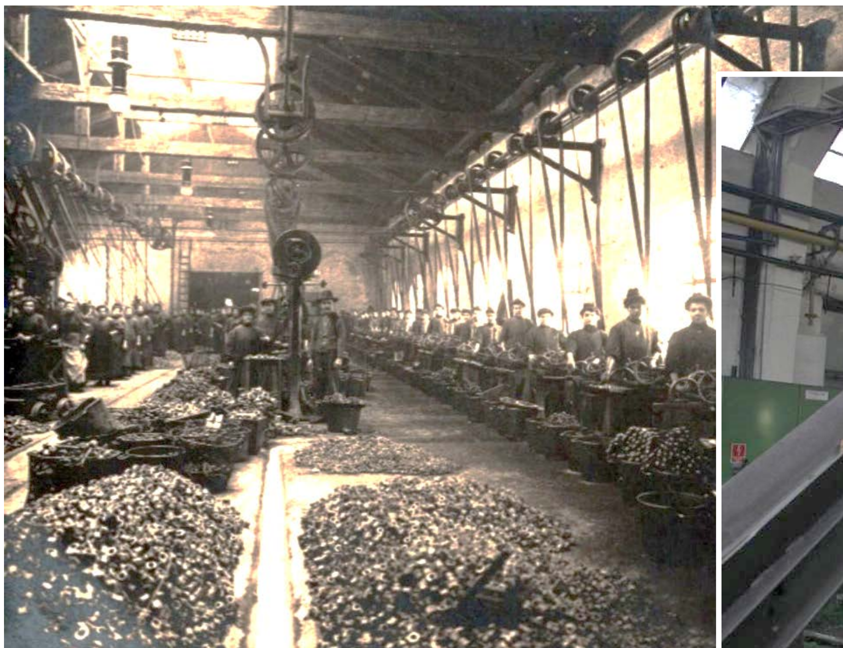
INTERNATIONAL MONETARY FUND

European Bank for Reconstruction and Development

Reassessing the Role of State Ownership in Central, Eastern, and South Eastern Europe



IMF European Department Staff & EBRD Staff

Motivation

- Renewed interest in the state's role in the economy.
- Recognition privatization isn't the only answer, need to improve performance in remaining SOEs and SOBs.
- Search for growth post-GFC puts more focus on whether SOEs and SOBs can be a source of growth or further drag.

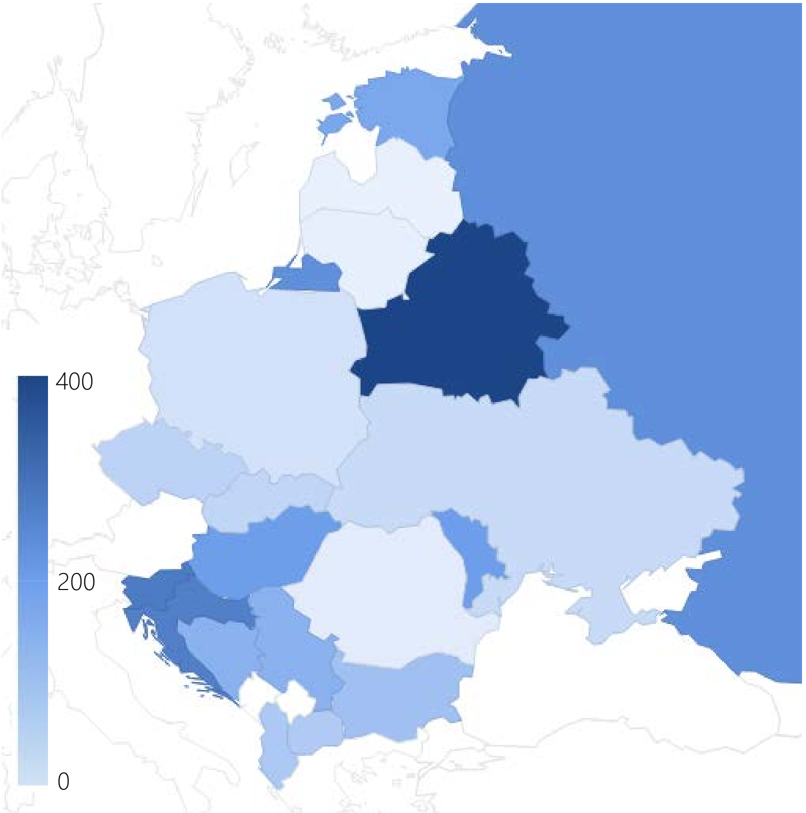
Questions the paper poses

- How important are SOEs and SOBs in CESEE?
- What is their performance compared to private firms?
- What are the financial links between SOBs and SOEs?
- Are stated objectives of SOEs and SOBs being met?
- What is the state of governance frameworks?
- What lessons are there for the future?

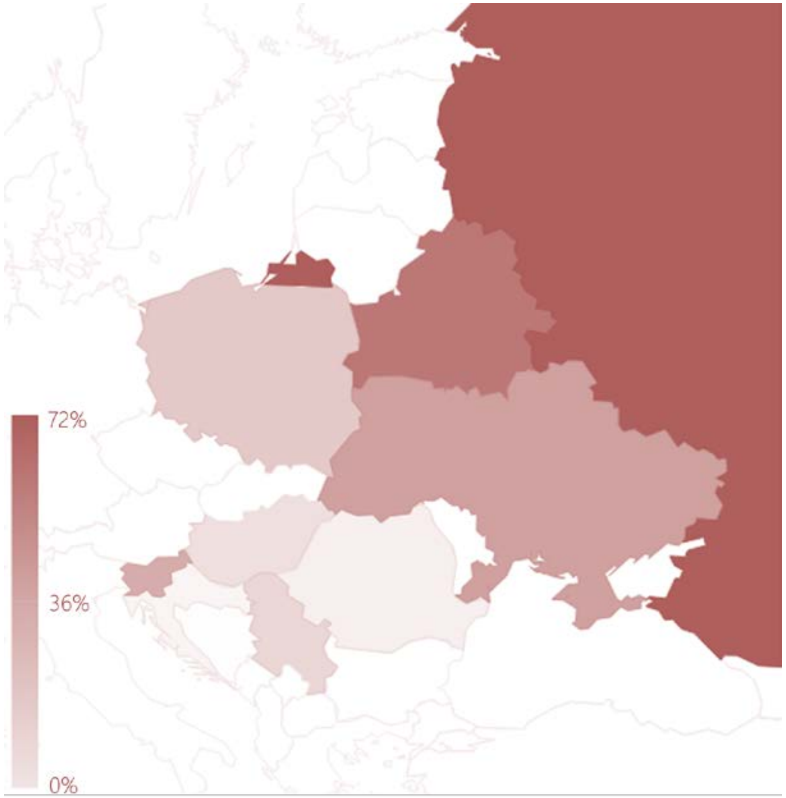
What they think SOEs are…
What we actually are…

State footprint

State Owned Enterprise prevalence
(Per million inhabitants)



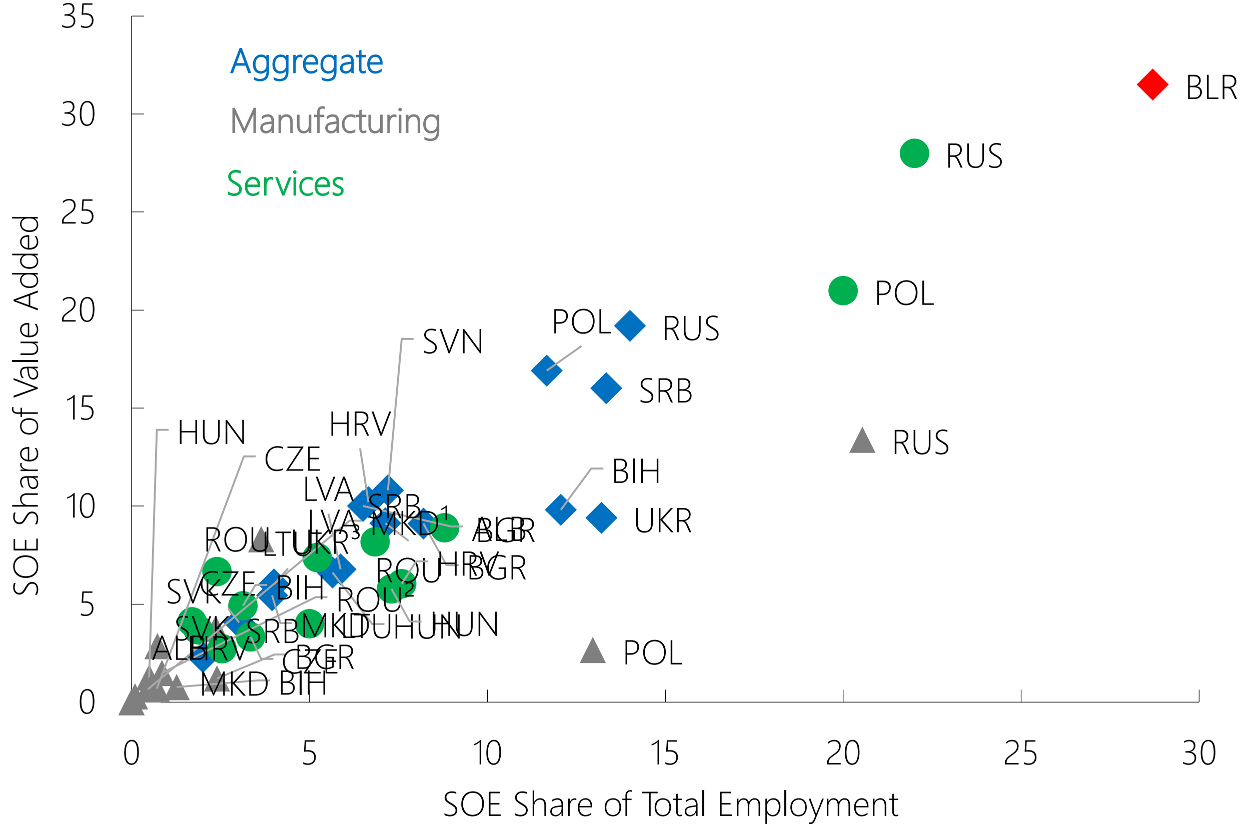
State Owned Bank prevalence
(Percent banking assets)



Note: 2016.
Sources: National authorities, Fitch, IMF staff calculations.

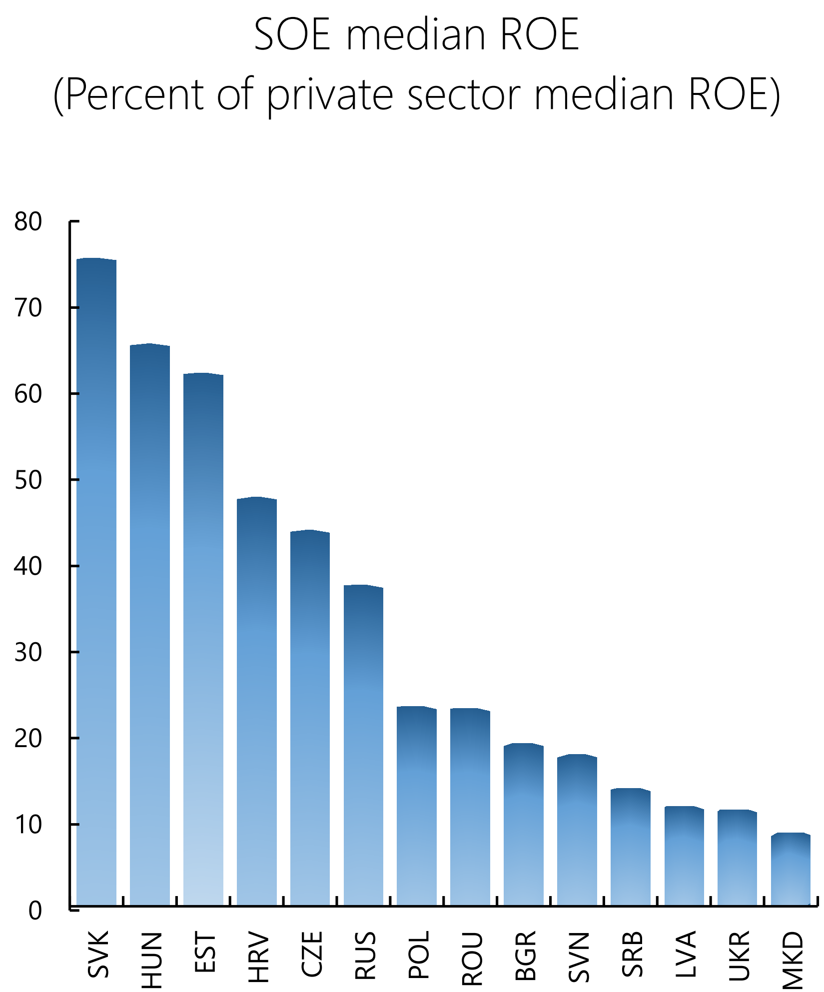
SOEs: Significant variation across sectors

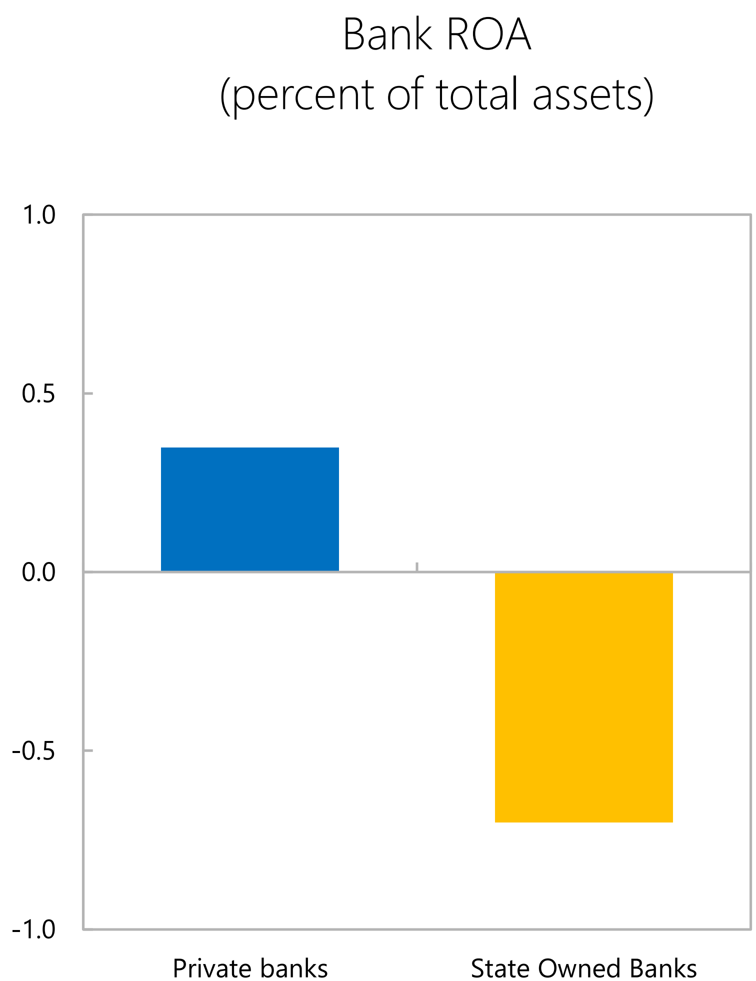
Contributions to selected sectors
(percent of the sector)



Notes: 2016; 1/ data for 2015; 2/ Turnover; 3/ data for 2017. Data for other countries not available.
Sources: National authorities, IMF staff calculations.

Lower profitability

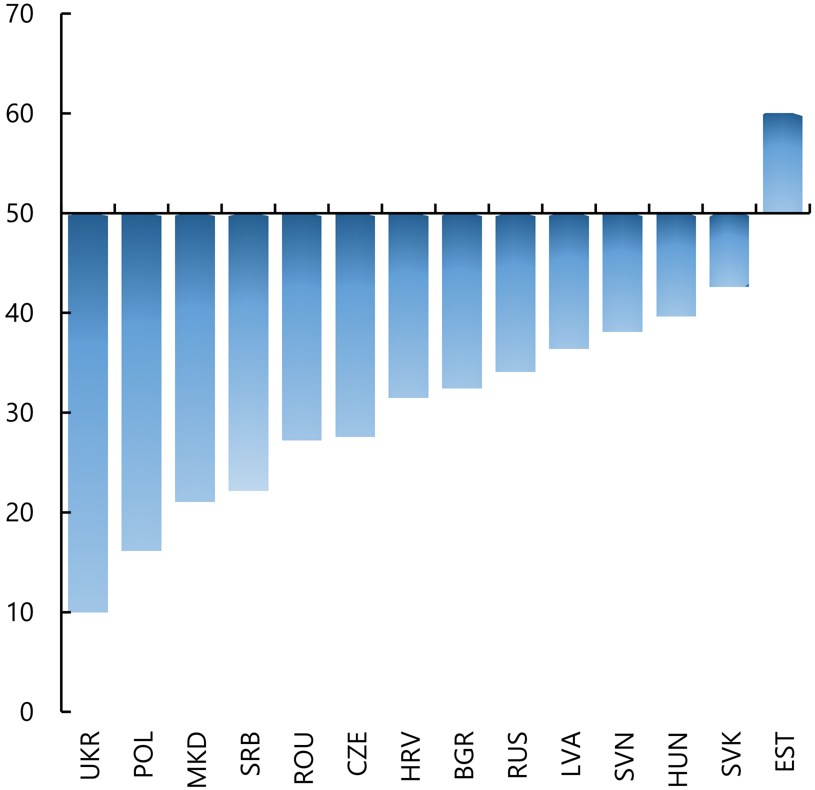




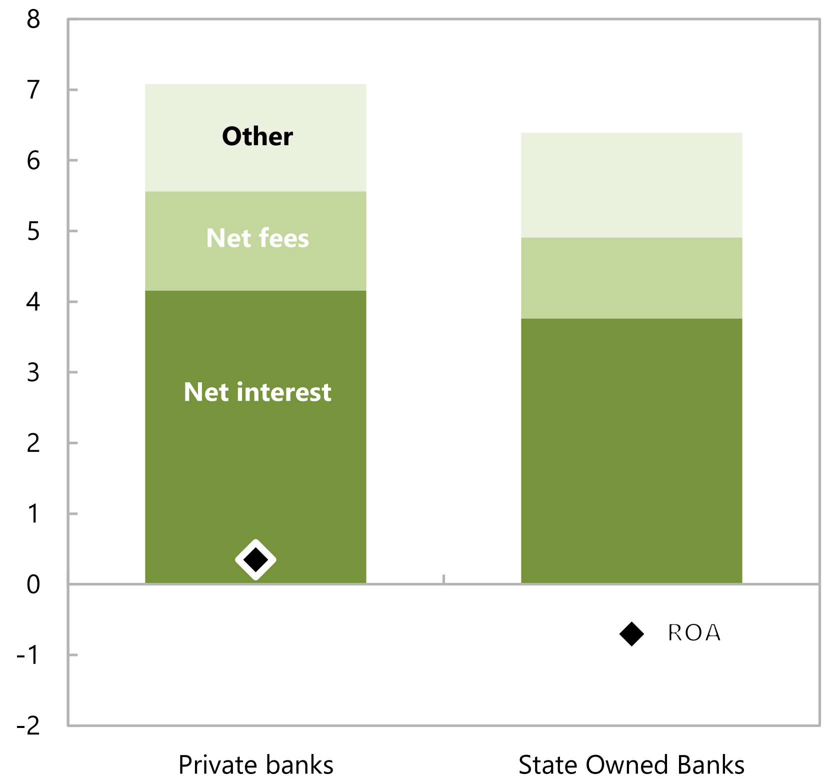
Note: LHS: 2014-16; RHS: 2006-16.
Sources: Orbis, Fitch, IMF staff calculations.

Driven by differences in revenue and expenses

Revenue per employee
(Percent of SOEs above private sector median)



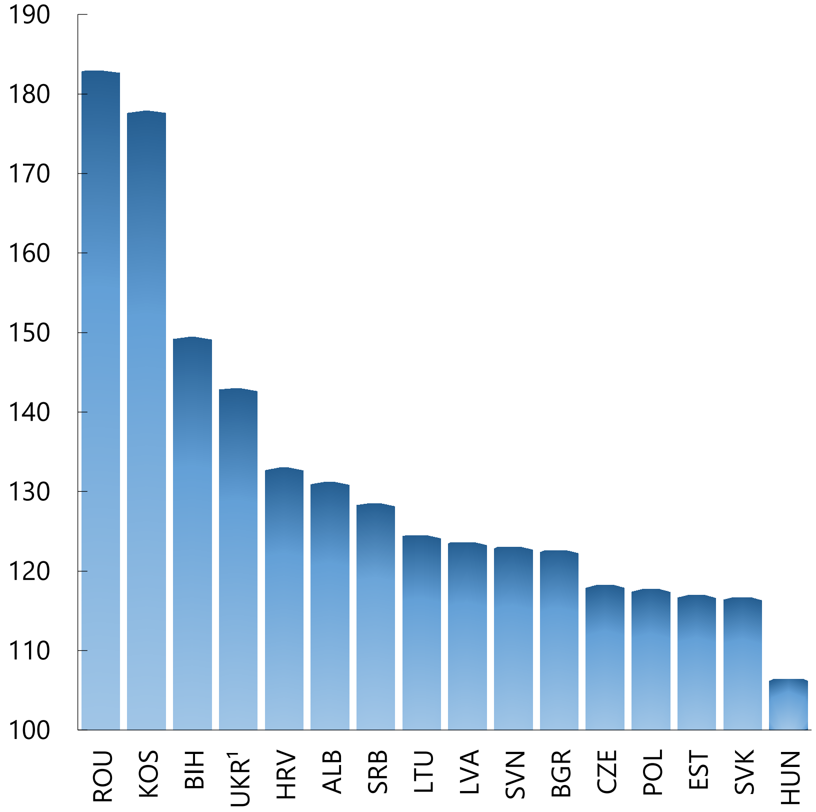
Revenue components of ROA
(Percent of total assets)



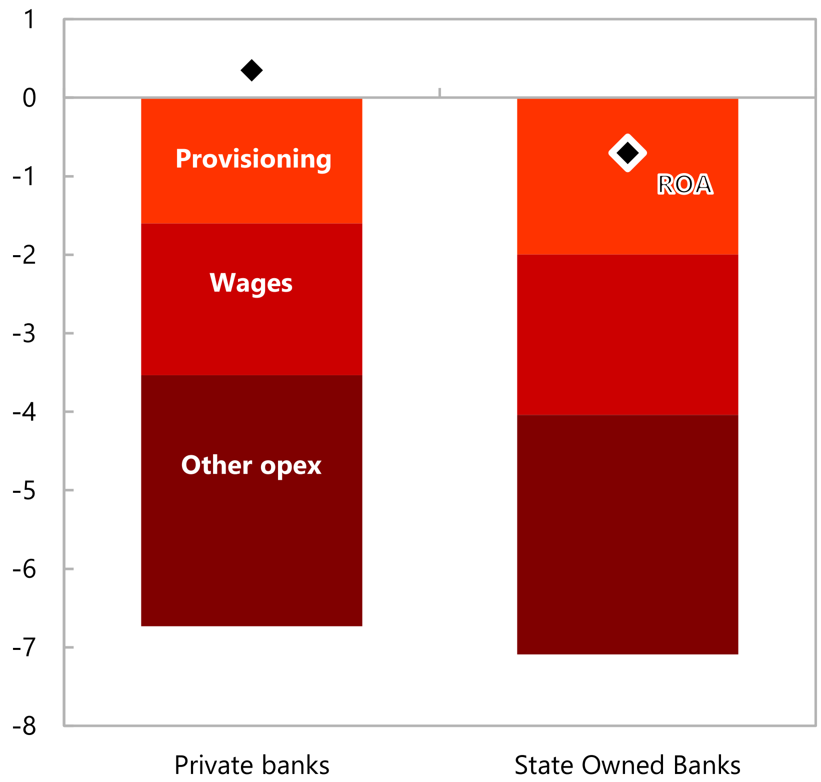
Note: LHS: 2014-16; RHS: 2006-16.
Sources: Orbis, Fitch, IMF staff calculations.

Driven by differences in revenue and expenses

SOE wage premium
(Percent of average private sector wage)



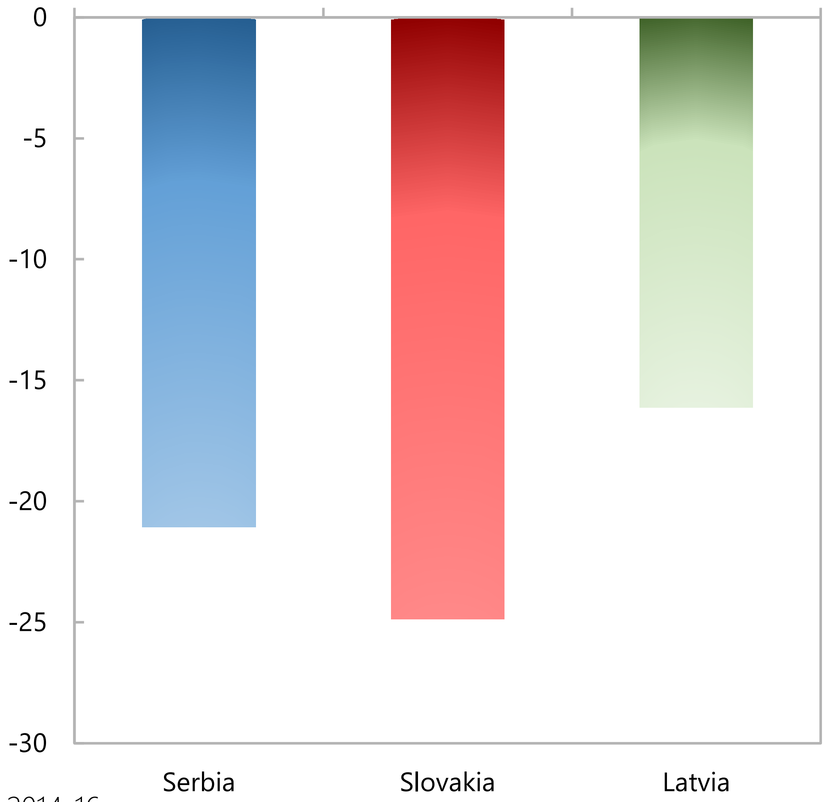
Expense components of ROA
(Percent of total assets)



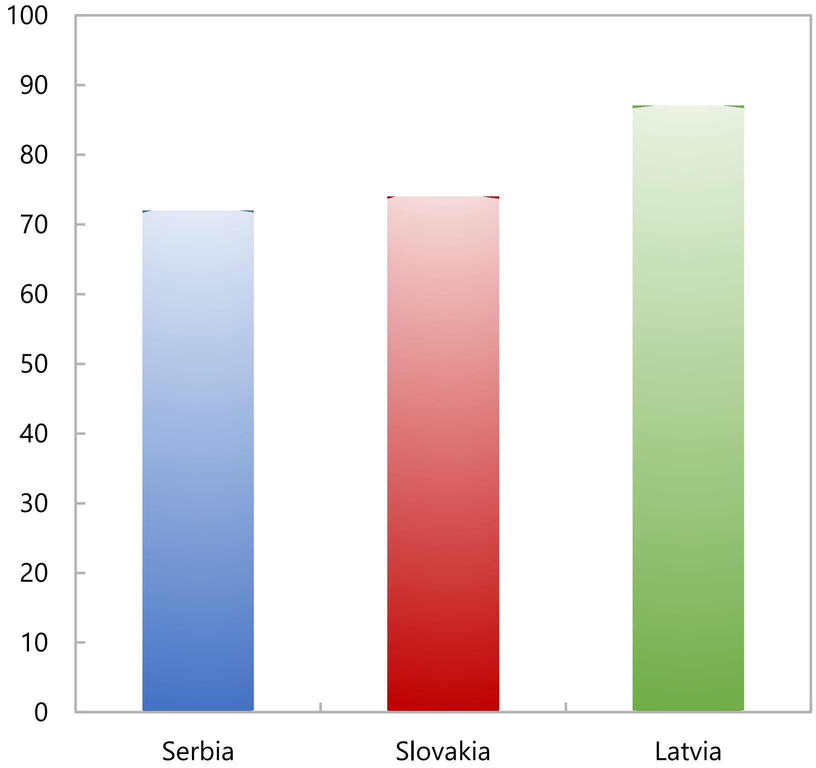
Notes: LHS: 2016; 1/ data for 2017; RHS: 2006-16.
Sources: Country authorities, Haver Analytics, Fitch, IMF staff calculations.

SOEs: Low productivity driven by labor misallocation

Productivity
(Percent of average private firm productivity)

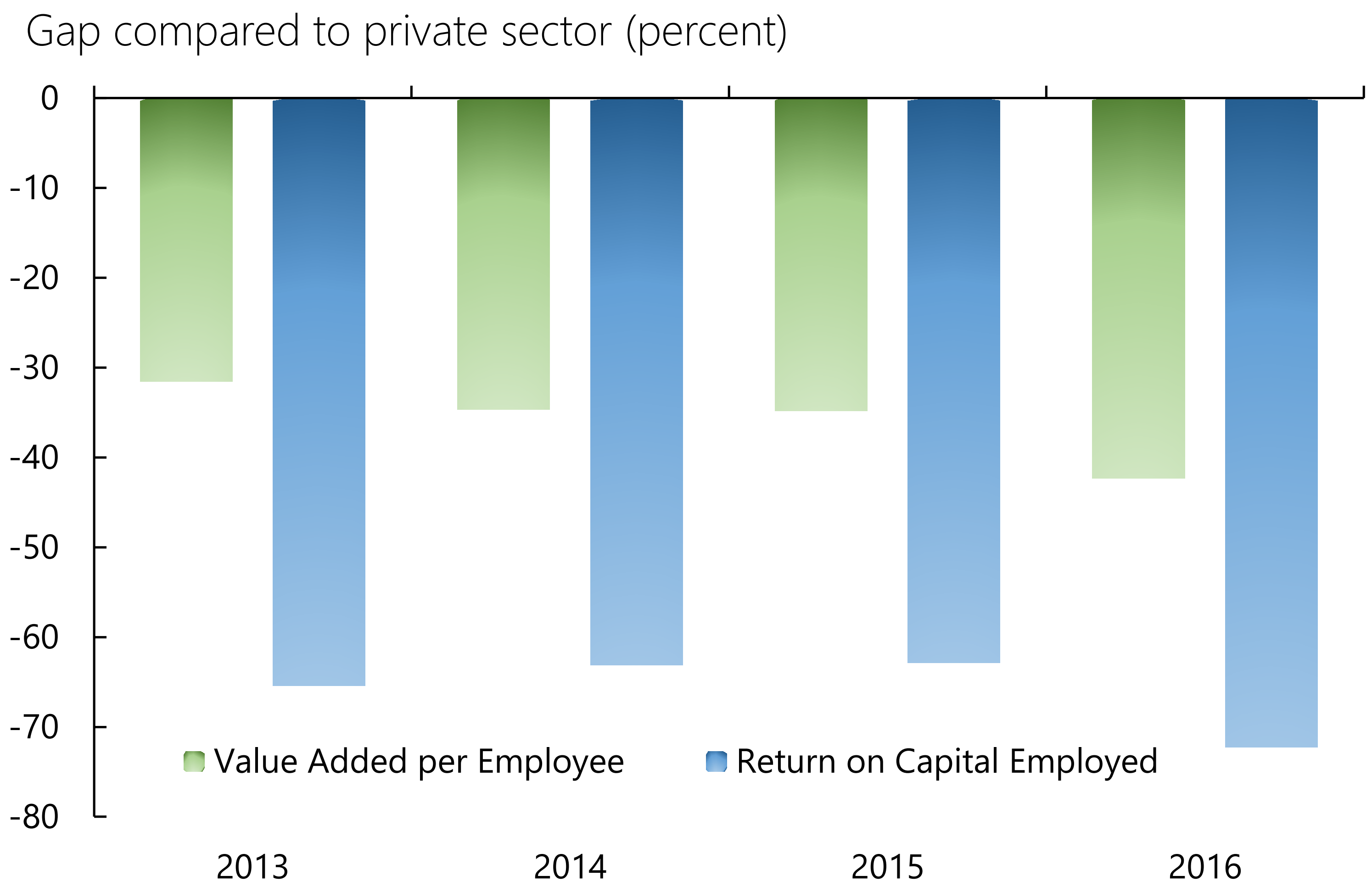


SOEs that should decrease labor inputs
(Percent of SOEs)



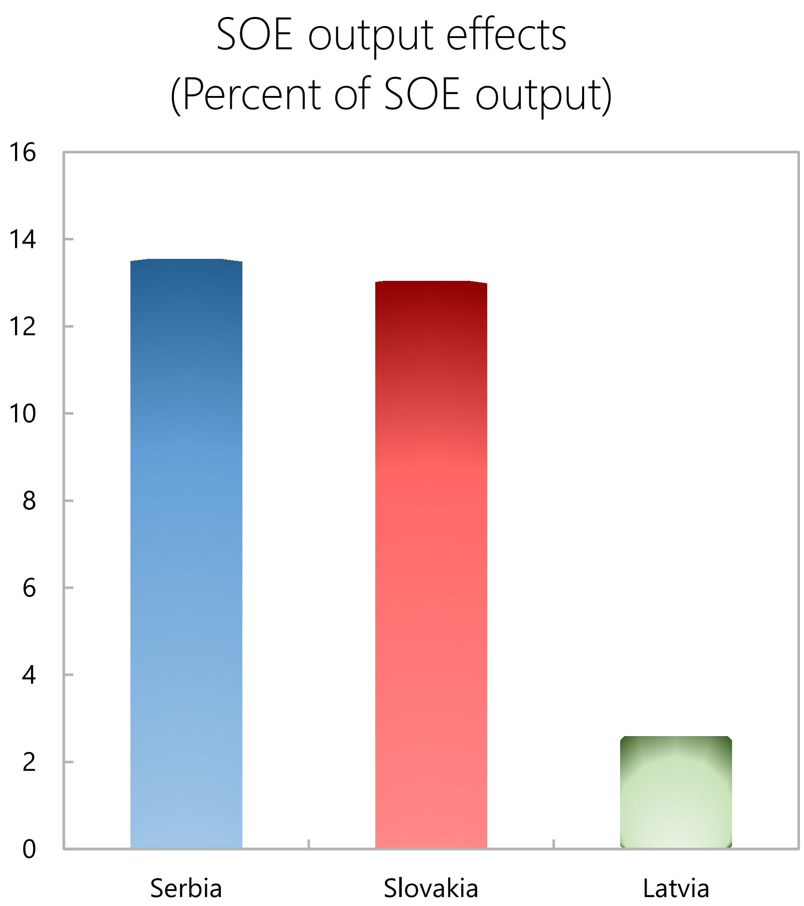
Notes: 2014-16.
Sources: SBRA, IFP, CSB, LB, IMF staff calculations.

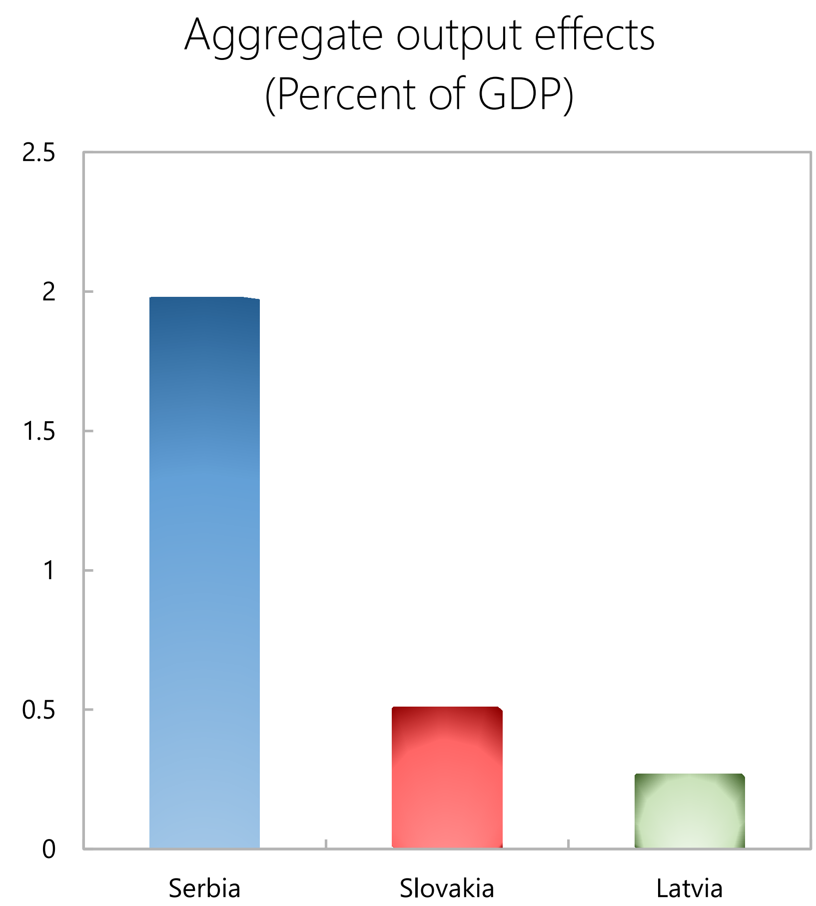
Belarus: Significant performance gaps



Notes: Return on capital employed defined as operating profit/loss to capital employed (proxied by assets minus short-term liabilities).
Sources: Belstat and IMF staff calculations.

Raising efficiency to private levels = output gains

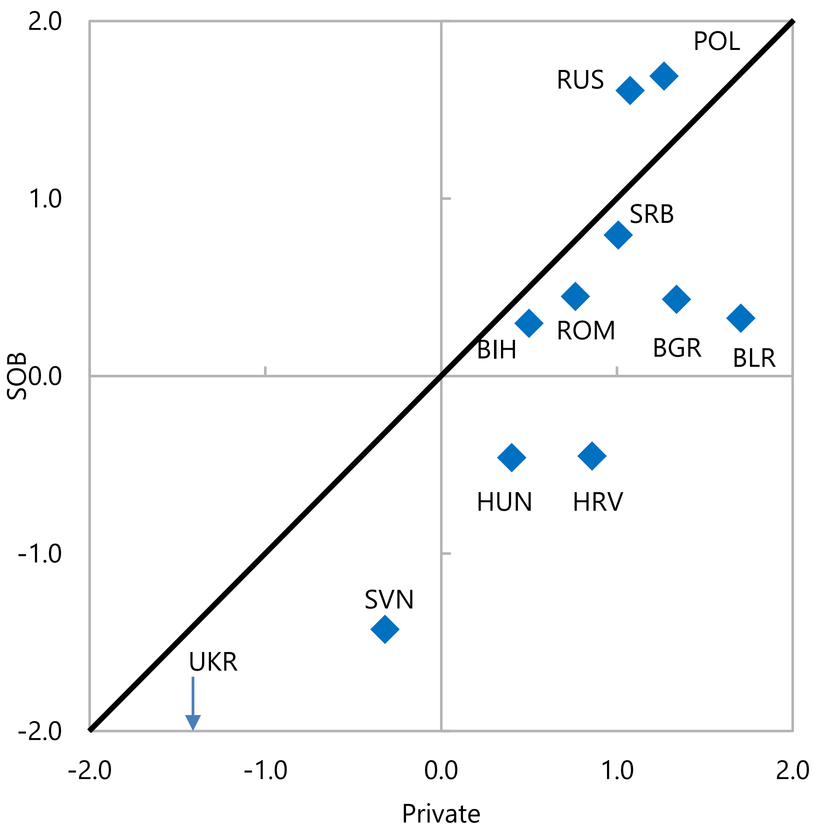




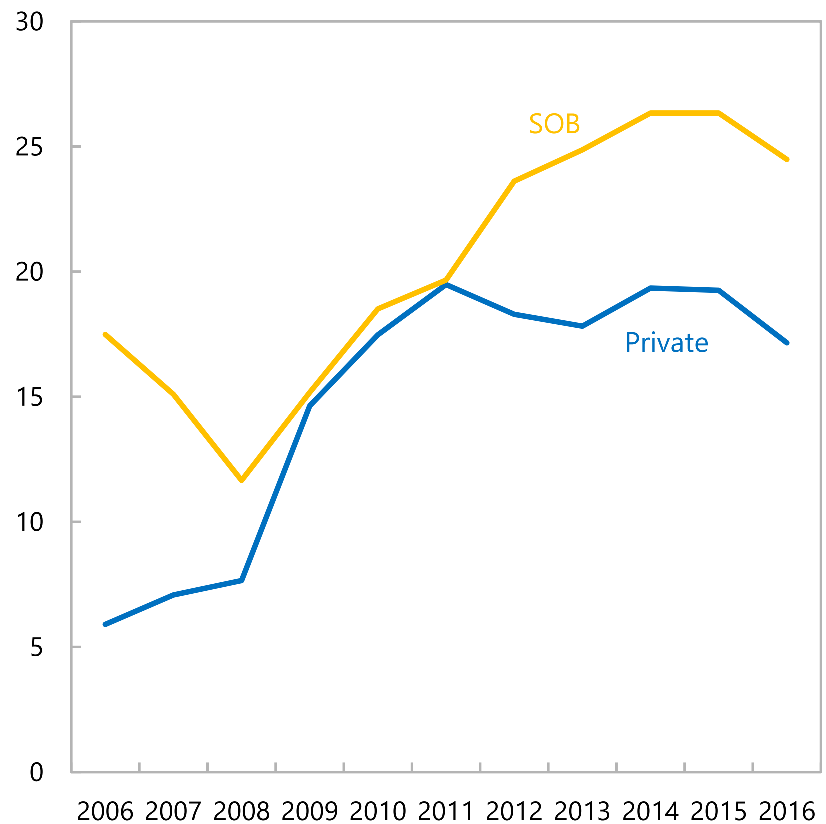
Note: 2014-16.
Sources: SBRA, IFP, CSB, LB, IMF staff calculations.

SOBs: Lower profitability ⟷ NPLs

ROA
(Percent of total assets)

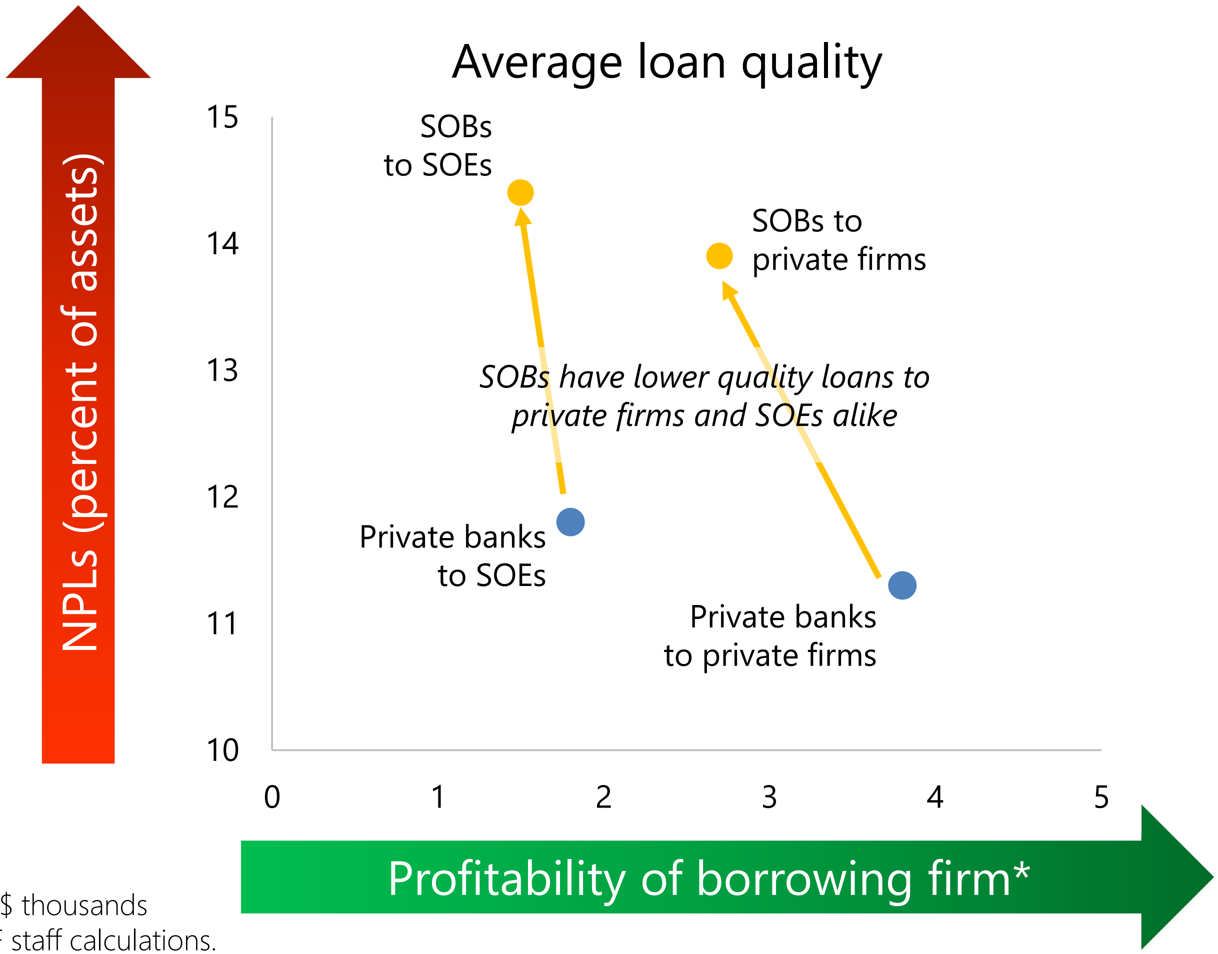


NPL ratio
(Percent, median)



Note: LHS: weighted averages, 2006-16.
Sources: Fitch, IMF staff calculations.

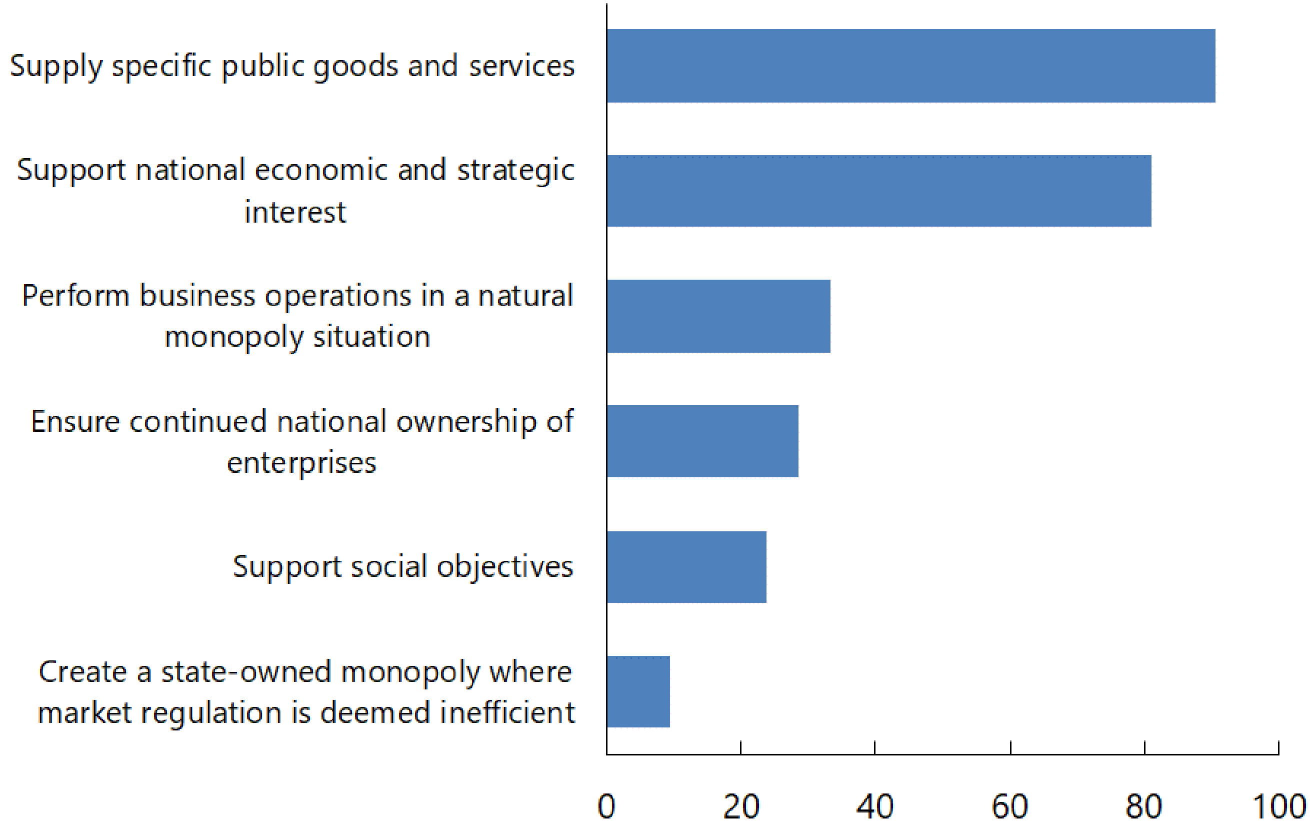
SOBs: Lending to less profitable firms



*profit per employee, US$ thousands
Sources: Fitch, Orbis, IMF staff calculations.

Stated objectives of state ownership?

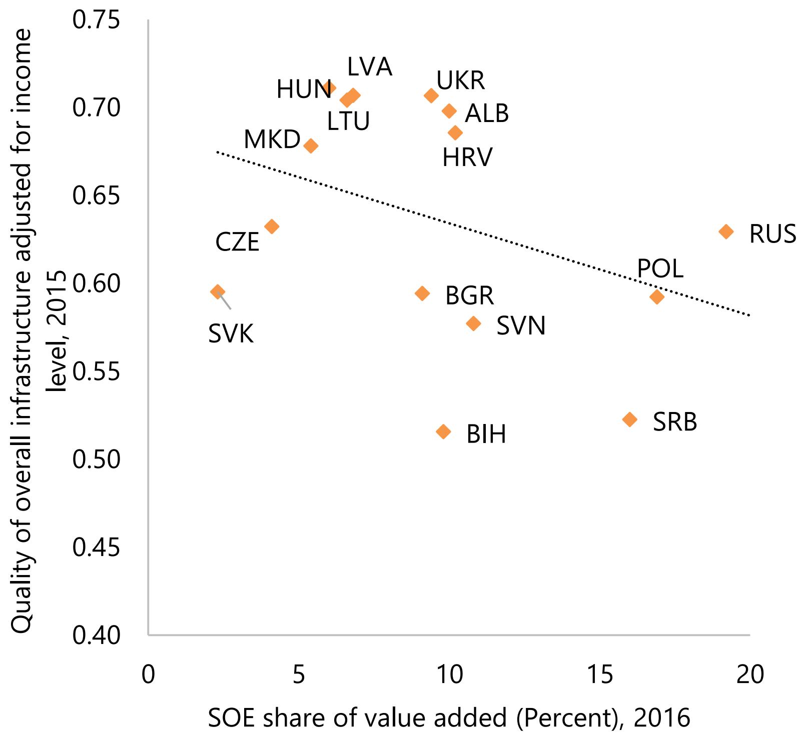
(Percent of respondents)



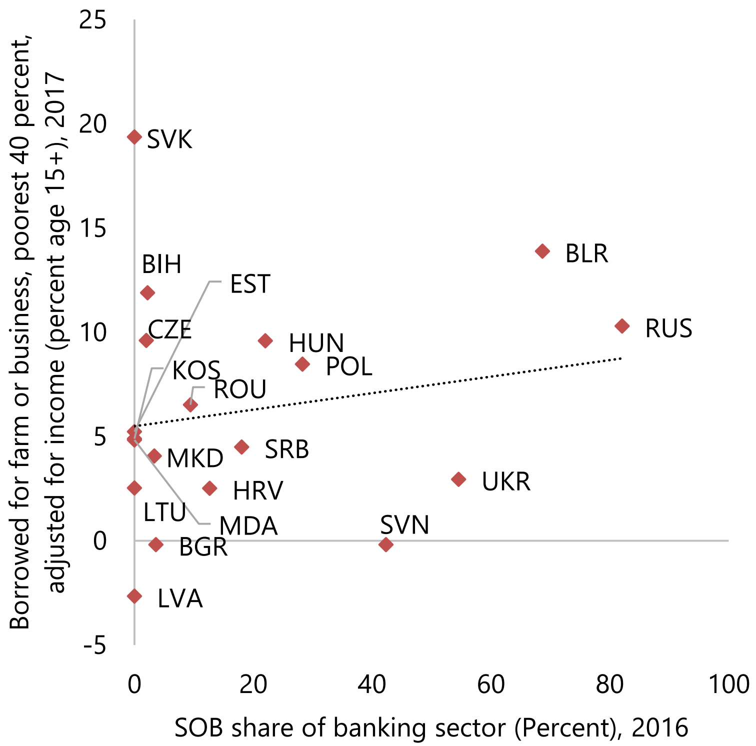
Sources: National authorities, IMF staff calculations.

Not meeting stated objectives

Quality of infrastructure



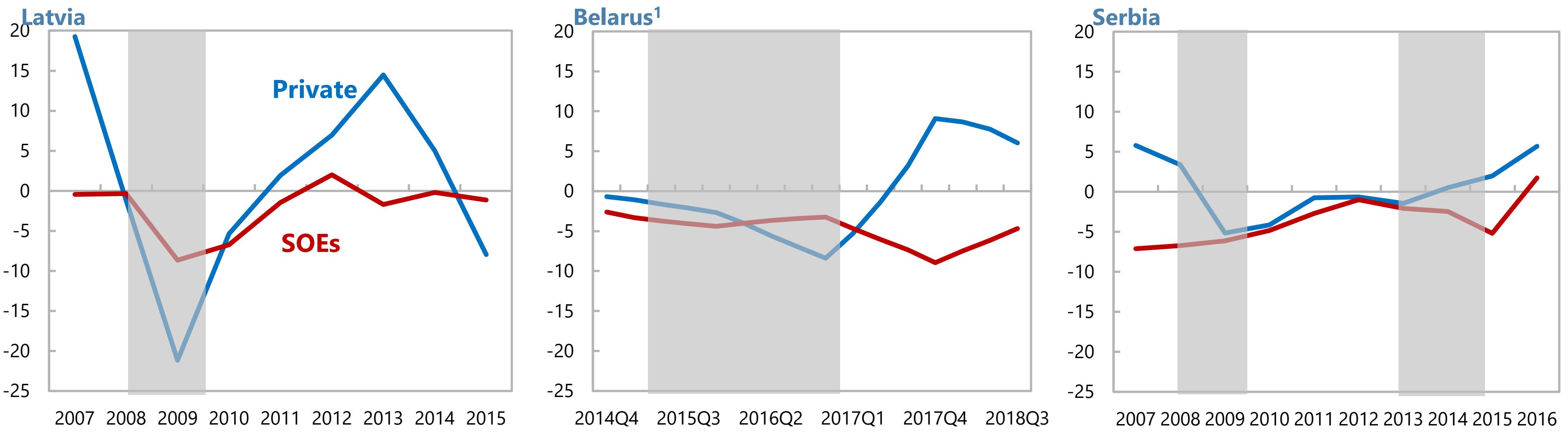
Financial inclusion



Sources: National authorities, World Economic Forum (WEF), Findex (2017), Fitch, IMF staff calculations.

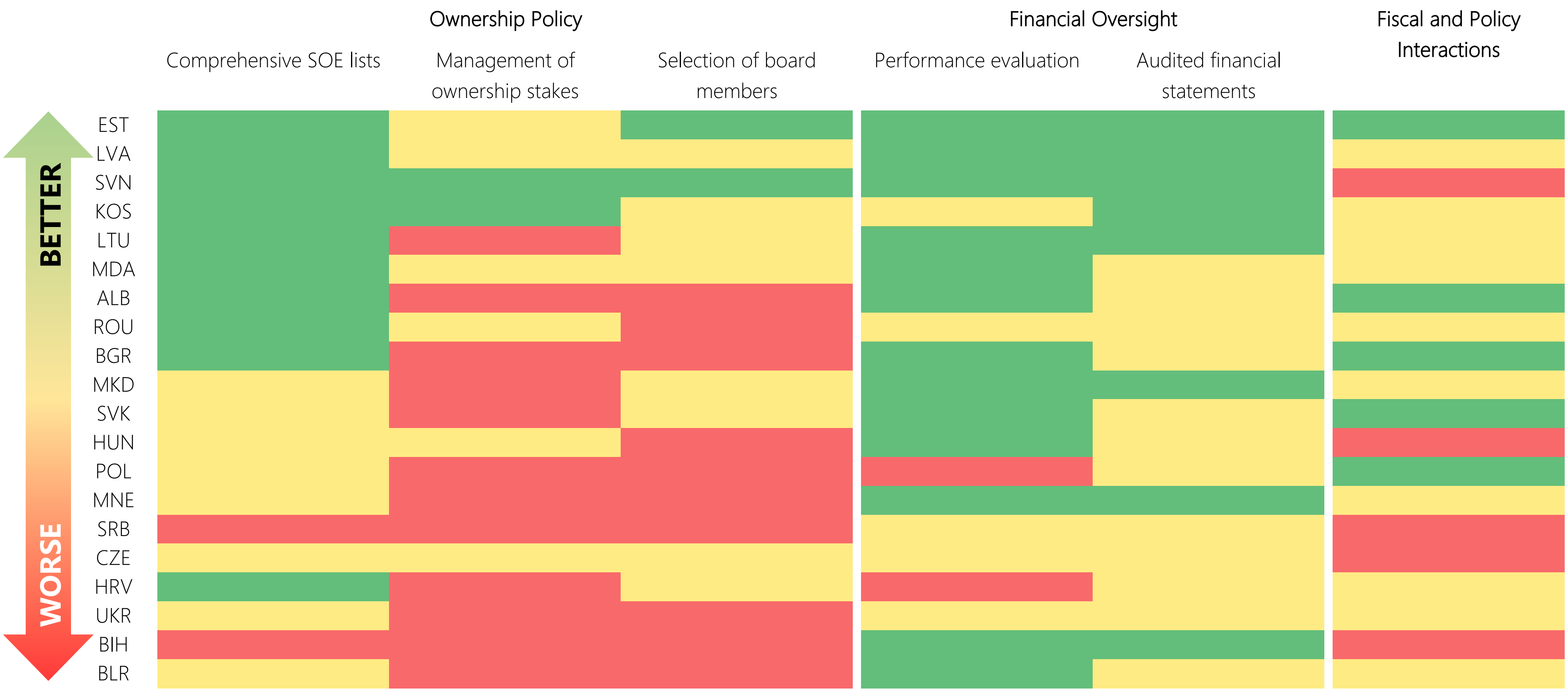
Mixed evidence of employment buffer role

Net employment dynamics
(Percent)



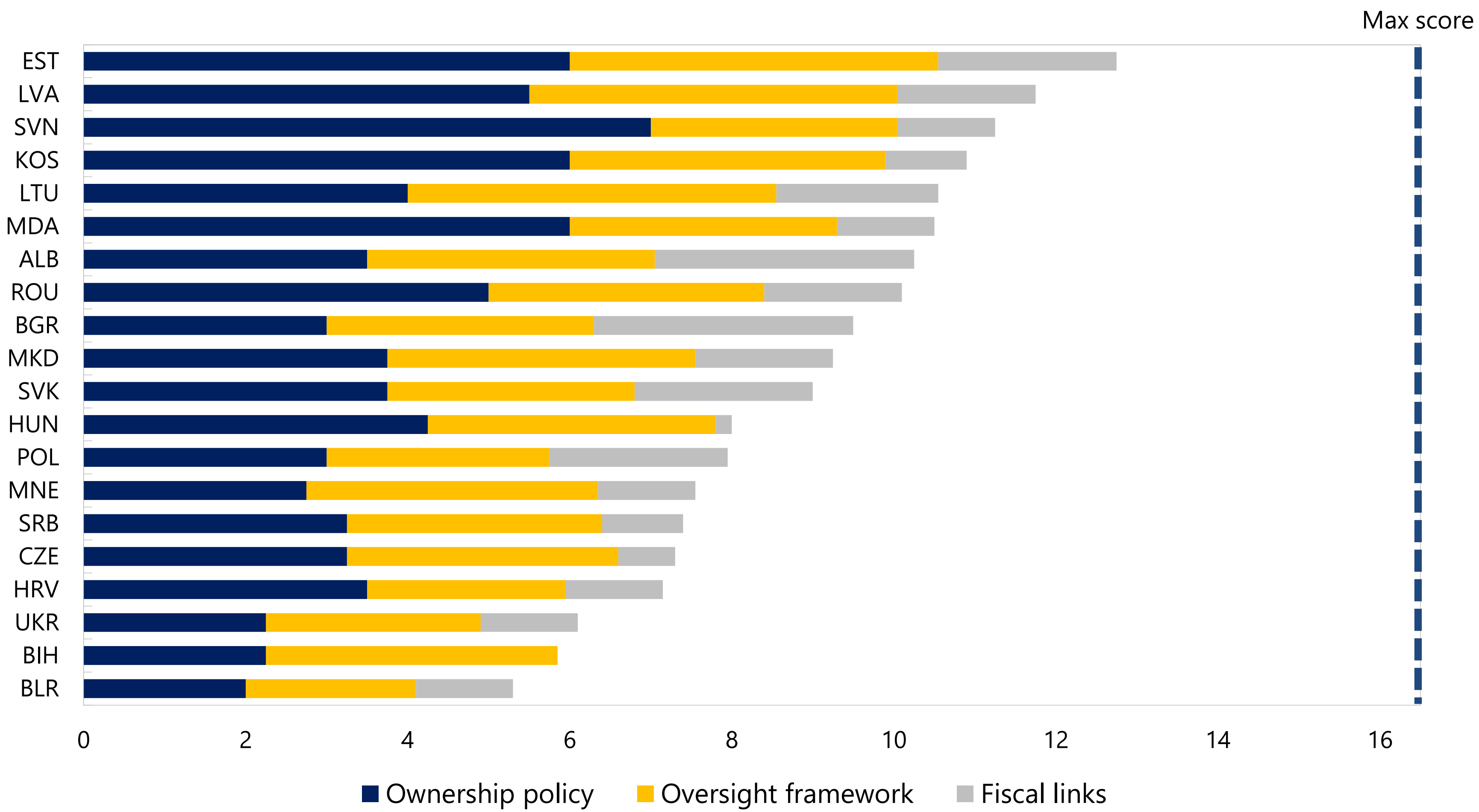
Notes: Shaded areas are crisis periods in each country; 1/ Average employment in the corporate sector (percent change; yoy 4Q ma)
Sources: CSB, LB, Benkovskis and Richmond (2019), Belstat, SBRA, IMF staff calculations.

SOEs: Scope to improve governance



Sources: National authorities, IMF staff calculations.

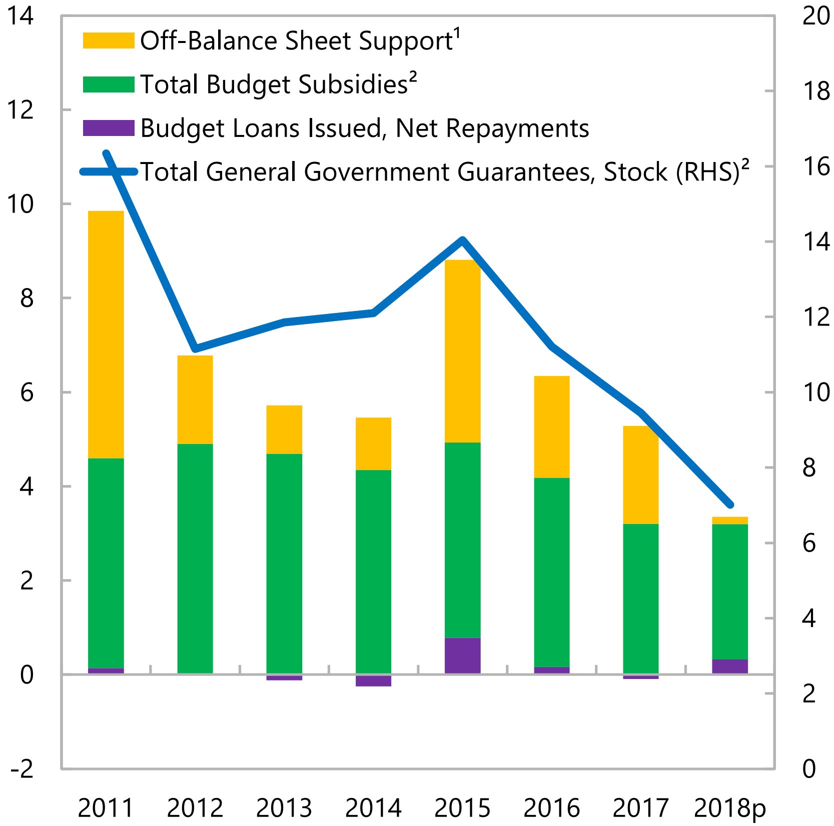
SOEs: Scope to improve governance



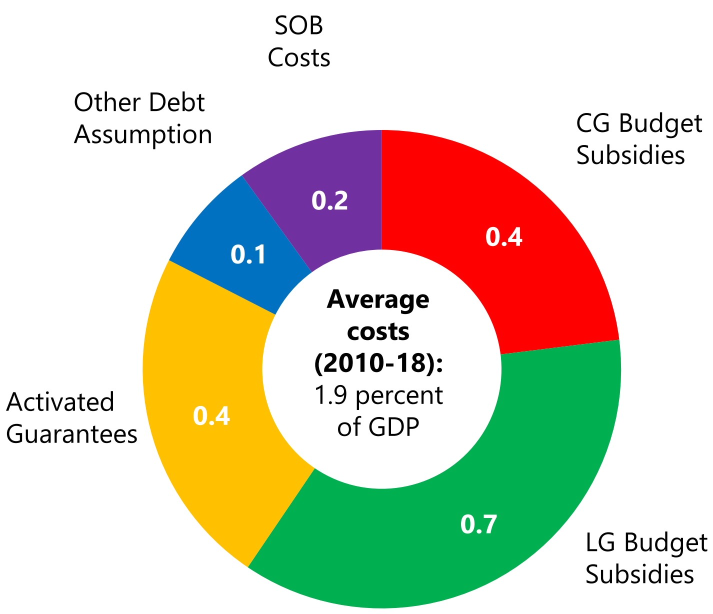
Sources: National authorities, IMF staff calculations.

Weak governance ⟷ budget consequences

Belarus: Fiscal support to SOEs/SOBs
(Percent of GDP)

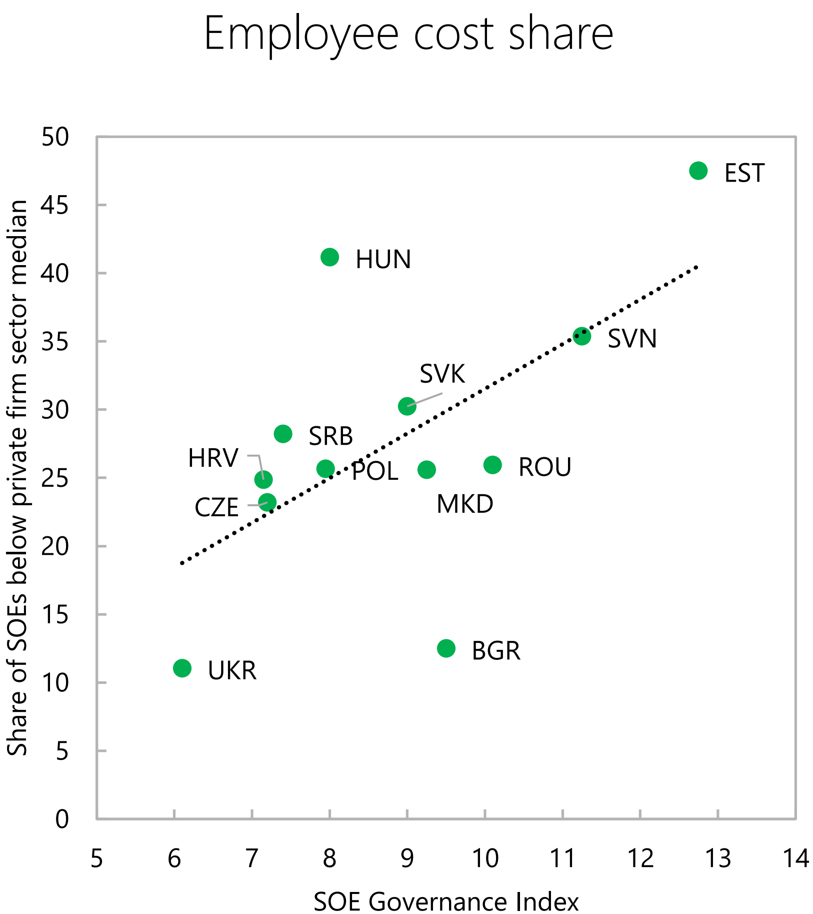


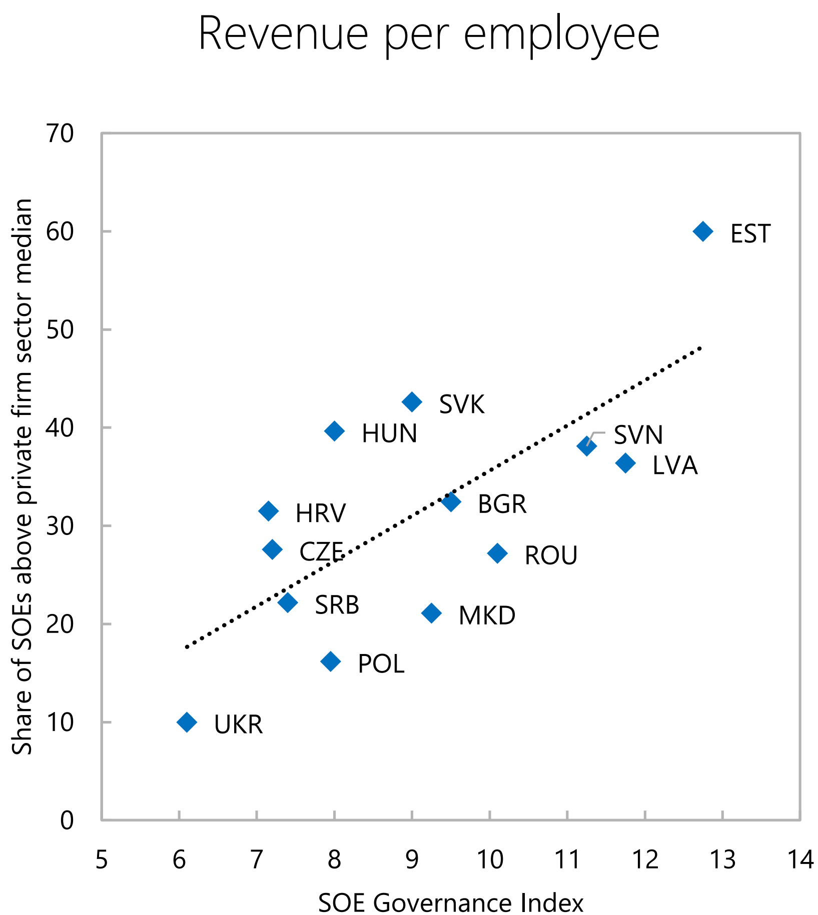
Serbia: Fiscal costs of SOEs/SOBs
(Percent of GDP)



Notes: 1./ Includes capital injections, debt restructuring, guarantees called net recoveries; 2./ Including to SOEs.
Sources: Belarus country authorities, Serbia Ministry of Finance, IMF staff calculations.

Better SOE governance = better performance





Sources: National authorities, Orbis, IMF staff calculations.

Key recommendations

- Take a fresh look at the rationale and viability for state ownership.
- Seek ways to improve SOEs and SOBs performance whether the ultimate goal is privatization or not.
- Vital to address governance short-comings, but tough choices on employment will need to be made.
- Consider broader regional coordination initiative.

Thank you

Background Information

Governance questions (1)

Ownership policy

- SOE list(s) – coverage and categorization
- Legal coverage/ exemptions
- Government oversight organization
- Government oversight unit mandate
- Existence of ownership policy document
- SOE rationale and objectives
- SOE board selection process, requirements, and composition

Governance questions (2)

Financial oversight

- SOE performance monitoring
- SOE audit requirements
- SOE reporting requirements

Fiscal and policy interactions

- SOE commercial mandate
- Government financial support
- Risk assessment function
- Dividend policy