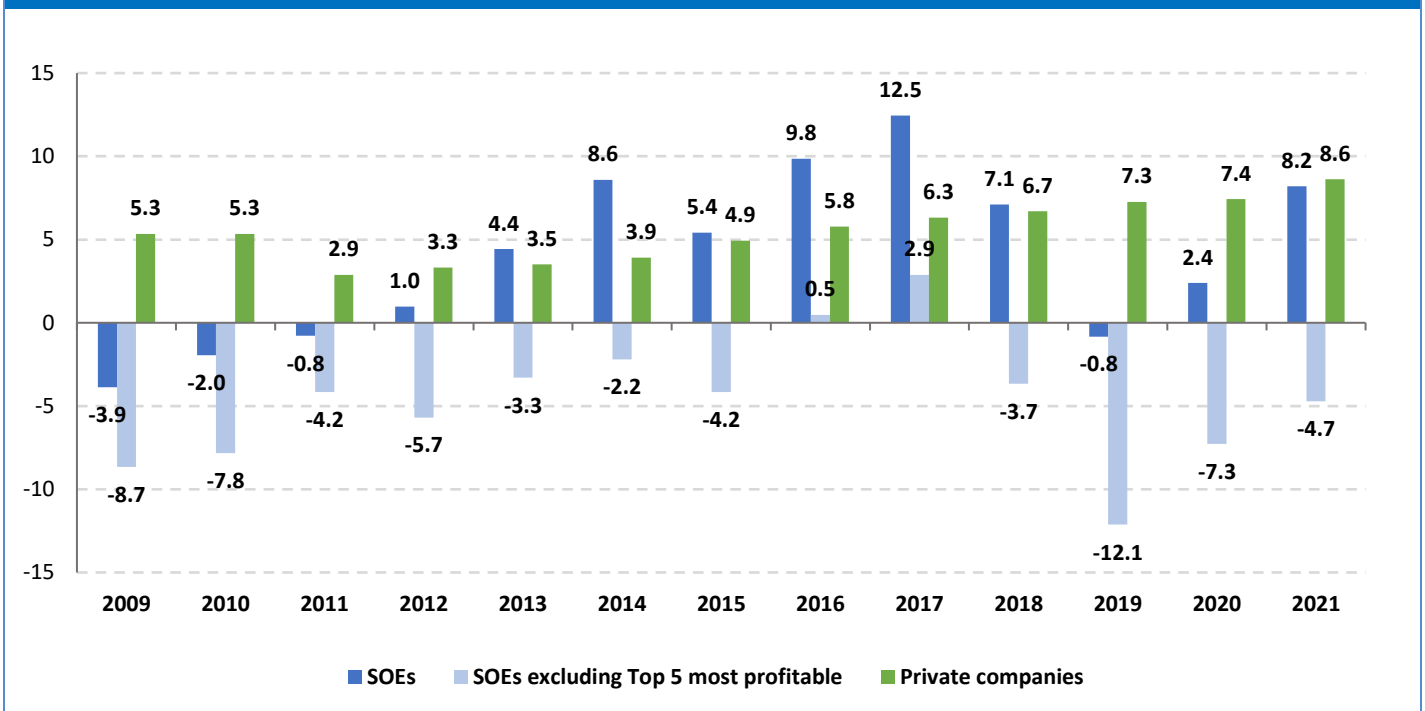
	Company name	Arrears (mil. lei)
1	RADET BUCUREȘTI	4,030.59
2	OLTCHIM S.A.	2,095.30
3	S.C. COMPLEXUL ENERGETIC HUNEDOARA S.A.	1,895.20
4	S.N.T.F.M. CFR MARFĂ S.A.	937.97
5	COMPANIA NAȚIONALĂ A METALELOR PREȚIOASE ȘI NEFEROASE REMIN S.A.	577.37
6	SOCIETATEA NAȚIONALĂ A CĂRBUNELUI S.A.	552.13
7	RADET CONSTANȚA	470.66
8	REGIA AUTONOMĂ DE TRANSPORT BUCUREȘTI R.A.	441.67
9	APATERM S.A.	410.48
10	S.N. "ÎMBUNĂȚĂȚIRI FUNCiare" S.A.	399.94
	<b>% of total</b>	<b>71.2%</b>

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

	Company name	Arrears (mil. lei)
1	S.C. COMPLEXUL ENERGETIC HUNEDOARA S.A.	1,486.99
2	SOCIETATEA NAȚIONALĂ A CĂRBUNELUI S.A.	536.65
3	ROMAERO S.A.	384.94
4	REGIA AUTONOMĂ DE TRANSPORT BUCUREȘTI R.A.	328.29
5	S.C. ELECTROCENTRALE CONSTANȚA	237.84
6	AVERSA S.A.	155.09
7	REGIA AUTONOMĂ DE TRANSPORT PUBLIC IAȘI R.A.	143.88
8	S.N. "ÎMBUNĂȚĂȚIRI FUNCiare" S.A.	138.31
9	AVIOANE S.A. CRAIOVA	128.22
10	S.C. DE REPARAȚII LOCOMOTIVE C.F.	115.92
	<b>% of total</b>	<b>71.6%</b>

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

Figure 4: Operating margin (%)



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

Note: Operating margin (%) = Operating profit/Total revenues \* 100 (the operating profit does not include interest expenses and those related to corporate income tax). In 2021, the operating profit of state-owned companies does not include OLTCHIM S.A.

**The operating margin for state-owned companies increased from 2.4% in the previous year to 8.2% in 2021, while the operating margin for private companies continued to rise to 8.6%, from 7.4% in 2020.**

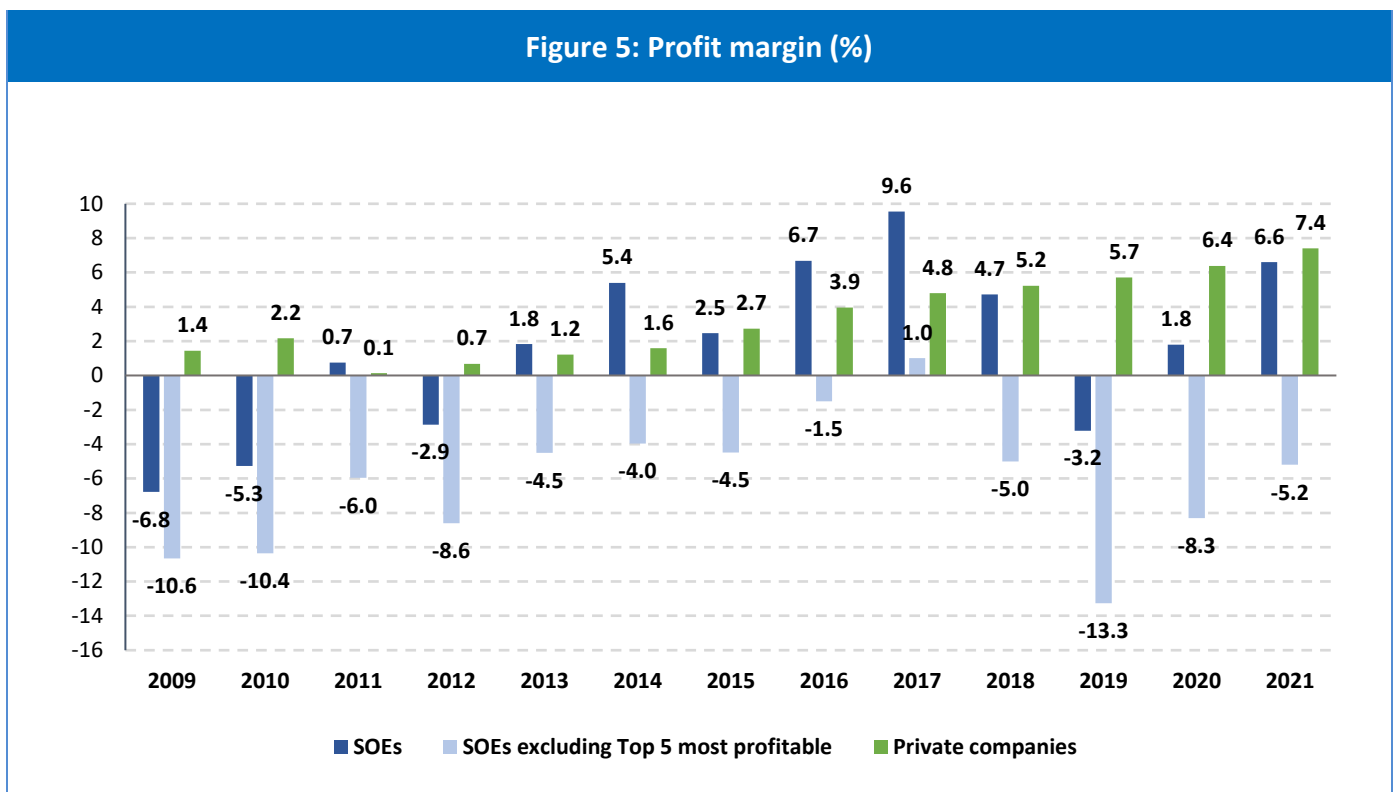
In 2021, the operating margin for state-owned companies increased from 2.4% to 8.2% compared to the previous year (Figure 4). This indicator measures the profitability of the core activity by comparing earnings before interest and taxes to total revenue. The improvement was mainly driven by the aggregate operating profit, which rose from a profit of 1,226.5 million lei in 2020 to a profit of 5,112.9 million lei in 2021, while total revenues increased by 21.3%. Private sector companies continued their upward trend, with the indicator improving by 1.2 percentage points in 2021 compared to 2020.

**Excluding Top 5, the indicator is much lower and in negative territory, at -4.7%, representing an improvement of 2.6 percentage points compared to**

Excluding the Top 5 most profitable state-owned companies, the operating margin drops significantly and reaches negative territory, at -4.7%, representing an improvement of 2.6 percentage points compared to the previous year. Thus, the gap observed when excluding the top-performing five companies is significant,

the previous year.

demonstrating the extremely high impact of these companies on the overall performance of state-owned companies.



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

Note: Profit margin (%) = Net profit/Total revenues \* 100. In 2021, the net profit of state-owned companies does not include OLTCHIM S.A.

**The profit margin of state-owned companies increased from 1.8% in 2020 to 6.6% in 2021. Private sector companies followed a similar trend, increasing their aggregate profit margin from 6.4% in 2020, to 7.4% in 2021, against the background of the positive dynamics of economic activity that led to an increase in aggregate net profit by 40.5%. Excluding the Top 5 companies, the indicator is in negative territory, at -5.2%, recording an**

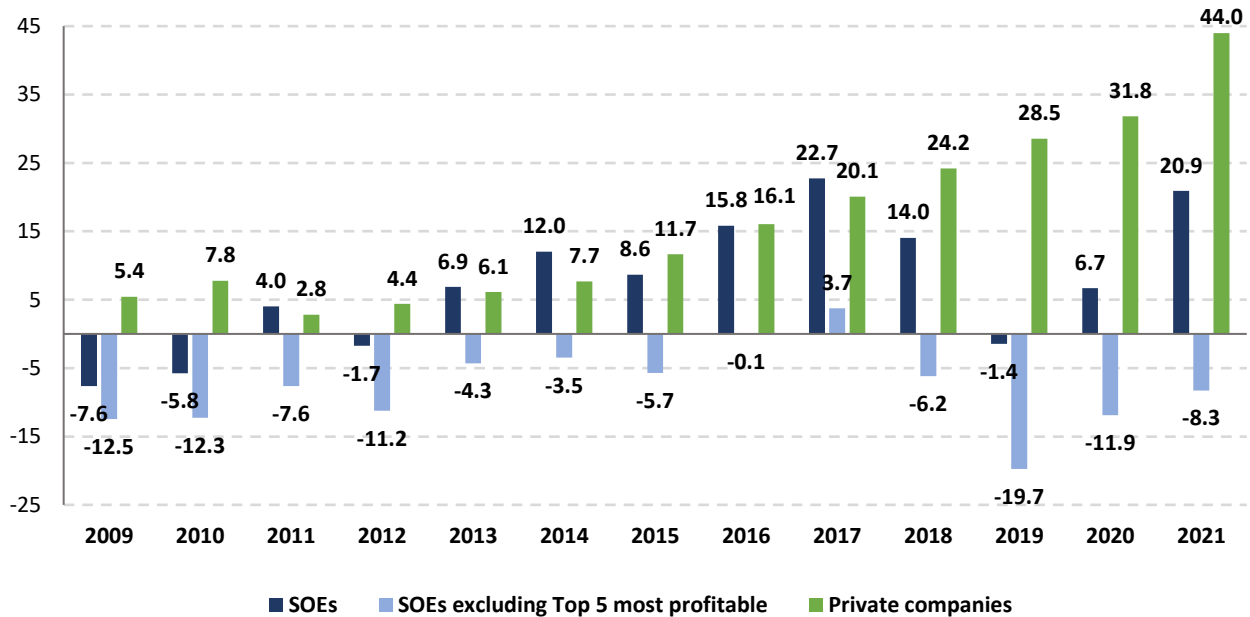
The improvement of the operational position of state-owned companies (attested by the operating margin) is also visible at the level of the profit margin (Figure 5). This indicator also increased from 1.8% in 2020 to 6.6% in 2021 (excluding the net profit of OLTCHIM S.A.). This evolution was caused by the increase in the aggregate net result – from an aggregate net profit of 918.1 million lei in 2020, to an aggregate net profit of 4,131 million lei – while total revenues increased by 21.3%. Private sector companies had a similar evolution, increasing their aggregate profit margin from 6.4% in 2020 to 7.4% in 2021, amid the positive dynamics of economic activity that led to an increase in aggregate net profit by 40.5%. The differences between the operating margin and the profit margin are explained by the fact that the second indicator takes into account the financial and the extraordinary result. Thus, as a result of the negative influence of interest expenses on the

**improvement of 3.1 pp compared to the previous year.**

net result, the profit margin registers lower values relative to the operating margin.

Excluding the Top 5 companies, after in 2017 the indicator recorded the only positive value of the analysed period, the next two years recorded a rapid and significant deterioration of the indicator, with the profit margin dropping to -5% in 2018 and -13.3% in 2019, this level representing the minimum of the analysed period. Starting from 2020, the trend was reversed and in 2021 the operating margin of state-owned companies, excluding Top 5, improved by 3.1 pp.

**Figure 6: Gross profit per 1,000 employees (million lei)**



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

Note: In 2021, the gross profit of state-owned companies does not include OLTCHIM S.A.

**Gross profit per 1,000 employees exhibited a significant increase at the level of state-owned companies, registering a value of 20.9 million lei in 2021, compared to 6.7 million lei in 2020. Private companies**

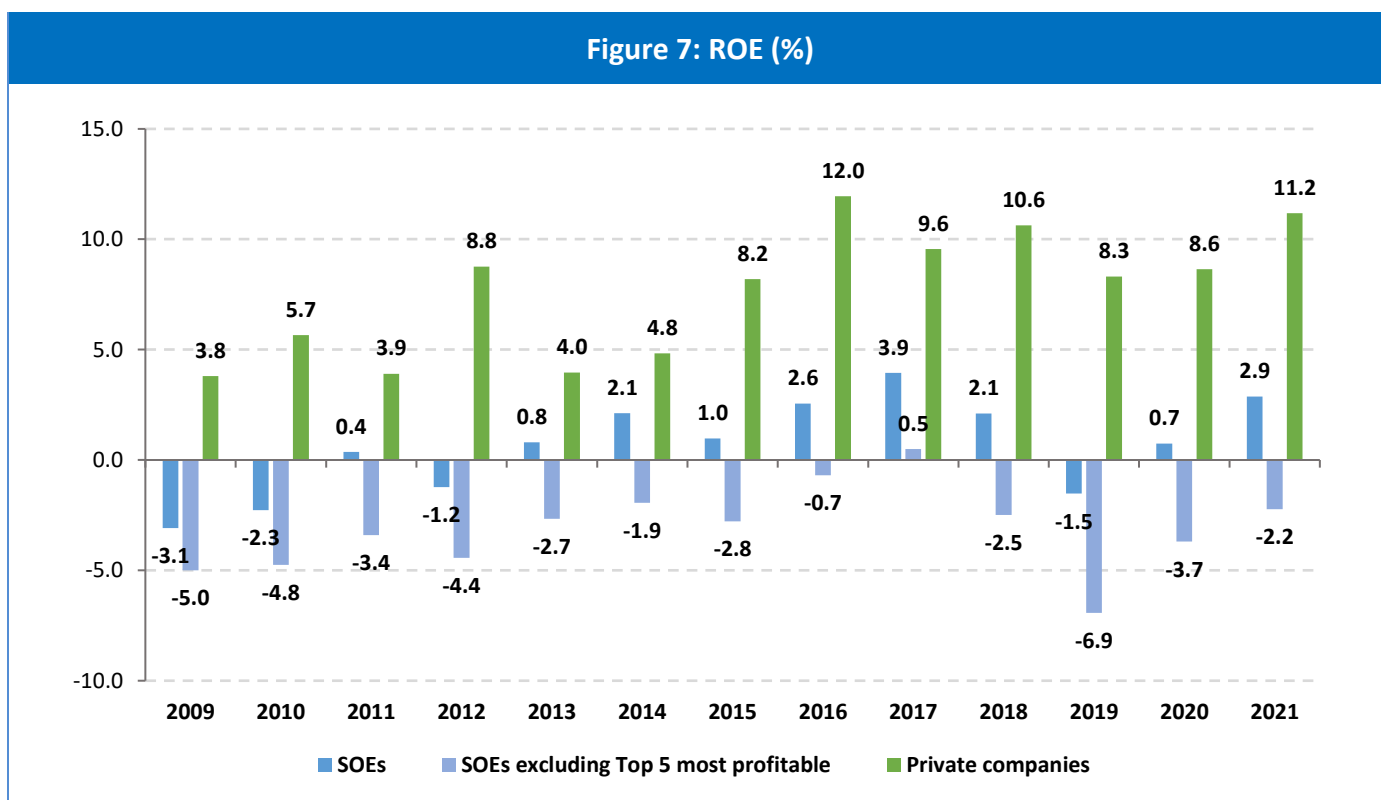
Gross profit per 1,000 employees is an indicator that measures the average profit generated by every 1,000 employees of the company, representing a measure of its efficiency in terms of using its own employees to maximize profit.

At the level of state-owned companies, the indicator exhibited a significant improvement, registering a value of 20.9 million lei in 2021,

*maintained an upward trajectory in terms of labour force efficiency – from 31.8 million lei in 2020 to 44 million lei in 2021. Excluding the Top 5 companies, there is also an improvement in the indicator, from -11.9 million lei in 2020, to -8.3 million lei in 2021.*

compared to 6.7 million lei in 2020 (Figure 6). This evolution was determined by the considerable increase in the aggregate gross result – from a gross profit of 1,779.9 million lei in 2020, to a gross profit of 5,337.6 million lei in 2021, while the number of employees decreased by about 4%. However, similar to the previous year, the level of gross profit per 1,000 employees continued to be far below the one recorded by private companies, which maintained an upward trajectory in terms of labour force efficiency – from 28.5 million lei in 2019, to 31.8 million lei in 2020 and 44 million lei in 2021 –, this value representing the maximum of the analysed period.

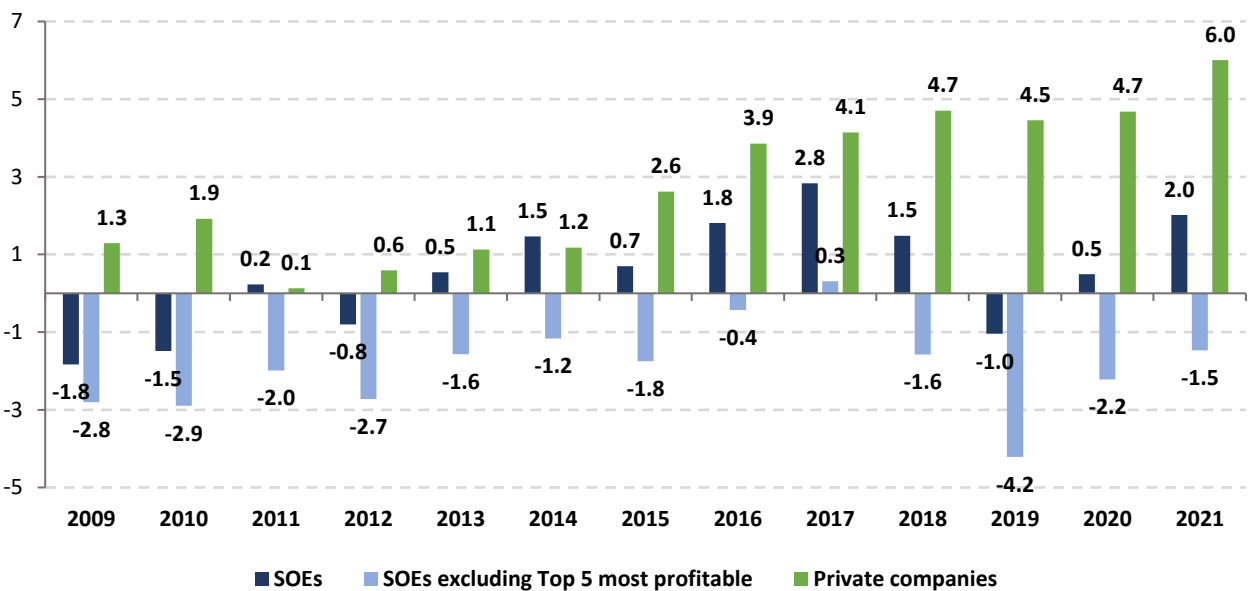
Excluding the Top 5, there is also an improvement in the indicator, from -11.9 million lei in 2020, to -8.3 million lei in 2021, but remaining in negative territory.



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

Note: ROE (%) = Net profit/Equity \* 100. In 2021, the net profit of state-owned companies does not include OLTCHIM S.A.

Figure 8: ROA (%)



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

Note: ROA (%) = Net profit/Total assets \* 100. In 2021, the net profit of state-owned companies does not include OLTCHIM S.A.

**The ROE of state-owned companies recorded an improvement in 2021 compared to the previous year, mainly due to the increase in the aggregate net result. Thus, ROE increased by 2.2 pp compared to 2020 to the value of 2.9%, significantly lower than the 11.2% recorded by private companies. Excluding the influence of the Top 5 companies, ROE remains in negative territory, registering a value of -2.2%.**

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

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

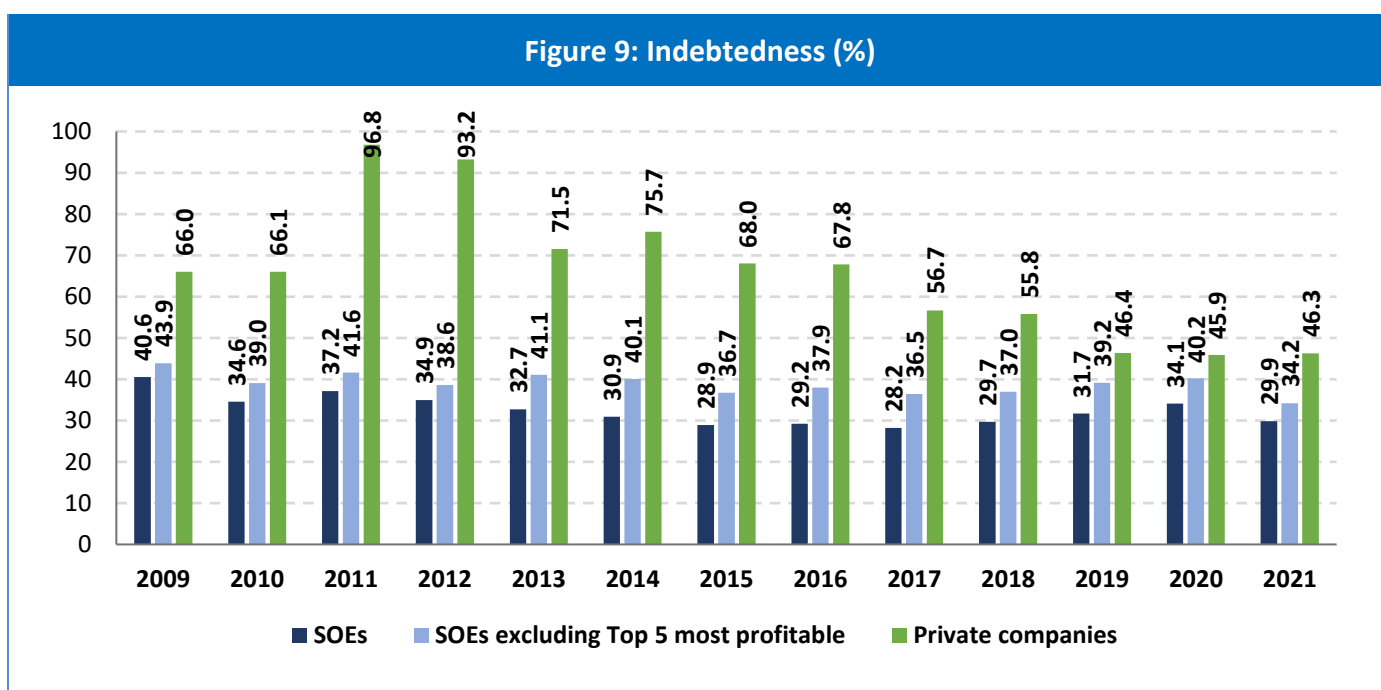
In 2021, as shown by the evolution of the other profitability indicators, the improvement in the performance of state-owned companies can be seen by an increase in both ROE and ROA mainly due to the increase in the aggregate net result, from a net profit of 918.1 million lei in 2020, to a net profit of 4,131 million lei in 2021. Thus, ROE reached a value of 2.9%, increasing by 2.2 pp compared to the previous year (Figure 7), while ROA reached 2%, up from 0.5% in 2020 (Figure 8). The gap between the profitability of public and private companies remains high in

2021, being 8.3 pp in the case of ROE, respectively 4 pp in the case of ROA.

**ROA exhibited similar developments, with state-owned companies registering an increase from 0.5% in 2020 to 2% in 2021. Excluding Top 5 companies, ROA is also negative, standing at -1.5%. For the same period, the ROA of private companies increased by 1.3 pp, from 4.7% to 6%.**

Excluding the influence of the Top 5 most profitable state-owned companies, the two profitability indicators are in negative territory, at -2.2% in the case of ROE, respectively at -1.5% in the case of ROA (an improvement in the case of both indicators compared to 2020), revealing once again the importance of the 5 most profitable public companies.

In terms of private companies, both ROE and ROA increased compared to the same period last year, by 2.6 pp in the case of ROE and 1.3 pp in the case of ROA, given the faster growth of net profit (+40.5%) compared to equity (+8.6%) and total assets (+9.5%).



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

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

**The indebtedness of state-owned companies decreased by 4.2 pp compared to 2020, to 29.9%, but it is unevenly distributed, with certain**

Regarding the indebtedness of state-owned companies, reflected by the share of total debt in total assets, it decreased from 34.1% in 2020 to 29.9% in 2021 (Figure 9). The evolution is explained by the fact that the total assets of state-owned

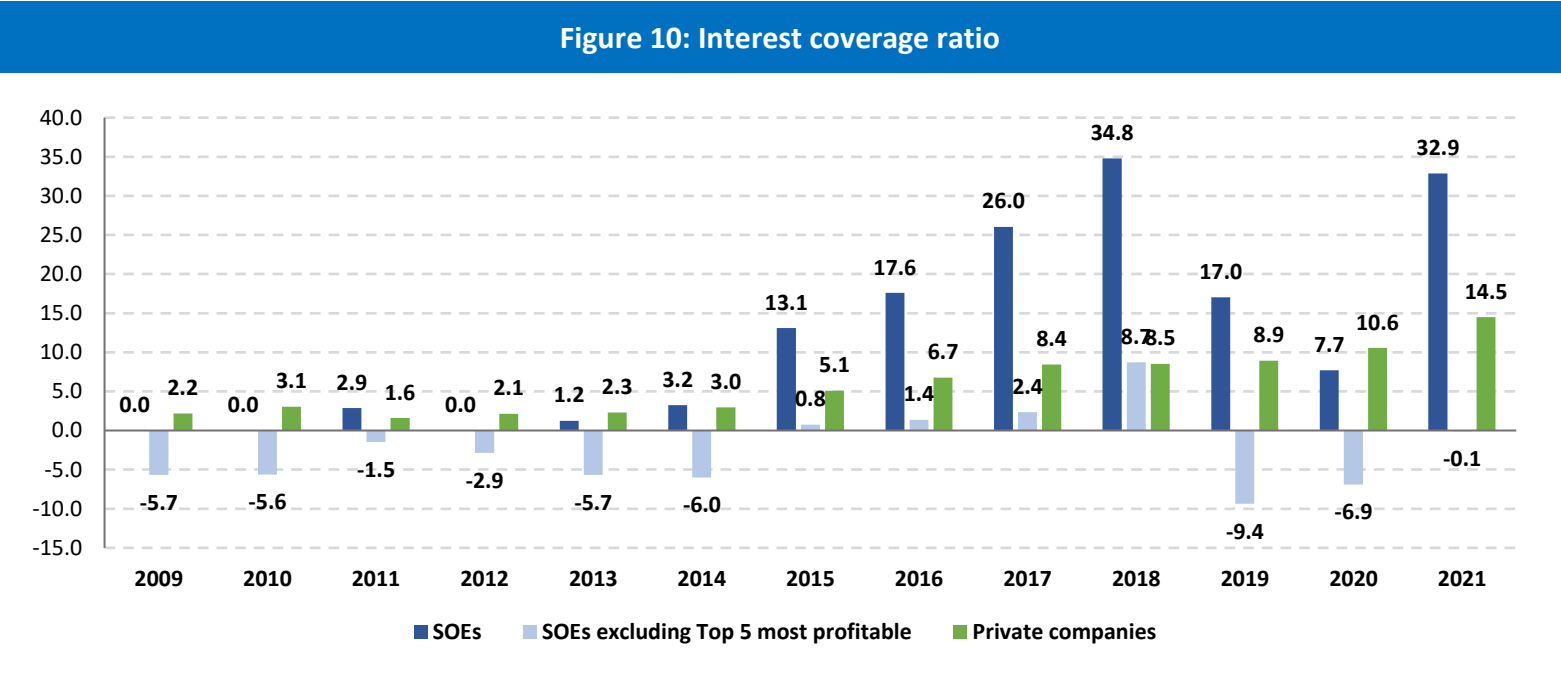


*companies having very little debt, while others are heavily indebted.*

companies registered an increase of 9.6%, while total liabilities decreased by approximately 4%. The result must also be judged considering the uneven distribution of the degree of indebtedness among state-owned companies, some very large firms having a low degree of indebtedness. Excluding the Top 5 state-owned companies, the debt ratio stands higher at 34.2%, the lowest since 2009.

*Overall, in 2021 the share of total debt in total assets remains lower at the level of state-owned companies compared to private ones.*

In the case of private sector companies, the indicator reflects a higher indebtedness compared to that of state-owned companies, its level being 46.3%. It can also express easier access to financing as a result of economic performance. At the same time, it can be noted that this level is higher than the one recorded in 2020 (45.9%). In conclusion, the degree of indebtedness of state-owned companies decreased relative to 2020, while the indebtedness of private companies increased marginally by 0.4 pp.



Source: MF, 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 2021, the interest coverage ratio of state-owned companies recorded a favourable evolution compared to the previous year, its level reaching 32.9 from 7.7 in 2020. This evolution is due to both the increase of the numerator by 210% compared to the same period last year, as well as the decrease of the interest expenses by 27.5%. Excluding the Top 5, the interest expense coverage ratio for state-owned companies stands at a much lower value of -0.1, an improvement from -6.9 in 2020.***

***The interest coverage ratio for private companies increased from 10.6 in 2020 to 14.5 in 2021. The upward evolution of this indicator over the last years was supported by the favourable dynamics of the operating and net results.***

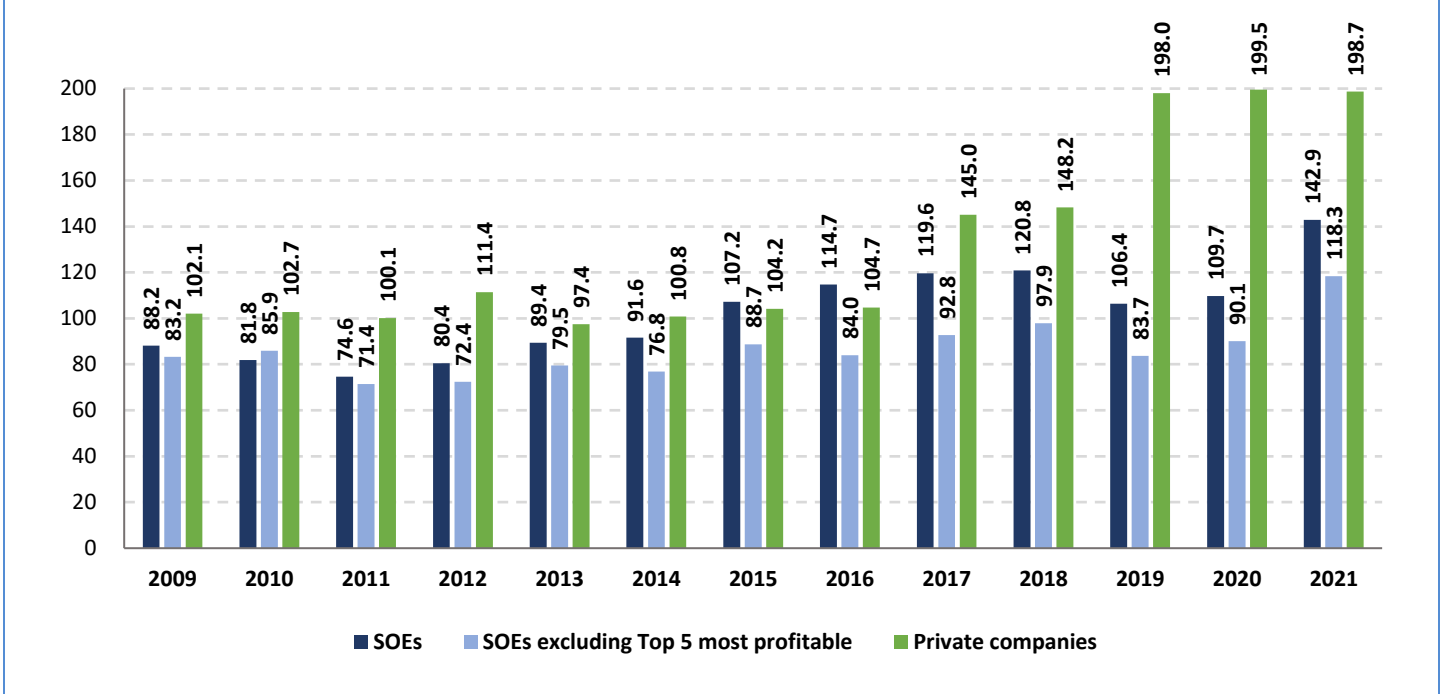
The interest coverage ratio is a solvency indicator that measures a company's ability to pay interest on the accumulated debt. In essence, this indicator shows how many times a company could pay the interest due from its available earnings. A value below 1 indicates that the company does not generate enough revenue to cover interest expenses and will have to use its reserves for this purpose.

After the considerable jump recorded between 2014 and 2018 at the level of state-owned companies (from 3.2 to 34.8, the latter value also representing the maximum of the analysed period), the interest coverage ratio decreased significantly in 2019 and 2020 to 7.7, the lowest level of the last 6 years (*Figure 10*). Against the background of favourable economic conditions and the increase in profitability in 2021, the indicator reached the value of 32.9, close to the maximum recorded in 2018. This evolution is due both to the spectacular increase of the numerator (Current profit or loss + Financial profit or loss + Adjustments for provisions - Other revenues + Other expenses + Interest expenses - Interest revenues) by 210% compared to the same period last year, as well as the reduction of the denominator (interest expenses) by 27.5%. In what concerns this indicator, a substantial increase in the numerator can be noted in the case of S.P.E.E.H. HIDROELECTRICA S.A. (+1.77 billion lei), while S.N.T.G.N. TRANSGAZ S.A. MEDIAȘ recorded the most significant increase in interest expenses (+10.7 million lei).

Excluding the Top 5, the interest coverage ratio for state-owned companies stands at a much lower value of -0.1. This corresponds to an improvement from the level of -6.9 in 2020. Thus, given the increased profitability of state-owned companies, the evolution of the interest coverage ratio also indicates an improvement in the solvency of these companies.

The interest coverage ratio for private companies increased from 10.6 in 2020 to 14.5 in 2021. The upward evolution of this indicator over the last years was supported by the favourable dynamics of the operating and net results.

Figure 11: Liquidity ratio (%)



Source: MF, 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 2021, the liquidity ratio of state-owned companies recorded a considerable increase compared to the previous year, reaching from 109.7% to 142.9%, supported by an increase in current assets and a decrease in short-term debt. Similar to previous years, the level of the ratio is clearly lower than the one recorded by private sector companies, which changed marginally from 199.5% in 2020 to 198.7% in 2021. Excluding the Top 5 state-owned companies in terms of profitability, there is an improvement in liquidity from 90.1% to 118.3%, exceeding the recommended threshold of 100%**

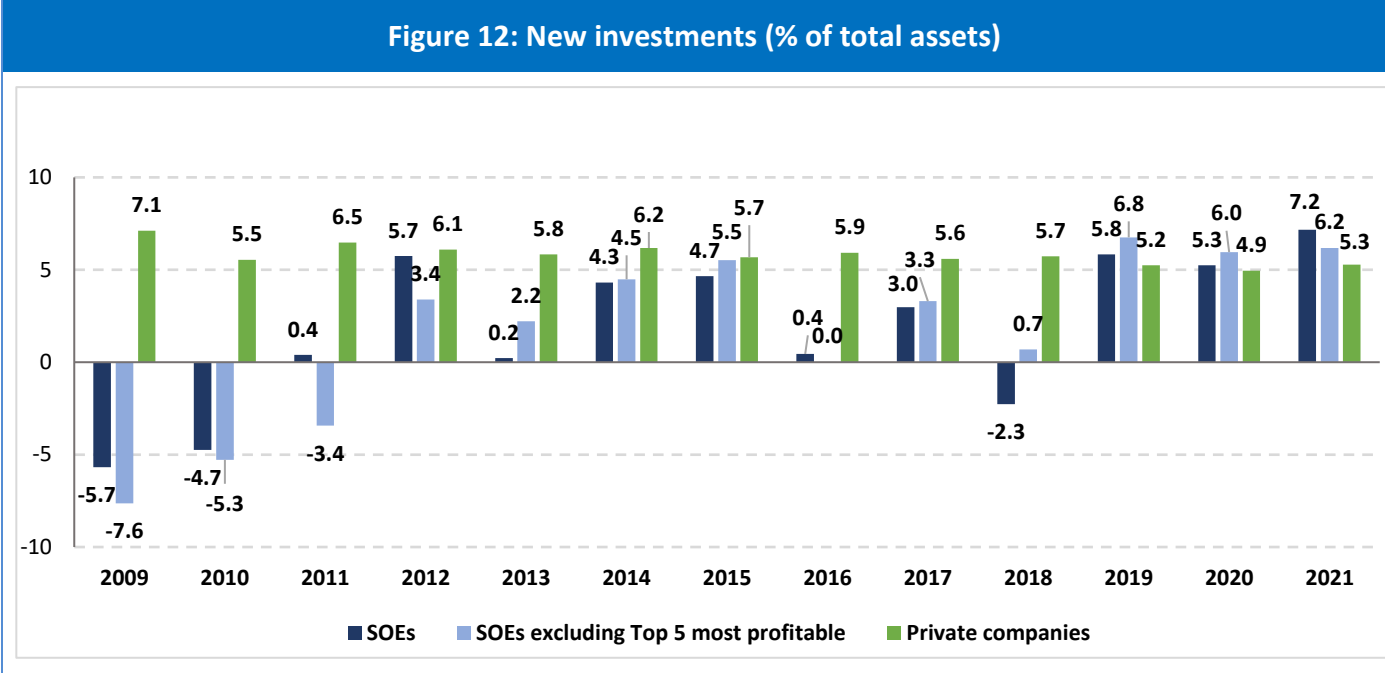
The current liquidity ratio is an indicator that measures the ability of a company to pay its short-term liabilities with the help of current assets. The higher this ratio, the greater the company's ability to pay its short-term liabilities, and a value lower than 100% may indicate that the company in question is unable to pay its debts if they are due at that time. On the other hand, a very high value of the indicator (over 300%) does not necessarily imply that the company has an exceptional situation in terms of liquidity. Depending on how assets are allocated, such a situation may suggest that the company is not using its assets efficiently or does not attract funding.

In 2021, the liquidity ratio of state-owned companies recorded a considerable increase compared to the previous year, reaching from 109.7% to 142.9% (Figure 11), supported by an increase in current assets (+17.55%) and a decrease in short-term debt (-9.74%). Similar to previous years, the level of the ratio is clearly lower than the one recorded by private sector companies, which changed marginally from 199.5% to 198.7%. However, it can be noted that both categories of companies recorded levels of the liquidity ratio that can be considered

for the first time during the analysed period.

adequate, with the liquidity ratio of state-owned companies increasing significantly over the past year against the recommended threshold of 100%.

Excluding the Top 5 state-owned companies in terms of profitability, there is an improvement in liquidity from 90.1% to 118.3%, being for the first time they exceed the 100% threshold during the analysed period.



Source: MF, 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

The ratio of new investments in state-owned companies had a fluctuating evolution over the analysed period, 2021 witnessing an increase up to 7.2%, which represents the maximum recorded between 2009 and 2021.

The ratio of new investments in state-owned companies had a fluctuating evolution over the analysed period, 2021 witnessing an increase up to 7.2%, compared to 5.3% in 2020, this value representing the maximum recorded in the 2009-2021 interval (Figure 12). Excluding the 5 most profitable state-owned companies, the indicator is marginally higher than last year (6.2% compared to 6% in 2020).

The indicator registered an increase for private sector companies as well, from 4.9% to

Additionally, the indicator also registered an increase in the case of private sector companies, from 4.9% to 5.3%, remaining relatively stable from 2010 until 2021. At the same time, it should be noted that, across all the companies included in the analysis, the rate of new

**5.3%, remaining relatively stable from 2010 until 2021.**

**The entry into force of GEO no. 109/2011 on the corporate governance of public enterprises led to a visible progress regarding the transparency and monitoring of the activity of state-owned companies, also materialized in the increase of their performance in the 2015-2017 period.**

**However, this progress was largely cancelled by the implementation of the provisions of Law no. 111/2016, which drastically limited the scope of application of corporate governance principles, by significantly reducing the number of state-owned companies subject to this law. Practically, the provisions of GEO no. 109/2011 no longer applied to most state-owned companies as of 2018.**

investments is still at considerably lower levels than those recorded in the pre-crisis period.

The improvement in the performance of state-owned companies in the 2015-2017 period was also favoured by the legislative reforms implemented through the Emergency Ordinance no. 109/2011 on the corporate governance of public enterprises. Its application kickstarted the process of implementing sound corporate governance practices which aimed for depoliticizing and professionalizing the management of state-owned companies, through the process of selection, appointment and operation of the Board of Directors and managers, and for increasing transparency by providing information in order to make state-owned companies more responsible<sup>13</sup>.

Since 2016, new regulations have been established regarding the promotion of corporate governance: Law no. 111/2016 approving the Emergency Ordinance no. 109/2011, the establishment of a specialized department within the Ministry of Finance to supervise the implementation of the provisions of GEO no. 109/2011, the monitoring of the activity of public enterprises with the establishment of the obligation to report some performance indicators based on which the MF had the obligation to draw up an annual report on the activity of public enterprises etc. A later regulation (Law no. 13/2019) also provides for the inclusion of a representative from the Ministry of Finance in the Board of Directors of the autonomous public bodies.

However, through the enforcement of Law no. 111/2016<sup>14</sup>, there were exempted from the application of the corporate management provisions of GEO no. 109/2011 dozens of companies and institutions<sup>15</sup> in the field of defense, energy, chemical industry, road

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<sup>13</sup> Initially, the set of performance indicators regarding corporate governance included: the development of executive management evaluation models and the implementation of the evaluation process and the remuneration policy of the general manager; implementing the code of ethics, the corporate governance code and ensuring transparency in relation to public information; establishing, reviewing and analysing performance indicators at the level of the public enterprise.

<sup>14</sup> The regulation of corporate governance was amended several times during 2016-2018 through a series of Orders of the Minister of Finance.

<sup>15</sup> The complete list of companies exempted from the application of the provisions of GEO no. 109/2011 – <http://www.cdep.ro/comisii/economica/pdf/2017/rp226.pdf>. The list of public enterprises exempted from the application of GEO 109/2011 was supplemented in 2018.

infrastructure etc. Thus, the reduction of the commitment to the principles of corporate governance based on professionalism, integrity, transparency and responsibility overlapped with the reversal of the upward trend in the performance of state-owned companies starting from 2018. Added to these was the obligation to distribute dividends to the state of at least 90% of the net profit, for complying with the budget deficit target, which significantly affected the investment capacity and, implicitly, the long-term development of the most profitable state-owned companies.

***The OECD Review of the Corporate Governance of State-Owned Enterprises in Romania appreciates the efforts of the authorities to reform and improve corporate governance and the performance of state-owned enterprises, but draws attention to some important shortcomings in the implementation of the existing legal framework. Therefore, OECD recommends the development of appropriate mechanisms to ensure and supervise the effective implementation of the existing provisions on the corporate governance of state-owned enterprises.***

The *OECD Review of the Corporate Governance of State-Owned Enterprises in Romania*<sup>16</sup> appreciates the efforts of the authorities to reform and improve corporate governance and the performance of state-owned enterprises, but draws attention to some important shortcomings in the implementation of the existing legal framework. There are highlighted aspects related to:

- Predominance of interim executive management within state-owned companies, which allows the circumvention of corporate governance provisions and the possibility of appointments based on political criteria;
- Non-compliance with reporting requirements (financial and non-financial) remains high among state-owned companies, raising concerns about their accountability and supervision;
- Lack of a coherent framework, resources and expertise for the effective exercise of public ownership of state-owned companies. At the same time, the sanctions imposed are not tough enough to deter non-compliance with corporate governance provisions;
- Concerns about maintaining a level playing field between state-owned and private companies.

The OECD report recommends the development of appropriate mechanisms to ensure and supervise the effective implementation of the existing provisions on the corporate governance of state-owned enterprises, targeting the following main directions: centralization of the exercise of the public property function, definition of clear

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<sup>16</sup> <https://www.oecd-ilibrary.org/sites/fabf20a8-en/index.html?itemId=/content/publication/fabf20a8-en>, January 2023.

performance objectives for state-owned companies, standardization of the legal forms of state-owned companies and the elimination of exceptions applicable to them, strengthening the autonomy and independence of the executive management of state-owned companies, improving the transparency and reporting of the activity carried out by state-owned companies, respectively, improving their internal control systems.

***The influence of state-owned companies on the budget balance according to ESA 2010 standards was predominantly positive in the 2018-2021 period, with the exception of 2020, against the background of the economic effects of the COVID-19 pandemic and the measures to combat it. In 2021, the main state-owned companies at the central level had a positive contribution, but the state-owned companies at the local level recorded a negative contribution, so that, overall, the contribution of state-owned companies represented only 0.001% of GDP.***

The impact of state-owned companies on the budget balance in European standards based on commitments (ESA10) can represent an additional pressure on the budget deficit targets assumed by the Government, in accordance with the Maastricht criteria (which provide for a ceiling of 3% of GDP in ESA 2010 terms) and the Fiscal Compact (structural deficit below 1% of GDP). The impact on the general consolidated budget, according to ESA10 standards, can manifest itself through: (i) issuing state guarantees (these being also subject to EU rules on state aid); (ii) the reclassification of some state enterprises within the public administration and the inclusion of their result in the budget balance.

In the 2018-2021 period, the total contribution of the main companies in the central<sup>17</sup> and local public administration was a positive one, except for 2020, against the background of the economic effects of the COVID-19 pandemic and the measures to combat it (*Table 4*). Overall, the contribution of state-owned companies to the budget balance was low, ranging from 0.004% of GDP in 2018, to 0.028% of GDP in 2019, to -0.082% of GDP in 2020, to only 0.001% of GDP in 2021. In the case of state-owned companies included in the local public administration, their contribution to the evolution of the budget balance in ESA 2010 standards was insignificant and predominantly negative, with the exception of 2018.

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<sup>17</sup> The companies with the most important contributions, both positive and negative, were considered.



**Table 4: Contribution of the main state-owned companies included in the public sector to the general consolidated budget balance (million lei), ESA10 standards**

	2018	2019	2020	2021
<b>1. Main companies at central level</b>	<b>-352.1</b>	<b>735.2</b>	<b>-747.3</b>	<b>246.6</b>
ELECTROCENTRALE BUCUREȘTI S.A.	52.2	168.3	-6.5	430.5
COMPANIA NAȚIONALĂ „ADMINISTRAȚIA PORTURILOR MARITIME” – S.A. CONSTANȚA	158.2	96.4	90.6	156.3
S.N. RADIOCOMUNICAȚII S.A.	83.2	33.1	31.8	80.8
Compania Națională pentru Administrarea Infrastructurii Rutiere	-110.9	465.3	426.4	74.2
UZINA TERMOELECTRICĂ MIDIA S.A.	6.1	4.2	-2.2	55.3
S.C. ELECTROCENTRALE GRUP S.A.	-0.4	-1.5	-3.7	44.4
S.C. SOCIETATEA DE ADMINISTRARE A PARTICIPAȚIILOR ÎN ENERGIE S.A.	-31.7	-0.9	-70.2	33.1
S.C. SOROCAM S.R.L.	3.7	12.6	22.1	9.4
REGIA AUTONOMĂ TEHNOLOGII PENTRU ENERGIA NUCLEARĂ	-0.1	-2.1	1.0	6.6
C.N. ROMTEHNICA S.A.	0.4	2.4	-60.9	5.9
R.A. Imprimeria Băncii Naționale a României	-47.1	29.8	16.3	5.7
Administrația Fluvială a Dunării de Jos Galați	13.6	-18.9	33.3	5.5
SOCIETATEA ROMÂNĂ DE TELEVIZIUNE	15.5	60.7	52.3	3.4
COMPANIA NAȚIONALĂ DE INVESTIȚII S.A.	0.7	111.1	-169.1	0.3
INSTITUTUL NAȚIONAL DE CERCETARE DEZVOLTARE PENTRU FIZICĂ ȘI INGINERIE NUCLEARĂ „HORIA HULUBEI”	7.1	-3.2	-43.0	-5.1
C.N. ROMARM S.A. – FILIALA UZINA MECANICĂ BUCUREȘTI	-8.2	-8.8	-9.4	-11.7
COMPANIA NAȚIONALĂ ROMARM S.A. BUCUREȘTI FILIALA SOCIETATEA UZINA MECANICĂ CUGIR S.A.	18.1	8.5	-31.3	-24.9
I.N.C.D. I.N.C.A.S. „ELIE CARAFOLI”	-7.8	-9.0	-18.8	-31.1
S.C. ROMAERO S.A.	-91.2	-79.2	-89.2	-70.2
SC.T.M.B. Metrorex S.A.	-148.4	142.5	-138.5	-131.7
C.N. de Căi Ferate C.F.R. S.A.	-85.3	18.6	-154.9	-175.4
S.N.T.F.C. C.F.R. Călători S.A.	-103.7	-23.0	-211.5	-243.0
Units in liquidation	-76.1	-271.6	-411.9	28.3
<b>2. Companies at local level</b>	<b>387.5</b>	<b>-438.0</b>	<b>-123.8</b>	<b>-236.9</b>
Local airports	53.5	24.3	4.1	-42.5
Heating stations with local subordination	-30.6	-49.3	-9.6	-103.3
Other local units	364.6	-413.0	-118.3	-91.1
<b>3. Total main SOEs</b>	<b>35.4</b>	<b>297.2</b>	<b>-871.1</b>	<b>9.7</b>
<b>% of GDP</b>	<b>0.004</b>	<b>0.028</b>	<b>-0.082</b>	<b>0.001</b>

Source: NIS



## Conclusions

In contrast to 2020, which recorded a severe impact of the COVID-19 pandemic on Romanian companies (both private and public), 2021 saw a rapid return of economic activity to pre-pandemic levels. **In this context, the aggregated financial statements of Romanian companies indicate an improvement in the economic and financial performance indicators during 2021. The analysis of this evolution should be judged considering that, although some governmental support measures from the previous year were continued, the amount of financial aid granted by the state to companies was reduced in 2021 compared to 2020. Therefore, the fact that Romanian companies recorded a significant increase of their aggregate net profit, in nominal terms, shows that the favourable effect of the recovery of economic activity in 2021 far exceeds the adverse effect of the partial withdrawal of state support.**

Thus, **Romanian state-owned companies registered increases in total revenues, turnover and gross value added in 2021, gaining a total net profit of 4.1 billion lei, 3.2 billion lei higher than the one recorded in 2020. The favourable evolution of the net result in nominal terms can be found both at the level of the Top 5 most profitable state-owned companies – increase in net profit from 4.2 billion lei to 6.4 billion lei –, but also at the level of the other companies – reduction of the aggregate loss from 3.3 billion lei to 2.3 billion lei**, although these continue to be unprofitable, similar to the situation registered in most of the previous years. The increase in the net result obtained by the state-owned companies led to the improvement of all their performance indicators, such as those regarding profit margins, return on assets and return on equity. Moreover, 2021 witnessed favourable developments for the liquidity and solvency indicators of state-owned companies, while new investments reached the maximum recorded during the 2009-2021 period. Amid the relaunch of economic activity, private sector companies also recorded a significant increase in profitability, with favourable developments at the level of almost all economic and financial indicators.

**The increase in economic and financial performance was also reflected in the evolution of state-owned companies' arrears, which decreased significantly by 23.5% (-5.2 billion lei) compared to the previous year, to the level of 17 billion lei (representing 20.9% of total overdue payments across the economy, compared to 24.1% in 2020).** It should be noted that the share of the arrears of state-owned companies in total arrears still remains significantly higher than the contribution of these companies to economic activity. Additionally, the ranking of the companies with the largest volume of outstanding payments indicates a chronicity of the problem of arrears in certain sectors, with a number of public sector companies continuing to be found in this ranking year after year. As for the arrears of private companies, they too had a favourable evolution, decreasing by 7.6% (-5.3 billion lei) compared to 2020.

The improvement of the economic and financial performance of state-owned enterprises during the 2015-2017 period was also favoured by the legislative reforms implemented through GEO no. 109/2011 on the corporate governance of public enterprises. However, despite the progress achieved, a series of amendments were subsequently implemented that led to the exemption of the majority of state-owned

companies from the application of the provisions of GEO no. 109/2011, *de facto* abolishing the application of corporate governance practices at their level. In this sense, the *OECD Review of the Corporate Governance of State-Owned Enterprises in Romania* highlighted the existence of significant shortcomings in the adequate implementation of the existing legal framework. **The decrease in commitment to the principles of corporate governance based on professionalism, integrity, transparency and responsibility overlapped, starting with 2018, with the decline of most performance indicators of state-owned companies.** Thus, although 2021 recorded a significant improvement of these indicators, most of them continue to be below the values recorded in 2017, both in terms of aggregate net profit (0.7 billion lei lower in nominal terms), as well as regarding the main rates of return (unfavourable difference of 1.1 pp in the case of ROE, respectively of 0.8 pp in the case of ROA). **The Fiscal Council advocates for the appropriate application of the legal framework regarding the corporate governance of state-owned companies in Romania, including the return to the initial scope of state-owned companies in terms of the application of corporate governance principles, respectively to the situation prior to the implementation of Law no. 111/2016.** These objectives are all the more important given that the Government wants to maintain decision-making control through majority stakes in companies of national strategic interest.