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Analysis of the economic and financial performance of Romania's state-owned companies in 2022

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Note:

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Abstract

This paper analyses the economic and financial performance of state-owned companies in Romania during 2022, while also comparing it with the performance of private sector companies. The study was performed on a sample of 781 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.

2022 was characterized by a favourable macroeconomic environment, with a real economic growth of 4.1%. This development was recorded despite unfavourable conditions, marked by escalating geopolitical tensions with the onset of the war in Ukraine, and the rapid increase in inflation, leading to the initiation of a monetary policy tightening cycle. In this context, 2022 witnessed an improved performance of state-owned companies, with profitability, liquidity, and productivity indicators reaching their highest levels throughout the analysed period. Private companies also achieved very good results, reaching their highest level within the analysed period (2009-2022).

Judging these results must take into account that the significant increase in energy prices has driven the performance of firms in the energy sector, where state-owned companies hold a dominant position. Additionally, the negative effects of the rise in energy prices have not fully passed on to final consumers due to public compensation schemes. Furthermore, despite the accelerated inflation, household consumption remained robust, supported by a negative real interest rate and savings from the Covid-19 pandemic period, allowing the transfer of production costs into final prices and maintaining high profit margins.

Romanian state-owned companies recorded significant increases in total revenues, turnover, and gross value added in 2022, achieving a total net profit of 12.7 billion lei, which is 8.6 billion lei higher than that recorded in 2021. The favourable evolution of the net result in nominal terms is reflected both at the level of the Top 5 most profitable state-owned companies – with a net profit growth from 6.4 billion lei to 10.7 billion lei – and at the level of other companies, which shifted from an aggregate loss of 2.3 billion lei to a total profit of 1.96 billion lei. It should be noted that 2022 marked the second positive value of state-owned companies' profits excluding the Top 5, within the 2009-2022 period, with the previous positive value recorded in 2017. The increase in the net result obtained by state-owned companies led to the improvement of all their performance indicators, with most of them reaching their highest levels throughout the analysed period. On the other hand, the contribution of state-owned companies to Romania's economic activity is limited. Thus, in 2022, their share of total economy revenues was 3.5%, the share of turnover was 3.7%, and that of gross value added was 9.7%. Additionally, 2022 witnessed favourable developments for the liquidity and solvency indicators of state-owned companies, while new investments, although slightly decreased compared to 2021, remained at high values. In this context,

private sector companies also recorded significantly increased profitability, with favourable trends in the majority of economic and financial indicators.

The arrears of state-owned companies increased in 2022, in nominal terms, by 12.6% compared to the previous year, reaching the level of 19.1 billion lei (representing 22.2% of the total outstanding payments in the entire economy, compared to 20.9% in 2021). However, considering the high inflation recorded at the end of 2022, at 16.4%, the arrears of state-owned companies decreased in real terms by approximately 3.3%. Additionally, analysing their evolution as a percentage of GDP and total turnover, a general decreasing trend is observed. Thus, at the end of 2022, the arrears of state-owned companies represented 1.36% of GDP and 21.1% of total turnover, these proportions representing the minimum levels recorded throughout the analysed period. However, it should be noted that the evolution of the ranking of companies with the highest volume of outstanding payments indicates a chronicization of the arrears problem in certain sectors, with some state-owned companies continuing to appear in this ranking year after year.

The improvement of the economic and financial performance of state-owned enterprises during the 2015-2017 period was supported by legislative reforms embodied in the enactment of Emergency Ordinance no. 109/2011 regarding the corporate governance of state-owned enterprises. However, subsequently, a series of amendments were implemented which exempted the majority of state-owned companies from the application of corporate governance practices. These initiatives coincided with the decline of most performance indicators of state-owned companies starting from 2018. In this context, Law no. 187/2023 was adopted to amend and supplement Emergency Ordinance no. 109/2011 regarding the corporate governance of state-owned enterprises, which provides a series of measures to improve the performance of state-owned companies. Although the adoption of this law is commendable, the Fiscal Council advocates, similar to its previous analyses, for the adequate application of the existing legal framework regarding the corporate governance of state-owned companies in Romania. This recommendation is reinforced by the most recent OECD report, which acknowledges that the adoption of legislative measures, no matter how good, is not sufficient; only the proper implementation of these measures can bring corporate governance to the level of OECD standards, ensuring better use of public funds.

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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 (SOE) in 2022, 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, similar to 2021, which witnessed a rapid recovery of economic activity to pre-pandemic levels, 2022 was characterized by a favourable macroeconomic environment, with a real economic growth of 4.1%. This development was recorded despite unfavourable conditions, marked by escalating geopolitical tensions with the onset of the war in Ukraine, significant increases in energy prices, and rapid inflation growth leading to the initiation of a monetary policy tightening cycle.

In this context, assessing the economic and financial results of both state-owned and private companies must consider several specific elements that have supported the attainment of high performance. Firstly, the significant increase in energy prices has bolstered the performance of firms in the energy sector, where state-owned companies hold a dominant position. Additionally, the negative effects of rising energy prices have not fully passed on to consumers due to public compensation schemes. Secondly, despite accelerated inflation, household consumption has remained robust, supported by a negative real interest rate and savings from the Covid-19 pandemic period, allowing the transfer of production costs into final prices and maintaining high profit margins. Last but not least, the economic activity dynamics have also been supported by a high level of public investments.

Dataset

The analysis was conducted on a total of 781 state-owned companies, with the size and structure of the sample indicating no significant differences compared to 2021, when 787 companies were included in the analysis. From this perspective, it is expected that the results of the current study will be comparable to those obtained in previous years.

To accurately reflect the economic and financial performance of state-owned companies in Romania, the data sample used was adjusted to eliminate the influence of factors found in financial statements that do not actually reflect a change in performance.

At the end of 2022¹, a total of 1,571 companies in the non-financial sector reported in their annual financial statements that they were wholly or predominantly state-owned. Following a rigorous analysis of organizational structure, business objectives, and the structure of ownership of the social capital, it was observed that numerous limited liability companies incorrectly stated their affiliation to the state-owned sector, with the vast majority claiming to be organized as autonomous public bodies. After correcting the reporting errors identified, the final number of state-owned companies included in the analysis was 781, which was close to the sample size for 2021 (787 companies). Given the relative stability of the analysed sample, it is expected that the results of the current study will be comparable to those obtained in previous years.

Furthermore, a series of adjustments to the reported financial data were made to ensure that the analysis accurately reflects the economic and financial performance of public sector companies. Similarly to the 2018-2021 period, the National Company for the Administration of Road Infrastructure (C.N.A.I.R. S.A.) reported concession rights resulting from the contract signed with the Ministry of Transport regarding state-owned public property, with the remaining amortization value as of December 31, 2022, amounting to 60.96 billion lei². As these concession rights do not represent the result of investment activities (being treated as subsidies according to IFRS³) and significantly affect the study's results (leading to a substantial increase in asset volume and the indebtedness ratio of state-owned companies), they were excluded from the analysis. Additionally, starting from 2018, the financial statements reported by C.N.A.I.R. S.A. have been characterized by a significant decrease in tangible assets in progress (by over 10 billion lei), offset by a similar increase in production stocks in progress⁴. Considering that these changes have a significant impact on liquidity indicators and the level of investments made by state-owned companies, corresponding adjustments to these indicators were made.

In 2022, Complexul Energetic Oltenia S.A. reported a net profit of 3.5 billion lei, representing approximately 21.6% of the total profit of state-owned companies, which would have placed it second in the ranking of the most profitable state-owned companies. However, considering that the company received grants amounting to nearly 3.8 billion lei,

¹ According to the data received from MF.

² According to the notes to the 2021 financial statements of C.N.A.I.R. S.A.

³ International Financial Reporting Standards.

⁴ The reclassification of these amounts is most likely the result of the accounting policies and conventions used.

according to the Restructuring Plan approved in January 2022⁵, the profit obtained by Complexul Energetic Oltenia S.A. was excluded from the analysis conducted for 2022. This decision was made because including the profit would have led to an artificial improvement in the aggregate profitability of state-owned companies and distorted the overall results of the analysis.

Starting from 2018, there have been no reported overdue payments by C.N. a Huilei S.A. (5.4 billion lei overdue payments at the end of 2017) and by Electrocentrale București S.A. (1.7 billion lei overdue payments at the end of 2017). This is the reason why the arrears of state-owned companies recorded a significant decrease in 2018 (by over 36%) compared to the previous year. It should be noted that the absence of reporting does not indicate the settlement of these overdue payments, but is 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 in insolvency.

Similar adjustments have been made at the level of analyses in some previous years, aiming to obtain a more realistic assessment of the performance of state-owned companies, as follows:

- In 2021, Oltchim S.A. reported a notional profit of 1.7 billion lei, representing approximately 29% of the total profit of state-owned companies. Considering that this company is in bankruptcy (having had a judicial liquidator since 2019), the profit obtained by Oltchim was excluded from the analysis conducted for the year 2021;
- At the end of 2018, S.N.T.F.M. C.F.R. Marfă S.A. reported an increase of 4.3 billion lei in tangible fixed assets compared to the previous year as a result of a revaluation process of tangible fixed assets and real estate investments. The information was treated with caution, acknowledging the increase in the asset volume of state-owned companies, but this increase was not assimilated as investments in fixed assets.
- From the sample for 2017, the Company for Energy Stakes Management (SAPE) and the Romanian Television Company (SRT) were excluded because they significantly distorted the analysis of state-owned companies' profitability. This was due to SAPE receiving a sum of 401.2 million euros from the Enel group (following the arbitration process won at the Paris Arbitration Court), and SRT experiencing a substantial increase in the subsidy granted by the Romanian state (from 95 million

⁵ According to the Administrators' Report for the 01.01.2022-31.12.2022 period, page 11.

lei in 2016 to 946 million lei in 2017) due to the elimination of the radio-TV fee, as well as for the purpose of repaying the public television's historical debts.

- 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 2015.

Results of the empirical analysis

Although 2022 was marked by geopolitical tensions and accelerated inflation, the performance of companies in the non-financial sector recorded significant increases, both for state-owned and private companies.

Despite the amplification of geopolitical tensions in 2022, amid the outbreak of the war in Ukraine, as well as the accelerated inflation, 2022 was characterized by an improved performance of state-owned companies, with most indicators reaching their highest level throughout the analysed period. Gross value added increased by 32.2% in real terms, profitability rates were high, and liquidity remained robust. Private companies also achieved very good results, reaching their highest level in the analysed period as well.

The performance of both public and private companies was supported by the increase in prices in the energy sector, the impact of which on final consumers was mitigated by public compensation schemes, a favourable macroeconomic framework, and maintaining the real interest rate in negative territory. Household consumption remained robust, supported by savings from the Covid-19 pandemic period.

The performance of both state-owned and private companies was supported by several factors. Firstly, the increase in energy prices bolstered the activity of companies in the energy sector, where state-owned companies hold a dominant position. It's noteworthy that this price increase was not fully passed on to final consumers due to public compensation schemes. Secondly, although economic activity decelerated from 5.7% in 2021 to 4.1% in 2022, the macroeconomic framework remained favourable, and the real interest rate stayed negative. Thus, despite rapid inflation, household consumption remained robust, supported by savings from the Covid-19 pandemic period. This context allowed for the transfer of production costs into final prices and the maintenance of high profit margins. Additionally, the economic activity dynamics was supported by a high level of public investments.

State-owned companies' revenues increased by 47.5% compared to the previous year. This development was accompanied by a 48.2% increase in turnover and a 49.7% increase in gross value added in nominal terms.

In this context, the total revenues of state-owned companies increased by 29.6 billion lei (+47.5%) compared to the previous year, and their turnover grew by 29.4 billion lei (+48.2%) compared to 2021. For private sector companies, total revenues increased by 28%, and turnover increased by 27.7%. Regarding gross value added in nominal terms, there was a positive dynamic in the entire economy (+25.8%), contributed to by both public sector companies (+49.7%, representing +19.1 billion lei) and private sector companies (+23.7%, representing +102.9 billion lei).

Although experiencing a slight increase, companies in the public sector have a limited contribution to the economic activity in Romania.

In 2022, the trend of reducing the number of employees in state-owned companies continued, with the value of this indicator reaching the minimum of the analysed period.

Labour productivity in state-owned companies increased by 35.7% in 2022, reaching the maximum level of this indicator in the analysed period. Labour productivity also increased in private sector firms by 3.6% compared to the previous year.

The aggregate net profit obtained by non-financial companies increased by 56.7 billion lei in nominal terms (+38.1%). The total net profit obtained by state-owned companies was 12.7 billion lei (+8.6 billion lei, representing +207.1% compared to the previous year). Private sector companies recorded a total net profit increase of 48.2 billion lei (+33.3% compared to the previous year).

Although experiencing a slight increase, the contribution of state-owned companies to the economic activity in Romania is low, considering that the proportion of the number of state-owned companies to total companies was 0.09%. Thus, in 2022, their share of total revenues was 3.5% (compared to 3.1% in the previous year), the share of turnover was 3.7% (compared to 3.1% in the previous year), and that of gross value added was 9.7% (compared to 8.1% in 2021).

In 2022, the trend of reducing the number of employees in state-owned companies, which began in 2020, continued. This indicator recorded a decrease of approximately 6.5 thousand people (-2.6%) compared to the previous year, reaching the minimum number of employees in state-owned companies for the analysed period. On the other hand, the number of employees in private companies increased by approximately 206.9 thousand people (+5.5%) compared to 2021.

Considering that gross value added in real terms showed an upward trend in 2022 (+32.3% for state-owned companies and +9.3% for private ones), surpassing the evolution of the number of employees, and labour productivity recorded a positive dynamic. Thus, significantly supported by the increase in energy prices, labour productivity in state-owned companies increased by 35.7% (the increase in gross value added in real terms coinciding with a decrease in the number of employees), reaching the maximum level of this indicator in the analysed period, of 133.1 million lei/1,000 employees. Labour productivity also increased in companies with majority private capital (+3.6%). In their case as well, the value of productivity reached the maximum level of the analysed period, at 77.2 million lei/1,000 employees.

The aggregate net profit obtained by all non-financial companies experienced a strong upward trend, increasing by 56.7 billion lei in nominal terms (+38.1%). The trend of profit growth was more pronounced in the case of state-owned companies. Thus, the total net profit obtained by these companies was 12.7 billion lei (+8.6 billion lei, representing an increase of 207.1% compared to the previous year), a value approximately 7.9 billion lei higher than the maximum level recorded up to that point (4.8 billion lei in 2017). Private sector companies also recorded a significant increase in total net profit of 48.2 billion lei (+33.3% compared to the previous year). This result represents a continuation of the growth trajectory of this indicator in recent years (+55.2% in 2016, +30.9% in 2017, +23.6% in 2018, +19.4% in 2019, +10.5% in 2020, and +40.5% in 2021).

The analysis conducted for each year has highlighted the fact that a small number of state-owned companies with considerable profits significantly influence the aggregate results of companies in the public sector. Thus, in 2022, the profit generated by the Top 5 state-owned companies represented approximately 84.5% of the total profit of state-owned companies. In this context, to rigorously highlight the overall financial performance of state-owned companies, this study will analyse specific indicators both at an aggregate level and by excluding the Top 5 most profitable companies.

The analysis of state-owned companies' profitability can be nuanced by separately highlighting the Top 5 most performing companies in terms of net profit obtained (presented in [Table 2](#)). Thus, the companies included in the Top 5 have recorded significant profits over the past 6 years, increasing every year, except for 2019, from 4.4 billion lei in 2017 to 10.7 billion lei in 2022⁶ (4.3 billion lei more than in 2021). Analysing the evolution of the Top 5, a relatively stable composition is observed over the past 6 years, predominantly consisting of state-owned companies in the energy sector. Thus, in the last 6 years, Hidroelectrica S.A., Romgaz S.A., and Nuclearelectrica S.A. have been consistently included in the Top 5, while Transgaz S.A., Electrocentrale București S.A., and C.N. Aeroporturi București S.A. have appeared three times. It is noteworthy that, over the past five years, the first position has consistently been occupied by Hidroelectrica S.A., with significant shares in the Top 5 profit, ranging from 34.7% to 46.9%.

In 2022, the Top 5 consists exclusively of companies belonging to the energy sector, with their profit representing approximately 84.5% of the total profit of state-owned companies. The performance of companies in this sector is attributed, on the one hand, to the unprecedented increase in prices in the energy sector, and, on the other hand, to the favourable macroeconomic environment and public compensation schemes that allowed for the transfer of production costs into final prices and a quicker absorption of the price increase shock by final consumers.

By eliminating the impact of companies in the Top 5, characterized by high profitability, a considerable decrease in the profitability of other state-owned companies is observed. Thus, except for the years 2017 and 2022, state-owned companies excluding the Top 5 recorded net losses, on aggregate, throughout the entire analysed period. In 2022, state-owned companies excluding the Top 5 recorded a net profit of 1.96 billion lei, compared to a net loss of 2.3 billion lei in the previous year, with the percentage of public companies that recorded a positive result increasing from 62.1% to 67.5%. In this context, the gap between the Top 5 state-owned companies and the rest of them remained at a level close to that of the previous year, at approximately

⁶ As previously mentioned, the reported profit of Complexul Energetic Oltenia S.A. has been excluded from the analysis for 2022, including from the total profits of the Top 5 companies, because it was determined by the grants received according to the company's Restructuring Plan. The necessity of this adjustment is even more evident because the reported profit is substantial (placing Complexul Energetic Oltenia S.A. in 2nd place in the Top 5 – see [Table 2](#)), which would have led to an artificial improvement of the aggregate profitability of state-owned companies, as well as a distortion of the overall results of the analysis.

8.7 billion lei. Comparing the overall net result of state-owned companies excluding the Top 5 with that of companies in the Top 5, it is evident that a small number of companies with considerable profits significantly influence the aggregate results of state-owned companies. In this context, to rigorously highlight the financial performance of the entire sector, this study will analyse specific indicators both at the level of all state-owned companies and by eliminating the influence of the Top 5.

The evolution of the main economic and financial indicators of state-owned companies in Romania throughout the analysed period 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	2022
Number of companies	SOEs	774	1,151	1,155	1,143	916	807	803	827	793	787	781
	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	890,830
	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%	0.09%
Total revenues, mil. lei	SOEs	50,756	51,208	44,487	48,578	46,586	50,432	54,640	57,079	51,384	62,317	91,897
	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	2,593,737
	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%	3.5%
Gross value added, mil. lei	SOEs	20,454	25,131	25,220	26,687	26,143	28,845	32,856	34,862	31,660	38,503	57,641
	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	594,892
	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%	9.7%
Gross value added in real terms, mil. lei (constant prices 2010)	SOEs	21,663	22,965	22,659	23,219	22,165	23,369	25,061	24,897	21,717	25,047	33,125
	Private companies	179,177	190,625	207,305	203,453	220,474	226,245	242,361	253,875	247,895	282,587	308,744
Number of employees, thousands of persons	SOEs	364	321	297	291	281	273	276	279	266	255	249
	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	4,248
	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%	5.9%
Labour productivity, mil. lei/1,000 employees (constant prices 2010)	SOEs	59.56	71.50	76.34	79.68	78.86	85.68	90.91	89.37	81.65	98.06	133.09
	Private companies	49.02	51.59	57.82	55.47	58.06	59.82	62.56	66.08	66.11	74.51	77.20
Net profit, mil. lei	SOEs	-3,443	938	2,401	1,200	3,108	4,818	2,574	-1832	918	4,131	12,686
	SOEs, excluding top 5	-4,573	-1,787	-1,323	-2,034	-513	380	-2,004	-5,509	-3,267	-2,300	1,961
	Private companies	11,399	12,678	17,020	31,088	48,251	63,150	78,075	93,189	102,967	144,663	192,844
Arrears, mil. lei	SOEs	34,405	26,217	24,370	21,226	23,232	21,599	13,757	16,598	22,171	16,957	19,087
	Private companies	62,406	99,052	93,508	94,875	89,390	73,758	75,399	69,544	69,631	64,348	66,829
	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%	22.2%
Arrears, % of GDP	SOEs	6.5%	4.20%	3.6%	3.0%	3.1%	2.5%	1.4%	1.6%	2.1%	1.4%	1.36%
Arrears, % of net turnover	SOEs	68.9%	52.1%	55.7%	44.6%	50.7%	43.3%	25.7%	30.0%	45.1%	27.8%	21.1%

Source: MF, based on 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 2022		Top 5 net profit in 2021		Top 5 net profit in 2020	
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.	4,394.38	1 S.P.E.E.H. HIDROELECTRICA S.A.	3,019.51	1 S.P.E.E.H. HIDROELECTRICA S.A.	1,451.58
2 COMPLEXUL ENERGETIC OLTENIA S.A.	3,499.91*	2 S.N.G.N. ROMGAZ S.A.	1,962.51	2 S.N.G.N. ROMGAZ S.A.	1,278.88
3 S.N. NUCLEARELECTRICA S.A.	2,764.42	3 S.C. OLTCHIM S.A.	1,701.27**	3 S.N. NUCLEARELECTRICA S.A.	699.32
4 S.N.G.N. ROMGAZ S.A.	2,531.95	4 S.N. NUCLEARELECTRICA S.A.	1,036.26	4 SAPE S.A.	396.63
5 ELECTROCENTRALE BUCUREȘTI S.A.	1,034.40	5 ELECTROCENTRALE BUCUREȘTI S.A.	412.94	5 ELECTROCENTRALE BUCUREȘTI S.A.	358.72
Total	10,725.15***	Total	6,431.22***	Total	4,185.13
Top 5 net profit in 2019		Top 5 net profit in 2018		Top 5 net profit in 2017	
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.	1,386.54	1 S.P.E.E.H. HIDROELECTRICA S.A.	1,939.28	1 S.N.G.N. ROMGAZ S.A.	1,854.75
2 S.N.G.N. ROMGAZ S.A.	1,046.41	2 S.N.G.N. ROMGAZ S.A.	1,360.55	2 S.P.E.E.H. HIDROELECTRICA S.A.	1,359.69
3 S.N. NUCLEARELECTRICA S.A.	535.67	3 S.N.T.G.N. TRANSGAZ S.A.	495.67	3 S.N.T.G.N. TRANSGAZ S.A.	582.06
4 COMPANIA NAȚIONALĂ AEROPORTURI BUCUREȘTI S.A.	359.62	4 S.N. NUCLEARELECTRICA S.A.	410.61	4 COMPANIA NAȚIONALĂ AEROPORTURI BUCUREȘTI S.A.	337.55
5 S.N.T.G.N. TRANSGAZ S.A.	348.26	5 COMPANIA NAȚIONALĂ AEROPORTURI BUCUREȘTI S.A.	371.82	5 S.N. NUCLEARELECTRICA S.A.	303.88
Total	3,676.49	Total	4,577.93	Total	4,437.93

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

* The profit reported by Complexul Energetic Oltenia was excluded from the analysis for 2022, as it was determined by the grants received according to the company's restructuring plan.

** The profit reported by Oltchim S.A. was excluded from the analysis for 2021, as the company was in a bankruptcy situation.

*** Thus, the Top 5 for 2021 and 2022 effectively only includes 4 companies.

In 2022, the arrears of state-owned companies increased by 12.6% in nominal terms compared to the previous year, reaching the level of 19.1 billion lei (representing 22.2% of the total outstanding payments in the entire economy). However, considering the high inflation recorded at the end of 2022, of 16.4%, the arrears of state-owned companies decreased in real terms by approximately 3.3%.

The evolution of arrears⁷ accumulated by state-owned companies is analysed considering that, starting from 2018, C.N. a Huilei S.A. (with outstanding payments of 5.4 billion lei at the end of 2017) and Electrocentrale București S.A. (with outstanding payments of 1.7 billion lei at the end of 2017) have not reported arrears. This is the reason why the arrears of SOE recorded a significant decrease in 2018 (by 36.3%, respectively by 7.8 billion lei) compared to the previous year. The lack of reporting does not indicate the extinguishment of these arrears, but is most likely caused by the fact that, at that time, the C.N. a Huilei S.A. was undergoing bankruptcy proceedings, and Electrocentrale București S.A. was under insolvency.

In 2022, a nominal increase in arrears of SOE was recorded (+2.1 billion lei, or +12.6%) compared to the previous year, reaching 19.1 billion lei, representing 22.2% of total arrears in the entire economy (see [Figure 1](#)). However, considering the high inflation recorded at the end of 2022, of 16.4%, the arrears of SOE decreased in real terms by approximately 3.3%. Analysing the top SOE with the highest arrears (see [Table 3](#)), it is observed that the nominal increase is mainly caused by the C.N. UNIFARM S.A. (which recorded arrears of about 1.3 billion lei, as a result of loans granted by the Romanian state for the purchase of specific products for combating the coronavirus pandemic, funds that were mismanaged by the company⁸), along with increases in arrears for S.N.T.F.M. CFR Marfă S.A. (+226.3 million lei compared to the previous year) and R.A.T.B. (+181.6 million lei).

Although the share of arrears of state-owned companies in the total outstanding payments in the entire economy is significantly lower than the maximum level of 35.5% recorded in 2009, it remains significantly higher than the contribution of state-owned companies to economic activity in Romania, namely an average share over the past 10 years of 3.7% of total revenues and 9.4% of total gross value added (these average shares resulting from a decreasing trend over the last decade), signalling a chronic problem regarding arrears of some state-owned companies.

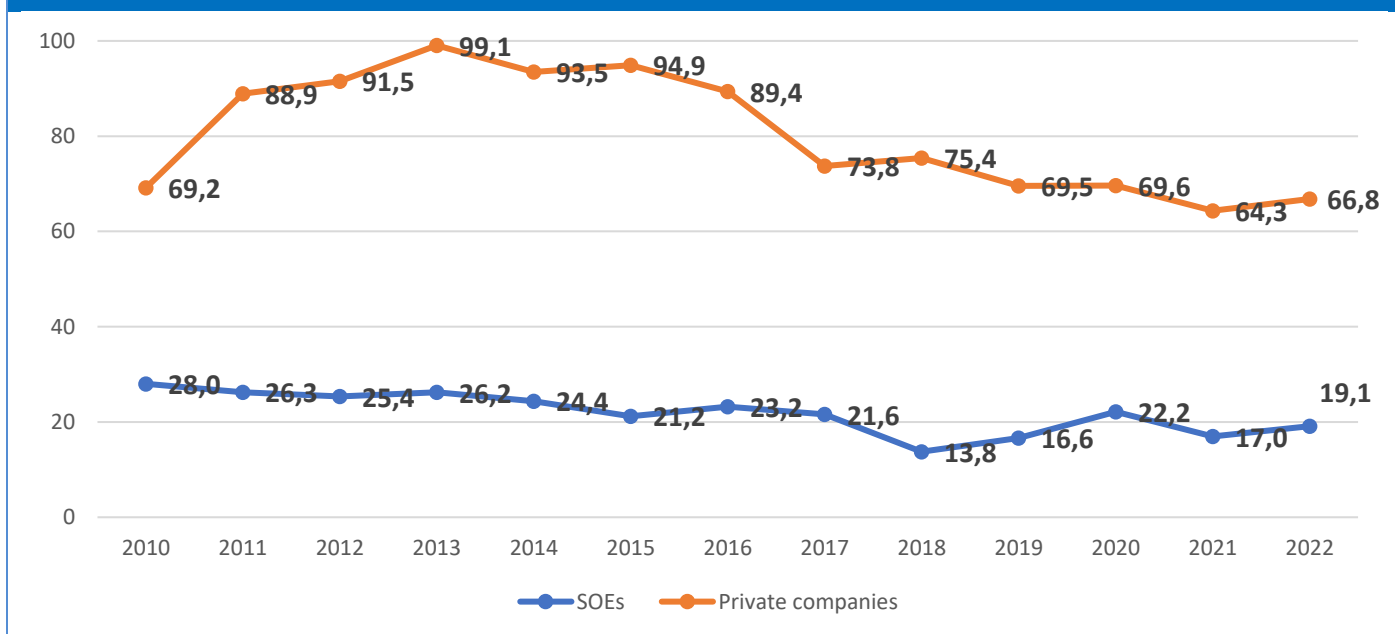
⁷ According to the Ministry of Finance (MF), arrears of companies represent delayed payments to banks, the state budget, the social security budget, suppliers, and other creditors, exceeding 30 days compared to contractual or legal deadlines that generate payment obligations.

⁸ See the Special Report issued by the Romanian Court of Accounts “Management of Public Resources during the State of Emergency”, August 2020.

Analysing the evolution of arrears of state-owned companies as a percentage of GDP and total turnover, a general decreasing trend is observed. Thus, at the end of 2022, the arrears of state-owned companies represented 1.36% of GDP and 21.1% of total turnover, these proportions representing the minimum levels recorded throughout the analysed period.

Analysing the evolution of SOE arrears as a percentage of GDP and total turnover, it is noted that after reaching the maximum levels of the analysed period for both indicators in 2009, a general decreasing trend was observed. In 2020, there was an increase in arrears in the public sector due to COVID-19 pandemic, but the economic activity rebound starting in 2021 led to the resumption of the initial decreasing trend. Thus, at the end of 2022, the arrears of SOE represented 1.36% of GDP (-0.06 percentage points (pp) compared to the previous year), and 21.1% of total turnover (-6.7 pp compared to the previous year), these values representing the minimum levels recorded throughout the analysed period. It is worth noting that the generally favourable evolution of arrears in the public sector, starting from 2010, was also driven by the measures⁹ agreed upon within the balance of payments agreements concluded with international financial institutions (EC, IMF, and WB) during the 2009-2013 period.

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



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

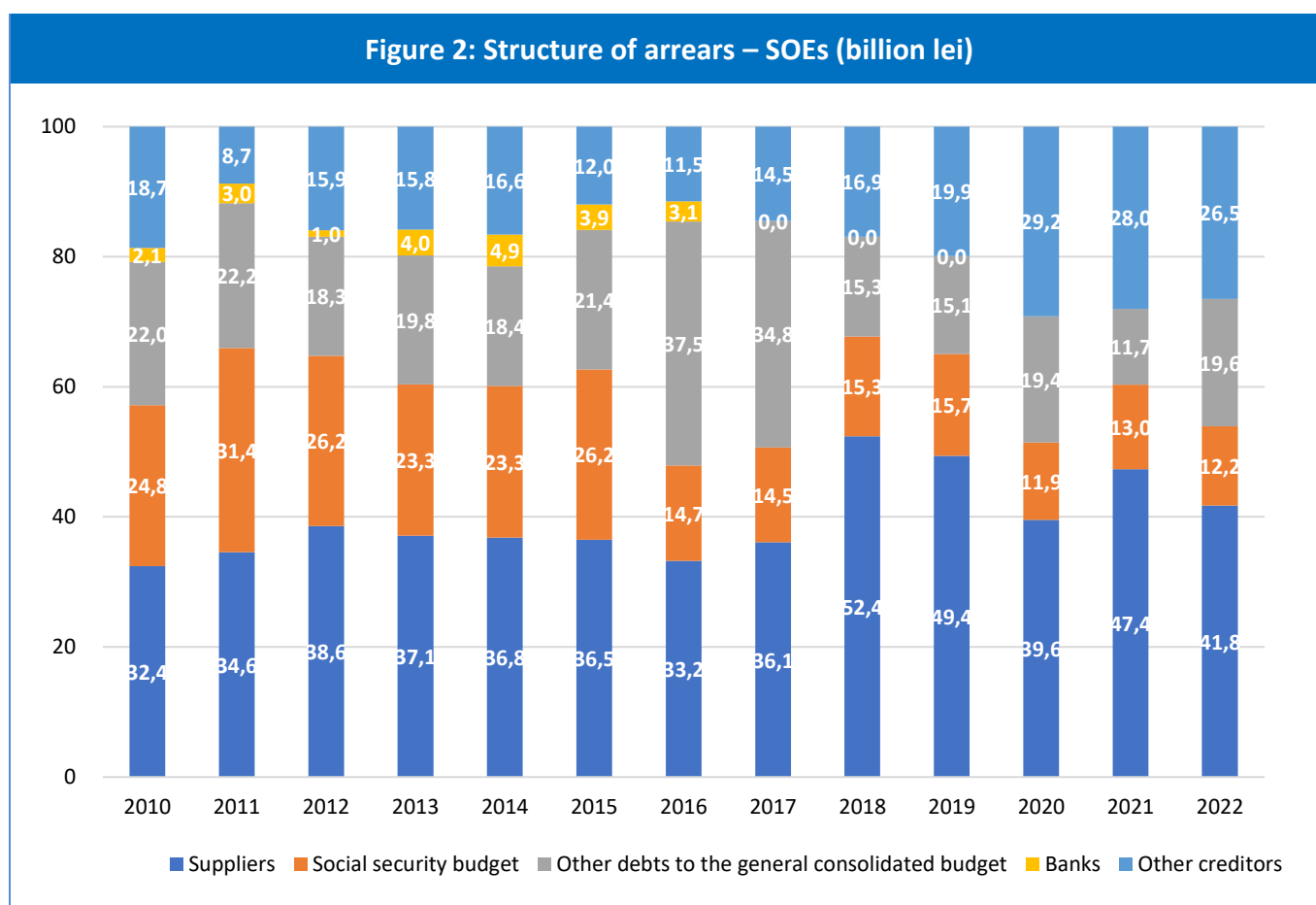
Note: Starting with 2018, C.N. a Huilei and Electrocentrale București no longer reported overdue payments, which is the reason for the significant decrease in SOE arrears compared to 2017.

⁹ These measures aimed at meeting the quarterly indicative targets for arrears and included budget transfers, placing state enterprises into voluntary liquidation or insolvency, as well as converting arrears into shares.

In 2022, approximately 42% of the arrears of SOE were towards suppliers, approximately 26% towards other creditors, and around 32% represented outstanding payments towards the general consolidated budget. The increase in arrears by 2.1 billion lei compared to the previous year is mainly due to the increase in outstanding payments of SOE towards the general consolidated budget.

Analysing the structure of arrears of state-owned companies in 2022, it is observed that outstanding payments towards suppliers predominate. These amounted to 8.0 billion lei (similar to the level of the previous year) and represent 41.8% of the total arrears recorded at the level of state-owned companies. Arrears towards the general consolidated budget rank second in the hierarchy, representing 31.8% of the total. Compared to the previous year, this category of arrears recorded the highest increase (+1.9 billion lei). Arrears towards other creditors amounted to 5.1 billion lei (+0.3 billion lei compared to the previous year), representing 26.5% of the total.

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



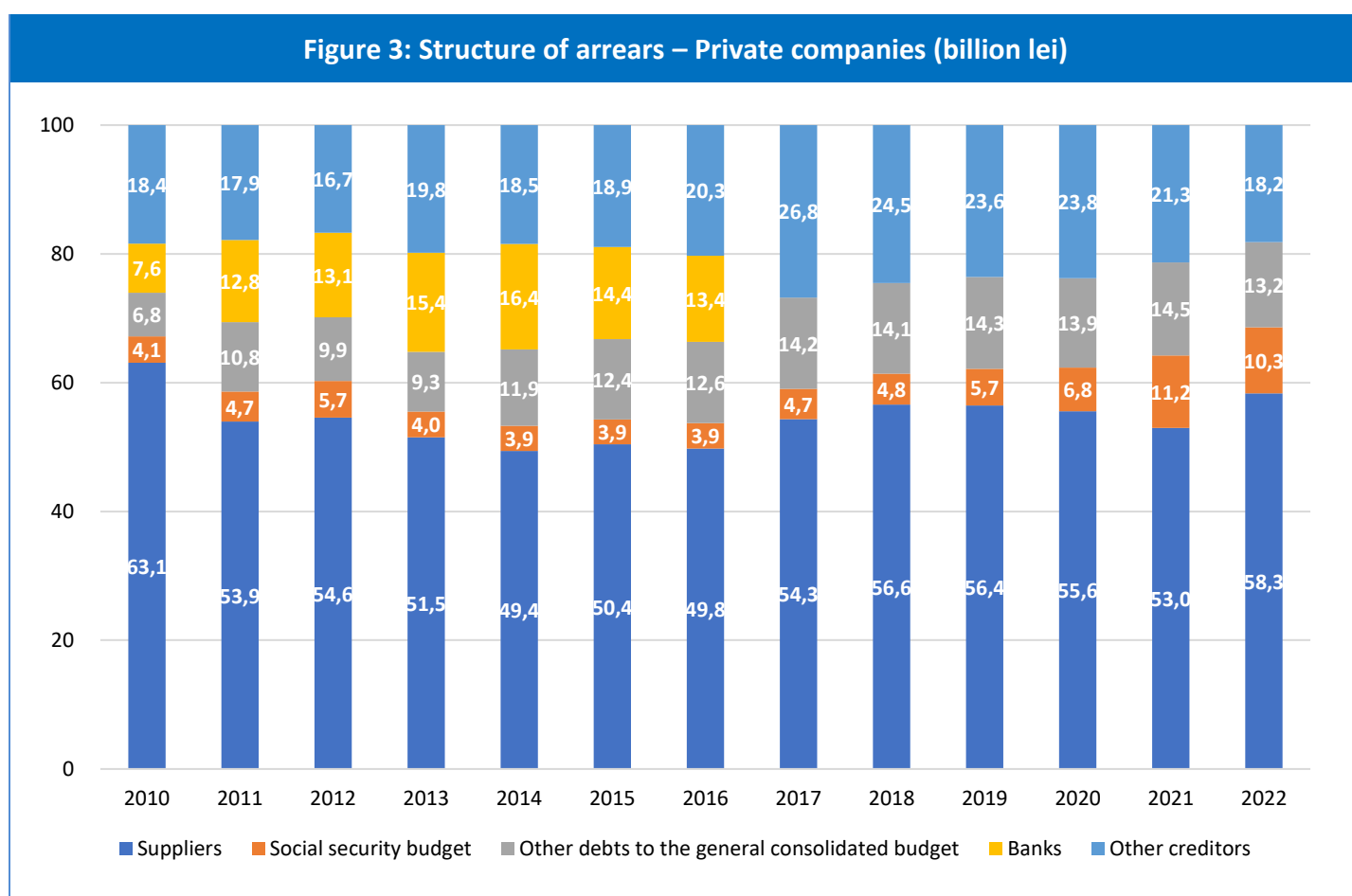
Source: MF, based on annual financial reports submitted by economic agents from the non-financial sector
 Note: Starting from 2017, due to changes in the reporting form F30, data on arrears towards the banking sector is no longer available.

Regarding private companies, in 2022, the highest proportion was attributed to arrears towards suppliers (58.3% of the total), followed at a considerable distance by outstanding payments towards the general consolidated budget (23.5%) and towards other creditors (18.2% of the total).

From the perspective of arrears structure, in 2022, private companies had the highest volume of outstanding payments towards suppliers (58.3% of total arrears), approximately 46% of which were overdue by over a year.

In second place were outstanding payments towards the general consolidated budget (23.5%), followed by outstanding payments towards other creditors (18.2% of the total).

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



Source: MF, based on 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 predominantly in the mining sector, thermal energy distribution, and the chemical industry. Thus, the first 10 ranked companies in terms of the volume of outstanding payments (Top 10) accumulated approximately 72% of the total arrears of state-owned companies. Another notable aspect is that numerous companies consistently appear in the Top 10 year after year, indicating a chronic nature of arrears problems in certain sectors.

Proceeding with a more detailed analysis of the arrears of state-owned companies, the top 10 ranked companies in terms of the volume of outstanding payments were identified (Top 10 – presented in [Table 3](#)). In 2022, the companies in the Top 10 together accumulated 72.3% of the total arrears of state-owned companies. Analysing the Top 10 from the last three years, it is observed the predominance of enterprises in the mining sector, thermal energy distribution, and the chemical industry, as well as the fact that eight companies have been present in the ranking each year, demonstrating the chronic nature of arrears problems for certain companies and industrial sectors.

Regarding the ranking of arrears towards the general consolidated budget (also presented in [Table 3](#)), here also a trend of persistent outstanding payments is observed, with six companies appearing in the ranking each year over the last three years. Additionally, the predominance of companies in the mining sector and thermal energy distribution continues. In the case of arrears towards the general consolidated budget, the Top 10 companies accumulated 72.1% of the total. In conclusion, the analysis of the ranking of arrears of state-owned companies towards the general consolidated budget also reveals a concentration of arrears in a small number of companies and the chronic nature of this problem in certain economic sectors.

Table 3: Top 10 SOEs with the largest arrears
Top 10 arrears in Dec. 2022

	Company name	Arrears (mil. lei)
1	S.N.T.F.M. CFR MARFĂ S.A.	4,348.21
2	RADET BUCUREȘTI	4,008.95
3	COMPANIA NAȚIONALĂ UNIFARM S.A.	1,340.30
4	REGIA AUTONOMĂ DE TRANSPORT BUCUREȘTI R.A.	1,059.33
5	RADET CONSTANȚA	600.73
6	COMPANIA NAȚIONALĂ A METALELOR PREȚIOASE ȘI NEFEROASE REMIN S.A.	587.99
7	SOCIETATEA NAȚIONALĂ A CĂRBUNELUI S.A.	504.75
8	OLTCHIM S.A.	503.11
9	S.C. ELECTROCENTRALE CONSTANȚA	446.38
10	APATERM S.A.	407.64
	% of total	72.3%

Top 10 arrears to the general consolidated budget in Dec. 2022

	Company name	Arrears (mil. lei)
1	COMPANIA NAȚIONALĂ UNIFARM S.A.	1,340.14
2	REGIA AUTONOMĂ DE TRANSPORT BUCUREȘTI R.A.	1,005.23
3	SOCIETATEA NAȚIONALĂ A CĂRBUNELUI S.A.	503.23
4	S.N.T.F.M. CFR MARFĂ S.A.	485.45
5	S.C. ELECTROCENTRALE CONSTANȚA	240.71
6	AVERSA S.A.	203.83
7	COMPANIA NAȚIONALĂ A URANIULUI S.A.	202.48
8	REGIA AUTONOMĂ DE TRANSPORT PUBLIC IAȘI R.A.	141.08
9	S.N. „ÎMBUNĂTĂȚIRI FUNCiare” S.A.	134.19
10	S.C. DE REPARAȚII LOCOMOTIVE C.F.	116.07
	% of total	72.1%

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. „ÎMBUNĂTĂȚIRI FUNCiare” S.A.	400.55
	% of total	74.4%

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	S.N. „ÎMBUNĂTĂȚIRI 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 TERMOFICARE IAȘI (C.E.T.) S.A.	91.01
	% of total	65.9%

Top 10 arrears in Dec. 2020

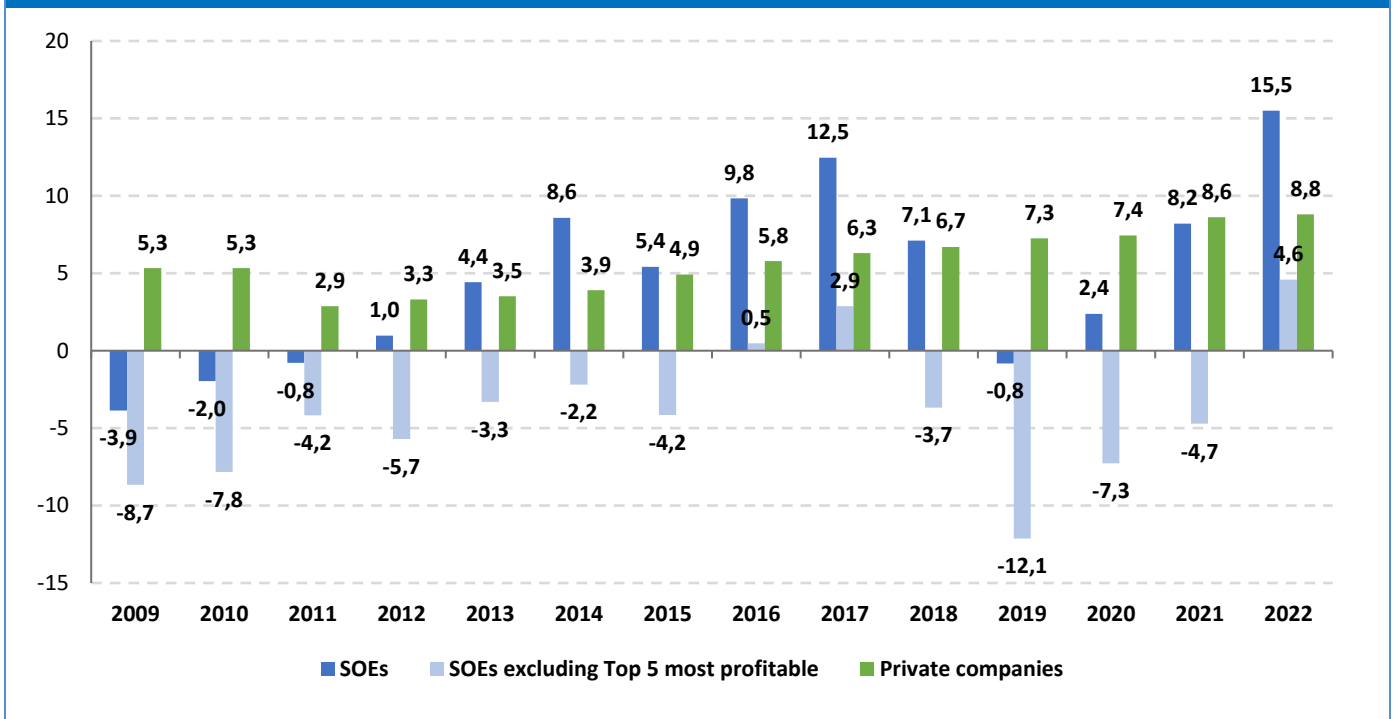
	Company name	Arrears (mil. lei)
1	RADET BUCUREȘTI	4,103.90
2	S.N.T.F.M. CFR MARFĂ S.A.	3,947.71
3	OLTCHIM S.A.	2,305.09
4	S.C. COMPLEXUL ENERGETIC HUNEDOARA S.A.	2,149.92
5	COMPANIA NAȚIONALĂ UNIFARM S.A.	1,173.42
6	REGIA AUTONOMĂ DE TRANSPORT BUCUREȘTI R.A.	955.21
7	COMPANIA NAȚIONALĂ A METALELOR PREȚIOASE 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
	% of total	75.4%

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. „ÎMBUNĂTĂȚIRI FUNCiare” S.A.	138.42
9	AVIOANE S.A. CRAIOVA	120.11
10	S.C. DE REPARAȚII LOCOMOTIVE C.F.	115.92
	% of total	75.0%

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

Figure 4: Operating margin (%)



Source: MF, based on 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 2022, the operating profit rate for state-owned companies increased to 15.5%, from 8.2% in the previous year. For companies in the private sector, the operating profit rate increased marginally to 8.8% in 2022, from 8.6% in 2021.

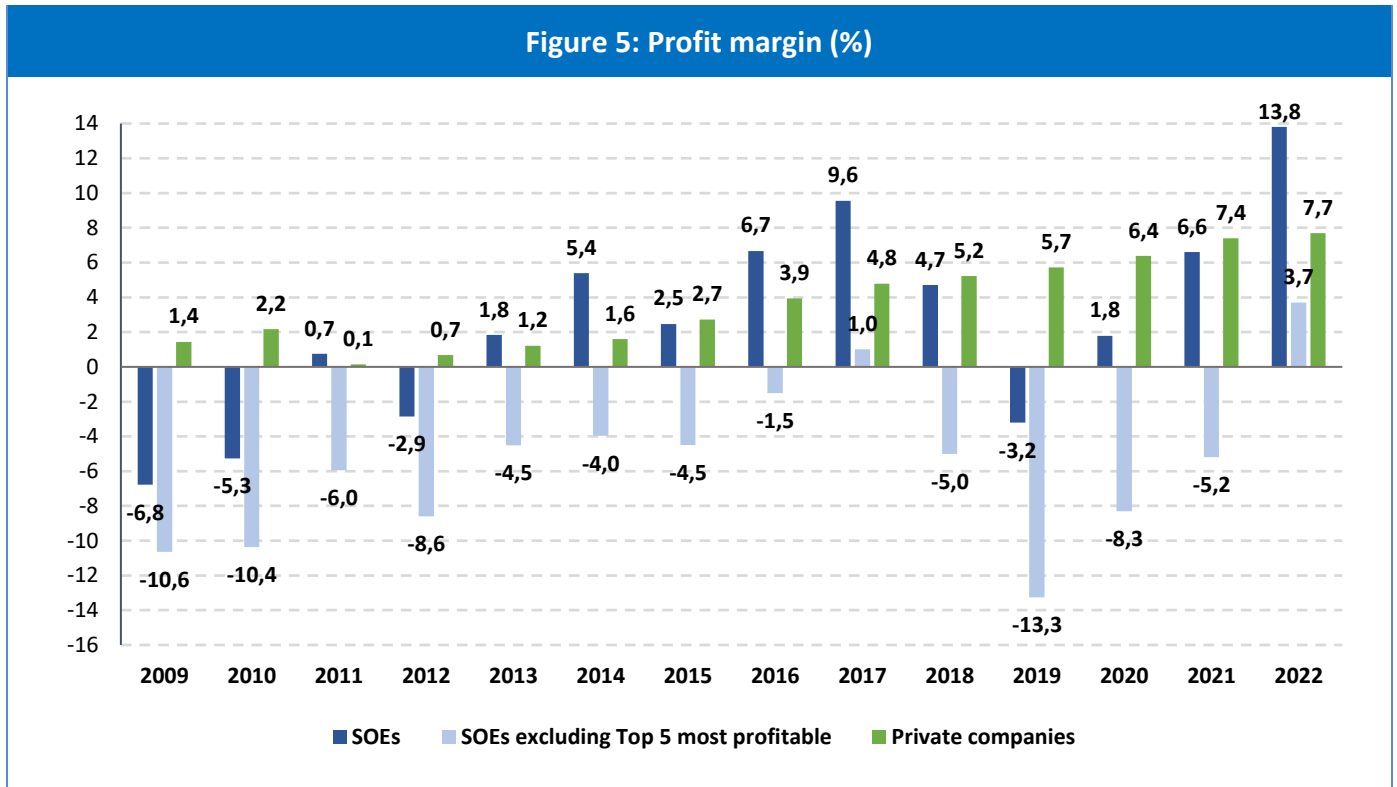
In 2022, the operating margin for SOE's increased significantly compared to the previous year, from 8.2% to 15.5% (a value that represents the maximum level of the analysed period – *Figure 4*), mainly due to companies from the energy sector. The indicator measures the profitability of the underlying business by relating earnings before interest and income tax to total revenues. This evolution was determined by the improvement of the aggregate operating result, from 5.1 billion lei, in 2021, to 14.3 billion lei, in 2022 (+178.8%), while total revenues have increased by only 47.5%. For their part, private sector companies marginally improved their operating margin. This increased by 0.2 pp in 2022, compared to 2021, reaching 8.8%, a value that represents the maximum level of the analysed period.

Excluding the Top 5, the indicator is at a much lower level, at 4.6%, representing, however, a

Excluding the Top 5 most profitable state companies, the indicator is at a much lower level, at 4.6%. However, it should be emphasized that the result brings an improvement of 9.3 pp compared to the

significant improvement compared to the previous year, by 9.3 pp.

previous year and is the best performance achieved by state companies, excluding the Top 5, in the analysed period. The gap recorded when excluding the Top 5 companies is significant, demonstrating their high impact on the aggregate performance of state-owned companies.



Source: MF, based on annual financial reports submitted by economic agents from the non-financial sector
 Note: Profit margin (%) = Net profit/Total revenues * 100.

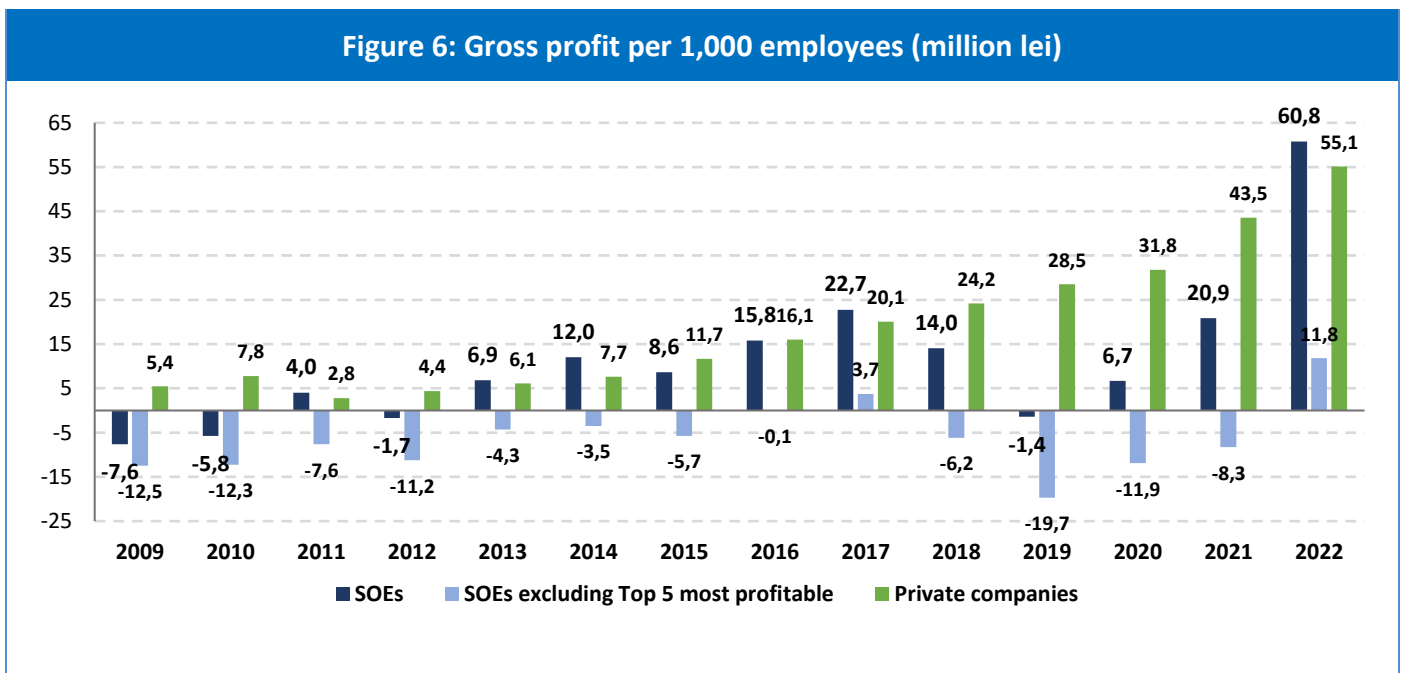
The profit margin of state-owned companies increased from 6.6% in 2021 to 13.8% in 2022. Also, the aggregate profit margin of private sector companies increased slightly from 7.4%, in 2021, to 7.7% in 2022.

The improvement of the operational position of state companies, attested by the operating result rate, is also visible at the level of the profit margin, which increased from 6.6% in 2021 to 13.8% in 2022 (Figure 5). This evolution was determined by the increase in the aggregate net result – from a net profit of 4.1 billion lei, in 2021, to a net profit of 12.7 billion lei, in 2022 (+207.1%) –, while total revenues increased by only 47.5%. Private sector companies saw a slight increase in their aggregate profit margin from 7.4%, in 2021, to 7.7%, in 2022, as aggregate net profit increased by 33.3% and total revenues increased by 28%. The differences between the rate of the operating result 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 net result, the profit margin registers lower values compared to the operating result rate.

Excluding the Top 5 state companies, the indicator recorded an improvement of 8.9 pp compared to the previous year, reaching 3.7%, a value that represents the maximum level of the analysed period.

Excluding the Top 5 companies, after the indicator recorded the only positive value up to that point in 2017, 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 2022 the profit margin excluding the Top 5 companies increased by 8.9 pp compared to the previous year, reaching 3.7% (the second positive value of the indicator in the 2009-2022 range). At the same time, this value represents the maximum level of the analysed period.



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

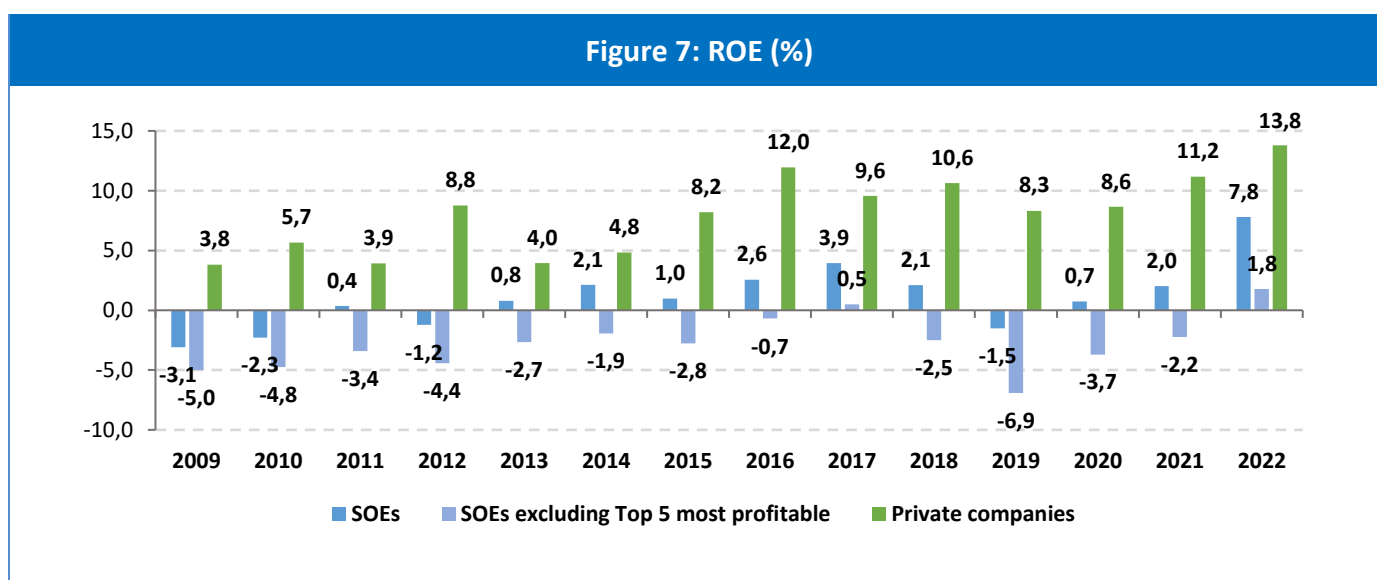
The gross profit indicator per 1,000 employees experienced a significant improvement at the level of SOEs, registering a value of 60.8 million lei in 2022, compared to 20.9 million lei in

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 companies, the indicator saw a significant improvement, registering a value of 60.8 million lei in 2022, compared to 20.9 million lei in 2021 (Figure 6),

2021, this value representing the maximum of the analysed period. Private sector companies have maintained an upward trajectory in terms of labour force utilization efficiency – from 43.5 million lei, in 2021, to 55.1 million lei, in 2022. Excluding Top 5 state companies, there is an improvement in the indicator, from -8.3 million lei, in 2021, to 11.8 million lei, in 2022.

maximum of the analysed period. The evolution was determined by the considerable increase in the aggregate gross result – from a gross profit of 5.3 billion lei, in 2021, to a gross profit of 15.1 billion lei, in 2022, while the number of employees decreased by approximately 2.6%. In contrast to the 2018-2021 period, the level of this indicator for state companies was above that recorded by companies in the private sector, although they maintained the upward trajectory of recent years in terms of the efficiency of the use of labour (28.5 million lei in 2019, 31.8 million lei in 2020, 43.5 million lei in 2021 and 55.1 million lei in 2022).

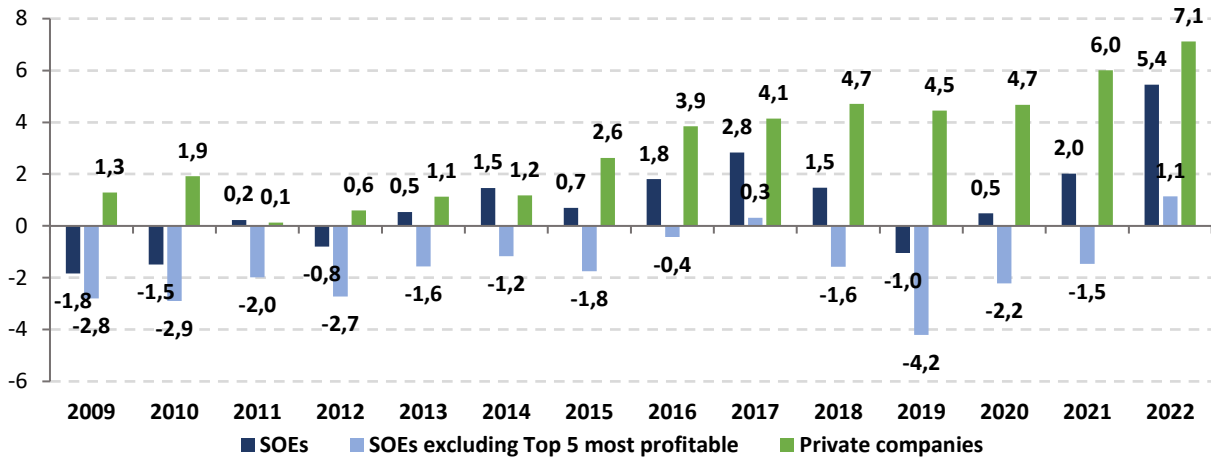
Excluding the Top 5, there is a considerable decrease in the efficiency of the use of labour force, the indicator having the value of 11.8 million lei per 1,000 employees, in 2022. However, it is increasing by 20.1 million lei compared to the year previous, and the value represents the maximum of the analysed period.



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

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

Figure 8: ROA (%)



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

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

The ROE of state-owned companies recorded a significant improvement in 2022 compared to the previous year, mainly determined by the increase in the aggregate net result. Thus, ROE increased by 4.9 pp compared to 2021 to a value of 7.8%, lower than private sector companies, which recorded 13.8%. Excluding the influence of the Top 5, ROE returns, after four years, in positive territory, registering a value of 1.8%.

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

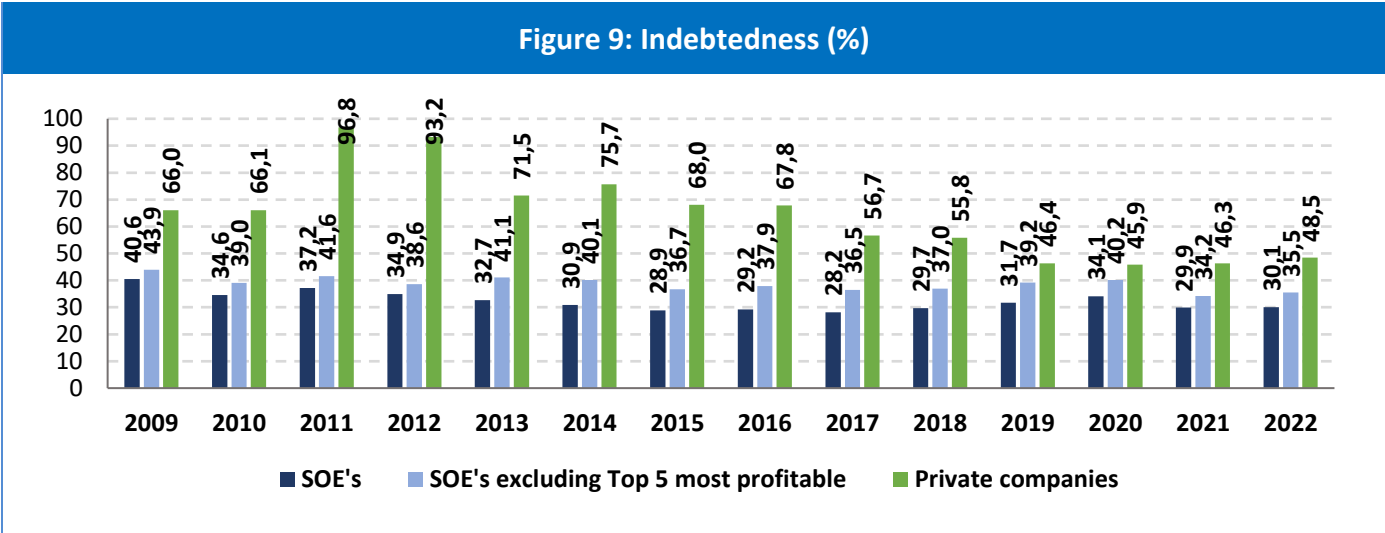
- ROE measures the efficiency of the use of equity (how many lei of profit brings one leu invested in equity by the shareholders);
- ROA measures the efficiency of the use of assets (how many lei yields one leu invested in the company's assets).

In 2022, as shown by the evolution of the other profitability indicators, the improvement in the performance of state-owned companies can be seen by increasing both rates of return, mainly determined by the increase in the aggregate net result, from a net profit of 4.1 billion lei in 2021, to a net profit of 12.7 billion lei in 2022. Thus, ROE reached the value of 7.8%, increasing by 4.9 pp compared to the previous year (Figure 7), while ROA reached 5.4%, from 2% in 2021 (Figure 8). The gap between the profitability of state-owned companies and private ones is also maintained in 2022, but is decreasing compared to the previous year, being 6 pp in the case of financial profitability, respectively 1.7 pp in the case of economic profitability.

ROA recorded a similar evolution, with state-owned companies registering an increase from 2%, in 2021, to 5.4%, in 2022. Excluding the Top 5, ROA also returns to positive territory, 1,1%. For the same period, the economic profitability of private companies increased by 1.1 pp, from 6% to 7.1%.

Excluding the influence of the Top 5 most profitable state companies, the two indicators recorded positive values in 2022, after four years in which they had negative values, reaching 1.8% in the case of ROE, respectively 1.1% in the case of ROA. Considering the significant difference compared to the values recorded including the Top 5 companies, we can reveal once again the importance of the 5 most profitable public companies.

In terms of private companies, both ROE and ROA increased compared to 2021, by 2.6 pp in the case of ROE, respectively by 1.1 pp in the case of ROA, against the background of more accelerated growth in net profit (+33.3%) versus equity (+7.9%) and total assets (+12.5%).



Source: MF, based on annual financial reports submitted by economic agents from the non-financial sector
 Note: Indebtedness (%) = Total debt/Total assets * 100

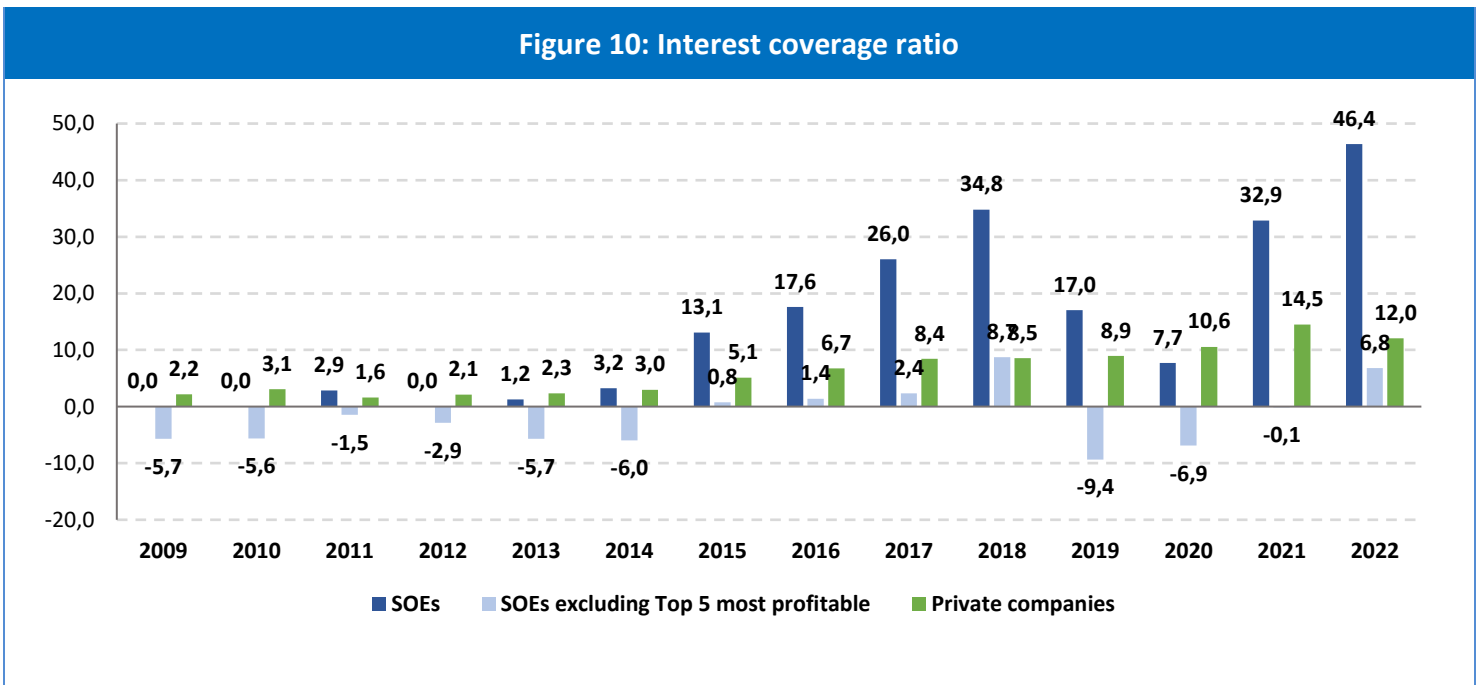
The indebtedness of state-owned companies increased by 0.2 pp from 2021 to 30.1%, but there is an uneven distribution of this, with some companies having very little debt, while others are heavily indebted.

The indebtedness of state companies, reflected by the share of debts in total assets, increased marginally from 29.9% in 2021 to 30.1% in 2022 (Figure 9). The evolution is explained by the fact that the total assets of the state-owned companies registered an increase of 13.4%, while the total liabilities increased by approximately 14.2%. The result must also be judged through the lens of the uneven distribution of the degree of indebtedness at the level of state companies, among which there are very large firms with a low degree of indebtedness. Excluding the Top 5

state-owned companies, the debt ratio is higher, 35.5%, up from the level of 34.2% recorded in 2021.

Overall, in 2022, the share of debts in total assets remains lower at the level of state companies compared to private ones.

In the case of companies from the private sector, the indicator reflects a higher indebtedness compared to that of state companies, with a value of 48.5%. It can also express easier access to financing as a result of economic performance. At the same time, it is noted that this level represents the maximum of the last 4 years, which could be attributed to the optimism of the exit from the pandemic, as well as the need for new investments to keep companies at a competitive level on international markets.



Source: MF, based on 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 2022, the interest coverage ratio of SOEs recorded a significant increase, reaching the maximum of the analysed period, 46.4. This development is due to an increase in the

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.

numerator that outpaced the increase in interest expenses. Excluding the Top 5, the interest coverage ratio for state-owned companies is much lower, at 6.8, improved from -0.1 in 2021.

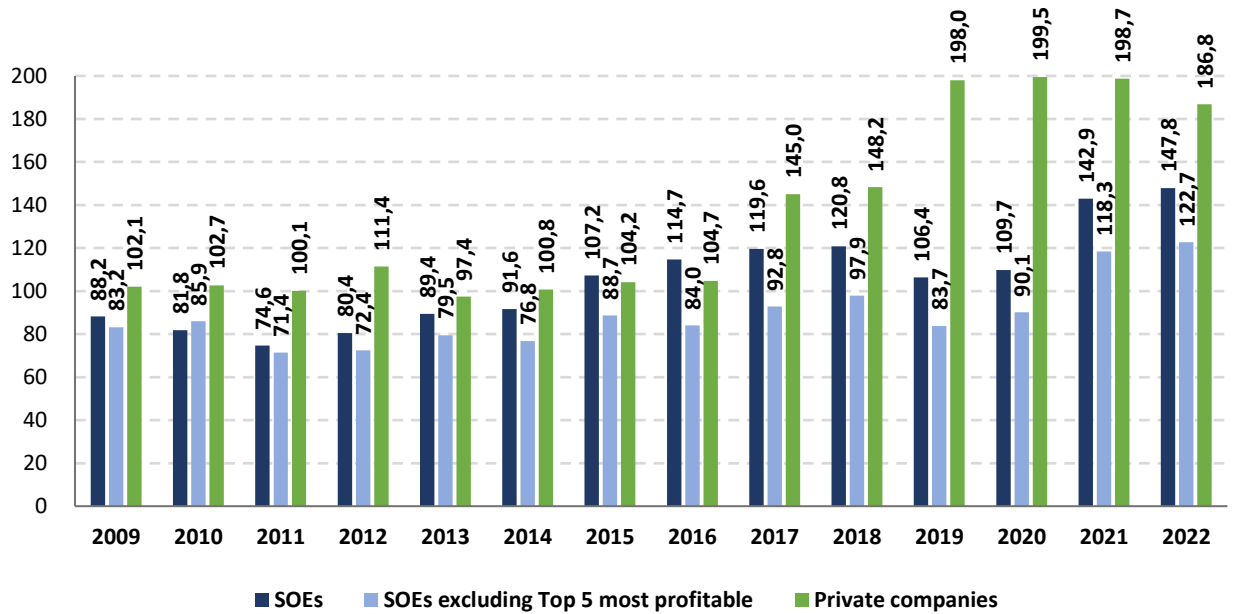
After the considerable jump registered in the 2014-2018 period at the level of state companies (from 3.2 to 34.8), followed by a steep drop to 7.7 in 2020, starting from 2021 the trend of accelerated growth was resumed, and in 2022 the historical maximum of this indicator was reached (*Figure 10*). Thus, against the background of the exceptional economic conditions for state-owned companies and the increase in profitability from 2022, the interest coverage ratio recorded the value of 46.4. This development is due to the numerator increasing by 119% compared to the previous year, while interest expenses (the denominator) increased by only 55%. A more detailed analysis at the level of state-owned companies identifies a significant increase in the numerator in the case of S.N. NUCLEARELECTRICA S.A. (increase by 1.79 billion lei), while S.N.T.G.N. TRANSGAZ S.A. MEDIAȘ registered the most significant increase in interest expenses (+38.4 million lei).

The interest coverage ratio for private companies decreased from 14.5 in 2021 to 12 in 2022. This development can be attributed to the increase in interest expenses, given the economic context marked by the tightening of monetary policy to combat the rising inflation.

Excluding the Top 5, the interest coverage ratio for state-owned companies has a much lower value, 6.8, but represents an improvement compared to the level of -0.1 in 2021. Thus, against the background of recording profits at the level of state-owned companies, the evolution of the interest coverage ratio indicates an improvement in the solvency of these companies.

The interest expense coverage ratio for private sector companies decreased from 14.5 in 2021 to 12 in 2022. This development can be attributed to the increase in interest expenses in the conditions of an economic environment characterized by the tightening of monetary policy to fight the rising inflation.

Figure 11: Liquidity ratio (%)



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

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

In 2022, the liquidity ratio of state-owned companies registered an increase compared to the previous year, reaching 147.8% from 142.9%, on the background of a faster growth rate of current assets compared to short-term liabilities. Similar to the last years, the level of the indicator remains lower than that registered by companies in the private sector.

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.

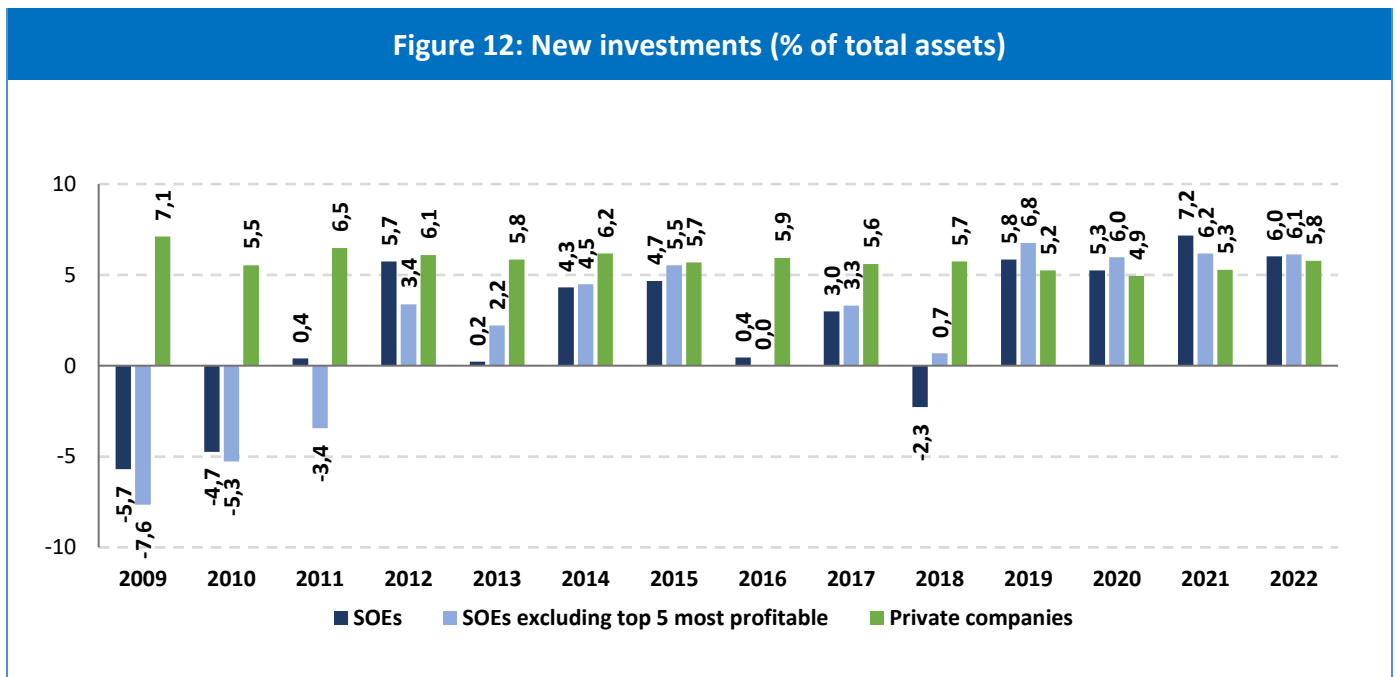
Excluding the Top 5 state-owned companies in terms of profitability, there is an improvement in liquidity, from 118.3% to 122.7%, and the

In 2022, the liquidity ratio of state-owned companies registered an increase compared to the previous year, reaching 147.8% from 142.9% (Figure 11), on the background of a faster growth rate of current assets (+19,2%) compared to short-term liabilities (+15,2%). Similar to the last years, the level of the indicator remains lower than that registered

maintenance of this indicator at a comfortable level.

by companies in the private sector, even though the last one recorded a decrease from 198,7%, in 2021, to 186,8% in 2022. However, it can be noted that both categories of companies recorded levels of the liquidity ratio that can be considered adequate.

Excluding the Top 5 state-owned companies in terms of profitability, there is an improvement in liquidity, from 118.3% to 122.7%, and the maintenance of this indicator at a comfortable level.



Source: MF, based on 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

New investments in state-owned companies had a fluctuating evolution during the analysed period, in 2022 recording a decrease to the level of 6%. In the case of private sector companies, the indicator registered an increase, from 5.3% to 5.8%, remaining relatively stable from 2010 until 2022.

The rate of new investments in state-owned companies had a fluctuating evolution during the analysed period, in 2022 recording a decrease to the level of 6%, compared to 7.2% in 2021 (which represented the maximum of the analysed period – *Figure 12*). Excluding the 5 most profitable state companies, the indicator is at a level roughly similar to the previous year, decreasing marginally to 6.1%, from 6.2% in 2021. In the case of private sector companies, the rate of new investments has increased from 5.3% to 5.8%, being noteworthy that its level remained relatively stable from 2010 until 2022. At the same time, it should be mentioned that, across all the companies included in the analysis, the rate of new investments is still

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

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.

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 responsible¹⁰.

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.

Since 2016, new regulations have been established regarding the promotion of corporate governance: Law no. 111/2016 enforcing 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 subsequent regulation (Law no. 13/2019) also provides for the inclusion of a representative from the MF in the Board of Directors of the autonomous public bodies.

However, through the enforcement of Law no. 111/2016¹¹, there were exempted from the application of the corporate management provisions of GEO no. 109/2011 dozens of companies and

¹⁰ 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.

¹¹ The regulation of corporate governance was amended several times during 2016-2018 through a series of Orders of the Minister of Finance.

institutions¹² in the field of defence, energy, chemical industry, road 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.

In order to improve the performance of state companies, a series of measures were adopted by Law no. 187/28 June 2023 for the amendment and completion of GEO no. 109/2011 on the corporate governance of public enterprises. However, the latest OECD report regarding our country appreciates that the existence of legislation, no matter how good, is not enough, but only its proper implementation can bring corporate governance to the level of OECD standards, to ensure a better spending of public funds.

In this context, it was adopted Law no. 187/28 June 2023 for the amendment and completion of GEO no. 109/2011 on the corporate governance of public enterprises¹³, which aims to improve the performance of state-owned companies through:

- the separation of regulatory and property functions within public authorities;
- the prohibition to adopt regulations that favour public enterprises over private enterprises or distort free competition between public and private enterprises;
- imposing profitability requirements similar to those of private companies;
- the ban on certain officials, including senators, deputies, members of the Government, prefects and sub-prefects, mayors and vice-mayors, to hold the position of director or administrator of a SOE;
- the establishment of the Agency for the Monitoring and Evaluation of the Performances of Public Enterprises (AMEPIP) – a specialized body with legal personality, subordinated to the Government and coordinated by the Prime Minister, through the General Secretariat of the Government – with the role of establishing the corporate policy, to coordinate the implementation of rules in this field, to monitor, evaluate and to apply sanctions for the identified deviations from the rules¹⁴.

¹² 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.

¹³ <https://legislatie.just.ro/Public/DetaliuDocument/271760>

¹⁴ <https://amepip.gov.ro/prezentare/>

In the latest OECD report on our country¹⁵, it is highlighted that the existence of legislation, no matter how good, is not enough, but only its proper implementation can bring corporate governance to the level of OECD standards, to ensure better spending of public funds.

In the 2019-2022 period, the aggregate contribution of the main companies in the central and local public administration to the budget deficit was positive and relatively small. In the case of state companies part of the local public administration, the contribution to the evolution of the budget balance in ESA 2010 standards was small and predominantly negative, with the exception of 2022.

The impact of SOE 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 2019-2022 period, the total contribution of the main companies in the central¹⁶ and local public administration was positive and of reduced magnitude. In *Table 4*, the companies subject to the central administration with the most important contributions in 2022 are presented in descending order, which, together with the companies subject to the local public administration, had an impact on the budget balance of 0.13% of GDP. In the previous years the overall contribution of SOEs on the budget balance was of 0.05% of GDP in 2019¹⁷, 0.01% of GDP in 2020¹⁸, respectively 0.001% of GDP 2021¹⁹, according to the Fiscal Council analyses of the economic and financial performance of Romania's state-owned companies in 2019, 2020 and 2021. Regarding SOEs included in the local public administration, their contribution on the budget balance in ESA 2010 terms was of reduced magnitude and negative in general, 2022 being the exception.

¹⁵ *OECD Economic Surveys - Romania*, march 2024, available at https://read.oecd-ilibrary.org/economics/oecd-economic-surveys-romania-2024_106b32c4-en#page57

¹⁶ The companies with the most substantial contributions, both positive and negative, were considered.

¹⁷ <http://www.fiscalcouncil.ro/Analiza%20SOE%202019%20EN.pdf>

¹⁸ <http://www.fiscalcouncil.ro/SOE%202020%20EN.pdf>

¹⁹ <http://www.fiscalcouncil.ro/SOE%202021%20EN%2017.04%20final.pdf>

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

1. Main companies at central level	1.805,9
Electrocentrale București S.A.	1.960,2
S.N.T.F.C. C.F.R. Călători S.A.	386,5
Compania Națională „Administrația Porturilor Maritime” S.A. Constanța	103,2
Compania Națională ROMARM S.A. – Filiala S.C. Uzina Mecanică Mija S.A.	44,3
S.C.T.M.B. Metrorex S.A. (Metrorex)	40,4
Compania Națională a Uraniului S.A.	34,0
Compania Națională ROMARM S.A. București – Filiala Societatea Uzina Mecanică CUGIR S.A.	30,4
Societatea Română de Televiziune	28,4
C.N. ROMTEHNICA S.A.	27,2
R.A. Imprimeria Băncii Naționale a României	22,6
S.N. Radiocomunicații S.A.	18,3
C.N. Administrația Canalelor Navigabile Constanța S.A.	10,6
S.C. SOROCAM SRL	9,7
Administrația Fluvială a Dunării de Jos Galați	9,6
Institutul Național de Cercetare-Dezvoltare pentru Fizică și Inginerie Nucleară „Horia Hulubei”	-5,3
S.C. Uzina Mecanică Orăștie	-5,7
Regia Autonomă Tehnologii pentru Energia Nucleară	-9,5
Institutul Național de Cercetare-Dezvoltare pentru Chimie și Petrochimie – ICECHIM	-11,6
Institutul Național de Cercetare-Dezvoltare pentru Fizica Laserilor, Plasmei și Radiației – INFLPR RA	-12,6
Societatea Comercială ROMAERO S.A.	-15,1
Uzina Termoelectrică Midia S.A.	-15,8
Societatea Națională Aeroportul Internațional Mihail Kogălniceanu	-25,6
Institutul Național de Cercetare-Dezvoltare în Construcții, Urbanism și Dezvoltare Teritorială Durabilă „URBAN-INCERC”	-38,6
I.N.C.D. I.N.C.A.S. „Elie Carafoli” – București	-51,7
Compania Națională de Investiții S.A.	-73,7
S.C. Societatea de Administrare a Participațiilor în Energie S.A.	-98,9
UNIFARM	-118,6
Compania Națională de Administrare a Infrastructurii Rutiere	-295,7
C.N. de Căi Ferate C.F.R. S.A.	-525,9
Unități în lichidare	385,1
2. Companies at local level	36,8
Local airports	-44,7
Heating stations with local subordination	41,0
Other local units	40,5
3. Total main SOEs	1.842,7
% of GDP	0,13

Source: NIS, Eurostat

Conclusions

Similar to 2021, which witnessed a rapid recovery of economic activity to pre-pandemic levels, 2022 was characterized by a favourable macroeconomic environment, with a real economic growth of 4.1%. This development was recorded despite unfavourable conditions, marked by escalating geopolitical tensions with the onset of the war in Ukraine, significant increases in energy prices, and rapid inflation growth leading to the initiation of a monetary policy tightening cycle. In this context, **2022 recorded an improved performance of state-owned companies, with indicators of profitability, liquidity and productivity reaching the maximum level in the entire analysed interval. Very good results were also recorded by private companies, reaching their highest level in the analysed period (2009-2022).**

The analysis of these results must be made taking into account several particularities. Firstly, the significant increase in energy prices has driven the performance of firms in the energy sector in which state-owned companies hold a dominant position. At the same time, the negative effects of the increase in energy prices have not been fully transferred to final consumers due to public compensation schemes. **Secondly, despite accelerating inflation, household consumption has remained robust, supported by a negative real interest rate and savings from the Covid-19 pandemic, allowing production costs to be passed on to final prices and maintaining substantial profit margins.** Last but not least, the dynamics of economic activity was also supported by a high level of public investments.

Therefore, **Romanian state-owned companies recorded significant increases in total revenues, turnover, and gross value added in 2022, achieving a total net profit of 12.7 billion lei, which is 8.6 billion lei higher than that recorded in 2021.** The favourable evolution of the net result in nominal terms is reflected both at the level of the **Top 5 most profitable state-owned companies – with a net profit growth from 6.4 billion lei to 10.7 billion lei – and at the level of other companies, which shifted from an aggregate loss of 2.3 billion lei to a total profit of 1.96 billion lei.** These results show, similar to previous years, that a small number of state-owned companies with considerable profits significantly influence the aggregate results of companies in the entire public sector. It should be noted that 2022 marked the second positive value of state-owned companies' profits excluding the Top 5, within the 2009-2022 period, with the previous positive value recorded in 2017. The increase in the net result obtained by state-owned companies led to the improvement of all their performance indicators, with most of them reaching their highest levels throughout the analysed period. On the other hand, the contribution of state-owned companies to Romania's economic activity is limited. Thus, in 2022, their share of total economy revenues was 3.5%, the share of turnover was 3.7%, and that of gross value added was 9.7%. Additionally, 2022 witnessed favourable developments for the liquidity and solvency indicators of state-owned companies, while new investments, although slightly decreased compared to 2021, remained at high values. In this context, private sector companies also recorded significantly increased profitability, with favourable trends in the majority of economic and financial indicators.

The arrears of state-owned companies increased in 2022, in nominal terms, by 12.6% compared to the previous year, reaching the level of 19.1 billion lei (representing 22.2% of the total outstanding payments in the entire economy, compared to 20.9% in 2021). However, considering the high inflation recorded at the end of 2022, at 16.4%, the arrears of state-owned companies decreased in real terms by approximately 3.3%. Additionally, analysing their evolution as a percentage of GDP and total turnover, a general decreasing trend is observed. Thus, at the end of 2022, the arrears of state-owned companies represented 1.36% of GDP and 21.1% of total turnover, these proportions representing the minimum levels recorded throughout the analysed period. It should be noted that the evolution of the ranking of companies with the highest volume of outstanding payments indicates a chronicization of the arrears problem in certain sectors, with some state-owned companies continuing to appear in this ranking year after year.

The improvement of the economic and financial performance of state-owned enterprises during the 2015-2017 period was supported by legislative reforms embodied in the enactment of Emergency Ordinance no. 109/2011 regarding the corporate governance of state-owned enterprises. However, subsequently, a series of amendments were implemented which exempted the majority of state-owned companies from the application of corporate governance practices. These initiatives coincided with the decline of most performance indicators of state-owned companies starting from 2018. In this context, **Law no. 187/2023 was adopted to amend and supplement Emergency Ordinance no. 109/2011 regarding the corporate governance of state-owned enterprises, which provides a series of measures to improve the performance of state-owned companies. Although the adoption of this law is commendable, the Fiscal Council advocates, similar to its previous analyses, for the adequate application of the existing legal framework regarding the corporate governance of state-owned companies in Romania. This recommendation is reinforced by the most recent OECD report, which acknowledges that the adoption of legislative measures, no matter how good, is not sufficient; only the proper implementation of these measures can bring corporate governance to the level of OECD standards, ensuring better use of public funds.**