

Analysis of the economic and financial performance of Romania's state owned companies in 2017

A potential risk for the fiscal sustainability on the medium term is represented by the accumulation of losses and arrears in the sector of companies where the state is the major shareholder, because if these companies fail to streamline their activity, the Government will eventually be forced to intervene with public resources, which may lead to a deterioration of public finances, respectively increasing the budget deficit. The present report analyzes the economic and financial performance of Romanian state owned companies in 2017 on the basis of the annual financial statements submitted by all companies to the Ministry of Public Finance (MPF).

The analysis was made on 807 state companies, lesser compared to 916 companies in 2016, but the eliminated companies are mainly limited liability companies. However, the results of the study are expected to be comparable to those obtained in the previous years.

At the end of 2017¹, 1,795 companies reported in their annual financial statements that they belong to the SOEs' category. Following a rigorous analysis of their form of organization, the object of activity and the structure of capital holdings, it was noticed that many companies mistakenly registered their membership to the state-owned sector, the vast majority of them (over 600) claiming to be autonomous administrations. After correcting these errors, the final number of SOEs included in the analysis was 807, down from 916 companies in 2016. However, given that the eliminated entities are predominantly limited liability limited companies, the results of this study are expected to be comparable to those obtained in the previous years.

Also, in order for the results of the study to accurately reflect the economic and financial performance of Romanian state-owned companies, the sample of analyzed companies was adjusted in order to eliminate the effect of conjunctural factors.

At the same time, in order for the analysis to correctly reflect the economic and financial performance of the state-owned companies in Romania, two companies from the sample considered for 2017 were eliminated: Societatea de Administrare a Participațiilor în Energie (SAPE) and Societatea Română de Televiziune (SRT). These entities significantly distort the profitability analysis of the state-owned companies as SAPE received 401.2 million euro from the Enel group² in April 2017, and SRT benefited from a substantial increase of the subsidy granted by the Romanian state (from 95 million lei in 2016, to 946 million lei in 2017) due to the elimination

¹ According to data submitted by MPF on August 3, 2018, so that the analysis does not include those companies that had not yet transmitted until this date their financial statements for the year 2017.

² Following the February 2017 verdict of the International Court of Arbitration in Paris.

of the radio-TV fee, but also for the purpose of repaying the historical debts of the public television. According to the approved budget for 2018 and the estimates for the 2019-2021, the increase of the subsidy granted to SRT was temporary and should stabilize at around 440 million lei. Thus, since the net profits obtained by the two companies are the result of conjunctural factors (without expressing an effective improvement of their profitability) that led to an artificial increase of the total net profit of state companies by almost 2.4 billion lei, justifies the elimination of these two companies from the 2017 analysis.

A similar situation was recorded in 2015 when Oltchim S.A. has achieved a profit on paper of more than 2.3 billion lei (representing almost 48% of the total profit of state-owned companies), as a result of the cancellation of a significant part of the debts. Also, in this case it was appropriate to exclude the profit recorded by Oltchim from the 2015 analysis.

The total revenues of state-owned companies increased by around 8.3%, while private firms reported higher revenues by about 7.9%. Positive developments were recorded in the case of turnover and gross added value, the state companies managing to maintain or even improve their contribution to the economic activity.

Amid strong economic growth in 2017, the total revenues³ of the public companies included in the analysis increased by about 3.8 billion lei (+8.3%) from 46.6 billion lei in 2016 to 50.4 billion lei in 2017. This upward trend was supported by the increase of the total turnover of the companies in the analyzed sample by about 4 billion lei (+8.8%). A similar evolution was registered for the whole private sector companies, which registered an advance of 7.9% in the case of total revenues, respectively of 7.7% for the turnover. Positive trends were also noticed in the gross added value (+10.3% for state-owned companies, +7.4% for private companies). Thus, on the background of similar or even higher developments compared to the private sector, the state companies have slightly improved their contribution to the economic activity in Romania (3.68% of total revenues, respectively, 9.36% of total gross value added).

Labor productivity in state-owned companies exhibited an increasing trend during

The number of employees in SOEs experienced a continuous decrease since 2011, reaching about 273 thousand persons at the end of 2017 (-8 thousand persons, representing a

³Total revenue is represented by the indicator *production of the exercise*, calculated as the sum of the sold output, the stored output and the revenues from the production of fixed assets.

the period under review, and in 2017 it grew by 8.7% compared to the previous year. It should be noted that this positive trajectory was mainly achieved by reducing the number of employees in the public sector.

decrease of about 3% compared to the previous year), while the gross value added had a predominantly increasing trajectory over the same timeframe. In real terms⁴, the gross value added appreciated by 5.5% compared to 2016, but its level remains 2.1% lower than the one recorded in 2008 (the maximum level of the considered period). Under these conditions, labor productivity in SOEs increased by 8.7% in 2017, reaching the peak value for the 2008-2017 period, and at the same time being almost 40% higher than in 2008, mainly due to the significant reduction of the number of employees (by about 117 thousand people).

Supported by Romania's high economic growth rate in 2017, the total net profit of state-owned companies maintained its upward trend, recording the peak of the post-crisis period.

In what concerns the profitability of SOEs, measured through the total net profit, it reached a value of 4.818 million lei in 2017 (+ 1.7 billion lei as compared to the previous year) which denotes the maximum level recorded during the post-crisis period. It is worth noting that this result was achieved after eliminating the net profits obtained by SAPE and SRT which would have added a surplus of almost 2.4 billion lei. Therefore, it can be appreciated that the aggregate profitability of SOEs experienced a significant improvement in 2017 (continuing the trend from recent years) and this evolution was favored by the fact that Romania recorded the highest economic growth rate in the post-crisis period.

The analysis carried throughout the period under review highlighted the fact that a small number of companies with substantial profits significantly influence the aggregate results of the public sector companies. In this context, in order to highlight more accurately the evolution of the overall financial performance of state-owned companies, the present

The profitability of SOEs can be further analyzed by highlighting separately the top five companies in terms of net profit (Top 5 - presented in [Table 2](#)). Thus, the companies included in Top 5 have recorded significant profits over the last 6 years, increasing almost every year from 2,010 million lei in 2012 to 4,438 million lei in 2017 (+22.6% compared to the previous year). It is worth mentioning S.P.E.E.H. Hidroelectrica S.A., S.N.G.N. Romgaz S.A. and S.N.T.G.N. Transgaz S.A. Mediaș which had a continuous presence in the Top 5 during the last five years (2013-2017).

Eliminating the influence of Top 5 companies, it can be noticed that the rest of SOEs recorded aggregate net losses during the period under review, with the only exception being the year 2017. However, comparing the overall net profit of

⁴ The price index used for expressing the gross value added in real terms is the GDP deflator (2010 = 100).

study will consider separately both the aggregate values and those obtained by excluding the five most profitable companies - Top 5.

SOEs excluding Top 5 (380 million lei) to the aggregate net profit of the Top 5 companies (4.438 million lei), it becomes clear that a small number of companies with substantial profits has a significant impact on the results of the analysis. In this context, in order to highlight more accurately the evolution of the financial performance of the whole SOE sector, the present analysis is conducted both at the aggregate level and by eliminating the influence of Top 5 companies.

The development of the main economic and financial indicators of the Romanian SOEs is presented in [Table 1](#).

Table 1: The evolution of the main financial and economic indicators of Romanian companies from the non-financial sector

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	
Number of companies	SOEs	718	774	791	1,048	1,006	1,151	1,155	1,143	916	807
	All companies, non-financial sector	663,860	602,190	613,080	644,379	630,066	657,500	643,644	647,872	677,843	692,966
	Share of SOEs in all companies	0.11%	0.13%	0.13%	0.16%	0.16%	0.18%	0.18%	0.18%	0.14%	0.12%
Total income, mil. lei	SOEs	56,660	50,756	55,022	58,511	49,853	51,208	44,487	48,578	46,586	50,432
	All companies, non-financial sector	977,619	845,396	920,600	1,056,190	1,072,777	1,101,386	1,113,445	1,186,900	1,269,290	1,369,313
	Share of SOEs in all companies	5.80%	6.00%	5.98%	5.54%	4.65%	4.65%	4.00%	4.09%	3.67%	3.68%
Gross value added, mil. lei	SOEs	21.744	20.454	22.881	24.202	22.339	25.131	25.220	26.687	26.143	28.845
	All companies, non-financial sector	203.875	189.633	195.849	196.151	197.392	233.734	255.957	260.530	286.190	308.113
	Share of SOEs in all companies	10.67%	10.79%	11.68%	12.34%	11.32%	10.75%	9.85%	10.24%	9.13%	9.36%
Gross value added in real terms, mil. lei (constant prices 2010)	SOEs	23,406	21,177	22,881	23,268	20,527	22,399	22,093	22,784	21,726	22,912
Employees, thousands of persons	SOEs	390	364	364	343	327	321	297	291	281	273
	All companies, non-financial sector	4,618	4,019	3,962	4,040	3,898	4,016	3,882	3,959	4,078	4,055
	Share of SOEs in all companies	8.44%	9.05%	9.19%	8.49%	8.40%	8.00%	7.64%	7.36%	6.89%	6.73%
Labor productivity mil. lei /1,000 employees (constant prices 2010)	SOEs	60,07	58,22	62,83	67,84	62,72	69,73	74,44	78,19	77,30	84,00
Net profit, mil. lei	SOEs	(1,996)	(3,443)	(2,900)	436	(1,425)	938	2,401	1,200	3,108	4,818
	SOEs, excluding Top 5	(4,210)	(4,573)	(4,508)	(2,926)	(3,436)	(1,787)	(1,323)	(2,034)	(513)	380
	Private companies	13,540	11,399	18,736	1,389	6,872	12,678	17,020	31,088	48,251	63,150
Arrears, mil. lei	SOEs	17,294	34,405	28,012	26,251	25,363	26,217	24,370	21,226	23,232	21,599
	Private companies	53,127	62,406	69,193	88,882	91,536	99,052	93,508	94,875	89,390	73,758
	Share of SOEs in all companies	24.56%	35.54%	28.82%	22.80%	21.70%	20.93%	20.67%	18.28%	20.63%	22.65%
Arrears, % of GDP	SOEs	3.21%	6.54%	5.29%	4.67%	4.26%	4.13%	3.64%	2.98%	3.03%	2.52%
Arrears, % of net turnover	SOEs	31.08%	68.90%	51.96%	45.62%	51.61%	52.10%	55.65%	44.60%	50.71%	43.32%

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

Table 2: Top 5 SOEs with the largest net profits

Top 5 net profit in 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. MEDIAȘ	582.06	3 S.N.T.G.N. TRANSGAZ S.A. MEDIAȘ	594.56	3 S.N.T.G.N. TRANSGAZ S.A. MEDIAȘ	488.73
4 COMPANIA NATIONALĂ AEROPORTURI BUCUREȘTI S.A.	337.55	4 COMPANIA NATIONALĂ 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
Top 5 net profit in 2014		Top 5 net profit in 2013		Top 5 net profit in 2012	
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.	1,409.88	1 S.N.G.N. ROMGAZ S.A.	995.55	1 S.N.G.N. ROMGAZ S.A.	1,244.05
2 S.P.E.E.H. HIDROELECTRICA S.A.	941.54	2 S.P.E.E.H. HIDROELECTRICA S.A.	718.83	2 S.N.T.G.N. TRANSGAZ S.A. MEDIAȘ	329.31
3 S.N.T.G.N. TRANSGAZ S.A. MEDIAȘ	502.52	3 S.N. NUCLEARELECTRICA S.A.	423.39	3 C.N.A.D.N.R. S.A.	174.14
4 SOCIETATEA UZINA MECANICĂ CUGIR S.A.	442.01	4 S.N.T.G.N. TRANSGAZ S.A. MEDIAȘ	334.49	4 COMPANIA NATIONALĂ DE CĂI FERATE CFR S.A.	144.65
5 C.N.A.D.N.R. S.A.	428.61	5 C.N.A.D.N.R. S.A.	253.19	5 COMPLEXUL ENERGETIC OLTENIA S.A.	118.33
Total	3,724.56	Total	2,725.46	Total	2,010.47

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

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

The evolution of arrears⁵ accumulated by SOEs displays a general tendency to diminish their volume after reaching a peak of 34.4 billion lei in 2009. As for the share of SOEs' arrears in total outstanding payments across the economy, over the last 7 years it has been stabilized around 21%. On the other hand, this weight is well above the contribution made by SOEs to the economic activity in Romania (an average share of 4.3% of the total revenues and 10.4% of the total gross value added), indicating a chronic problem of arrears in the public sector.

The arrears of state-owned companies as a share of GDP and of the total net turnover exhibited a general downward trend since 2009, at the end of 2017 being recorded the lowest level of their share in GDP over the analyzed period.

A similar evolution is also found when analyzing the share of state-owned companies' arrears in GDP, respectively in total net turnover. After reaching the maximum levels of the analyzed period in 2009, the two indicators entered a general downward trend with slight discontinuities, the most important being manifested in 2016 when both weights recorded increasing values. However, the increase was only temporary and the decreasing trend resumed in 2017 when SOEs' arrears reached the lowest level of their share in GDP over the analyzed period. Thus, supported by the strong economic growth, 2017 saw a reduction in public sector arrears of over 1.6 billion lei to 21.6 billion lei, representing 2.5% of GDP and 43.3% of total net turnover. The downward evolution of SOEs' arrears was also driven by the measures⁶ instituted through the two balance of payments agreements that were signed with international financial institutions (EC, IMF and WB).

In 2017, almost half of the arrears of state-owned companies were due to the general consolidated budget and about 36% represented

Analyzing the structure of SOEs' arrears in 2017 (presented in *Figure 1*), it can be observed that most outstanding payments are due to the general consolidated budget, representing 10.6 billion lei (almost half of total arrears). Compared to the previous year, SOEs' arrears to the general consolidated

⁵ According to MPF, companies' arrears are delayed payments to banks, the state budget, the social security budget, suppliers and other creditors by more than 30 days against the contractual or legal terms, that generate payment obligations.

⁶ 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.

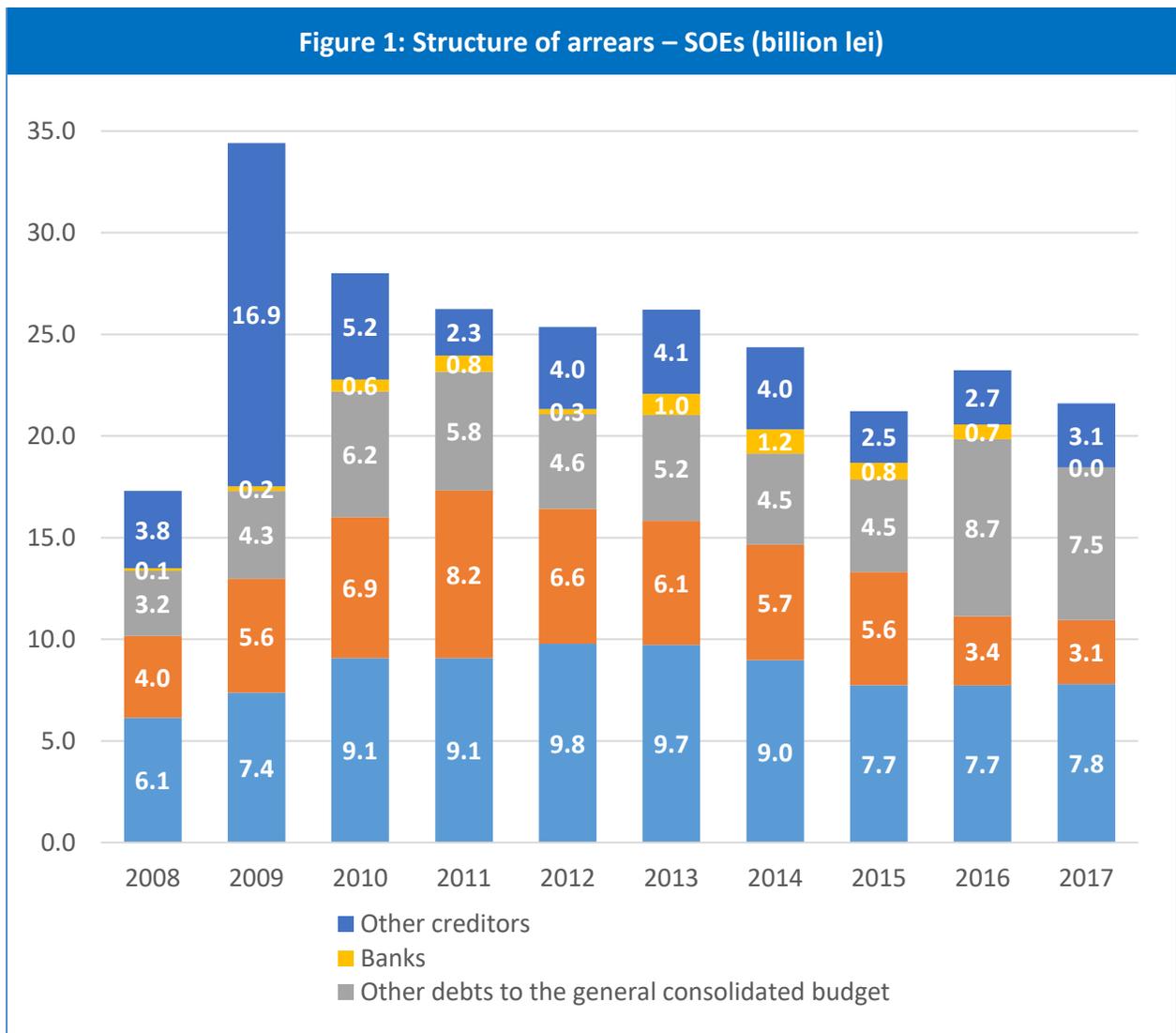
overdue payments to suppliers. The decrease of overdue payments by 1.6 billion lei, as compared to the previous year, was mostly driven by the reduction of arrears to the general consolidated budget, the changes observed in arrears to other categories of creditors being very small.

budget decreased by about 1.5 billion lei, this decrease being manifested both in the case of outstanding payments to the social security budget (-0.3 billion lei) and in the case of overdue payments to the other budgets (-1.2 billion lei). Suppliers rank second in the hierarchy of SOEs' arrears, the amount due to them being 7.8 billion lei (representing about 36% of total arrears) which is slightly higher than in 2016.

In what concerns arrears to the banking sector and other creditors, since 2017 the F30 financial reporting form no longer provides information on overdue loan and interest payments, resulting in the unavailability of data on arrears to the banking sector. Thus, corroborating the elimination of this category (which recorded arrears of 0.7 billion lei in 2016) with a corresponding increase of overdue payments to other creditors⁷ by almost 0.5 billion lei, it can be appreciated that no significant changes occurred within these categories of arrears.

Concluding the analysis of the structure of SOEs' arrears, it is worth noting that their reduction by over 1.6 billion lei, compared to 2016, was mostly driven by the decrease of arrears to the general consolidated budget, the changes observed in arrears to other categories of creditors being very small.

⁷ Given the removal of a category of arrears from the financial reporting form, it is expected that its values will be aggregated in the category of overdue payments to other creditors.



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

Note: Arrears to banks are computed as the sum of overdue loan and interest payments

In the case of private companies, arrears to suppliers have the highest share (55% of total arrears), followed at a considerable distance by overdue payments to the general consolidated budget (19% of total arrears).

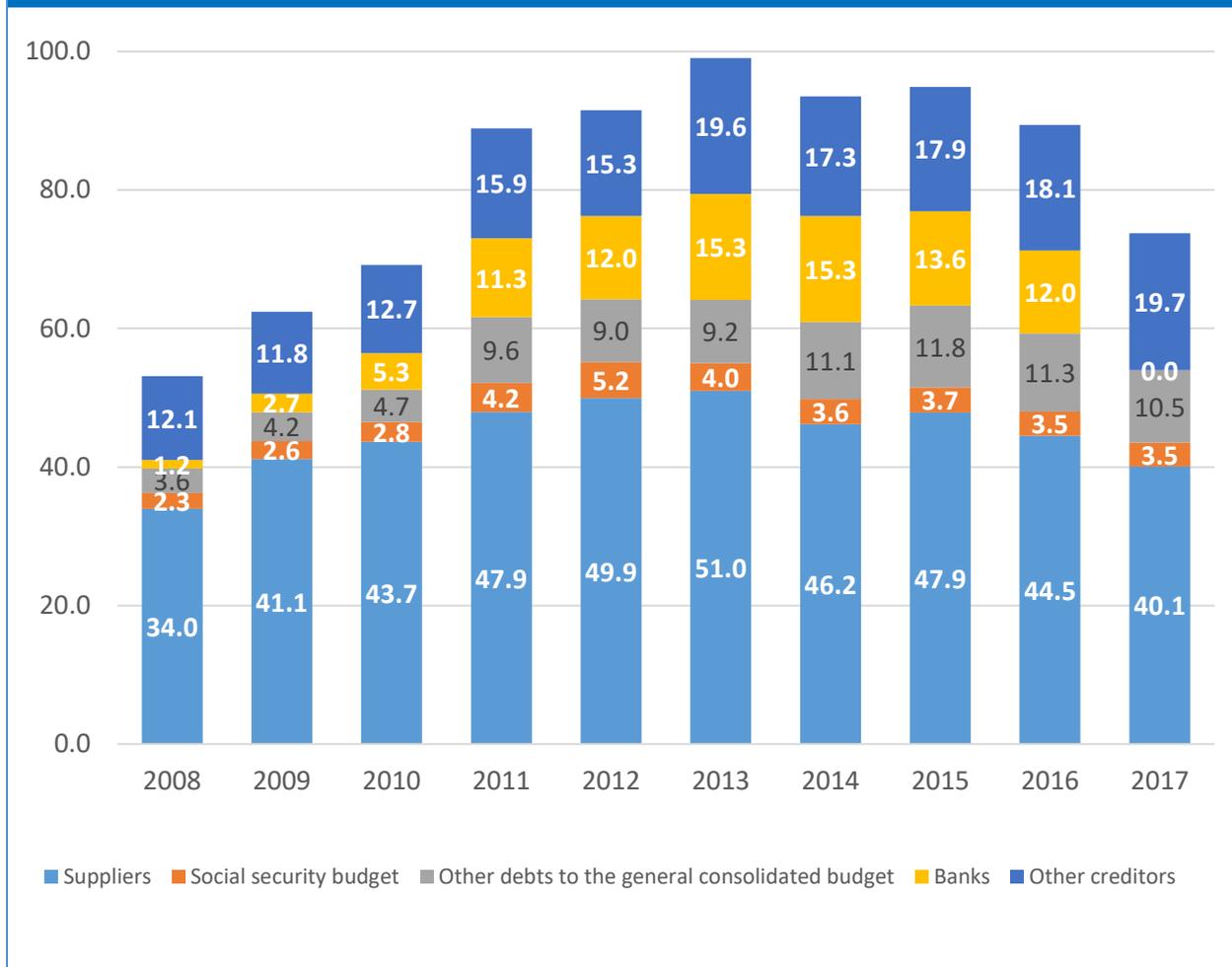
The analysis of the structure of private companies' arrears in 2017 (presented in [Figure 2](#)) shows that they have the highest volume of overdue payments to suppliers, amounting to 40.1 billion lei (almost 55% of total arrears), more than half of which were late payments for more than a year. As compared to 2016, the evolution was favorable, the arrears of private companies towards suppliers diminishing by 4.4 billion lei, the most significant decrease (-3.6 billion lei) being registered in the case of arrears with a duration longer than a year. The second place, at a considerable distance, belongs to arrears towards the

general consolidated budget which amount to 14 billion lei (representing about 19% of total arrears). They also decreased by 0.9 billion lei in 2017, this evolution being determined by the reduction of arrears to the general consolidated budget (excluding the social security budget) by 0.8 billion lei.

Since data on arrears to the banking sector is no longer available, due to changes in the F30 financial reporting form, the substantial reduction in the overall level of private companies' arrears raises serious questions as it could be the consequence of erroneous reporting.

In what concerns the unavailability of 2017 data on arrears to the banking sector, there appears to be a significant impact on the overall level of private companies' arrears. While overdue payments to the banking sector amounted to 12 billion lei in 2016, it is unclear if they have been taken over in 2017 to the category of arrears to other creditors which increased by only 1.6 billion lei compared to the previous year. Therefore, the aggregate level of private companies' arrears recorded a major decrease in 2017 compared to 2016 (-15.6 billion lei, corresponding to -17.5% in relative terms). This decrease could be the result of a substantial repayment of arrears to the banking sector (but since the other categories of arrears did not exhibit a similar behavior, the explanation does not seem plausible) or is the consequence of erroneously reporting the outstanding payments by a significant number of companies which completely eliminated arrears to the banking sector from their reports. Thus, considering that the analysis of private companies' arrears can lead to unrealistic conclusions, the present study mainly follows the evolution of SOEs' arrears, avoiding comparisons with the private sector and the analysis of the total volume of arrears in the Romanian economy.

Figure 2: Structure of arrears – Private companies (billion lei)



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

Note: Arrears to banks are computed as the sum of overdue loan and interest payments

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

By proceeding to a more detailed analysis of the arrears of SOEs were identified the first 10 companies ranked in terms of outstanding payments (Top 10 – presented in [Table 3](#)). They have accumulated almost 74% of the total arrears of SOEs and belong predominantly to the mining sector, the distribution of heat sector and the chemical industry. Comparing Top 10 from the last three years, it is noted that seven companies were present every year in the ranking, which may indicate the chronicity of arrears for some companies and industrial sectors. During the 2015-2017 period, at a considerable distance from the rest of the ranking, Compania Națională a Huilei ranked in

almost 74% of the total arrears of SOEs, and the outstanding payments of the company from the first place accounted for 25 of the total. Another worrying aspect is that many companies find themselves in Top 10 every year, indicating a chronicity of the issue of arrears in some sectors.

the first place every year, its outstanding payments accounting for 34% of the Top 10's total arrears, respectively 25% of the total outstanding payments of SOEs.

Concerning the Top of arrears to the general consolidated budget (also presented in [Table 3](#)), there is also a persistency, four companies being in the ranking in each of the last three years. Also is maintained the prevalence of the companies within the mining and heat distribution sectors, but compared to the above presented Top 10, the affected industrial sectors are more diversified. On the other hand, in the case of arrears to the general consolidated budget the concentration degree is higher, with the first 10 companies accumulating more than 83% of the total arrears of SOEs to the general consolidated budget. At the same time, Compania Națională a Huilei (still ranking the first position in each of the three years) is characterized by a volume of arrears to the general consolidated budget accounting for almost 61% of the total of the Top 10 companies and almost 51% of the total of SOEs.

Table 3: Top 10 SOEs with the largest arrears

Top 10 arrears in Dec. 2017

	Company name	Arrears (mil.lei)
1	COMPANIA NAȚIONALĂ A HUILEI S.A. ÎN LICHIDARE	5.413,69
2	RADET BUCUREȘTI	3.655,64
3	ELECTROCENTRALE BUCUREȘTI S.A.	1.752,02
4	S.C. COMPLEXUL ENERGETIC HUNEDOARA S.A.	1.180,64
5	S.C. OLTCHIM S.A.	1.145,41
6	S.N.T.F.M. CFR MARFĂ S.A.	837,35
7	COMPANIA NAȚIONALĂ A METALELOR PREȚIOASE ȘI NEFEROASE REMIN S.A.	582,70
8	SOCIETATEA NAȚIONALĂ A CĂRBUNELUI S.A.	550,48
9	APATERM S.A.	410,90
10	C.E.T. GOVORA S.A.	391,73
	% din total	73,71%

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

	Company name	Arrears (mil.lei)
1	COMPANIA NAȚIONALĂ A HUILEI S.A. ÎN LICHIDARE	5.403,95
2	ELECTROCENTRALE BUCUREȘTI S.A.	952,23
3	S.C. COMPLEXUL ENERGETIC HUNEDOARA S.A.	919,83
4	SOCIETATEA NAȚIONALĂ A CĂRBUNELUI S.A.	537,37
5	ROMAERO S.A.	281,95
6	S.C. ELECTROCENTRALE CONSTANȚA	216,37
7	REGIA AUTONOMĂ DE TRANSPORT PUBLIC IAȘI R.A.	181,66
8	AVERSA S.A.	162,18
9	SOCIETATEA NAȚIONALĂ "ÎMBUNĂȚĂȚIRI FUNCiare" S.A.	138,17
10	SOCIETATEA COMERCIALĂ DE REPARAȚII LOCOMOTIVE C.F.	115,92
	% din total	83,56%

Top 10 arrears in Dec. 2016

	Company name	Arrears (mil.lei)
1	COMPANIA NAȚIONALĂ A HUILEI S.A. ÎN LICHIDARE	5.413,69
2	RADET BUCUREȘTI	3.526,94
3	ELECTROCENTRALE BUCUREȘTI S.A.	1.426,22
4	S.C. OLTCHIM S.A.	1.180,49
5	S.C. COMPLEXUL ENERGETIC HUNEDOARA S.A.	1.048,55
6	REGIA AUTONOMĂ PENTRU ACTIVITĂȚI NUCLEARE R.A.	770,78
7	S.N.T.F.M. CFR MARFĂ S.A.	579,49
8	COMPANIA NAȚIONALĂ A METALELOR PREȚIOASE ȘI NEFEROASE REMIN S.A.	573,23
9	CENTRALA ELECTRICĂ DE TERMOFICARE IAȘI (C.E.T.) S.A.	560,98
10	SOCIETATEA NAȚIONALĂ A CĂRBUNELUI S.A.	550,47
	% din total	67,28%

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

	Company name	Arrears (mil.lei)
1	COMPANIA NAȚIONALĂ A HUILEI S.A. ÎN LICHIDARE	5.403,95
2	S.C. COMPLEXUL ENERGETIC HUNEDOARA S.A.	787,67
3	ELECTROCENTRALE BUCUREȘTI S.A.	735,70
4	SOCIETATEA NAȚIONALĂ A CĂRBUNELUI S.A.	537,35
5	REGIA AUTONOMĂ PENTRU ACTIVITĂȚI NUCLEARE R.A.	535,62
6	SOCIETATEA ROMÂNĂ DE TELEVIZIUNE	517,11
7	CENTRALA ELECTRICĂ DE TERMOFICARE IAȘI (C.E.T.) S.A.	422,51
8	MOLDOMIN S.A.	260,41
9	ROMAERO S.A.	240,16
10	S.C. ELECTROCENTRALE CONSTANȚA	207,53
	% din total	79,57%

Top 10 arrears in dec. 2015

	Company name	Arrears (mil.lei)
1	COMPANIA NAȚIONALĂ A HUILEI S.A. ÎN LICHIDARE	4.865,05
2	RADET BUCUREȘTI	3.407,85
3	S.C. OLTCHIM S.A.	1.224,82
4	S.C. COMPLEXUL ENERGETIC HUNEDOARA S.A.	662,83
5	COMPANIA NAȚIONALĂ A METALELOR PREȚIOASE ȘI NEFEROASE REMIN S.A.	572,35
6	SOCIETATEA ROMÂNĂ DE TELEVIZIUNE	559,39
7	CENTRALA ELECTRICĂ DE TERMOFICARE IAȘI (C.E.T.) S.A.	557,35
8	SOCIETATEA NAȚIONALĂ A CĂRBUNELUI S.A.	518,80
9	ELECTROCENTRALE BUCUREȘTI S.A.	498,46
10	S.N.T.F.C. CFR CĂLĂTORI S.A.	490,28
	% din total	62,93%

Top 10 arrears to the consolidated general budget in Dec. 2015

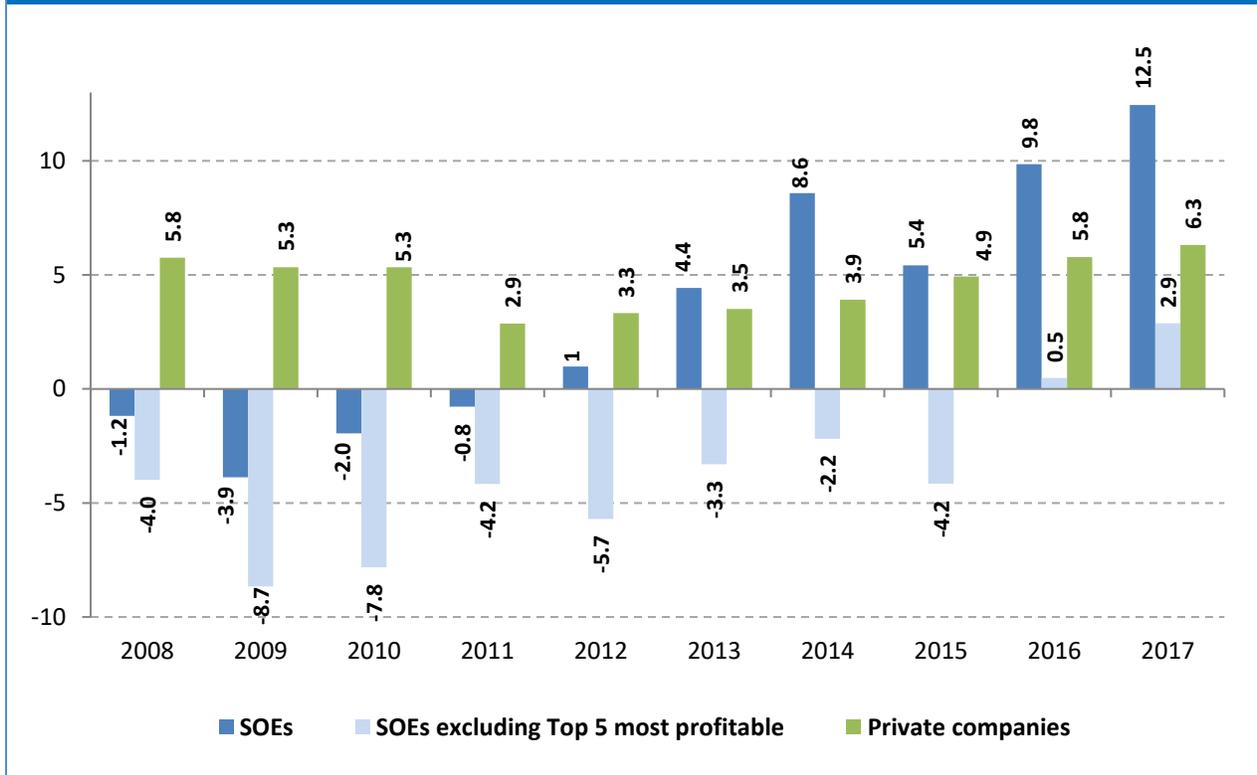
	Company name	Arrears (mil.lei)
1	COMPANIA NAȚIONALĂ A HUILEI S.A. ÎN LICHIDARE	4.851,92
2	S.C. COMPLEXUL ENERGETIC HUNEDOARA S.A.	531,69
3	SOCIETATEA NAȚIONALĂ A CĂRBUNELUI S.A.	505,68
4	SOCIETATEA ROMÂNĂ DE TELEVIZIUNE	459,49
5	CENTRALA ELECTRICĂ DE TERMOFICARE IAȘI (C.E.T.) S.A.	419,91
6	MOLDOMIN S.A.	261,41
7	SOCIETATEA NAȚIONALĂ A CĂILOR FERATE ROMÂNE R.A.	241,71
8	S.C. ELECTROCENTRALE CONSTANȚA	197,58
9	REGIA AUTONOMĂ PENTRU ACTIVITĂȚI NUCLEARE R.A.	174,39
10	AVERSA S.A.	160,93
	% din total	77,20%

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

The operating margin of state-owned enterprises improved in 2017 compared to the year 2016, from 9.8% to 12.5%, being at the same time at a higher level than the one registered by the private sector. Excluding Top 5, the indicator had a value of 2.9%, recording a significant increase compared with the previous year when it was only 0.5%.

In 2017 continued the upward trend of the operating margin which measures the profitability of the core business activities by reporting earnings before interest and taxes to total revenues. The level of the indicator increased from 9.8% in 2016 to 12.5% in 2017, significantly exceeding the 6.3% value for the private companies. This evolution was determined by the faster pace of growth of operating result by about 37% compared to the growth rate of total revenues of about 8.2%. Excluding Top 5 most profitable state-owned enterprises (SOE), the indicator is reduced to 2.9%, but there is a significant increase from 0.5% in the year 2016 (the first positive value recorded since 2008). The gap registered when excluding the Top 5 SOEs is considerable suggesting their extremely high impact on the aggregate level. In addition, the top five companies manage to achieve very good results that offset the relatively low performance of the others, significantly improving the average of the entire state-owned sector.

Figure 3: Operating margin (%)



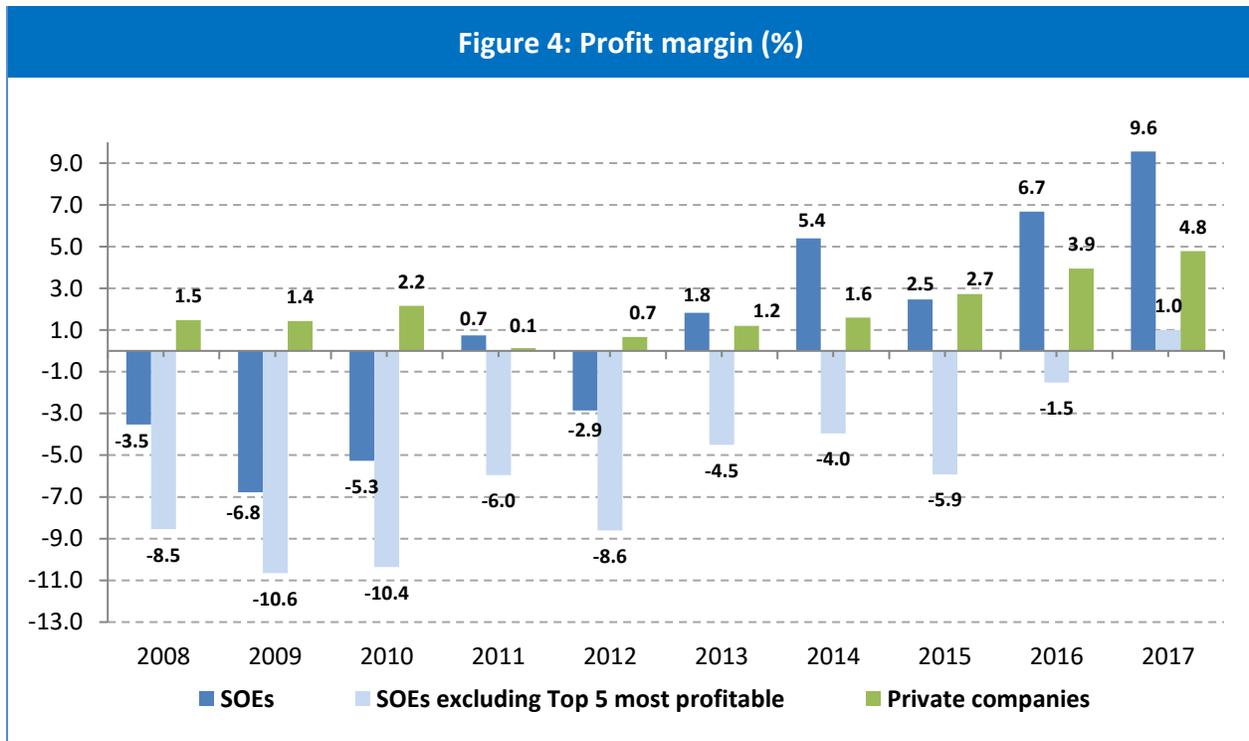
Source: MPF, based on the annual financial reports submitted by economic agents from the non-financial sector

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

The profit margin of state-owned companies continued to be on an upward trend in 2017, reaching the level of 9.6% from 6.7% in 2016. The evolution of the indicator exceeded the performance of private companies, being in line with the overall positive dynamics of economic activity.

The improvement of the operational efficiency of SOEs (attested by the operating margin) is also visible at the level of the profit margin. The indicator increased significantly from 6.7% in 2016 to 9.6% in 2017 as a result of the faster growth of the net result (55%) compared to total revenues (8.2%). Moreover, SOEs' profit margin exceeded the one recorded by private companies (4.8%, also higher in comparison with 3.9% in 2016). Excluding the top five companies, the profit margin value is only 1%, but there is considerable improvement compared to 2016 (when it was -1.5%). It is also noteworthy that in 2017 this indicator recorded for the first time a value greater than 0 due to the net positive result. The differences between the operating margin and the profit margin are explained by the fact that the latter takes into account the financial and extraordinary results. Thus,

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



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

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

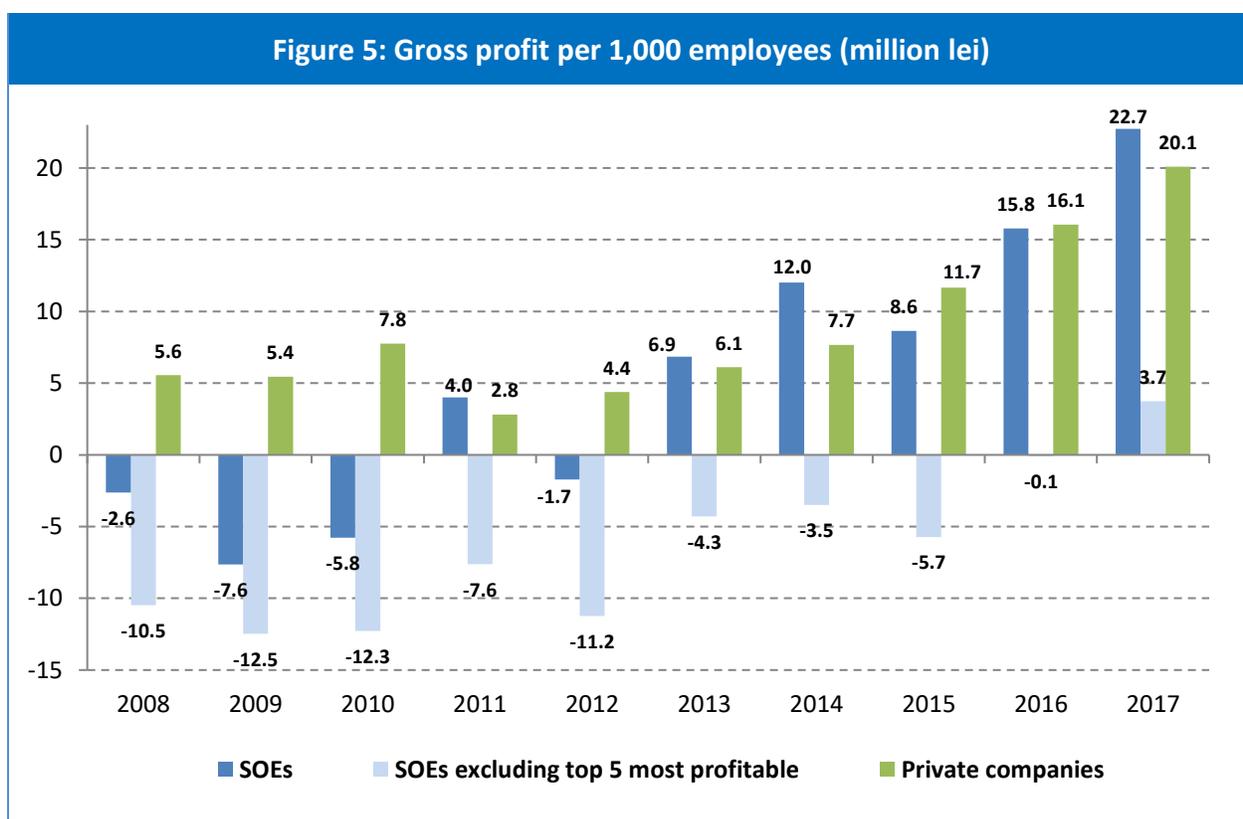
The indicator gross profit per 1,000 employees continued to increase in 2017 for state-owned companies mainly due to a sustainable increase of the gross profit. Excluding the top five companies, the gross profit per 1,000 employees register for the first time positive values and the results are significantly improved relative to 2016. Private

Gross profit per 1,000 employees is an indicator that measures the average profit generated by every 1,000 employees, assessing the company's effectiveness in using its own employees to maximize profits. For SOEs, the indicator continued to increase in 2017, reaching the level of 22.7 from 15.8 in 2016. This result is driven by the sustainable growth of the gross profit (by about 40%) doubled by the decrease of about 3% in the number of employees. At the same time, in 2017, the indicator level was about 2.6 pp above the level recorded by private sector companies.

However, the aggregate evolution of SOEs is influenced by the top five most profitable companies: in 2017 they registered a gross profit of 5,244 million lei, while the remaining SOEs recorded a gross profit of only 955 million lei. Therefore, the gap

companies have continued the upward trend from previous years and, for all the categories of companies included in the study, 2017 marks the maximum values of the indicator gross profit per 1,000 employees for the entire analyzed range.

between the top five companies and the other SOEs is considerable (although they have not experienced losses as in previous years), significantly influencing the overall results. Nevertheless, even when the top five companies are excluded, there is a notable improvement of the indicator: 3.7 million lei in 2017 compared to -0.1 million lei in 2016. Positive developments are also registered by private companies: their gross profit per 1,000 employees increased from 16.1 million lei in 2016 to 20.1 million lei in 2017. It is important to note that, for all the categories of companies included in the study, 2017 marks the maximum values of the indicator for the entire analyzed range.



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

The return on equity generated by state-owned companies increased in 2017 compared to 2016, but continues to be lower than the one obtained by

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

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

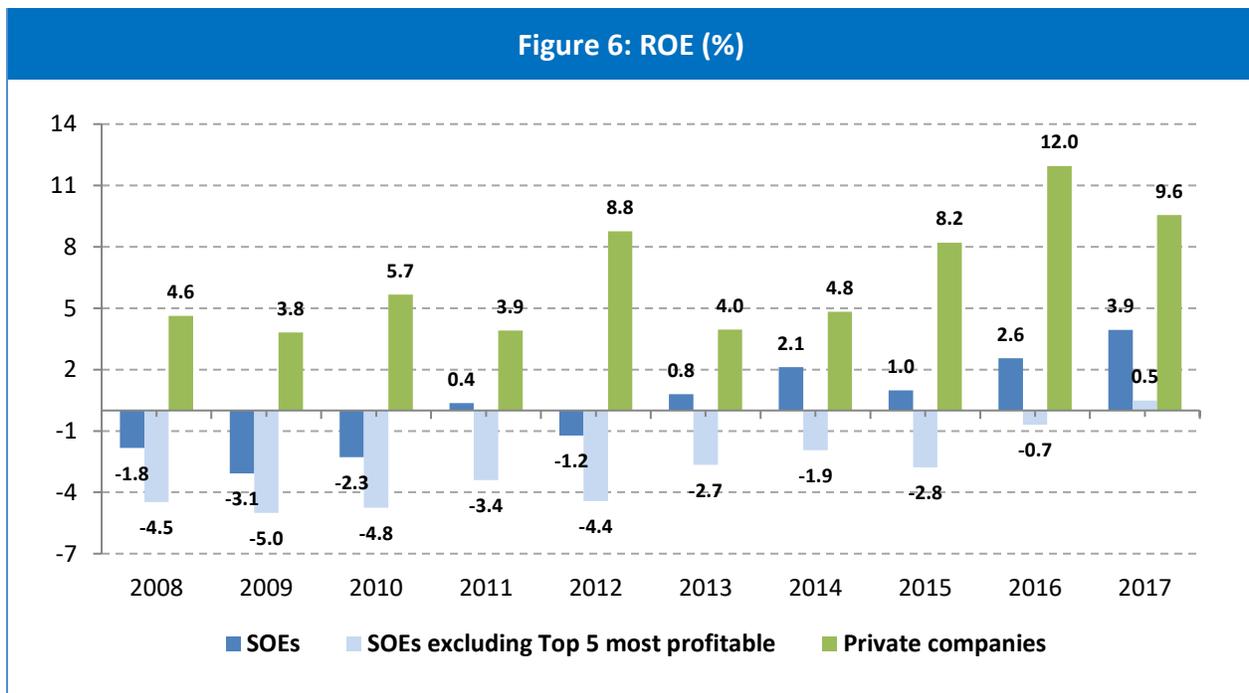
private firms: 3.9% against 9.6%. Thus, the ability of state-owned companies to generate value for their shareholders is rather poor.

The return on assets exhibited a similar evolution: for state-owned companies rose from 1.8% in 2016 to 2.8% in 2017. During the same period, the return on assets of private firms experienced a much lower amplitude increase, from 3.9% to 4.1%.

In 2017, SOEs recorded an improvement in both rates of return, mainly driven by the net profit growth of nearly 55%. Thus, ROE reached the level of 3.9% while ROA increased to 2.8%, both representing the maximum values recorded by SOEs since 2008.

On the other hand, it should be noted that, despite these positive developments, the profitability of SOEs remains significantly lower than the profitability of private firms.

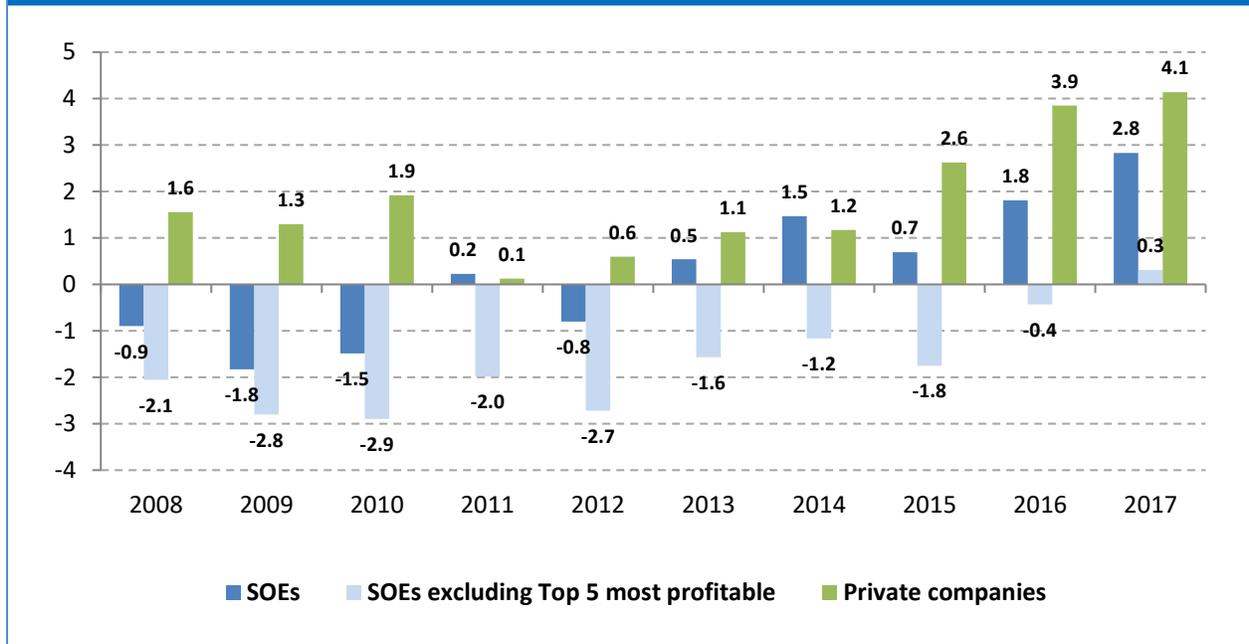
Excluding the influence of top five most profitable companies, is remarkable again a clear improvement of both rates of return, ROE reaching the value of 0.5% and ROA of 0.3%. It is important to note that 2017 is the first year of the analyzed range in which the values of these two indicators are positive. Regarding the private companies, ROA registered a slightly increase sustained by the net profits growth of about 30%, and ROE recorded a decline driven by the slower pace of growth of the net profit as compared to equity. Thus, ROE decreased to 9.6% from 12% in 2016, and ROA increased to 4.1% from 3.9% in 2016.



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

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

Figure 7: ROA (%)



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

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

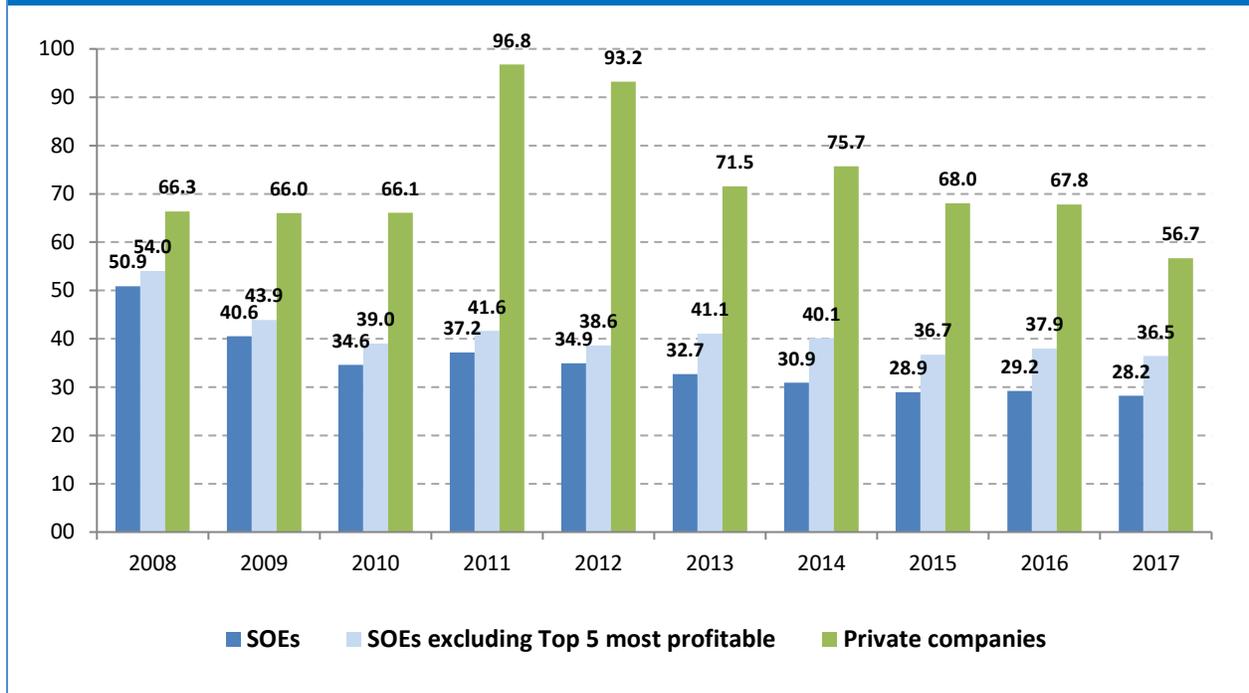
The ability of state-owned companies to cover their debt has not changed significantly since 2016, but indebtedness is distributed unevenly among them, with some companies having very small amounts of debt, while others are heavily indebted. Overall, also in 2017, the share of debt in total assets of state-owned companies remained well below the level recorded by the private ones.

Concerning the indebtedness of SOEs, reflected by the ability to cover their debt with their assets, it suffered a slight decline from 29.2% in 2016 to 28.2% in 2017. This result is explained by the fact that the total assets of SOEs remained relatively stable, with the change being below 1%, while total debts decreased by about 4.5%. The result is also influenced by the uneven distribution of debt across SOEs which include large firms with very low levels of indebtedness.

For private firms, the indicator reflects a significantly higher indebtedness compared to that of SOEs, with the level of 56.7%. It is also noted that this level is lower than the one registered in 2016 (67.8%). Excluding the top five SOEs, the solvency ratio is 36.5%, which in turn is very close to the level recorded in 2016 (37.9%).

In conclusion, the indebtedness analysis at the level of the state-owned companies highlights the stability of the indicator, without major changes compared to 2016, while at the level of the private companies it has evolved favorably.

Figure 8: Indebtedness (%)



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

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

In 2017, the interest coverage ratio of state-owned companies registered a significantly increase compared to 2016, reaching the level of 26 from 17.6. However, this indicator should be interpreted with caution because its values are largely influenced by the top five companies in terms of profitability. Excluding Top 5 companies, the value of the indicator is 2.4, increasing compared to the previous year.

For private firms continued the upward trend in terms of the ability to repay interest

The interest coverage ratio is a solvency indicator that measures a company's ability to pay interest on the accumulated debt. In essence, this indicator shows how many times a company could pay the interest owed with its available earnings. Thus, it is calculated by dividing the earnings before interest and taxes (EBIT) to the amount of interest due over a one-year period. An interest coverage ratio below 1 indicates that the company does not generate sufficient revenues to cover interest expenses and will have to use its reserves for this purpose.

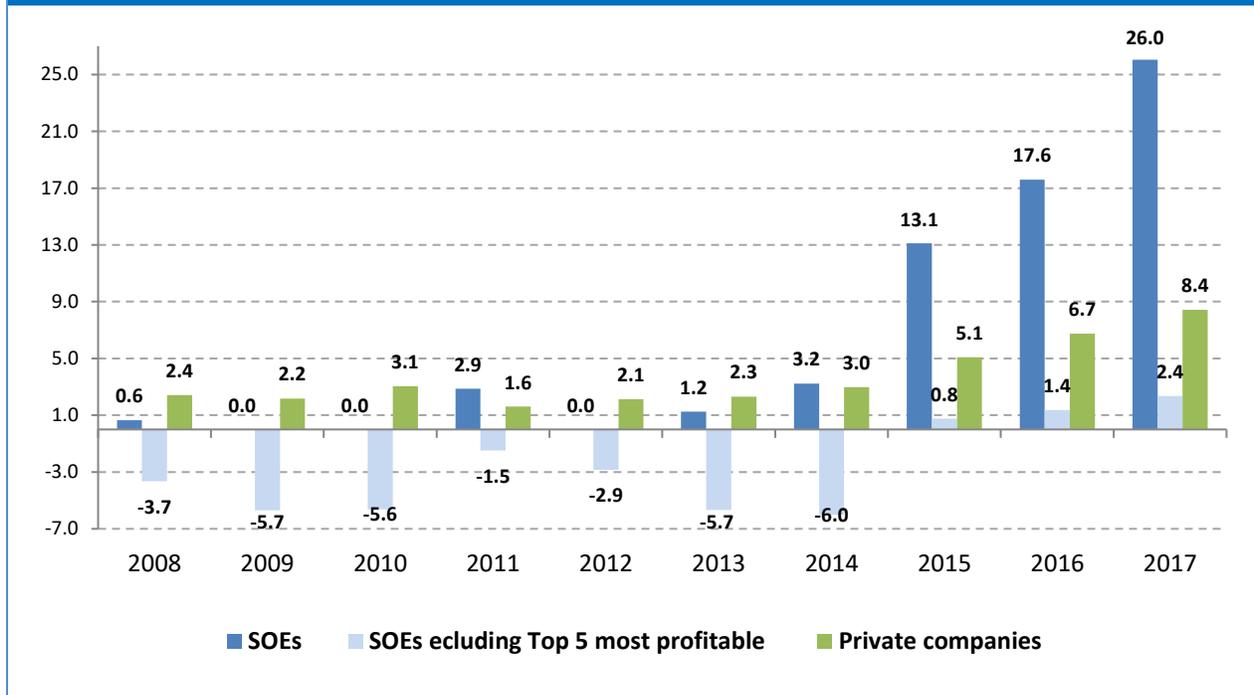
After a considerable increase between 2014 and 2015 (from 3.2 to 13.1), the interest coverage ratio of SOEs continued to grow also in 2017, reaching the value of 26 from 17.6 in 2016. This evolution should be interpreted with caution because the indicator is strongly influenced by the top five companies in terms of profitability. Thus, on one hand, they recorded large operating profits and, on the

expenses. Although the pace of growth was moderate, it is expected that the trend will be sustainable, being supported by significant increases in the operating and net results.

other hand, they reported low interest expenses or even equal to 0 in the case of S.N.T.G.N. Transgaz S.A. Consequently, their interest coverage ratios are very high (reaching a maximum of 682,958.34 in the case of S.N.G.N. Romgaz S.A.) and the important weight of the top five companies, relative to all SOEs, influences significantly the results of the indicator for the entire category.

Excluding the top five companies, the interest coverage ratio for the remaining SOEs has a smaller value of just 2.4, also higher in comparison with 2016. It should be noted that during the analyzed period the value of this indicator is for the second consecutive year above the critical threshold of 1, continuing the favorable trend from 2015 when it returned to positive values. This increase could indicate a notable improvement in the solvency of SOEs. Private firms continued the upward trend in terms of the ability to repay interest expenses, with the indicator rising from 6.7 in 2016 to 8.4 in 2017. It is expected that this increase to be sustainable, being supported by significant increases in the operating and net results from the last three years.

Figure 9: Interest coverage ratio



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

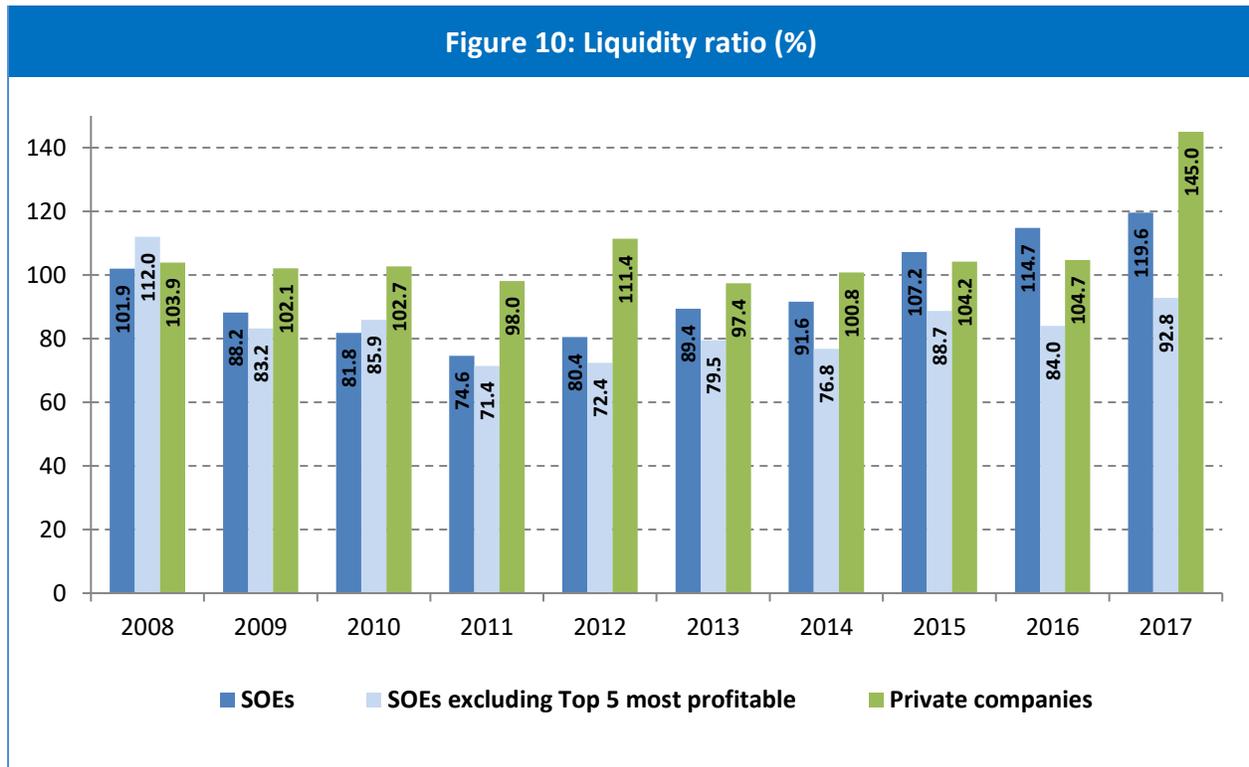
Note: Interest coverage ratio = (Profit or current loss + Financial profit or loss + Adjustments for provisions - Other income + Other expenses + Interest expenses - Interest incomes)/Interest expenses

In 2017, the liquidity ratio of state-owned enterprises (119.6%) continued to evolve on an upward trend, but was below the level registered by the private sector companies (145%). Excluding the top five state-owned companies in terms of profitability, the liquidity ratio increased from 84% to 92.8%, but continues to be below the recommended threshold.

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

In the year 2017, the liquidity ratio of SOEs continued to evolve on an upward trend, reaching the value of 119.6%. This level is below the liquidity ratio recorded by private firms which increased from 104.7% in 2016 to 145% in 2017. Thus, both

categories of companies exhibited liquidity ratios that can be considered adequate. Excluding the top five SOEs, there is significant improvement of the liquidity from 84% to 92.8%, but this value remains well below the aggregate level and the recommended threshold of 100%.



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

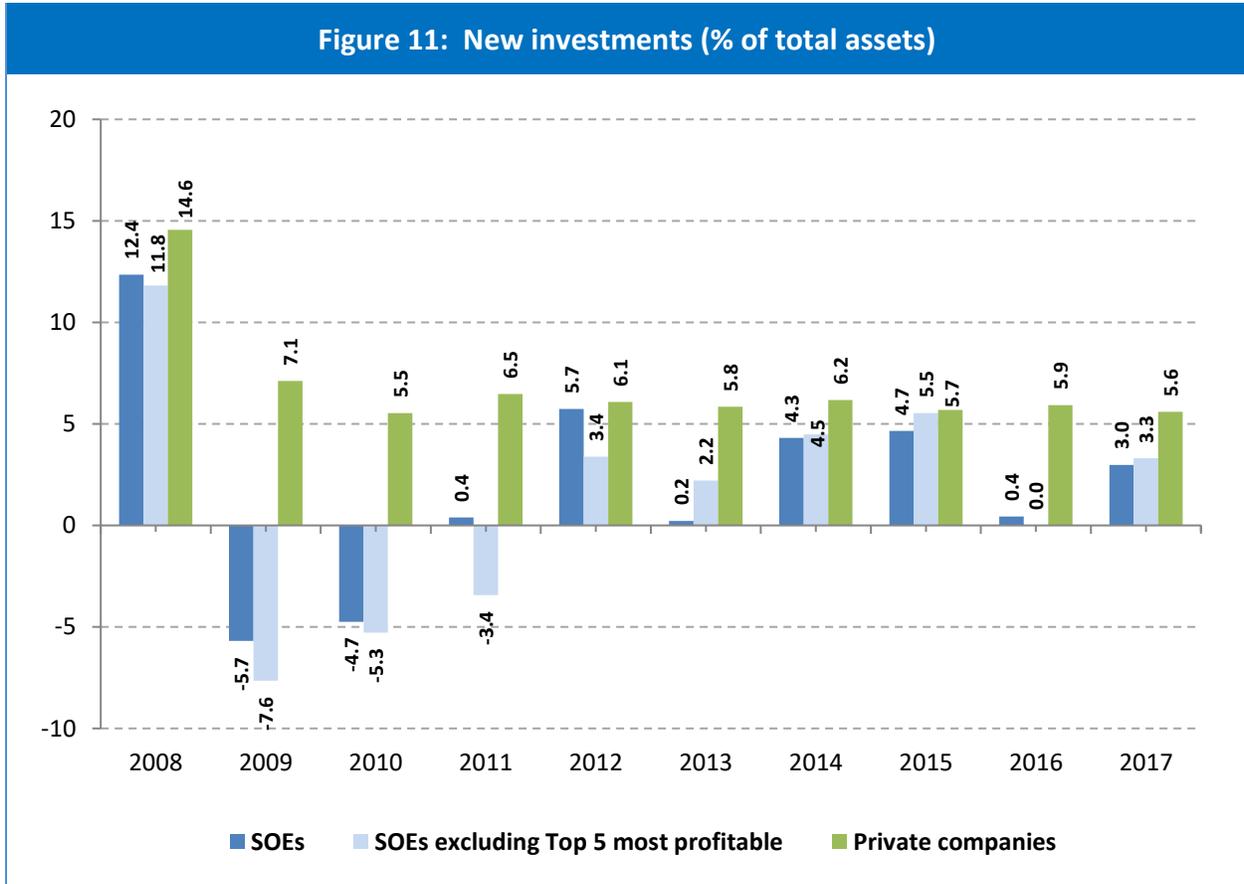
Note: Liquidity ratio (%) = Current assets/Short term debts *100

In 2017 the new investment ratio for state-owned companies registered a considerable increase both at the aggregate level and excluding Top five companies. On the other hand, the indicator recorded a slight decrease for private companies, but continued to remain around 6%.

After 2016, when the new investments in state-owned companies registered a drastic decrease by almost 91.5% compared to previous year, reaching 0.4%, in the year 2017 its level increased significantly reaching 3%.

Excluding the top five SOEs, the increase is even more pronounced, the new investment ratio reaching 3.3% from a value almost close to 0. Thus, the results confirm that this indicator exhibits a high volatility in the case of SOEs, with sudden evolutions from one period to the next. On the other hand, in the case of private firms the ratio of new investments has recorded an insignificant decrease from 5.9% to 5.6%, thus,

remaining around 6% for the entire 2010-2017 interval. At the same time, it should be noted that, for all the companies included in the analysis, the ratio of new investments is still considerably lower than its pre-crisis levels.



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

Note: New investments are calculated as the change in non-financial assets + amortization and depreciation expenses.

With the entry into force of the Emergency Ordinance no. 109/2011 regarding the corporate governance of public enterprises, there has been a visible progress in increasing the transparency and monitoring of the activity of state-owned

The improvement of SOEs' performance in the period 2015-2017 was also supported by the legislative reforms embodied by the enforcement of the Emergency Ordinance no. 109/2011 regarding corporate governance of public enterprises. This represented a major step in the implementation of the best corporate governance practices and aimed at depoliticizing and professionalizing the management of SOEs, both regarding the selection, appointment and functioning of the Board of Directors and managers, and in terms of increasing the transparency and

companies.

providing information in order to increase the public companies' accountability.

Despite the recommendations of the international financial institutions to consolidate the progress and bring the financial performance of state-owned enterprises to a level comparable to that of the private sector, the latest amendments made in 2017 to the Law no. 111/2016 on approving Emergency Ordinance no. 109/2011 regarding the Corporate Governance of Public Enterprises have severely limited the scope of the principles of good corporate governance practices in state-owned companies by restricting the number of state corporations subject to this corporate governance law.

In the year 2016, new regulations were formally introduced to promote corporate governance: Law no. 111/2016 with the associated implementing rules (Government Decision no. 722/2016), the establishment of a specialized department within the Ministry of Public Finance for overseeing the implementation of the provisions of GEO no. 109/2011, monitoring the activity of public enterprises with the obligation to report some performance indicators on the basis of which MFP draws up an annual report on the activity of public enterprises, and so on. Among the performance indicators related to corporate governance, are included: developing executive management evaluation models, implementing the evaluation process and remuneration policies of the CEO; implementing the code of ethics, the corporate governance code, and ensuring transparency regarding public information; setting, reviewing and pursuing the performance indicators at the level of the public enterprise. The report also shows that those SOEs that implemented the corporate governance system and have selected professional administrators, performed better in terms of optimizing their financial and operational efficiency.

Nevertheless, and despite the recommendations of the international financial institutions aiming to consolidate the progress made with the purpose of aligning the financial performance of the SOEs to a level comparable to that of the private sector's companies, following the publication of the Law no. 111/2016 approving the Emergency Ordinance no. 109/2011⁸, a number of legislative changes were introduced that led to the *de facto* non-application of the initial provisions

⁸ Legislation regarding promoting corporate governance has been amended several times between 2016-2018 through a series of Orders of the Minister of Public Finance. Thus, OMPF no. 41/2014 was repealed by OMPF no. 2873/2016 with application from May 2018, and this was also modified by OMPF no. 768/2017, while Order no. 2874/2016 was amended by Order no. 3233/2017, and, subsequently, in 2018 being abrogated by Order no. 1952/2018 regarding the regulation of the procedure for monitoring the implementation of the provisions of GEO no. 109/2011 on the Corporate Governance of Public Enterprises.

aimed at strengthening corporate governance for SOEs. Thus, according to the legislative proposal that was approved by the Chamber of Deputies in December 2017, there were exempted from the applicability of the provisions of GEO no. 109/2011 dozens of companies and institutions⁹, most of them in the field of defense sector, energy sector, chemical industry, road infrastructure, etc. Practically, at the entry into force of the law thus amended, the provisions of GEO no. 109/2011 on corporate governance no longer apply to most SOEs. In February 2018 the Law no. 111/2016 was appealed to the Constitutional Court of Romania, which admitted the objection of unconstitutionality of the Law, regarding the amendment of Article 1 paragraph (3) of GEO no. 109/2011, as a series of legislative and procedural technical norms were violated, among which the most important ones are the exclusion of 100 state-owned companies from the scope of the law, as well as the possibility of modification and completing the law by Government decrees, which are acts of inferior legal power, and breach of the principle of bicameralism (see CCR Decision no. 62/13.02.2018¹⁰).

However, the final form of Law no. 111/2016 adopted by the Senate and applicable since June 4, 2018 remained practically unchanged¹¹ compared to the December 2017 version, regarding the list of public enterprises exempted from the applicability of GEO no. 109/2011 (even the list was supplemented with RA Rasirom and CN Romtehnica SA). Subsequently, GEO no. 73/07.07.2018 granted the right to

⁹ Among them are: Fabrica de Arme Cugir S.A., C.N. Poșta Română S.A. and the companies owned by it, Societatea Complexul Energetic Oltenia S.A., R.A., Tehnologii pentru Energia Nucleară, Hidroelectrică S.A. and the companies owned by it, S.N. ROMGAZ S.A. and so on. For the complete list of companies exempted from the applicability of the provisions of GEO no. 109/2011 – see <http://www.cdep.ro/comisii/economica/pdf/2017/rp226.pdf>.

¹⁰ See <https://lege5.ro/Gratuit/gi3tqnrvgayg/decizia-nr-62-2018-referitoare-la-admiterea-obiectiei-de-neconstitutionalitate-a-legii-pentru-modificarea-art-1-alin-3-din-ordonanta-de-urgenta-a-guvernului-nr-109-2011-privind-guvernanta-corporativa->

¹¹ From the form adopted in December 2017, was removed the generic terminology "water and transport companies" for the companies that could be exempted from the provisions of GEO no. 109/2011.

The impact of state companies on the budget balance in European standards ESA10 was positive in 2013-2017, the contribution of the companies consolidated in central government sector (the first 20 companies) and local sector being between 0.5% of GDP in 2014 and 0.25% of GDP in 2017.

Regarding the state-owned companies consolidated in the local government, their contribution was of small amplitude, with values alternating from negative (2014 and 2016) to positive (2015 and 2017).

ensure the executive management of the company to the private investor, even a minority shareholder, who has the financial and technical capacity necessary to develop its activity. It is worth noting the large differences between the reports on the activity of the state-owned companies elaborated by the MPF specialized department, respectively, the *Report for the year 2017 regarding the activity of the public enterprises under the authority or in the administration of MPF, acting as a shareholder behalf the state*, compared to the *Public Enterprises Activity Report in 2016*¹², both as the number of state-owned enterprises monitored and regarding monitoring the corporate governance performance indicators specified in the law. This can be seen as diminishing the commitment to apply the corporate governance principles based on professionalism, integrity, transparency and accountability, that could enhance the growth of the state-owned companies' value on medium and long-term.

The impact of state companies on the budget balance in European standards based on commitments (ESA10) may be an additional pressure on the budget deficit targets undertaken by the government in accordance with the Maastricht criteria (below 3% of GDP in ESA10 terms) and the Fiscal Compact (structural deficit below 1% of GDP). The impact on the budget deficit in ESA10 standards could manifest (i) by the issuance of state guarantees (also subject to EU rules on state aid) and especially (ii) by the reclassification of the state enterprises within the public administration.

¹² The Reports for 2017 and 2016 are published on the MPF website <http://www.mfinante.ro/pagina.html?categoriebunuri=rapoarte-generale-periodice&pagina=domenii&menu=Guvernanta>

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

	2014	2015	2016	2017
1. Total companies at central level	3,498.40	1,344.76	1,428.52	2,019.30
C.N. de Căi Ferate CFR S.A.	501.80	424.50	524.40	1,553.00
C.N. de Autostrăzi și Drumuri Naționale	2,244.20	341.00	463.60	253.00
S.N.T.F.C. CFR Călători S.A.	473.00	308.00	-4.80	-12.80
COMPANIA NAȚIONALĂ DE INVESTIȚII S.A.	85.30	229.90	-13.90	68.40
S.N. RADIOCOMUNICAȚII S.A.	102.40	72.00	63.24	117.00
SOCIETATEA DE ADMINISTRARE A PARTICIPAȚIILOR ÎN ENERGIE S.A.	-1.70	68.09	29.30	4.30
SOCIETATEA ROMÂNĂ DE TELEVIZIUNE	-5.00	51.29	50.97	50.97
SOCIETATEA ROMÂNĂ DE RADIODIFUZIUNE	15.20	25.90	25.13	25.13
S.N. Aeroportul Internațional Mihail Kogălniceanu	3.20	1.00	-0.40	2.20
C.N. Administrația Canalelor Navigabile Constanța S.A.	-19.00	-33.80	83.70	-24.40
Administrația fluvială Dunărea de Jos Galați	2.40	17.99	18.74	-16.90
Fondul Proprietatea	0.00	0.00	0.00	0.00
Institutul Național de Cercetare-Dezvoltare pentru Chimie și Petrochimie	-1.10	-8.20	-1.70	-1.00
S.N. ÎNCHIDERI MINE VALEA JIULUI S.A.	11.20	10.70	10.44	7.00
S.C. ELECTROCENTRALE GRUP S.A.	11.20	-9.90	-0.10	0.90
R.A. TEHNOLOGII PENTRU ENERGIE NUCLEARĂ	0.60	-1.10	1.30	1.30
S.C. CONVERSIM S.A.	61.00	-2.20	-1.50	-2.20
S.N. CFR R.A	-0.60	-42.60	-0.20	0.00
C.N. Administrația Canalelor Navigabile Constanța S.A.	-19.00	-33.80	83.70	-24.40
SCTMB Metrorex SA	33.30	-74.00	96.60	17.80
2. Total companies at local level	-60.87	10.80	-81.40	33.80
Local airports	-19.10	13.10	-53.30	45.30
Heating stations with local subordination	-58.80	-36.40	-28.00	-21.20
Other local units	17.03	34.10	-0.10	9.70
3. Total SOEs	3,437.53	1,355.56	1,347.12	2,053.10
% of GDP	0.51	0.19	0.18	0.24

Source: NIS

Following the analysis of the main economic and financial indicators of state and private companies in the non-financial sector, it can be concluded that the high rate of economic growth in Romania in 2017 favored positive developments not only in the public sector but in the whole economy. Overall, the companies included in the study had significant increases in

total revenue, operating result and net result, also reflected in labor productivity growth and improved return on equity and assets indicators. However, the profitability gap between state-owned companies and private sector firms remained significant, reflecting the lower capacity for efficiently using resources in the case of state companies. The results of the main risk indicators did not highlight pressing issues concerning the financial "health" of the public sector companies, as the evolution of liquidity and solvency indicators were favorable, respecting the values recommended in the literature. Regarding the rate of new investments, it is to be noted the remarkable upswing recorded by the state companies, but the indicator continues to be characterized by high volatility, specific to the entire analyzed period. On the other hand, the rate of new investments for the private companies was relatively stable in recent years and constantly at a higher level compared to the state companies.

However, as highlighted in the previous analyzes, the financial performance is not evenly distributed within the state companies, as there are some highly profitable companies influencing favorably the entire sector, but also many companies with problems, both in terms of arrears, and profitability. Thus, eliminating the impact of the best five companies in terms of net profit, there is a significantly reduced level for most of the analyzed indicators, nevertheless the developments of the recent years show a trend of improvement, which in 2017 resulted in the transition of the aggregate net profit in the positive territory. However, in order to achieve sound financial performance, we appreciate the need for additional efforts to increase the efficiency of most state-owned companies.

Regarding the financial discipline of state companies, following a slight deterioration during 2016, in 2017 the arrears continued the decreasing trend, reaching the minimum level for their share in GDP in the period under review. However, it should be noted that the share of arrears of state-owned companies in total arrears remains significantly higher than the contribution of these companies to the economic activity.

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