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of Romania's state-owned companies in 2020**

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Analysis of the economic and financial performance of Romania's state-owned companies in 2020

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Abstract

This paper presents the results of the analysis of the economic-financial performance of state-owned companies in Romania during 2020, while also comparing it with the performance of private sector companies. The analysis was performed on a sample of 793 companies, which was later differentiated 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.

Aggregate data from companies' balance sheets seem to indicate that the profitability of Romanian enterprises as a whole - state and private, excluding those in the financial sector - would have improved during 2020, even in the context of the shock generated by the impact of the COVID-19 pandemic. However, this accounting result was decisively influenced by the massive measures to support the economy adopted by the state during 2020, especially those related to the support from the public budget for the allowances granted during the temporary suspension of the individual employment contracts, for partially covering the gross salary of employees retained in employment, for granting discounts if taxes were paid in advance. These measures involved the support from the public budget of some expenses of the companies, deepening the budget deficit. The total amount of these support schemes was significant, of at least 8 billion lei, thus distorting the accounting result of the companies at least with these amounts. In the absence of these support measures, the deterioration of the companies' financial performance would have been visible. In other words, although the fundamental factors were likely to lead to a lower performance of the companies, the financial support from the state made the financial statements seem to indicate a more favorable position. In this context, it remains to be seen how the performance of companies will evolve in the future, after the withdrawal of financial support received from the state.

Thus, if in 2019 the state-owned companies registered an aggregate net loss of 1.8 billion lei, the year 2020 recorded a return to positive territory to a total net profit of 0.9 billion lei. The favorable evolution of the net result is found both at the level of the Top 5 most profitable state-owned companies - increase

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of the net profit from 3.7 billion lei to 4.2 billion lei -, and especially at the level of the other companies - decrease of aggregate losses from 5.5 billion to 3.3 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 the state-owned companies has led to the improvement of most of their performance indicators, such as those regarding the profit margin and the rates of economic and financial profitability, but the gross value added and labor productivity declined under the impact of the COVID-19 pandemic. The financial discipline of state-owned companies continued to worsen during 2020, as evidenced by the significant increase in arrears compared to the previous year (+ 33.6%, representing +5.6 billion lei), which was located mainly at the level of CFR Marfă and Unifarm companies. Against the background of state support measures, private sector companies have also seen an apparently increasing accounting profitability with favorable developments in almost all economic and financial indicators, and their arrears have remained close to the level registered in 2019.

The improvement of the economic and financial performance of state-owned enterprises in the period 2015-2018 was also favored by legislative reforms regarding the implementation of corporate governance in the public sector. However, despite the progress made, a number of subsequent amendments have abolished *de facto* the functionality of corporate governance practices in most state-owned companies. The decrease in the commitment to the principles of corporate governance based on professionalism, integrity, transparency and accountability was probably felt, starting with 2019, in the decline of most performance indicators of state-owned companies. Thus, although these indicators have improved during 2020, their levels continue to be significantly below the values recorded in 2018, both in terms of aggregate net profit (1.7 billion lei lower) and with regard to the main rates of return (unfavorable deviation of 1.4 pp in the case of ROE and 1 pp in the case of ROA, respectively), the risk indicators being, in turn, deteriorated compared to 2018. Consequently, it is necessary to return to the initial scope of state-owned companies in the application of corporate governance. This goal is all the more important given that the Government wants to maintain the control through majority stakes in companies of national strategic interest.

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

JEL codes: G30, H83, L32

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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 a deterioration of the public finance situation and 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, this report analyzes the results obtained by Romanian state-owned companies in 2020, while also following the comparison with 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 2020 can be considered an atypical year, given the evolution of the COVID-19 pandemic, with a severe impact on economic activity in general, as well as on state-owned companies in particular. The latter recorded overall reductions in total revenue, turnover and gross value added.

After the general quarantine measures were implemented at the beginning of the pandemic, with the closure of activity in many sectors, in the second half of 2020, with the relaxation of the restrictions that have been in place since March, economic activity was boosted in most sectors through active measures taken by the Government, an important contribution going to the financial support measures of the affected companies. Thus, at the end of the year only a few sectors recorded significant losses (e.g. hospitality, air transport) while others recovered in full or in large part the losses recorded in the second quarter of the year.

Economic and financial measures taken by the state in 2020 to improve the economic situation of state and private companies included: postponing payment of certain taxes, payment of technical unemployment from the public budget, granting of state guarantees in the amount of 80% for certain corporate loans, tax rebates in case of early payment, investment credit guarantee schemes ("SME Invest Romania" and "SME Leasing"). According to the estimates of the MF⁶, about 46.3 billion lei (4.45% of GDP) were injected in the economic environment in 2020 through the fiscal facilities granted, investments and expenditures allocated to combat the effects of the COVID-19 pandemic. Of these amounts, about 18 billion lei were intended to defer the payment of tax liabilities by economic agents, 2.7 billion lei to accelerated VAT refunds to support liquidity in the private sector (these measures favorably affecting only the liquidity of companies, not their profitability), 1 billion lei bonuses for paying taxes ahead of time, 4.25 billion lei for benefits granted during the temporary suspension of the individual employment contracts at the initiative of the employer, 2.7 billion lei granted to employers

⁶ The report on the final budget execution of 2020, <https://mfinante.gov.ro/ro/domenii/bugetul-de-stat/informatii-executie-bugetara> and the Convergence Program 2021-2024 <https://mfinante.gov.ro/documents/35673/41334/Programconvergenta2021-2024.pdf>

for the settlement of a part (41.5%) of the gross salary of employees retained in employment (the last three measures favorably affecting the profitability of companies). In order to support the activity of SMEs and companies with a turnover of over 20 million lei, state guarantees amounting to 28.1 billion lei were granted, of which for loans amounting to approximately 15 billion lei in 2020 through the SME Invest program.

All these government measures have had a positive effect on the performance of companies. The measures aimed at supporting the private expenses of the companies from the budget, in the amount of at least 8 billion lei, directly supported the gross result of the companies. In addition, the other measures (guarantees, etc.) indirectly supported the activity of the companies and their economic and financial performance. In this context, it remains to be seen how the performance of companies will evolve in the future, after the withdrawal of financial support received from the state.

Dataset

The analysis was performed on a number of 793 state-owned companies, the size and structure of the sample indicating no significant differences compared to 2019, when 827 companies were included in the analysis. Thus, it is expected that the results of this study will be comparable to those obtained in previous years.

At the end of 2020⁷, a number of 1,627 companies reported in their annual financial statements that they belong to the SOEs category. Following a careful analysis of their form of organization, object of activity and shareholder structure, it was observed that many limited liability companies have mistakenly reported their membership to the public sector, a vast majority of them claiming to be autonomous administrations. After correcting these errors, the final number of SOEs included in the analysis was 793, which is close to the size of the sample in 2019 (827 companies). Given the relative stability of the firms included in the analysis, both in number and structure, it is expected that the results of the present study will be comparable to those obtained in previous years.

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

In order to ensure for the analysis to correctly reflect the economic and financial performance of the state-owned sector, the data sample was adjusted. Thus, similar to 2018 and 2019, 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, 2020 being 63.7 billion lei⁸. As these concession rights are not the result of investment activities (being assimilated to subsidies according to IFRS⁹) and are likely to significantly affect the results of the study

⁷ According to the data received from MF on September 8, 2021. Thus, the analysis does not include the companies that had not submitted their 2020 financial statements until the respective date, and any corrections that were made subsequently.

⁸ According to the notes to the financial statements of CNAIR S.A. for the year 2020.

⁹ International Financial Reporting Standards.

reflect an actual change in the companies' performance.

(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 inventories¹⁰. Given that these changes have an important impact on the indicators related to liquidity, respectively the level of investments made by state-owned companies, the indicators were adjusted accordingly.

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

¹⁰ The reclassification of these amounts is most likely the result of the accounting policies and conventions used.

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

The total revenues of companies have declined under the impact of the economic effects caused by the COVID-19 pandemic and the restrictions imposed to limit the spread of the virus. Revenues of state-owned companies decreased by about 10%, and those of private companies decreased by a smaller extent, respectively 1%. Although the turnover of both state-owned and private companies contracted (-11% and -0.8% respectively), the gross value added at the level of the entire economy increased by 0.7%, supported in particular by the contribution of the private sector, which increased by 1.7%. Public sector companies have reduced their contribution to economic activity in terms of gross value added created at national level.

Labor productivity for state-owned companies had a downward trend in 2020 (-6.4%), while for private sector

Against the background of an adverse economic climate, under the impact of the COVID-19 pandemic, in 2020 the total revenues of state-owned companies decreased by 5.69 billion lei (-10%), compared to 2019, when they increased by about 2.44 billion lei.

The total turnover of state-owned companies decreased by 6.3 billion lei (-11%), from 55.4 billion lei in 2019 to 49.1 billion lei in 2020. The private sector was not spared either by the economic effects caused by the pandemic, the turnover being lower by about 0.8% compared to 2019, while the total revenues contracted by 1%.

In 2020, although the gross value added at the level of the whole economy had a positive dynamic, it was much lower than the one recorded in the previous year (+0.7% compared to +11.3%) and below the dynamics recorded by the companies from the private sector (+1.7%). Moreover, this positive dynamic was supported by the value added created by the private sector, because at the level of state-owned companies it decreased by 9.2%.

One can also notice the reduced contribution of state-owned companies to economic activity in terms of gross value added. Thus, in 2020 the share of gross value added generated by state-owned companies in the total economy decreased from 8.9% in 2019 to 8%, and the level of revenues decreased from 3.4% in 2019 to 3.1% of the total economy in 2020.

In 2020, the trend of increasing the number of employees in state-owned companies stopped, so that this indicator decreased by 13 thousand people (-5%) compared to the previous year. Moreover, in 2020 the minimum number of employees in state-owned companies

firms it increased by 0.5%. The evolution of this indicator is influenced by the dynamics of gross value added expressed in real terms and by the dynamics of the number of employees. Overall, labor productivity recorded a negative trend, with a slight decrease of 0.1%, due to the decline in the public sector and the more modest growth recorded this year by the private sector.

Against the background of the measures to support the economy adopted during 2020, the aggregate net profit obtained at the level of all companies in the non-financial sector increased by 12.5 billion lei in nominal terms (+13.7%). On the one hand, the total net profit obtained by state-owned companies re-entered the positive territory (+918 million lei), after registering in 2019 a total net loss of 1.8 billion lei. On the other hand, the aggregate net profit obtained by private sector firms continued its upward trend, although its growth rate slowed compared to previous years. It is expected that in the future, after the withdrawal of state support, the performance of some companies will worsen.

from 2008 to the present, of 266 thousand, was reached. Given that the gross value added had a much weaker evolution than in the previous year (in 2020 it depreciated in real terms by 10.7%), labor productivity in state-owned companies decreased by 6.4% in 2020 compared to the previous year, but it is still well above the 2008-2019 average. By comparison, labor productivity in private companies increased by 0.5%, continuing the upward trend from recent years (+4.9% in 2016, +3% in 2017, +4.6% in 2018, respectively +5.5% in 2019), under the influence of a more pronounced decrease in the number of employees (-2.4%), compared to that of gross value added in real terms (-1.9%). The value of labor productivity in the private sector continues to be situated throughout the analyzed period at a significantly lower level than the sector of state-owned companies, with a gap of 15.4 million lei/1,000 employees, decreasing by 5.9 million lei/1,000 employees compared to the previous year.

Against the background of the measures to support the economy adopted during 2020, especially those related to the allowances granted during the period of temporary suspension of the individual employment contracts, respectively to the settlement of a part of the gross salary for employees, the aggregate net profit obtained by all companies (excluding those in the financial sector) had an ascending evolution from an accounting point of view, increasing by 12.5 billion lei in nominal terms (+13.7%). On the one hand, the total net profit obtained by state-owned companies re-entered the positive territory after the previous year was the first time in 6 years when it recorded a negative value (-1.8 billion lei). Thus, in 2020 there was a net gain of 918 million lei, close to the value recorded in 2013 and 3.9 billion lei less than in 2017, when the maximum for this indicator was reached. On the other hand, private sector companies registered a total net profit on the rise (+9.8 billion lei, respectively an advance of 10.5% compared to the previous year), this result representing a continuation of the growth trajectory from the last years of this indicator (+55.2% in 2016, +30.9% in 2017, +23.67% in 2018, respectively +19.4% in 2019). It is worth noting, however, the slowdown in net profit advance by about 9 pp, a clear signal of the effect that the pandemic had on the real economy even given the support provided by the state in 2020, being expected that in the future, after the withdrawal of this support, the performance of some companies will worsen.

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

The 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 8 years, increasing almost every year, from 2.7 billion lei in 2013 to 4.2 billion lei in 2020 (by 0.6 billion lei more than in 2019). Analyzing the evolution of Top 5, it is noted that in 2020 there were changes in this ranking: SAPE S.A., with a net profit of 397 million lei, occupying the fourth position and ELECTROCENTRALE București S.A., with a net profit of approximately 359 million lei, occupying the last position in the top, entered the ranking, while C.N. Aeroporturi București S.A. and S.N.T.G.N. Transgaz S.A. have left Top 5 in which they have been in recent 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 during the entire analyzed period, the only exception being 2017, when they obtained a positive but modest aggregate net result of only 0.4 billion lei. In 2020, the gap between the Top 5 state-owned companies and the rest was reduced compared to 2019. Excluding the influence of the most profitable state-owned companies, the rest recorded a net loss of 3.3 billion lei, compared to 5.5 billion lei in 2019. Comparing the global 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 significant 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, in this study will be presented and analyzed 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 financial and economic indicators of Romanian companies from the non-financial sector

		2009	2011	2012	2014	2015	2016	2017	2018	2019	2020
Number of companies	SOEs	774	1,048	1,006	1,155	1,143	916	807	803	827	793
	All companies, non-financial sector	602,190	644,379	630,066	643,644	647,872	677,843	692,966	723,011	744,176	790,635
	Share of SOEs in all companies	0.13%	0.16%	0.16%	0.18%	0.18%	0.14%	0.12%	0.11%	0.11%	0,10%
Total revenues. mil. lei	SOEs	50,756	58,511	49,853	44,487	48,578	46,586	50,432	54,640	57,079	51,384
	All companies, non-financial sector	845,396	1,056,190	1,072,777	1,113,445	1,186,900	1,269,290	1,369,313	1,550,721	1,687,325	1,665,158
	Share of SOEs in all companies	6.0%	5.5%	4.6%	4.0%	4.1%	3.7%	3.7%	3.5%	3.4%	3.1%
Gross value added, mil. lei	SOEs	20,454	24,202	22,339	25,220	26,687	26,143	28,845	32,856	34,862	31,660
	All companies, non-financial sector	189,633	196,151	197,392	255,957	260,530	286,190	308,113	350,600	390,356	393,044
	Share of SOEs in all companies	10.8%	12.3%	11.3%	9.8%	10.2%	9.1%	9.4%	9.4%	8.9%	8.1%
Gross value added in real terms, mil. lei (constant prices 2010)	SOEs	21,189	23,319	20,745	22,252	22,804	21,805	22,984	24,654	24,468	21,450
	Private companies	175,258	165,703	162,564	203,581	199,816	216,900	222,519	238,428	249,500	244,840
Employees, thousands of persons	SOEs	364	343	327	297	291	281	273	276	279	266
	All companies, non-financial sector	4,019	4,040	3,898	3,882	3,959	4,078	4,055	4,150	4,120	4,016
	Share of SOEs in all companies	9.0%	8.5%	8.4%	7.6%	7.4%	6.9%	6.7%	6.6%	6.8%	6.6%
Labor productivity, mil. lei /1,000 employees (constant prices 2010)	SOEs	58,2	68.0	63,2	74,8	78,6	77,9	84,6	90,1	87.8	80.64
	Private companies	47,9	44,8	45,5	56,8	54,5	57,1	58,8	61,5	64,9	65.29
Net profit, mil. lei	SOEs	-3,443	436	-1,425	2,401	1,200	3,108	4,818	2,574	-1,832	918
	SOEs, excluding Top 5	-4,573	-2,926	-3,436	-1,323	-2,034	-513	380	-2,004	-5,509	-3,267
	Private companies	11,399	1,389	6,872	17,020	31,088	48,251	63,150	78,075	93,189	102,967
Arrears, mil. lei	SOEs	34,405	26,251	25,363	24,370	21,226	23,232	21,599	13,757	16,598	22,171
	All companies, non-financial sector	62,406	88,882	91,536	93,508	94,875	89,390	73,758	75,399	69,544	69,631
	Share of SOEs in all companies	35.5%	22.8%	21.7%	20.7%	18.3%	20.6%	22.6%	15.4%	19.3%	24.1%
Arrears, % of GDP	SOEs	6.48%	4.70%	4.29%	3.64%	2.98%	3.04%	2.52%	1.45%	1.57%	2.09%
Arrears, % of net turnover	SOEs	68.9%	45.6%	51.6%	55.6%	44.6%	50.7%	43.3%	25.65%	30.0%	45.1%

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 SOE's with the largest net profit

Top 5 net profit in 2020			Top 5 net profit in 2019			Top 5 net profit in 2018		
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.	1,451.58		1 S.P.E.E.H. HIDROELECTRICA S.A.	1,386.54		1 S.P.E.E.H. HIDROELECTRICA S.A.	1,939.28	
2 S.N.G.N. ROMGAZ S.A.	1,278.88		2 S.N.G.N. ROMGAZ S.A.	1,046.41		2 S.N.G.N. ROMGAZ S.A.	1,360.55	
3 S.N. NUCLEARELECTRICA S.A.	699.32		3 S.N. NUCLEARELECTRICA S.A.	535.67		3 S.N.T.G.N. TRANSGAZ S.A.	495.67	
4 SAPE S.A.	396.63		4 COMPANIA NAȚIONALĂ AEROPORTURI BUCUREȘTI S.A.	359.62		4 S.N. NUCLEARELECTRICA S.A.	410.61	
5 ELECTROCENTRALE BUCUREȘTI S.A.	358.72		5 S.N.T.G.N. TRANSGAZ S.A.	348.26		5 COMPANIA NAȚIONALĂ AEROPORTURI BUCUREȘTI S.A.	371.82	
Total	4,185.13		Total	3,676.49		Total	4,577.93	
Top 5 net profit in 2017			Top 5 net profit in 2016			Top 5 net profit in 2015		
Company name	Net profit (mil. lei)		Company name	Net profit (mil. lei)		Company name	Net profit (mil. lei)	
1 S.N.G.N. ROMGAZ S.A.	1,854.75		1 S.P.E.E.H. HIDROELECTRICA S.A.	1,227.67		1 S.N.G.N. ROMGAZ S.A.	1,194.29	
2 S.P.E.E.H. HIDROELECTRICA S.A.	1,359.69		2 S.N.G.N. ROMGAZ S.A.	1,024.58		2 S.P.E.E.H. HIDROELECTRICA S.A.	899.41	
3 S.N.T.G.N. TRANSGAZ S.A.	582.06		3 S.N.T.G.N. TRANSGAZ S.A.	594.56		3 S.N.T.G.N. TRANSGAZ S.A.	488.73	
4 COMPANIA NAȚIONALĂ AEROPORTURI BUCUREȘTI S.A.	337.55		4 COMPANIA NAȚIONALĂ DE CĂI FERATE CFR S.A.	501.31		4 C.N.A.D.N.R. S.A.	368.81	
5 S.N. NUCLEARELECTRICA S.A.	303.88		5 C.N.T.E.E. TRANSELECTRICA S.A.	272.36		5 C.N.T.E.E. TRANSELECTRICA S.A.	360.05	
Total	4,437.93		Total	3,620.48		Total	3,311.29	

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

The arrears of state-owned companies increased in 2020 by 33.6% compared to the previous year, to the level of 22.2 billion lei (representing 24.1% of total outstanding payments in the entire economy). Although the share of arrears of state-owned companies in the total outstanding payments of the entire economy is well below the maximum level of 35.5% recorded in 2009, it remains well above the public sector's contribution to economic activity.

The evolution of the arrears accumulated¹¹ by state companies is analyzed considering that, starting with 2018, CN a Huilei (outstanding payments of 5.4 billion lei at the end of 2017) and Electrocentrale București (outstanding payments of 1.7 billion lei at the end of 2017) did not report any overdue payments, this being the reason why the arrears of state companies registered in 2018 a significant decrease (of 36.3%) compared to the previous year. The lack of reporting does not indicate the payment of these outstanding obligations, but is most likely caused by the fact that, at that time, C.N. a Huilei S.A. was in bankruptcy proceedings, and Electrocentrale București S.A. was insolvent.

In 2020, there is a significant increase in the outstanding payments of state-owned companies (+5.6 billion lei, or +33.6%) compared to the previous year, to the level of 22.2 billion lei (representing 24.1% of total outstanding payments throughout the economy). The increase in arrears of state-owned companies is largely localized (4.2 billion lei, respectively, 75% of the increase compared to the previous year) at two state-owned companies, S.N.T.F.M. CFR Marfă S.A. and C.N. Unifarm S.A. (see [Table 3](#)). In the case of CFR Marfă SA, the significant increase in arrears (+3 billion lei compared to the previous year) can be explained by the decision of the European Commission of February 28, 2020¹² regarding the investigation launched in 2017 on granting state aid in 2013 to the freight transport operator, which establishes that it is incompatible with EU state aid rules and therefore the amount (EUR 570 million plus interest) must be recovered by the Romanian State. Regarding C.N. Unifarm SA, the registration of a significant volume of arrears (+1.2 billion lei compared to the previous year) took place under the conditions of emergency acquisitions at the beginning of 2020 in order to combat the COVID-19 pandemic, which remained on stock, consisting of ventilators, masks, goggles and overalls, disinfectants and other sanitary materials and medical devices. Even excluding these two companies, there is a continuation of the trend of increasing arrears, initiated in 2019, and the risk of accelerating it in the coming years, especially since, although the

¹¹ 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.

¹² https://ec.europa.eu/commission/presscorner/detail/ro/ip_20_313.

volume of arrears in the public sector is significantly lower than the maximum level of 34.4 billion lei reached in 2009 (representing 35.5% of the total outstanding payments throughout the economy), there is a significant impact of eliminating from the data, starting with 2018, of 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 of the entire economy is clearly higher than their contribution to economic activity in Romania, respectively an average share over the last 10 years of 4.0% of total revenues and 9.9% 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.

The arrears of state-owned companies as a share of GDP and of the total turnover exhibited a general downward trend since 2009, until the end of 2018 when was recorded the lowest level of the two indicators over the analyzed period. Starting with 2019 it was recorded an increase in arrears of the public sector as a share of GDP, respectively of total turnover, which accelerated significantly in 2020.

A similar evolution is observed when analyzing the share of SOEs arrears in GDP, respectively in the total turnover. After reaching the maximum levels of the analyzed period in 2009, the two indicators entered a general downward trend, in 2018 reaching the lowest level in the analyzed interval also due to the elimination of arrears accumulated by C.N. a Huilei and Electrocentrale București S.A. After a slight increase in arrears as a share of GDP by 0.1 pp in 2019, in 2020 the increase was significant, by over 0.5 pp. Expressed as a share in total turnover, after an increase of 4.3 pp of arrears in 2019 compared to 2018, in 2020 arrears in the public sector accounted for 45.1%, compared to 30% in the previous year (+15.1 pp).

It should be noted that the generally favorable evolution of public sector arrears starting with 2010 was also driven by the measures¹³ established through the two balance of payments agreements concluded with the international financial institutions (EC, IMF and WB) in the period 2009-2013.

In 2020, almost 40% of the arrears of state-owned companies were to suppliers, and about 31% were overdue

Analyzing the structure of SOEs' arrears in 2020, it can be observed that the greatest part of the outstanding payments are due to suppliers, representing 8.8 billion lei (+0.6 billion lei compared to the

¹³ Those measures aimed at framing the arrears within quarterly indicative targets and included budget transfers, placing SOEs into voluntary liquidation or insolvency and the conversion of arrears into shares.

payments to the general consolidated budget while 29% represented overdue payments to other suppliers. The increase in arrears by 5.6 billion lei compared to the previous year is due to the increase of all categories of outstanding payments of the state-owned companies.

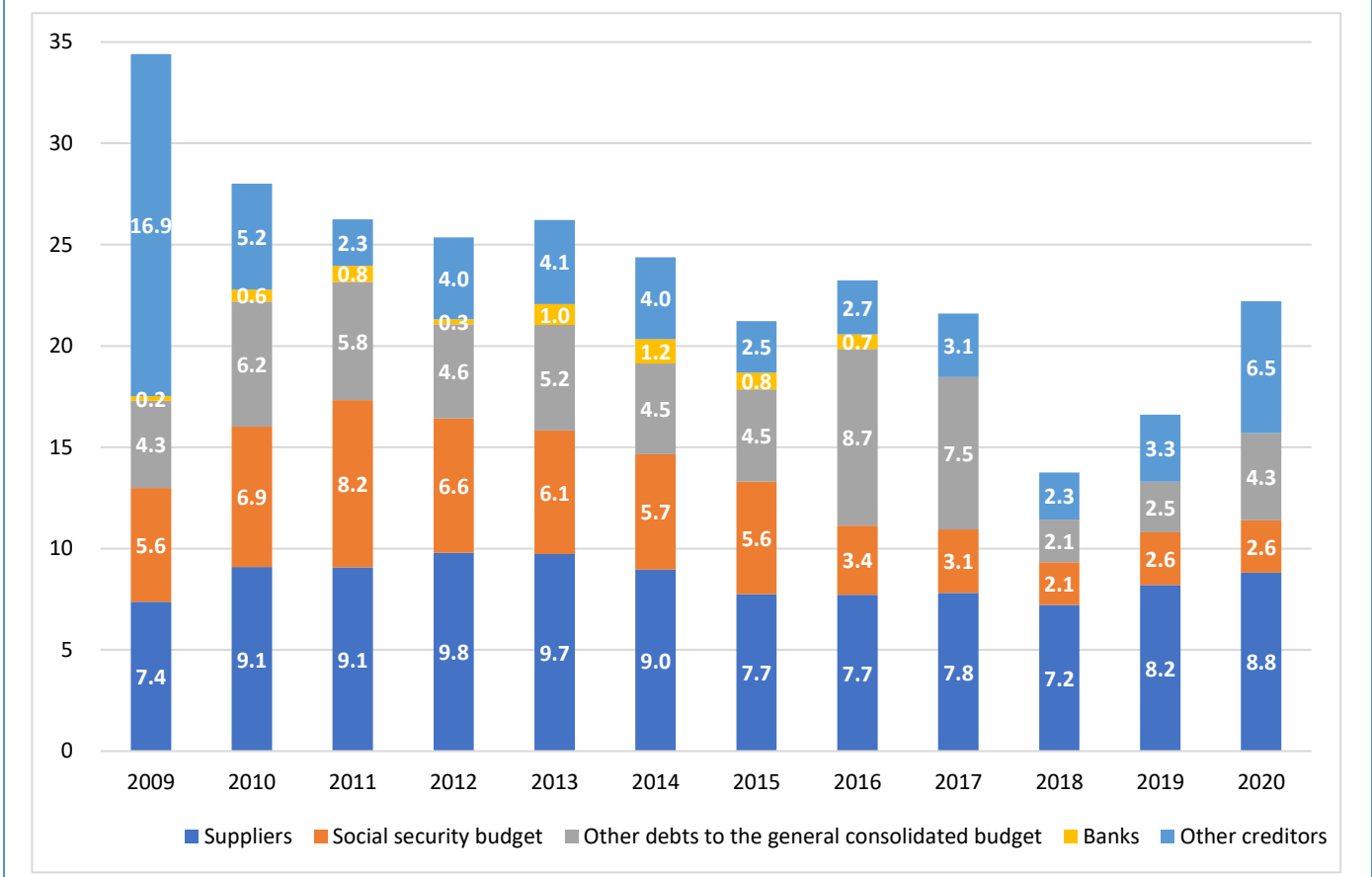
previous year), corresponding to a share of 39.6% in total arrears of the public sector.

The arrears to the *general consolidated budget* occupy the second place in the hierarchy with a level of outstanding payments of 6.9 billion lei (+1.8 billion lei compared to the previous year), representing 31.3% of the total. In their structure, the largest share is held by arrears to other budgets than the state social security budget, with a share of 62% in their total, respectively an increase of 73% compared to the previous year. From the analysis by sectors of the economy, the largest share of arrears to other budgets than the state social security budget is found in the pharmaceutical sector, followed by energy and transport.

The arrears of state-owned companies to *other creditors* increased the most compared to 2019 (+94%), reaching a level of 6.5 billion lei (+3.1 billion lei compared to the previous year) and represented 29.2% of the total. This increase was mainly located at the level of the two companies mentioned above, CFR Marfă and Unifarm.

The evolution of the structure of arrears of state-owned companies is presented in *Figure 1*.

Figure 1: Structure of arrears – SOEs (billion lei)



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

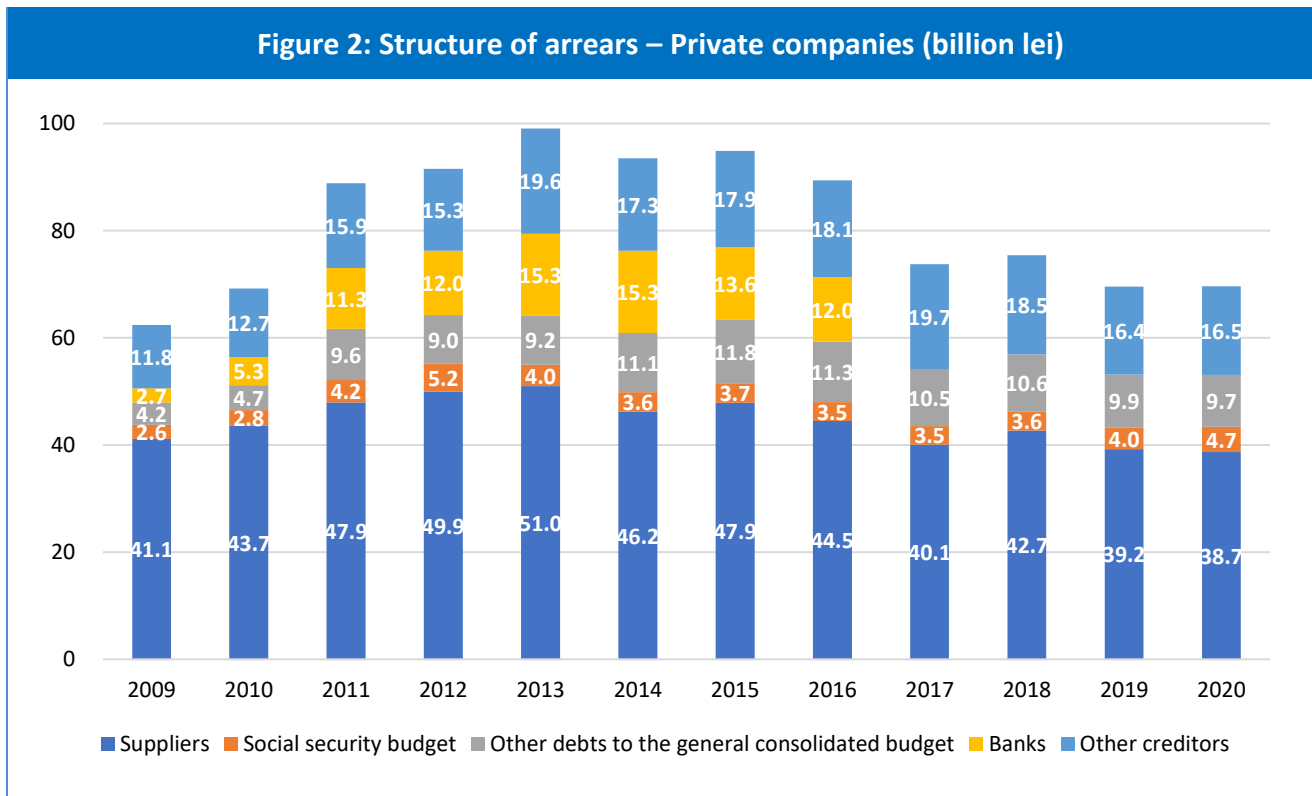
Note: Starting with 2017, following the modification of the F30 reporting form, the data regarding arrears to banks is no longer available. Starting with 2018, C.N. a Huilei S.A. and Electrocentrale București S.A. did not report any overdue payments, which is the reason for the significant reduction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

In what concerns the arrears of private companies, in 2020 the highest share was recorded by arrears to suppliers (55.6% of the total), followed at a considerable distance by outstanding payments to other creditors (23.8% of the total) and to the general consolidated budget (20.7% of the total).

The arrears of private companies remained close to the level registered in the previous year (+0.09 billion lei), the increase registered at the level of outstanding payments to the *general consolidated budget* (+0.48 billion lei) and to *other creditors* (+0.15 billion lei) being largely offset by the reduction of outstanding payments to *suppliers* (-0.55 billion lei).

From the perspective of the structure of arrears, in 2020 private companies had the highest volume of outstanding payments to *suppliers*, amounting to 38.7 billion lei (55.6% of total arrears), over half of which were late payments by more than one year. In second place are the outstanding payments to *other creditors* (16.5 billion lei, representing

23.8% of the total), followed by the outstanding payments to the *general consolidated budget* (14.4 billion lei, respectively, 20.7% of the total).



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

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

The arrears of state-owned companies are concentrated in a small number of companies operating in the mining sector, the distribution of heat sector and the chemical industry. Thus, the first 10 companies ranked in terms of volume of outstanding payments (Top 10) have accumulated over 75% of the total arrears of state-owned companies. Another worrying

Proceeding to a more detailed analysis of SOEs' arrears, the top 10 companies in terms of outstanding payments were identified (Top 10 – presented in [Table 3](#)). In 2020, the Top 10 companies together accumulated about 75.4% of the total arrears of state-owned companies. Analyzing the structure of Top 10 over the last three years, we note that the majority of companies are in the mining sector, heat distribution and chemical industry, as well as seven companies were present in the hierarchy each year, indicating the chronicity of arrears in some companies and industrial sectors. It is noted for the first time in recent years the presence of a pharmaceutical company in the Top 10, Uniform S.A., amid some acquisitions in the context of the fight against the COVID-19 pandemic, which, for the most part, remained in stock.

aspect is that many companies are in the Top 10 every year, indicating a chronic problem of arrears in certain sectors.

In what concerns the top of arrears towards the general consolidated budget (also presented in [Table 3](#)), persistency in accumulating arrears is also noted in the case of eight companies present in the hierarchy in each of the last three years. Also, the preponderance of companies in the mining sector and heat energy distribution is maintained, but compared to the Top 10 presented previously, the industrial sectors are more diverse. In the case of arrears to the general consolidated budget, the degree of concentration is similar to Top 10, the first 10 companies accumulating 75% of the total arrears of state-owned companies to the general consolidated budget. Given the conclusions drawn from the analysis regarding the top in terms of arrears of the state-owned companies, it is relevant to investigate the causes of the concentration of arrears in a small number of companies, as well as the chronicity of this problem in certain economic sectors.

Table 3: Top 10 SOEs with the largest arrears
Top 10 arrears in Dec. 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. "ÎMBUNĂȚĂȚIRI 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%

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
% of total	71.2%

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
% of total	71.6%

Top 10 arrears in Dec. 2018

Company name	Arrears (mil. lei)
1 RADET BUCUREȘTI	3,862.23
2 S.C. COMPLEXUL ENERGETIC HUNEDOARA S.A.	1,423.22
3 S.N.T.F.M. CFR MARFĂ S.A.	884.30
4 OLTCHIM S.A.	645.77
5 COMPANIA NAȚIONALĂ A METALELOR PREȚIOASE ȘI NEFEROASE REMIN S.A.	573.79
6 SOCIETATEA NAȚIONALĂ A CĂRBUNELUI S.A.	551.80
7 APATERM S.A.	410.67
8 RADET CONSTANȚA	391.99
9 FORTUS S.A.	355.82
10 ROMAERO S.A.	334.95
% of total	68.6%

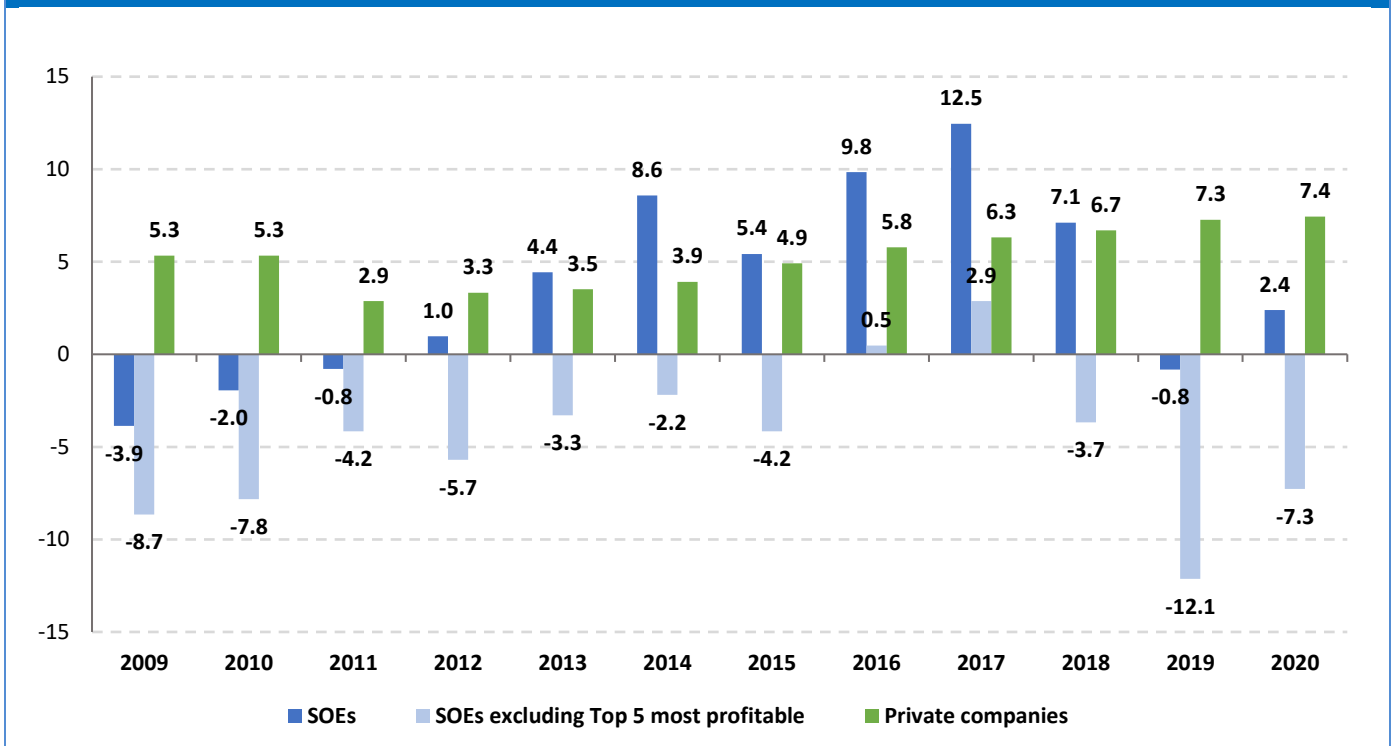
Top 10 arrears to the general consolidated budget in Dec. 2018

Company name	Arrears (mil. lei)
1 S.C. COMPLEXUL ENERGETIC HUNEDOARA S.A.	1,107.76
2 SOCIETATEA NAȚIONALĂ A CĂRBUNELUI S.A.	536.27
3 ROMAERO S.A.	329.18
4 S.C. ELECTROCENTRALE CONSTANȚA	229.70
5 AVERSA S.A.	162.37
6 REGIA AUTONOMĂ DE TRANSPORT PUBLIC IAȘI R.A.	147.50
7 S.N. "ÎMBUNĂȚĂȚIRI FUNCiare" S.A.	132.22
8 AVIOANE S.A. CRAIOVA	118.18
9 S.C. DE REPARAȚII LOCOMOTIVE C.F.	115.92
10 RADET BUCUREȘTI	115.60
% of total	71.0%

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. no longer reported overdue payments, so these companies are no longer in the top of arrears in 2018 and 2019.

Figure 3: Operating margin (%)



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

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

The operating margin of state-owned companies in 2020 recovered compared to last year, from -0.8% in the previous year to 2.4%, but remains much lower than in the private sector, where it continued its ascent to 7.44% in 2020, from 7.27% in 2019.

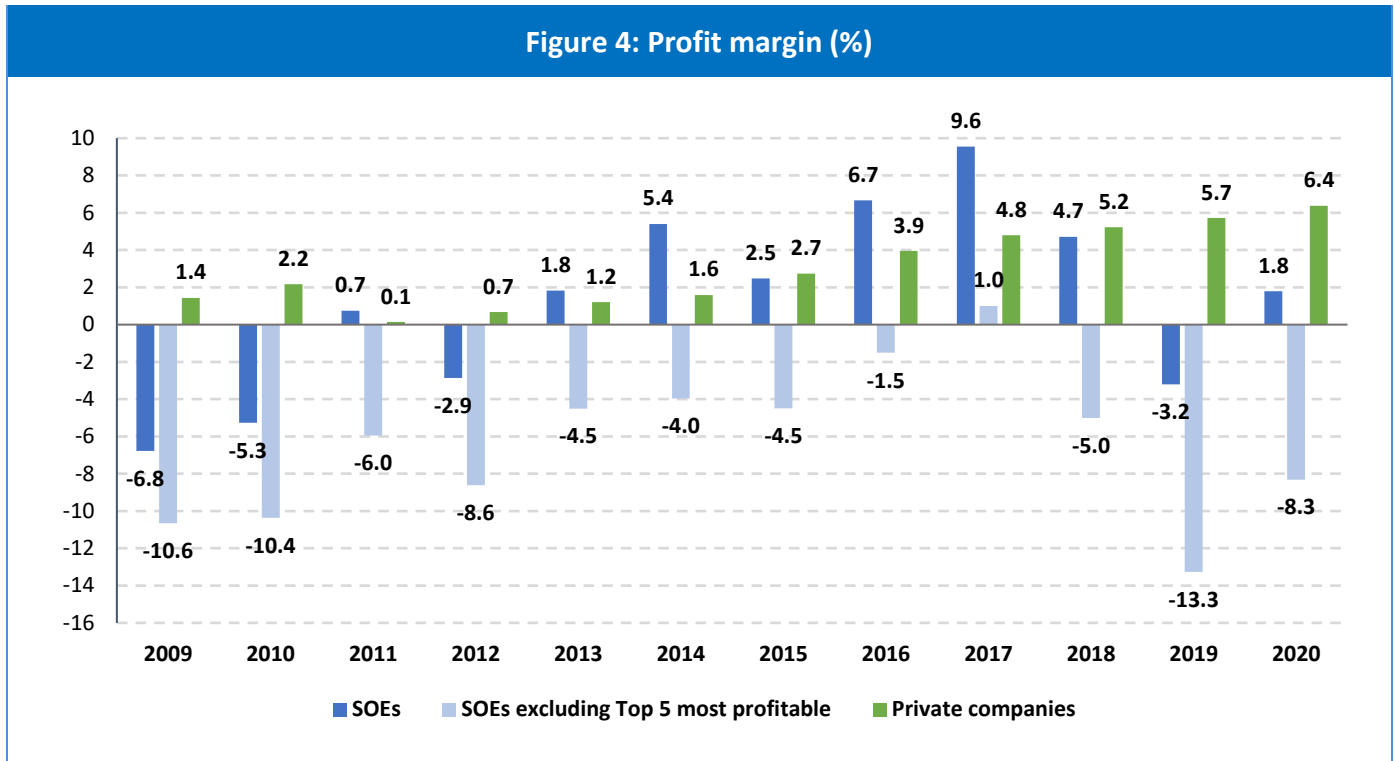
In 2020, the operating margin for state-owned companies recovered from last year, from -0.8% to +2.4% (Figure 3). The indicator measures the profitability of the core activity by comparing the earnings before the interest and profit tax payments to the total income. This evolution was mainly determined by the improvement in the aggregate operating profits – from a loss of 471.8 million lei in 2019, to a profit of 1,226.5 million lei in 2020 – while total revenues were reduced by 10%. Private companies continued their upward trend, the value of the indicator improving by 0.17 pp in 2020 compared to 2019.

Excluding Top 5, the indicator is at a much lower level and in negative territory, at -7.3%, representing an improvement of 4.8 pp compared to the previous

Excluding Top 5 most profitable state-owned companies, the indicator is at a much lower level and in negative territory, at -7.3%, representing an improvement of 4.8 pp compared to the previous year. Thus, the gap recorded when excluding Top 5 companies is significant, demonstrating their extremely high impact on the

year.

aggregate performance of state-owned companies.



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

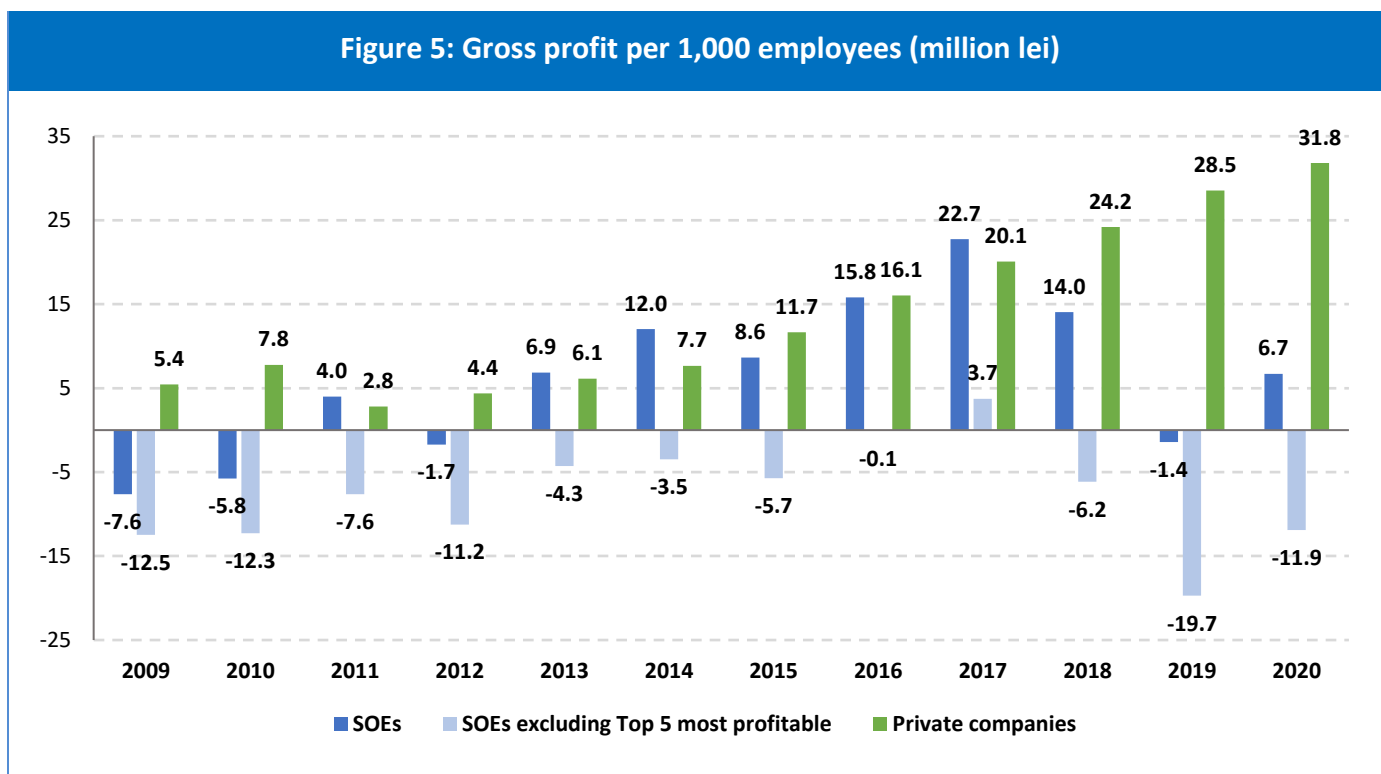
Note: Profit margin (%) = Net profit/Total revenues * 100

The profit margin of state-owned companies increased, in turn, from -3.2% in 2019 to +1.8% in 2020. Private sector companies had a similar evolution, increasing their aggregate profit margin from 5.7% in 2019, to 6.4% in 2020, against the background of the positive dynamics of economic activity which led to an increase in aggregate net profit by 10.5%.

The improvement of the operational position of state-owned companies (certified by the operating margin) is also evident for the profit margin evolution (Figure 4). The indicator increased from -3.2% in 2019 to +1.8% in 2020. This evolution was caused by the increase of the aggregate net result – from a net loss of 1,832.2 million lei in 2019, to an aggregate net profit of 918.1 million lei – while total revenues decreased by 10%. Private sector companies have had a similar evolution, increasing their aggregate profit margin from 5.7% in 2019 to 6.4% in 2020, amid the positive dynamics of economic activity that led to an increase in aggregate net profit by 10.5%. The differences between the operating margin and the profit margin are explained by the fact that the latter takes into account financial and extraordinary results. Therefore, due to the negative impact of interest expenses on the net income, the profit margin recorded lower values relative to the operating margin.

Excluding Top 5 companies, the indicator is in negative territory, at -8.3%, recording an improvement of 5 pp compared to the previous year.

Excluding Top 5 companies, after in 2017 the indicator recorded the only positive value of the analyzed period, the next two years recorded a rapid and substantial deterioration of the indicator, the profit margin falling to -5% in 2018 and then to -13.3% in 2019, this level representing the minimum of the analyzed period, while the year 2020 recorded an improvement of 5 pp compared to 2019.



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

The gross profit indicator per 1,000 employees experienced a significant improvement at the level of state-owned companies, registering a value of 6.7 million lei in 2020, compared to -1.4 million lei in 2019. This evolution was determined by the considerable increase in gross aggregate income, while the number of employees fell by

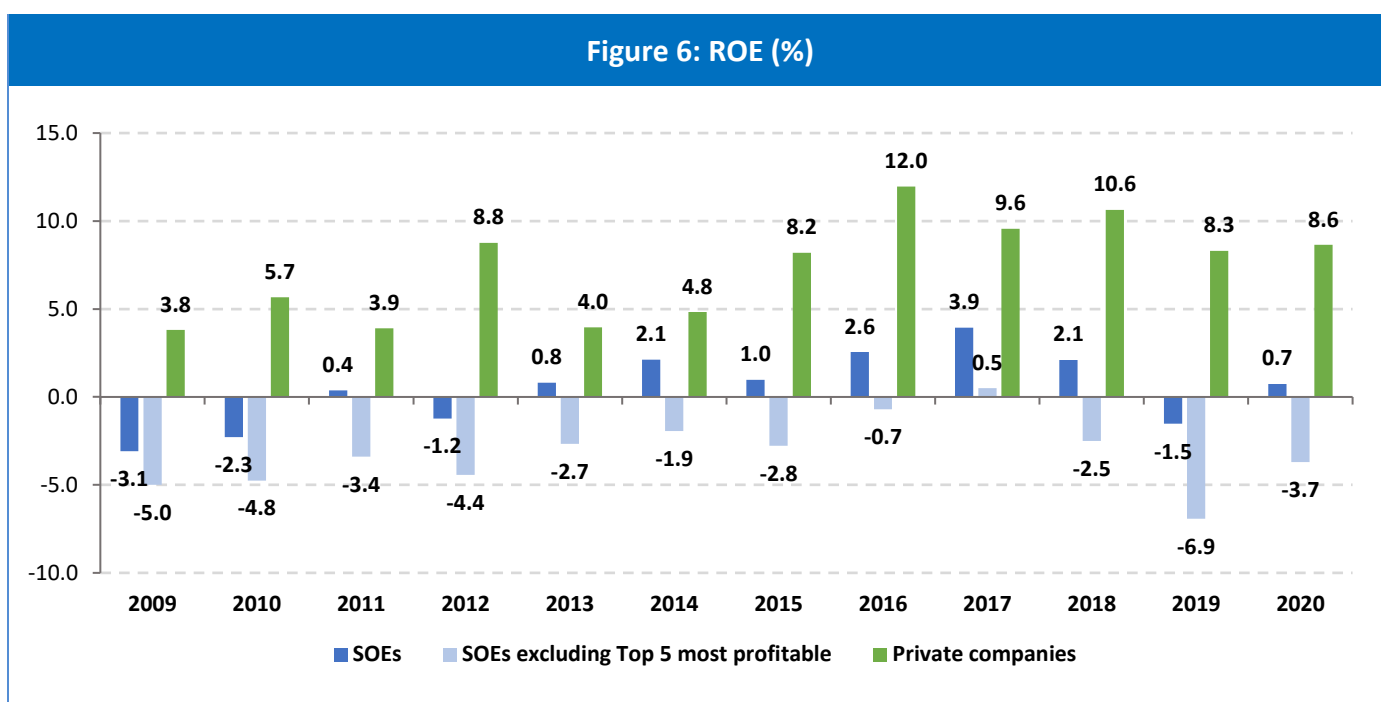
Gross profit per 1,000 employees is an indicator that measures the average profit generated by every 1,000 employees of the company, representing a measure of its efficiency in terms of using its own employees to maximize profit.

At the level of SOEs, the indicator experienced a significant improvement, registering a value of 6.7 million lei in 2020, compared to -1.4 million lei in 2019 (Figure 5). This evolution was determined by the considerable increase of the aggregate gross result – from a gross loss of 400.8 million lei in 2019, to a gross profit of 1,779.9 million lei in 2020, while the number of employees decreased by about 4.5%. Moreover, similar to the previous year, the level of gross profit per 1,000 employees

about 4.5%. Private companies have maintained an upward trajectory in terms of labor efficiency – from 28.5 million lei in 2019, to 31.8 million lei in 2020. Excluding Top 5 public companies, there is again an improvement of the indicator, from -19.7 million lei in 2019, to -11.9 million lei in 2020.

continued to be well below the level recorded by private companies that maintained an upward trajectory in terms of labor efficiency – from 28.5 million lei in 2019, to 31.8 million lei in 2020 – this value representing the maximum of the analyzed period.

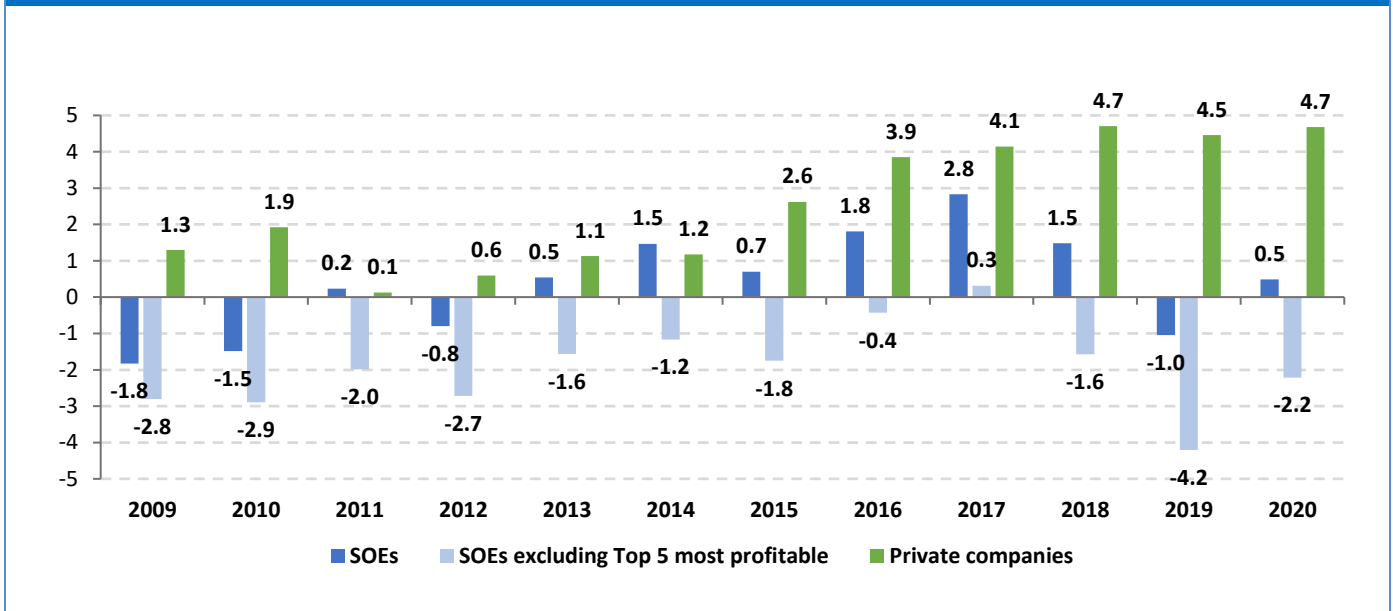
Excluding Top 5, there is again an improvement in the indicator, from -19.7 million lei in 2019 to -11.9 million lei in 2020, but remaining in negative territory.



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

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

Figure 7: 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

The return on equity of state-owned companies improved in 2020 compared to the previous year, mainly due to the increase in aggregate net income. Thus, ROE increased by 2.3 pp compared to 2019 to the value of 0.7%, significantly lower than private sector companies, which stood at 8.6%. Excluding the influence of Top 5 companies, the return on equity remains in negative territory, registering a value of -3.7%.

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

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

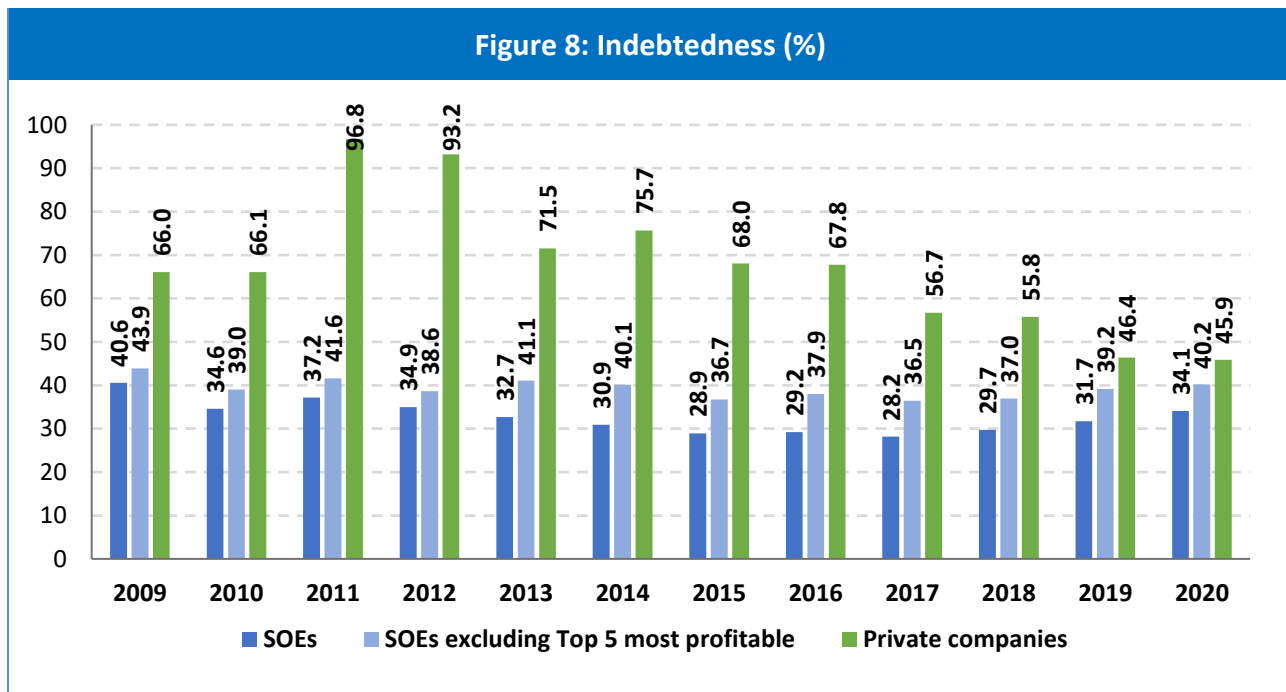
In 2020, as shown by the evolutions of other profitability indicators, there is an improvement in the performance of SOEs by increasing both rates of return caused mainly by the increase in aggregate net income, from a net loss of 1,832.2 million lei in 2019, at a net profit of 918.1 million lei. Thus, ROE reached the value of 0.7%, increasing by 2.3 pp compared to the previous year (Figure 6), while ROA reached 0.5%, from -1% in 2019 (Figure 7). The gap between the profitability of public and private companies remains high in 2020, with private companies

having a return on equity that is 7.9 pp higher than the public ones, while the return on assets was higher by 4.2 pp.

The return on assets experienced similar developments, public companies registering an increase from -1% in 2019, to 0.5% in 2020. Excluding Top 5 companies, ROA is also negative, standing at -2.2%. For the same period, the economic profitability of private companies increased by only 0.2 pp, from 4.5% to 4.7%.

Excluding the influence of the Top 5 most profitable state-owned companies, the two profitability indicators are located in negative territory, at -3.7% in the case of ROE and at -2.2% in the case of ROA, highlighting once again the importance of the most profitable 5 public companies.

With regard to private companies, both economic and financial profitability increased compared to the same period last year, by 0.3 pp in the case of ROE and by 0.2 pp in the case of ROA, amid the faster growth of net profit (+10.5%) compared to equity (+6.2%) and total assets (+5.2%).



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

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

The indebtedness of state-owned companies increased by 2.4 pp, compared to 2019, to 34.1% in 2020, but there is an uneven distribution of it,

Regarding the indebtedness of SOEs, reflected by the share of debt in total assets, it increased from 31.7% in 2019, to 34.1% in 2020 (Figure 8). The evolution is explained by the fact that the total assets of SOEs increased by 6.4%, while total debt increased by about 14.5%. The result is also influenced by the uneven

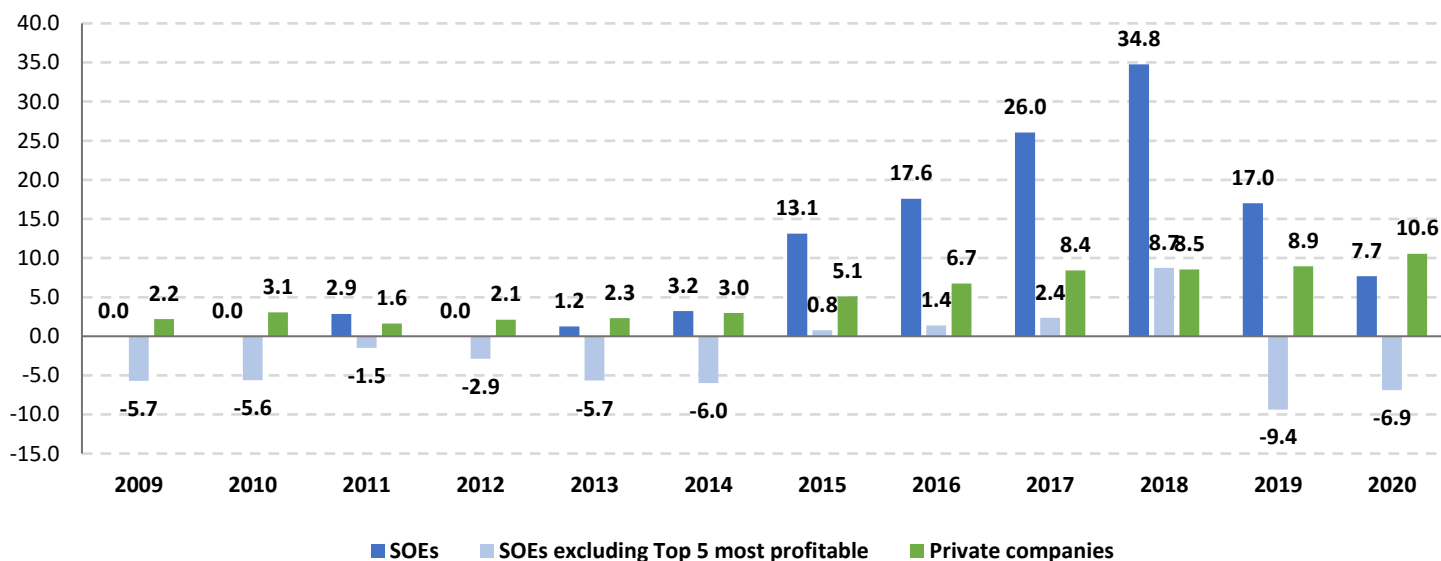
some companies having very small levels of debt, while others are heavily indebted. The evolution is explained by the fact that the total assets of state-owned companies increased by 6.4%, while total debt increased by about 14.5%.

distribution of indebtedness at the level of state-owned companies, among which are very large companies with a low degree of indebtedness. Excluding the five best performing state-owned companies, the debt level has a significantly higher value, of 40.2%, remaining, in turn, relatively close to the 2019 level (39.2%).

Overall, in 2020 the share of debt in total assets remains lower at the level of state-owned companies compared to private ones, but the latter are on a trend of improvement for this indicator.

In the case of private companies, the indicator reflects a higher indebtedness compared to that of state-owned companies, its level being 45.9%. This can express the easier access to financing as a result of economic performance. At the same time, it is noted that this level is lower than the one recorded in 2019 (46.4%). In conclusion, the analysis of the degree of indebtedness at the level of state-owned companies shows an increase of the indicator compared to 2019, while private companies exhibited an improvement, the value of the indicator decreasing by 0.5 pp.

Figure 9: Interest coverage ratio



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 2020, the interest coverage ratio of state-owned companies continued the downward trend of the previous year, reaching 7.7, from 17 in 2019. This evolution is due both to the reduction of the numerator by 40.4% compared to the same period last year, as well as the increase of the denominator (interest expenses) by 31.9%. Excluding Top 5, the interest coverage ratio for state-owned companies has a much lower value, down to a level of -6.9, corresponding to an improvement from -9.4 in 2019.

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 registered in the period 2014-2018 at the level of state-owned companies (from 3.2 to 34.8, the latter value representing the maximum of the analyzed period), the interest coverage ratio decreased significantly in 2020 to 7.7, the minimum level of the last 6 years (*Figure 9*). This evolution is due both to the reduction of the numerator (Current profit or loss + Financial profit or loss + Adjustments for provisions – Other revenues + Other expenses + Interest expenses – Interest revenues) by 40.4% compared to the same period of the last year, as well as the increase of the denominator (interest expenses) by 31.9%. Thus, it is found that CNAIR S.A. registered a significant decrease in the numerator, while Societatea Complexul Energetic OLTENIA S.A. has increased its interest expenses by over 20 million lei, making it the company with the highest such expenses, both in 2019 and in 2020.

Excluding Top 5, the interest coverage ratio for state-owned companies is much lower, down to a level of -6.9. This corresponds to an improvement from the level of -9.4 in 2019. Thus, against the background of the registration of losses at the level of state-owned companies, the evolution of the interest coverage ratio indicates a worsening of the solvency of these companies.

The interest coverage ratio for private companies has increased from 8.9 in 2019, to 10.6 in 2020. The increasing evolution of this indicator in the recent years has been supported by the favorable dynamics of operating income and net result.

The interest coverage ratio for private companies has increased from 8.9 in 2019, to 10.6 in 2020. The slightly increasing evolution of this indicator in the recent years was supported by the favorable dynamics of operating income and net result.

In 2020, the liquidity ratio of state-owned companies registered a slight increase compared to the previous year, reaching 109.7% from 106.4%, amid a more accelerated increase in current assets compared to short-term debt. Similar to 2019, it is noted that the level of the indicator is well below the level of private companies, which increased in 2020 to 199.5%, from 198% in the previous year.

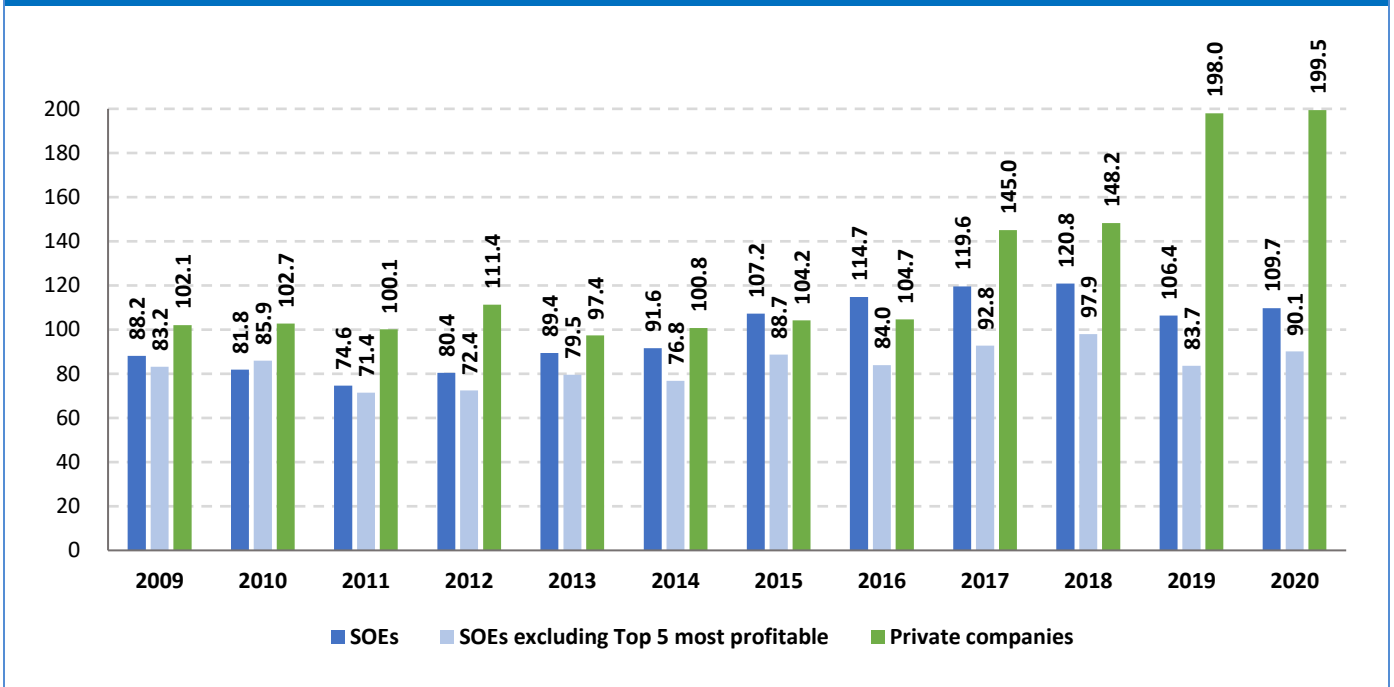
The current liquidity ratio is an indicator that measures a company's ability to pay its short-term liabilities using current assets. The higher this ratio, the greater the company's ability to pay its short-term liabilities, while a ratio below 1 may indicate that the company in question is unable to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

In 2020, the liquidity ratio of SOEs registered a slight increase compared to the previous year, reaching 109.7%, from 106.4% (*Figure 10*), amid a more accelerated increase in current assets (+18.8%) compared to short-term debts (+15.2%). Similar to 2019, the level of the indicator is significantly lower than the one recorded by private sector companies, which increased from 198% to 199.5%. However, it is found that both categories of companies have recorded levels of liquidity ratios that can be considered adequate, but the liquidity ratio of state-owned companies is close to the recommended threshold of 100%.

Excluding Top 5 companies, there is an improvement in the liquidity ratio from 83.7% to 90.1%, but it remains below the recommended threshold of 100%.

Excluding Top 5 companies in terms of profitability, there is an improvement in liquidity from 83.7% to 90.1%, but it remains below the recommended threshold of 100%.

Figure 10: 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

The ratio of new investments in state-owned companies fluctuated during the analyzed period, decreasing to 5.3% in 2020, compared to 5.8% in 2019. Excluding the Top 5 companies, the indicator is at a higher level of 6%, but it decreased by 0.8 pp compared to 2019.

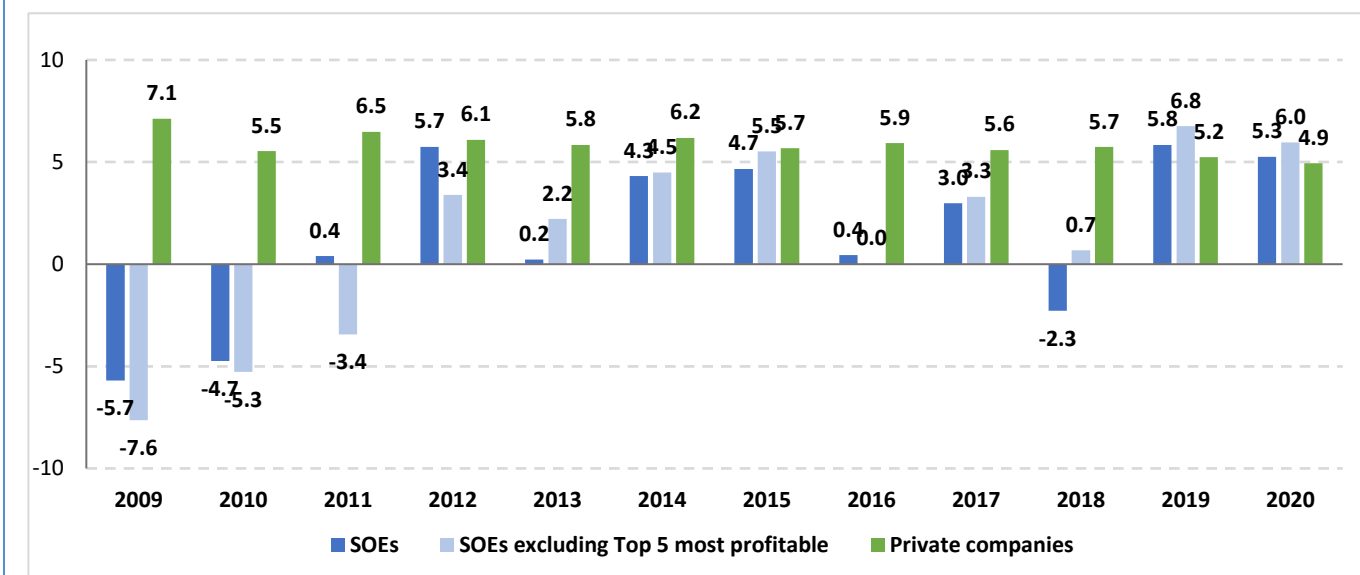
The ratio of new investments in state-owned companies fluctuated during the analyzed period, decreasing to 5.3% in 2020, compared to 5.8% in 2019 (Figure 11).

Excluding the 5 most profitable state-owned companies, the indicator is at a higher level of 6%, but it decreased by 0.8 pp compared to 2019.

In the case of private sector companies, the indicator also fell from 5.2% to 4.9%, remaining relatively stable from 2010 to 2020.

For private sector companies, the indicator also fell from 5.2% to 4.9%, remaining relatively stable from 2010 to 2020. At the same time, it should be noted that in the case of all companies included in the analysis, the ratio of new investments is still considerably lower compared to the pre-crisis period.

Figure 11: New investments (% of total assets)



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.

With the entry into force of the Government Emergency Ordinance no. 109/2011 on the corporate governance of public enterprises, there has been visible progress on increasing transparency and monitoring the activity of state-owned companies, materialized in increasing their performance between 2015 and 2018.

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

However, this progress was largely annulled by the implementation of the provisions of Law no. 111/2016, which drastically limited the scope of application of the principles of

In 2016, the process continued with new regulations on the promotion of corporate governance: Law no. 111/2016 approving GEO no. 109/2011, the establishment of a specialized directorate within the MF for supervising the implementation of the provisions of GEO no. 109/2011, monitoring the activity of public enterprises with the establishment of the obligation to report some performance indicators on the basis of which the

corporate governance, by significantly reducing the number of state-owned companies subject to this law. Practically, the provisions of GEO no. 109/2011 have not been applied to most state-owned companies since 2018.

In 2020, there was an increase in the transparency of reporting, which it is accessible to the public on the website of the ministries to which autonomous administrations and state-owned companies are subordinated.

MF prepares an annual report on the activity of public enterprises etc. A more recent regulation (Law no. 13/2019) also provides for the inclusion of a representative of the MF in the Board of Directors of the autonomous administrations.

In 2020, an increasing number of ministries complied with the provisions of art. 58 of GEO no. 109/2011 on reporting obligations according to which the annual report on the activity of autonomous utilities and companies is prepared by the public guardianship authority and published on its website. However, it is noted that, initially, according to GEO no. 109/2011, the set of performance indicators on corporate governance was much more complex¹⁴.

In fact, by applying Law no. 111/2016¹⁵ were exempted from the application of the provisions on corporate management of GEO no. 109/2011 dozens of companies and institutions¹⁶ in the field of defense, energy, chemical industry, road infrastructure etc. Thus, the diminishing commitment to the principles of corporate governance based on professionalism, integrity, transparency and accountability, vital for increasing the value of state-owned companies in the medium and long term, has contributed to reversing the upward trend in state-owned companies' performance over the past two years. To this was added the imposition of the obligation to distribute dividends to the state of at least 90% of net profit, to meet the budget deficit target, which significantly affected the investment capacity and,

¹⁴ With reference to: the elaboration of the evaluation models of the executive management and the implementation of the evaluation process and of the remuneration policy of the general manager; implementing the code of ethics, the code of corporate governance and ensuring transparency in relation to public information; establishing, reviewing and monitoring performance indicators at the level of the public enterprise.

¹⁵ The regulation of corporate governance has been amended several times in the period 2016-2018 by a series of Orders of the Minister of Finance.

¹⁶ 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.

implicitly, the long-term development of the most profitable state-owned companies.

The OECD report shows for Romania that the presence of low-performing companies distorts the allocation of resources, being necessary to improve the regulatory framework and increase the competitiveness of companies. Given the recommendations of international financial institutions to strengthen progress in applying the principles of corporate governance in public enterprises, it is necessary to return to the initial scope of state-owned companies, prior to the implementation of the provisions of Law no. 111/2016.

The influence of state-owned companies on the budget balance according to ESA 2010 standards was positive between 2013 and 2019, except for 2018 when their contribution was negative, but of small amplitude. In 2020, state-owned companies at the level of central public administration had a positive contribution, but state-owned companies at the local level

Moreover, the OECD Romania 2022 Report¹⁷ shows that the presence of low-performing companies distorts the allocation of resources and that increasing competition and improving the regulatory framework can boost productivity in the economy. Consequently, it is necessary to return to the initial scope of coverage of state-owned companies and apply the principles of corporate governance of public enterprises, respectively, to the situation prior to the implementation of the provisions of Law no. 111/2016, by which most state-owned companies were exempted from the application of corporate management. This goal is all the more important given that the Government wants to maintain decision-making control through majority stakes in companies of national strategic interest.

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

¹⁷ https://read.oecd-ilibrary.org/economics/oecd-economic-surveys-romania-2022_e2174606-en#page15.

registered a negative contribution, so that, overall, the contribution of state-owned companies represented only 0.01% of GDP.

except for 2018¹⁸, ranging from 0.5% of GDP in 2014 to 0.2% of GDP in 2015, 0.23% of GDP in 2017 and only 0.05% of GDP in 2019. In the case of state-owned companies included in the local government, their contribution to the evolution of the budget balance in ESA 2010 standards was relatively small, alternating between negative values (2014, 2016 and 2019) and positive ones (2015, 2017 and 2018), being recorded mainly at the level of “other local units” in the last 3 years.

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

	2016	2017	2018	2019	2020
1. Total companies at central level	1,344.82	1,830.02	-419.97	778.80	280.44
C.N. de Căi Ferate C.F.R. S.A.	524.4	1,551.2	-85.3	18.6	-154.9
C.N. de Autostrăzi și Drumuri Naționale	463.6	30.9	-110.9	465.3	426.4
S.N.T.F.C. C.F.R. Călători S.A.	-4.8	5	-103.7	-23	-211.5
COMPANIA NAȚIONALĂ DE INVESTIȚII S.A.	-13.9	60.3	0.7	111.1	-169.1
S.N. RADIOCOMUNICAȚII S.A.	63.24	117.8	83.2	33.1	31.8
SOCIETATEA DE ADMINISTRARE A PARTICIPAȚIILOR ÎN ENERGIE S.A.	29.3	4.3	-31.7	-0.9	377.3
SOCIETATEA ROMÂNĂ DE TELEVIZIUNE	50.97	88.18	15.53	60.70	52.3
SOCIETATEA ROMÂNĂ DE RADIODIFUZIUNE	25.13	12.23	-7.00	0.70	15.2
S.N. Aeroportul Internațional Mihail Kogălniceanu	-0.4	1.9	-4.9	-1	-1.6
C.N. Administrația Canalelor Navigabile Constanța S.A.	83.7	-24.2	-40.5	-7.5	6.5
Administrația fluvială Dunărea de Jos Galați	18.74	-17	13.6	-18.9	33.3
Fondul Proprietatea	0	0	0	0	0
Institutul Național de Cercetare-Dezvoltare pentru Chimie și Petrochimie	-1.7	-10	-4.1	-2.1	-2.0
S.N. ÎNCHIDERI MINE VALEA JIULUI S.A.	10.44	7.3	4.6	4.9	18.0
S.C. ELECTROCENTRALE GRUP S.A.	-0.1	2	-0.4	-1.5	-3.7
R.A. TEHNOLOGII PENTRU ENERGIE NUCLEARĂ	1.3	1.3	-0.1	-2.1	1.0

¹⁸ Small-scale negative contribution, respectively, - 0.01% of GDP, mainly due to C.N. of Railways C.F.R. S.A.

S.C. CONVERSIM S.A.	-1.5	-1.7	-0.5	-1	
S.N. C.F.R. R.A.	-0.2	-0.6	-0.1	-0.1	-0.1
S.C.T.M.B. Metrorex S.A.	96.6	1.1	-148.4	142.5	-138.5
2. Total companies at local level	-98.4	164.6	286.5	-295	-123.8
Local airports	-53.3	50.8	53.5	24.3	4.1
Heating stations with local subordination	-28.4	-20.7	-36.1	-20.8	-9.6
Other local units	-16.7	134.5	269.1	-298.5	-118.3
3. Total SOEs	1,246.42	1,994.62	-133.47	483.80	156.64
% of GDP	0.16	0.23	-0.01	0.05	0.01

Source: NIS

Conclusions

Following the analysis of the main economic and financial indicators of state-owned companies in Romania, it appears that their profitability has improved, from an accounting point of view, during 2020, even in the context of the shock generated by the impact of the COVID-19 pandemic. However, the economic and financial measures adopted by the state to improve the economic situation of state and private companies contributed decisively to this accounting result, which included: postponement of payment of certain taxes, payment of technical unemployment, settlement of a part of the gross salary for employees maintained in employment, the provision of state guarantees for certain corporate loans, bonuses for the payment of taxes in case of early payment, investment credit guarantee schemes ("IMM Invest Romania" and "IMM Leasing"). The total amount of schemes that involved financing the expenses of some companies from the public budget, with a direct impact on their profitability, was at least 8 billion lei throughout the economy, thus distorting the accounting results of companies at least with these amounts. In addition, the other measures adopted by the State indirectly supported the activity of companies and their economic and financial performance. Without all the support measures, the deterioration of the companies' financial performance would have been visible. In other words, although the key factors were likely to lead to a lower performance of the companies, the financial support from the state made the financial statements seem to indicate a more favorable position. In this context, it remains to be seen how the performance of companies will evolve in the future, after the withdrawal of financial support received from the state.

Thus, if in 2019 the state-owned companies registered an aggregate net loss of 1.8 billion lei, the year 2020 recorded a return to positive territory to a total net profit of 0.9 billion lei. The seemingly favorable evolution of the net result in nominal terms is found both at the level of the Top 5 most profitable state-owned companies – increase of the net profit from 3.7 billion lei to 4.2 billion lei –, and especially at the level of the others companies – decrease in aggregate loss from 5.5 billion to 3.3 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 has led to an improvement in most of their performance indicators, such as profit margins, financial and economic rates of return etc., **but it should be noted that**

gross value added and labor productivity have decreased in 2020. Regarding the arrears of state-owned companies, they increased significantly by 33.6% (+5.6 billion lei) compared to the previous year, to the level of 22.2 billion lei (representing 24.1% of the total outstanding payments in the whole economy, compared to 19.3% in 2019). It should be noted that about two-thirds of the increase in their volume, compared to the previous year, is located at two companies, S.N.T.F.M. CFR Marfă S.A. and C.N. Unifarm S.A., being attributable to an EC decision regarding the incompatibility of the state aid granted to CFR Marfă in 2013, respectively, to a faulty management regarding the management of stocks in the case of Unifarm. Against the background of the support measures granted by the state, the private sector companies also registered an apparently increasing profitability with favorable evolutions, but of smaller dimensions, at the level of almost all the economic-financial indicators. On the other hand, contrary to the evolution registered by the state companies, the arrears of private companies remained almost unchanged compared to the level registered in 2019 (+0.1 billion lei).

In the period 2015-2018, the improvement of the economic and financial performance of state-owned enterprises was also favored by the legislative reforms materialized by the entry into force of GEO no. 109/2011 on the corporate governance of public enterprises. However, despite the progress made, in 2018 a series of amendments were implemented which led to the exemption of most state-owned companies from the application of the provisions of GEO no. 109/2011, abolishing *de facto* the application of corporate governance practices at their level. **The decrease in the commitment to the principles of corporate governance based on professionalism, integrity, transparency and accountability was felt probably, starting with 2019, by the decline of most performance indicators of state-owned companies. Thus, although these indicators have improved during 2020, their levels continue to be significantly below the values recorded in 2018, both in terms of aggregate net profit (1.7 billion lei lower in nominal terms) , as well as in terms of the main rates of return (unfavorable gap of 1.4 pp in the case of ROE and 1 pp in the case of ROA), the risk indicators being, in turn, deteriorating compared to 2018 (increase by 4.4 pp of the degree of indebtedness, decrease by 11.1 pp of the liquidity ratio, respectively the decrease by 4.5 times of the interest coverage ratio).** In this context, it is necessary to return to the initial scope of coverage of state-owned companies in terms of the application of corporate governance of public enterprises, respectively to the situation prior to the implementation of the provisions of Law no. 111/2016. This goal is all the more important given that the Government wants to maintain decision-making control through majority stakes in companies of national strategic interest.