

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



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\* The analyses, opinions, and findings represent the views of the authors, which are not necessarily those of the IMF, its Executive Board, IMF management, the EBRD, its Executive Board, or EBRD management.

# 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 we think SOEs are...



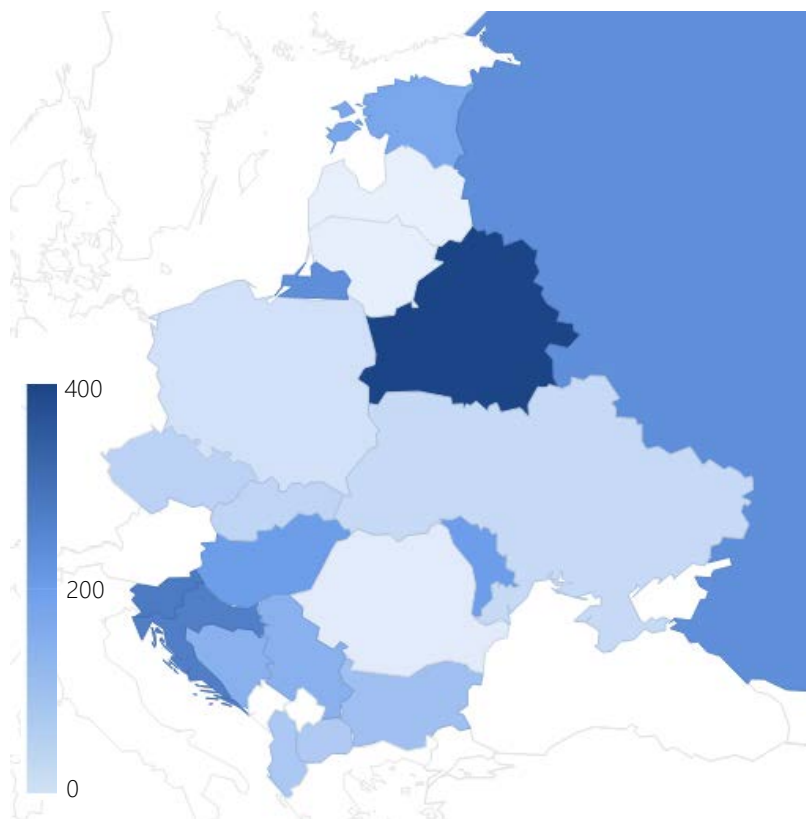


# What they actually are...

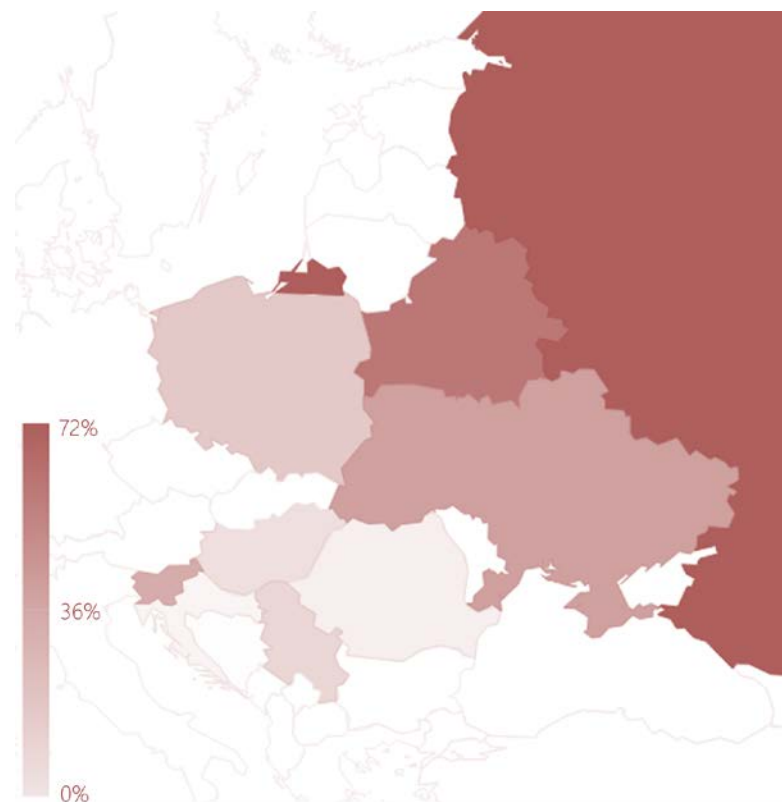


# State footprint

State Owned Enterprise prevalence  
(Per million inhabitants)



State Owned Bank prevalence  
(Percent banking assets)

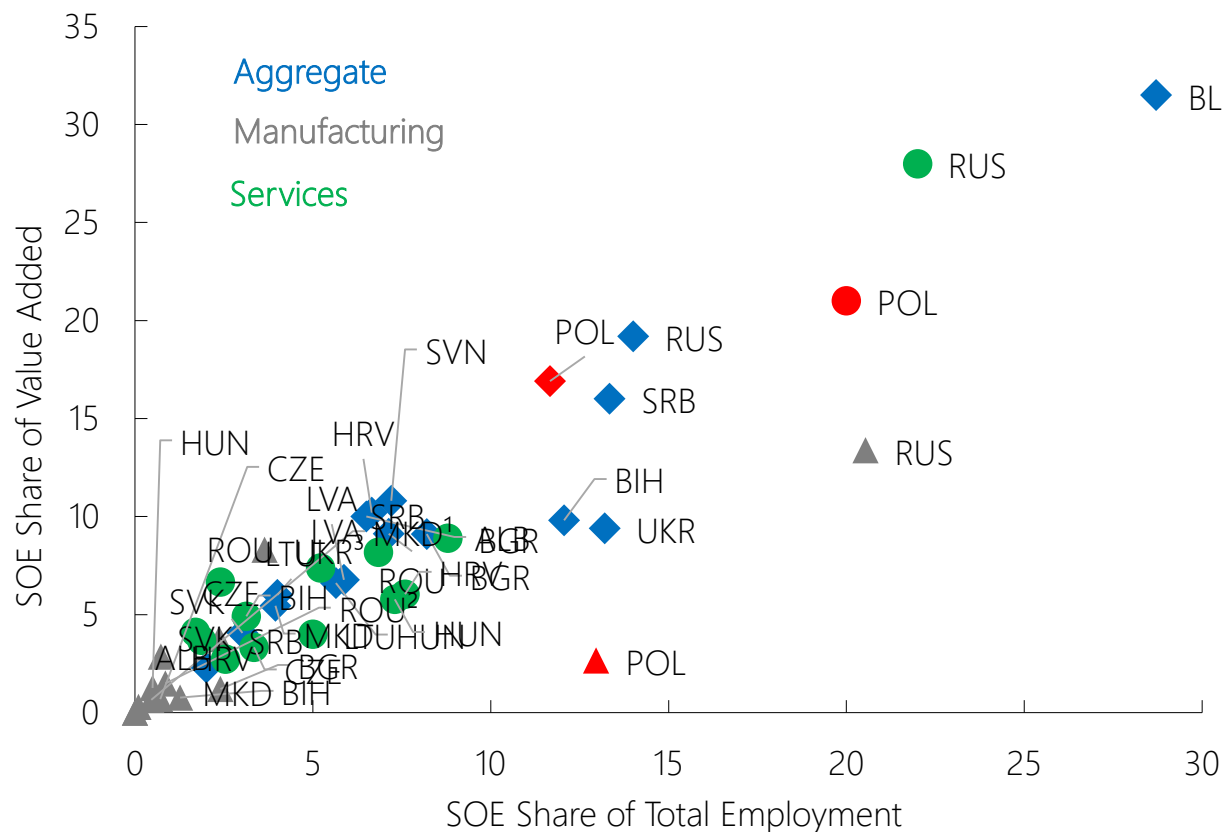


Note: 2016.

Sources: National authorities, Fitch, IMF staff calculations.

# SOEs: Significant variation across sectors

Contributions to selected sectors  
(percent of the sector)

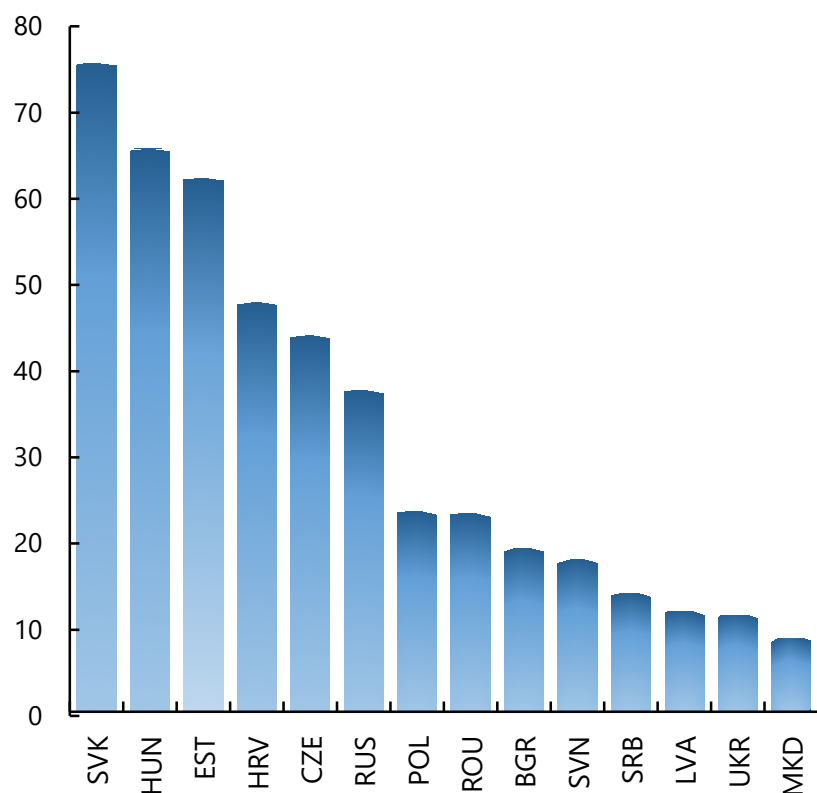


Notes: 2016; 1/ data for 2015; 2/ Turnover; 3/ data for 2017. Data for other countries not available.

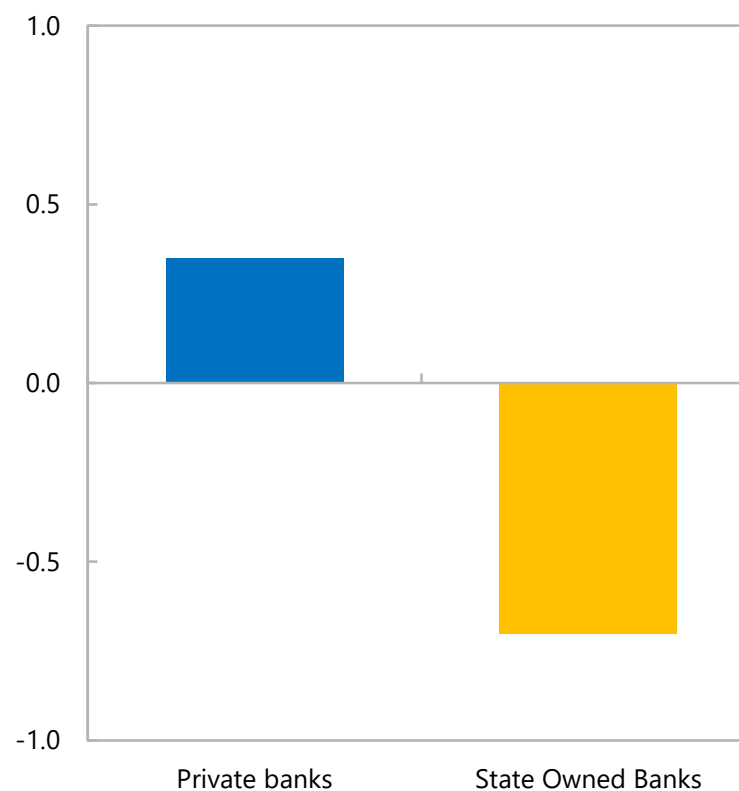
Sources: National authorities, IMF staff calculations.

# Lower profitability

SOE median ROE  
(Percent of private sector median ROE)



Bank ROA  
(percent of total assets)

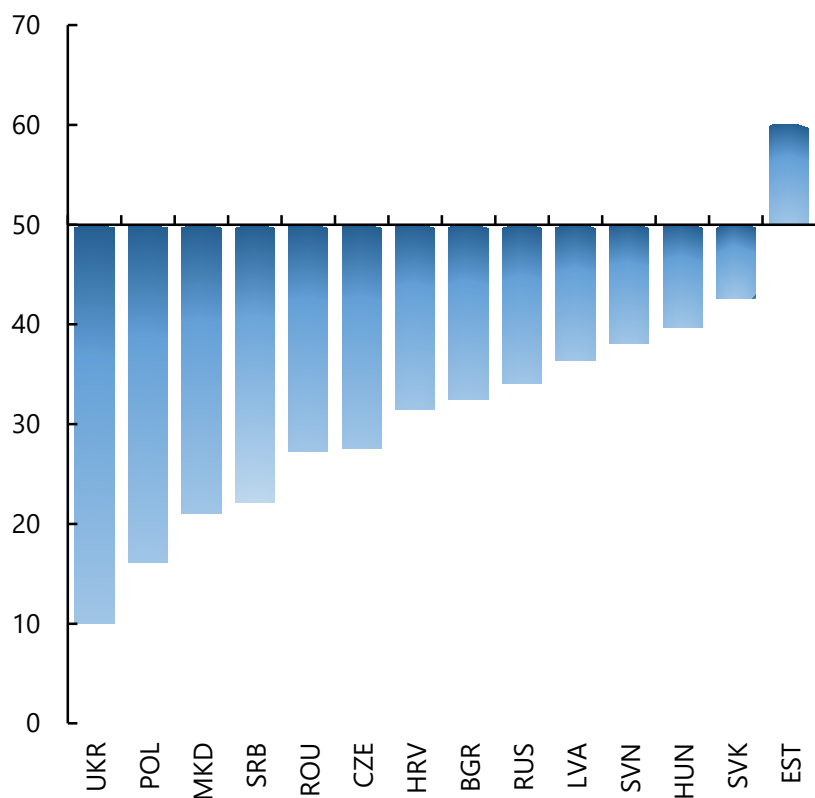


Note: LHS: 2014-16; RHS: 2006-16.  
Sources: Orbis, Fitch, IMF staff calculations.

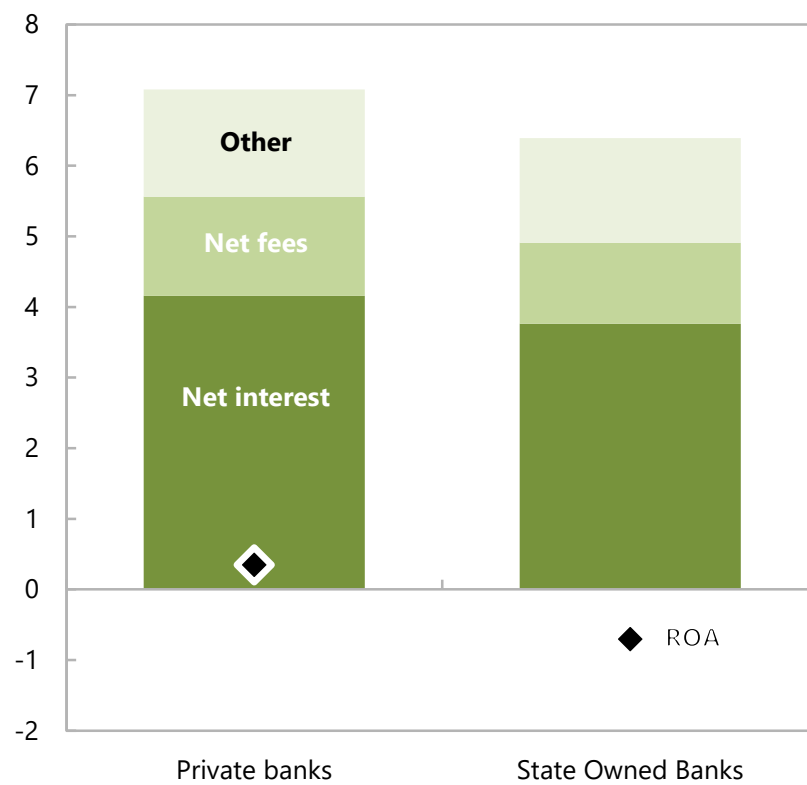


# Driven by differences in revenue and expenses

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



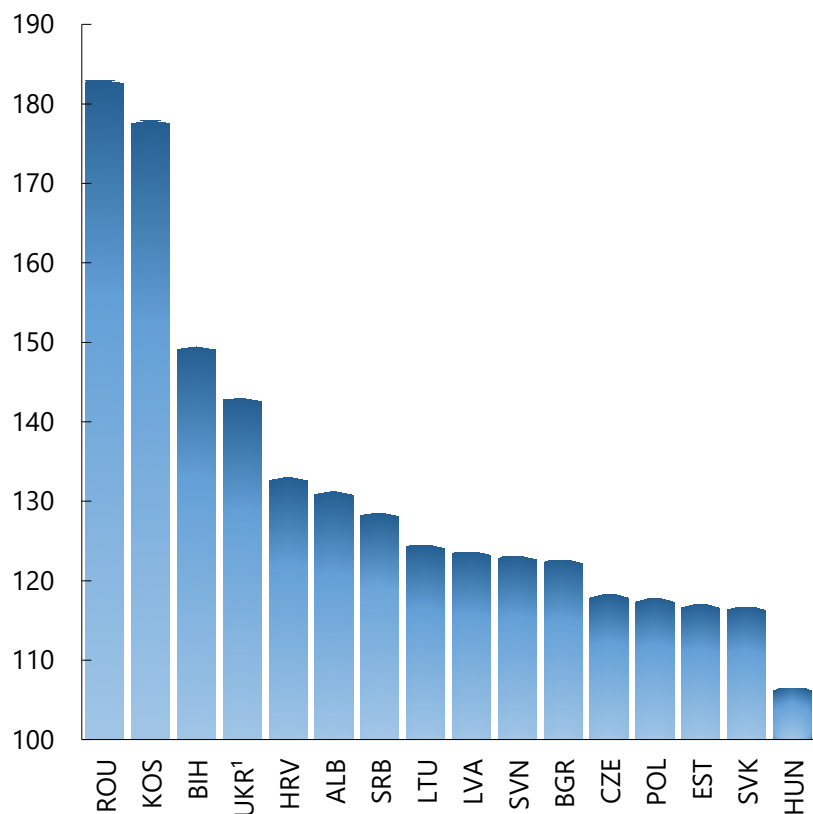
Revenue components of ROA  
(Percent of total assets)



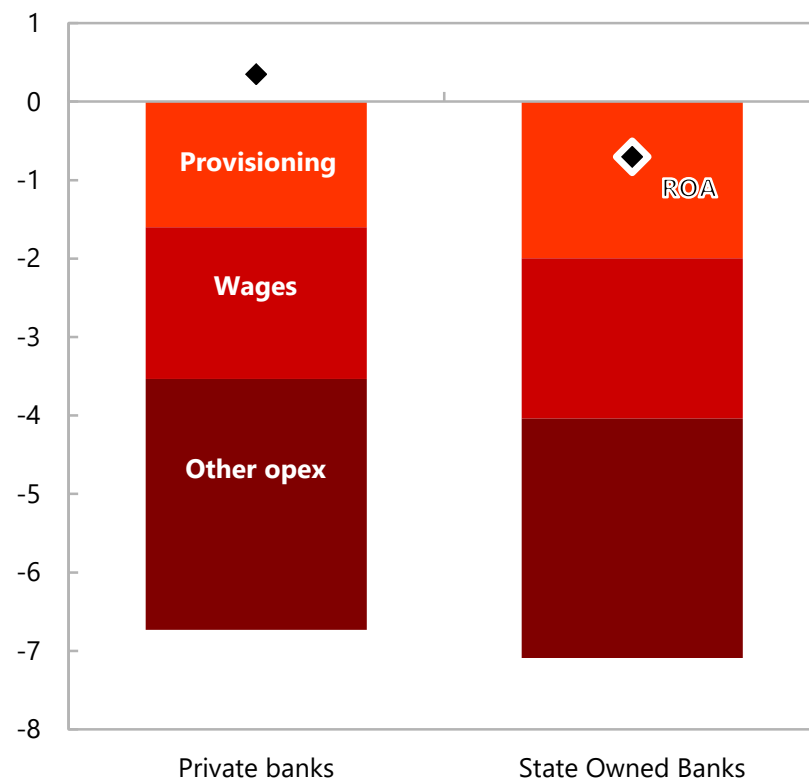
Note: LHS: 2014-16; RHS: 2006-16.  
Sources: Orbis, Fitch, IMF staff calculations.

# Driven by differences in revenue and expenses

SOE wage premium  
(Percent of average private sector wage)



Expense components of ROA  
(Percent of total assets)

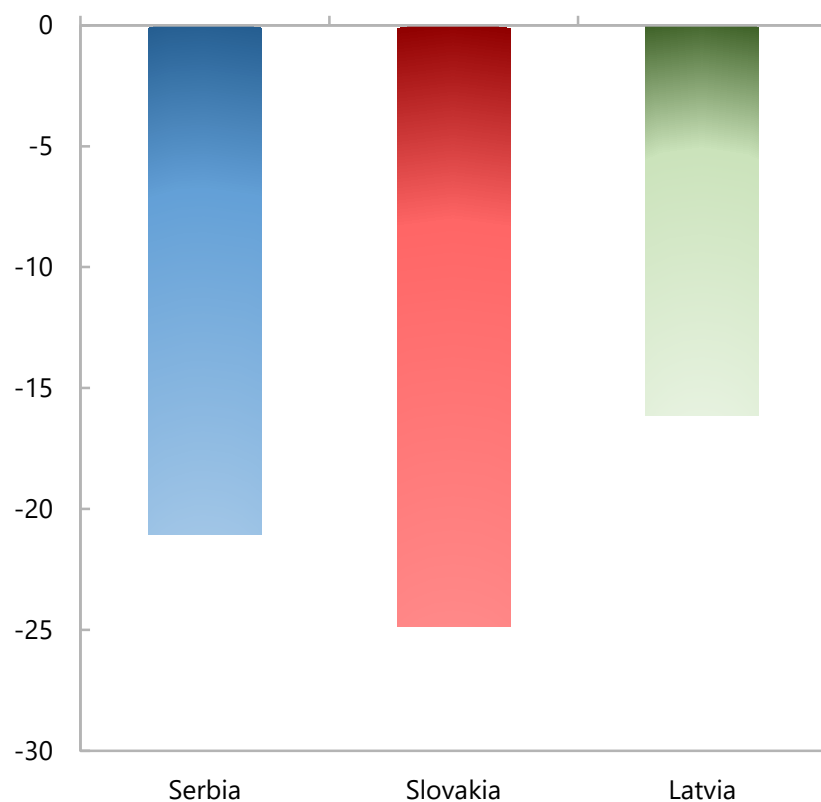


Notes: LHS: 2016; 1/ data for 2017; RHS: 2006-16.

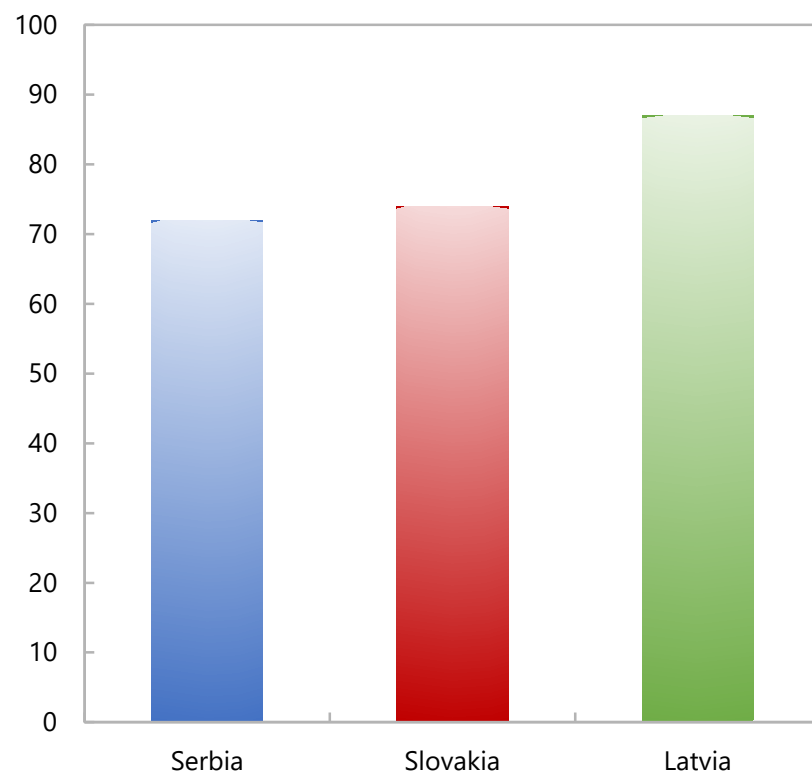
Sources: Country authorities, Haver Analytics, Fitch, IMF staff calculations.

# SOEs: Low productivity driven by labor misallocation

Productivity  
(Percent of average private firm productivity)



SOEs that should decrease labor inputs  
(Percent of SOEs)

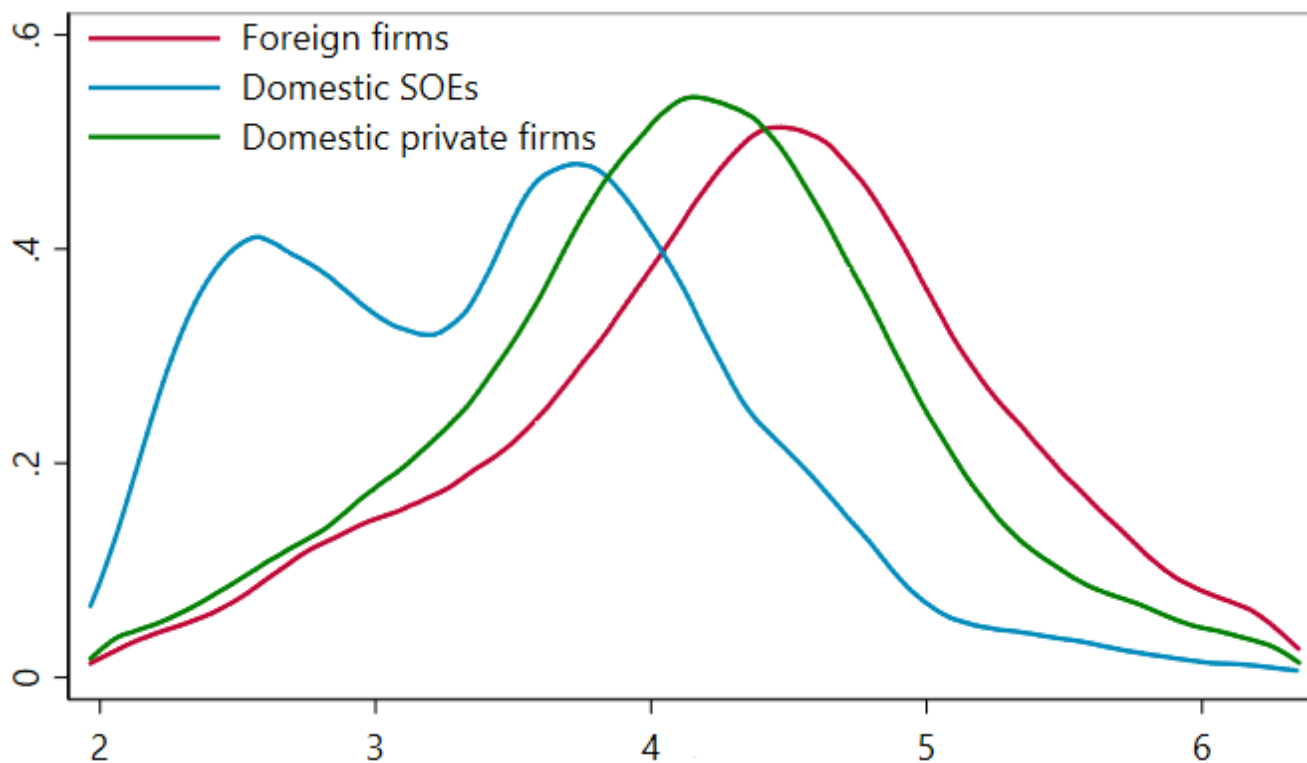


Notes: 2014-16.

Sources: SBRA, IFP, CSB, LB, IMF staff calculations.

# Poland: SOE productivity gap

TFP by Firm Ownership  
(density log TFP)

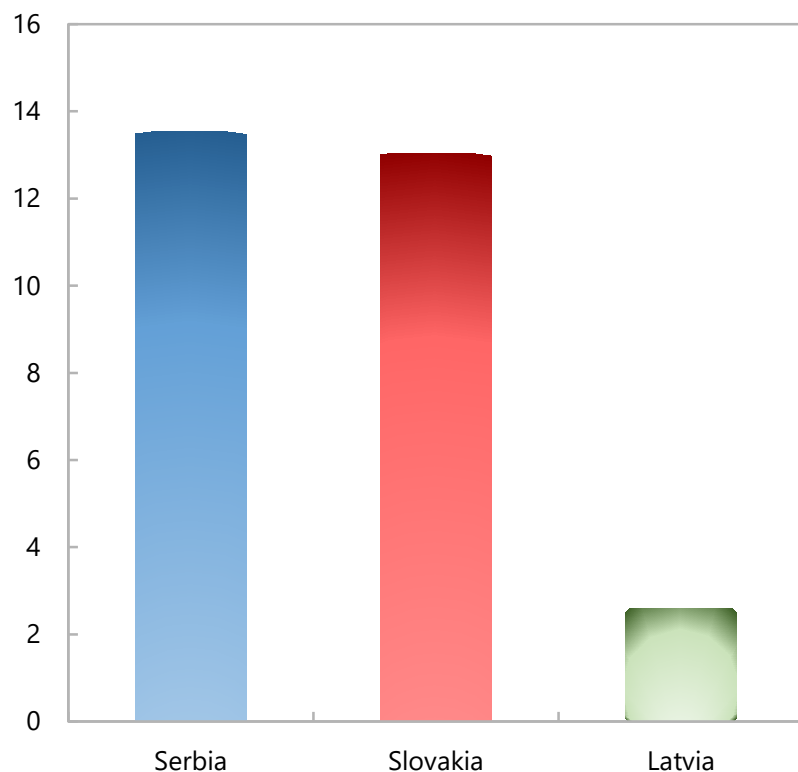


Sources: Orbis, IMF staff calculations, IMF Country Report No. 19/38.

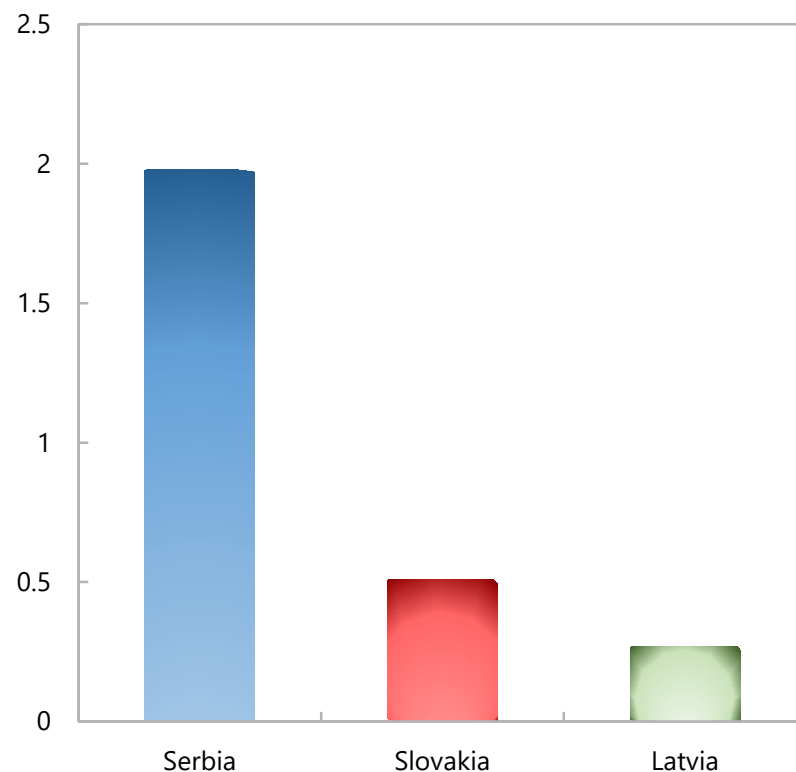


# Raising efficiency to private levels = output gains

SOE output effects  
(Percent of SOE output)



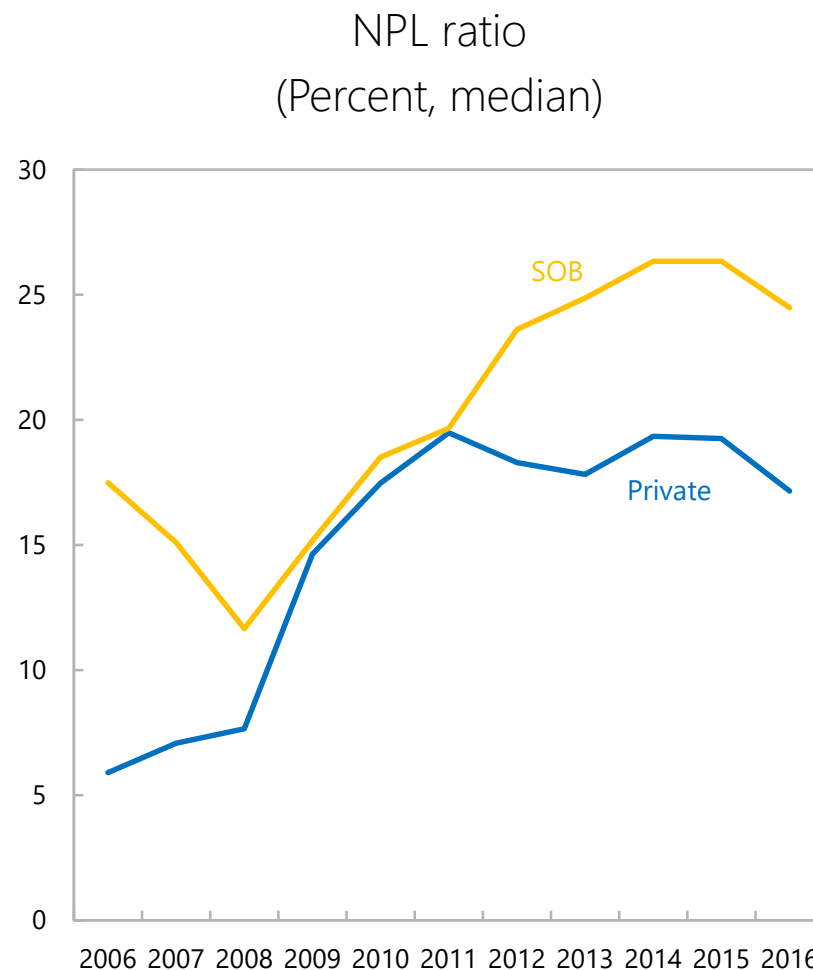
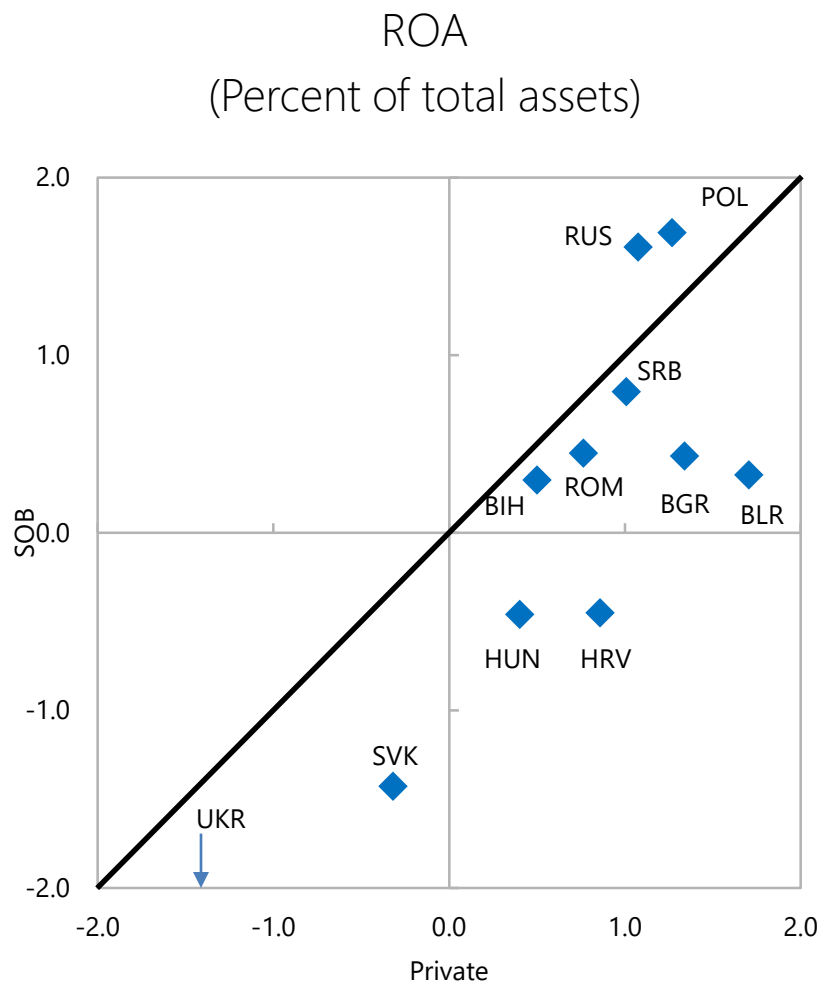
Aggregate output effects  
(Percent of GDP)



Note: 2014-16.

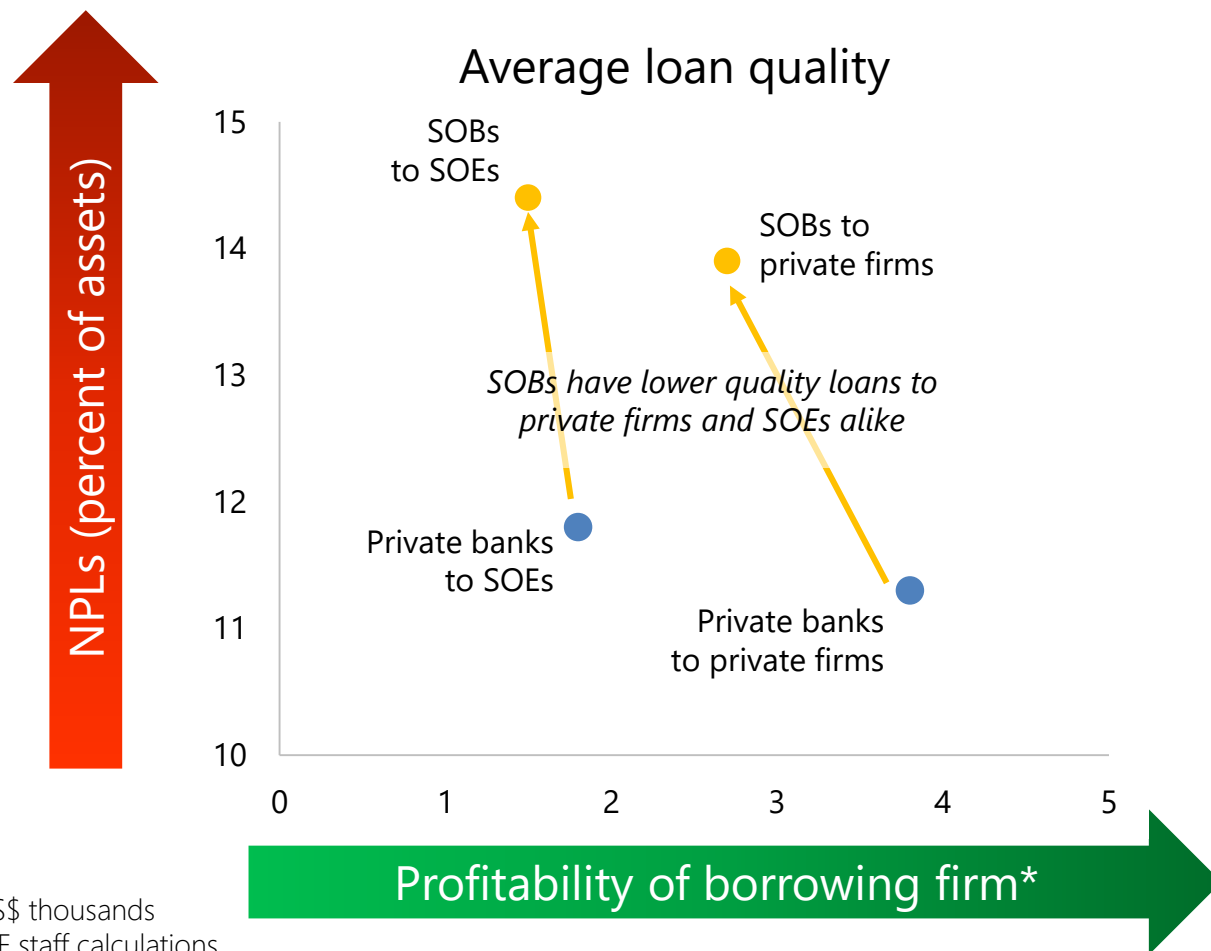
Sources: SBRA, IFP, CSB, LB, IMF staff calculations.

# SOBs: Lower profitability $\longleftrightarrow$ NPLs



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

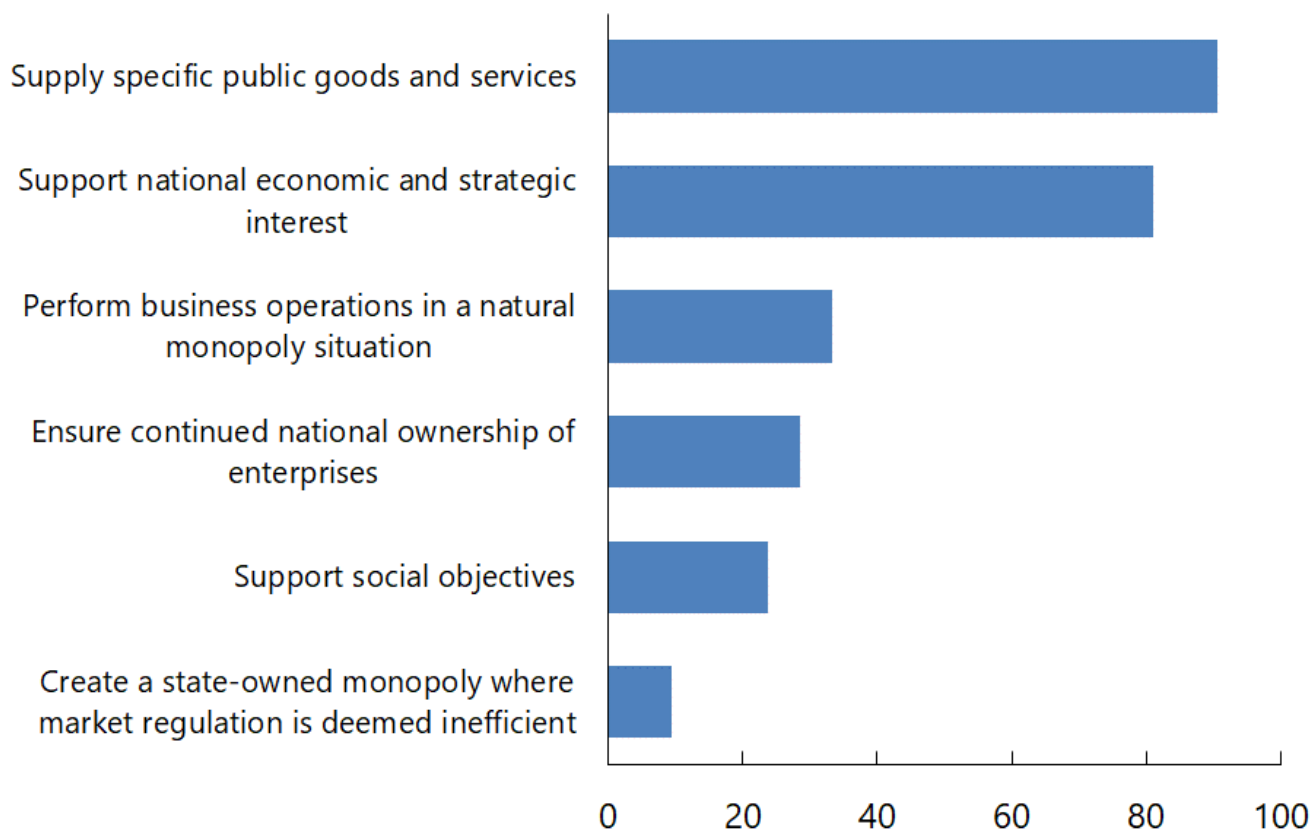
# SOBs: Lending to less profitable firms



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

# Stated objectives of state ownership?

(Percent of respondents)

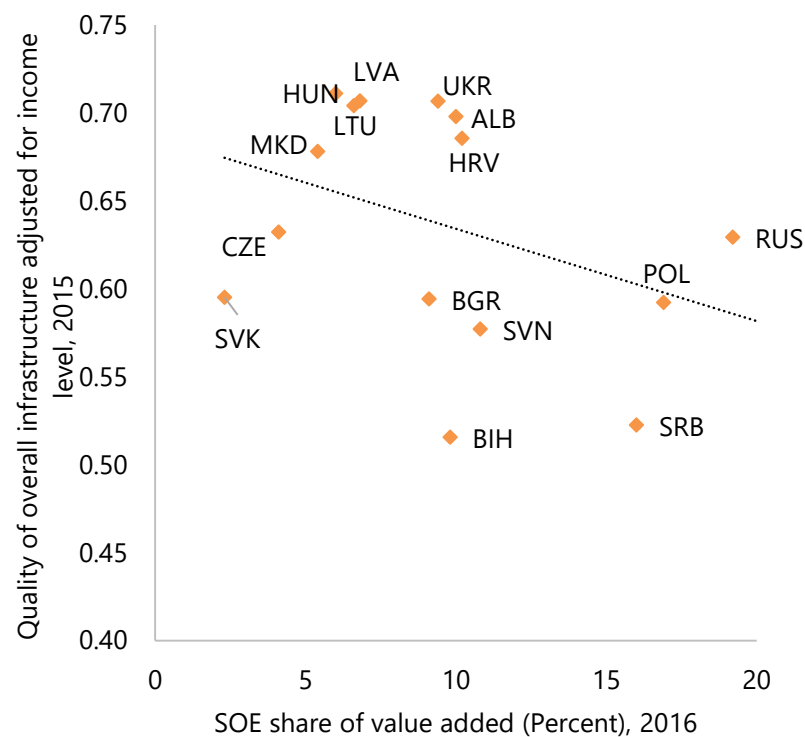


Sources: National authorities, IMF staff calculations.

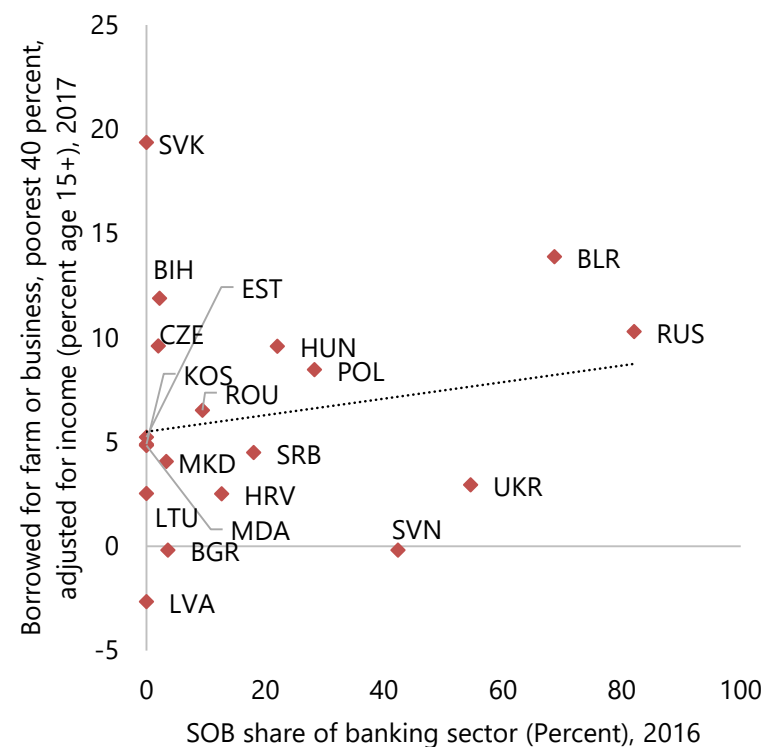


# Not meeting stated objectives

Quality of infrastructure



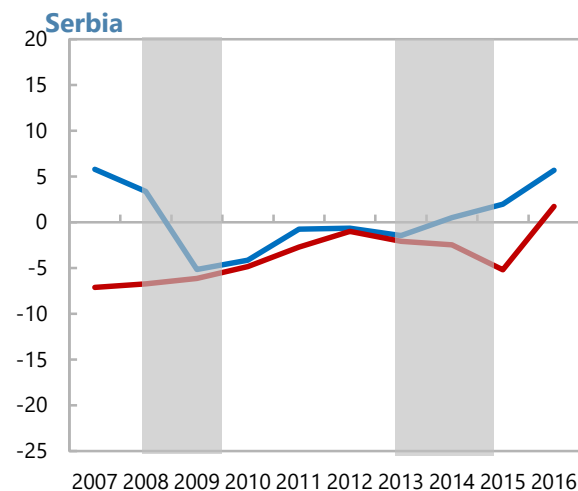
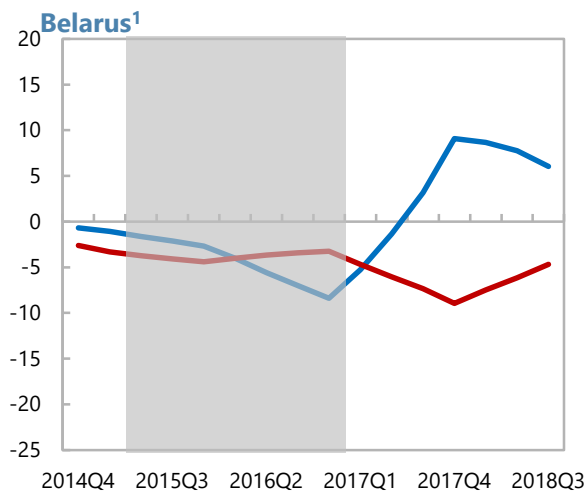
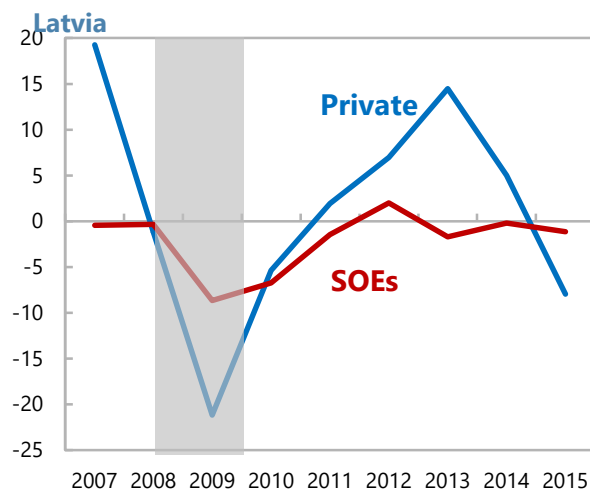
Financial inclusion



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

# Mixed evidence of employment buffer role

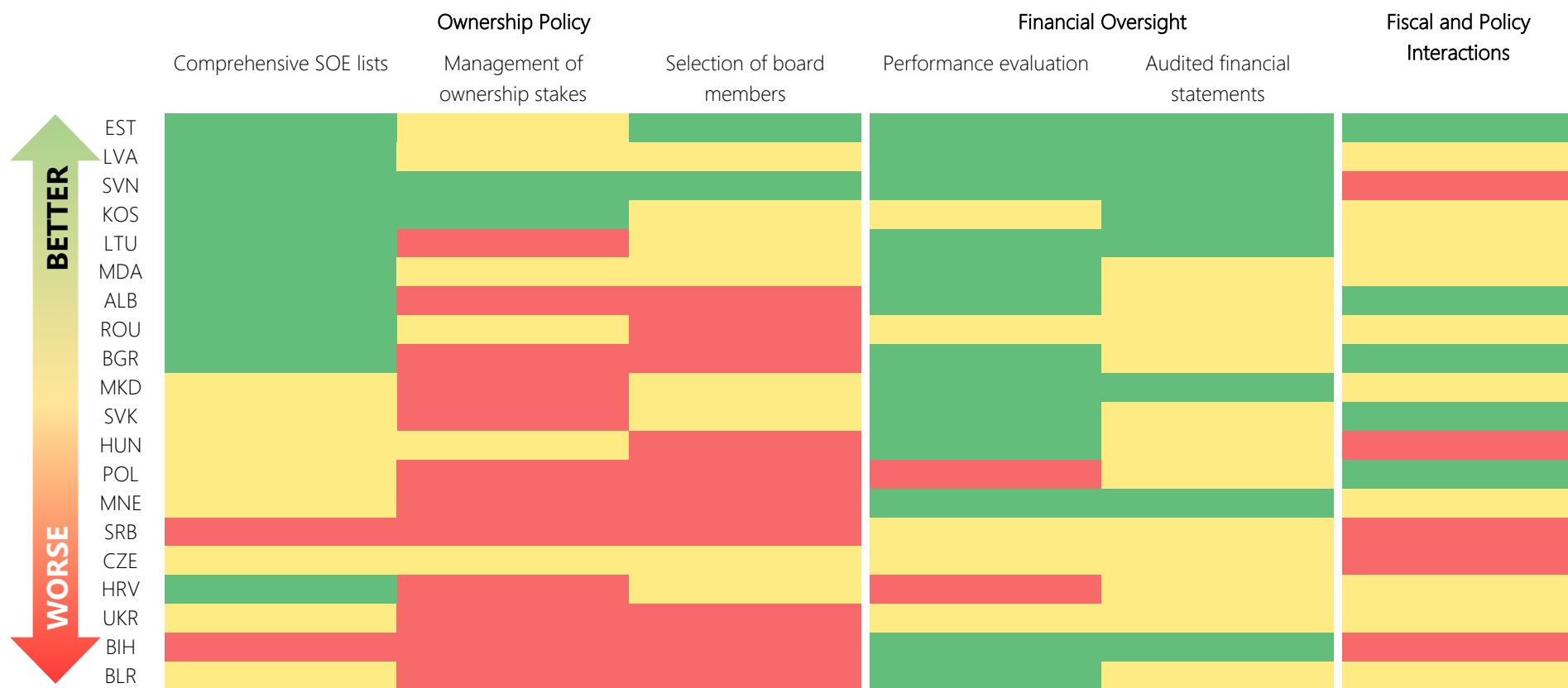
Net employment dynamics  
(Percent)



Notes: Shaded areas are crisis periods in each country; 1/ Average employment in the corporate sector (percent change; yoy 4Q ma)

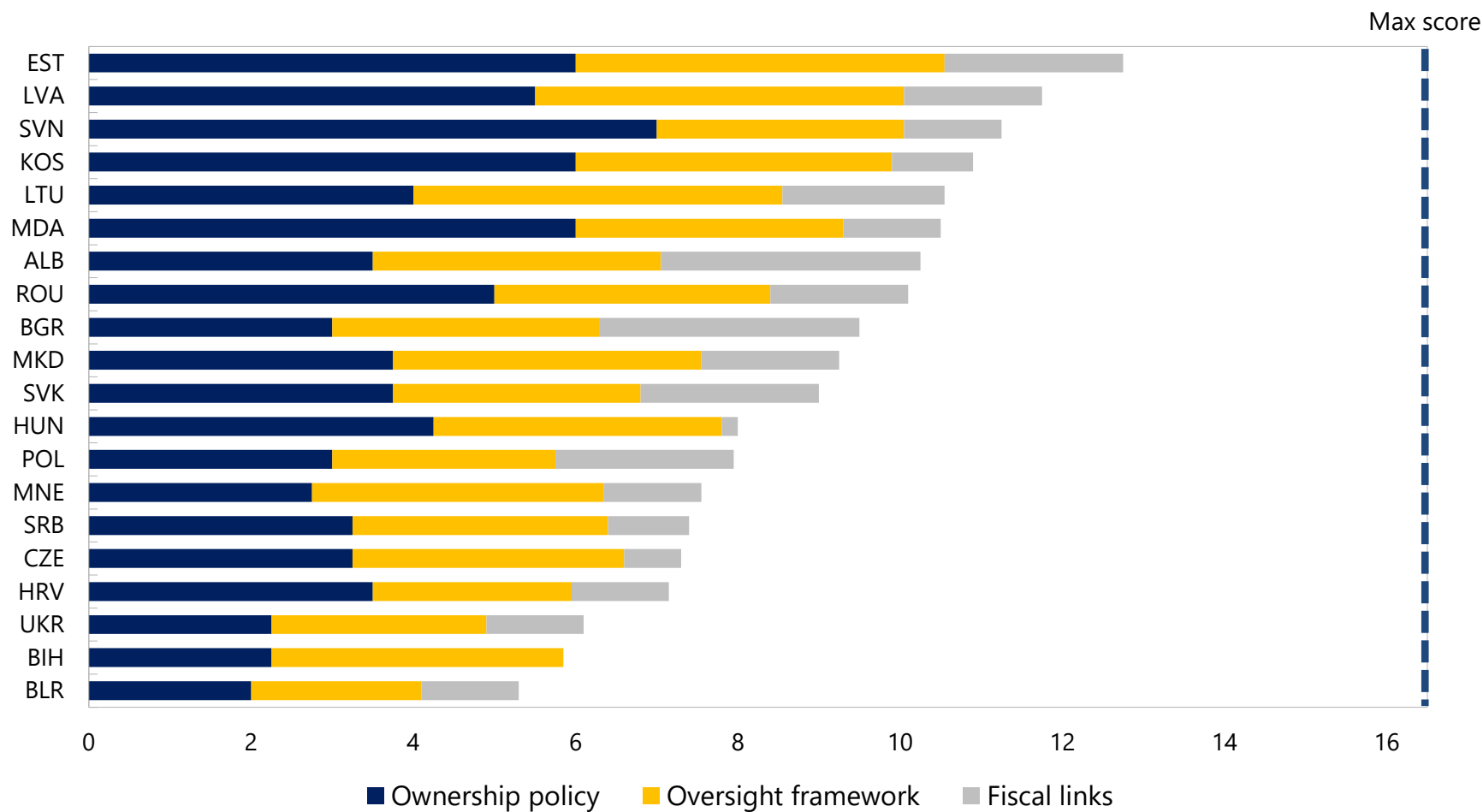
Sources: CSB, LB, Benkovskis and Richmond (2019), Belstat, SBRA, IMF staff calculations.

# SOEs: Scope to improve governance



Sources: National authorities, IMF staff calculations.

# SOEs: Scope to improve governance

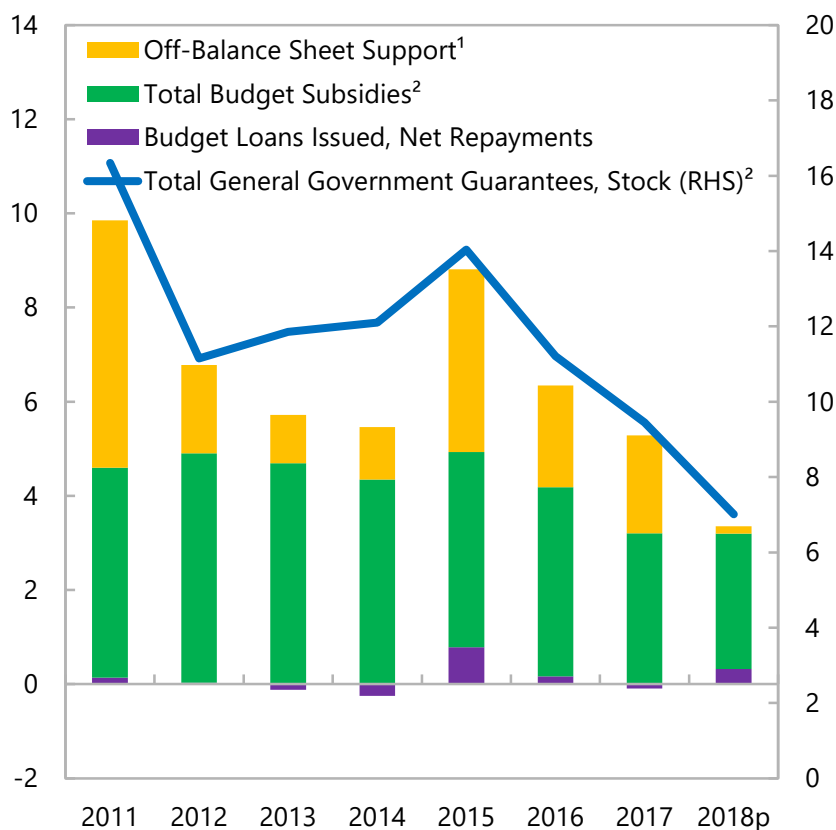


Sources: National authorities, IMF staff calculations.

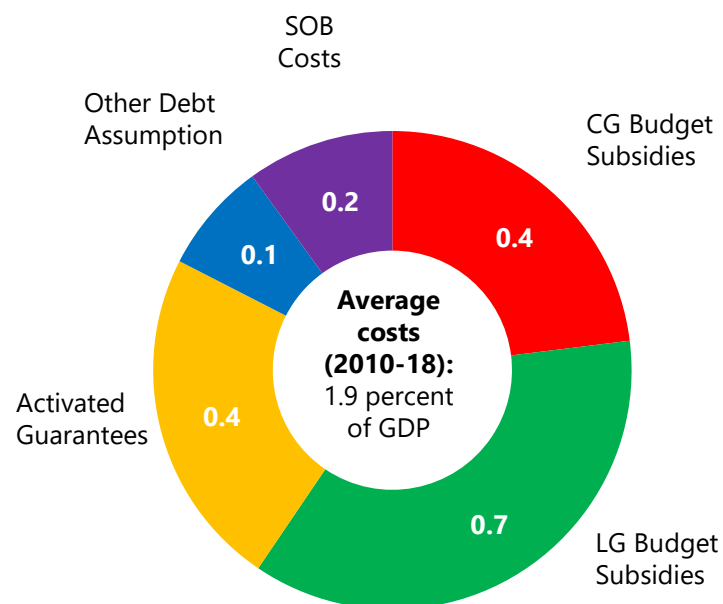


# Weak governance ↔ budget consequences

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



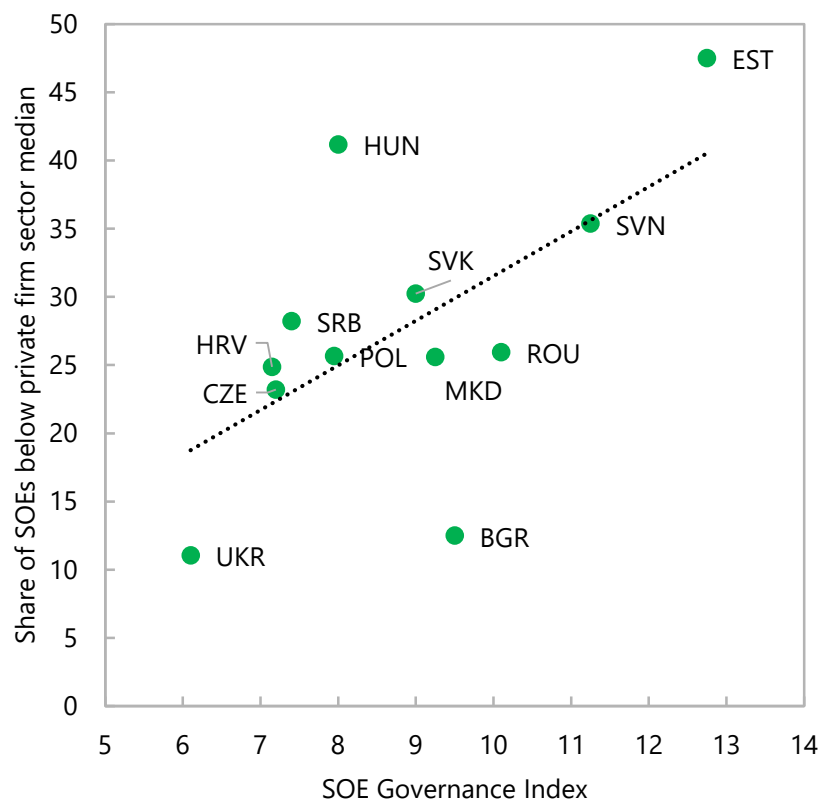
Serbia: Fiscal costs of SOEs/SOBs  
(Percent of GDP)



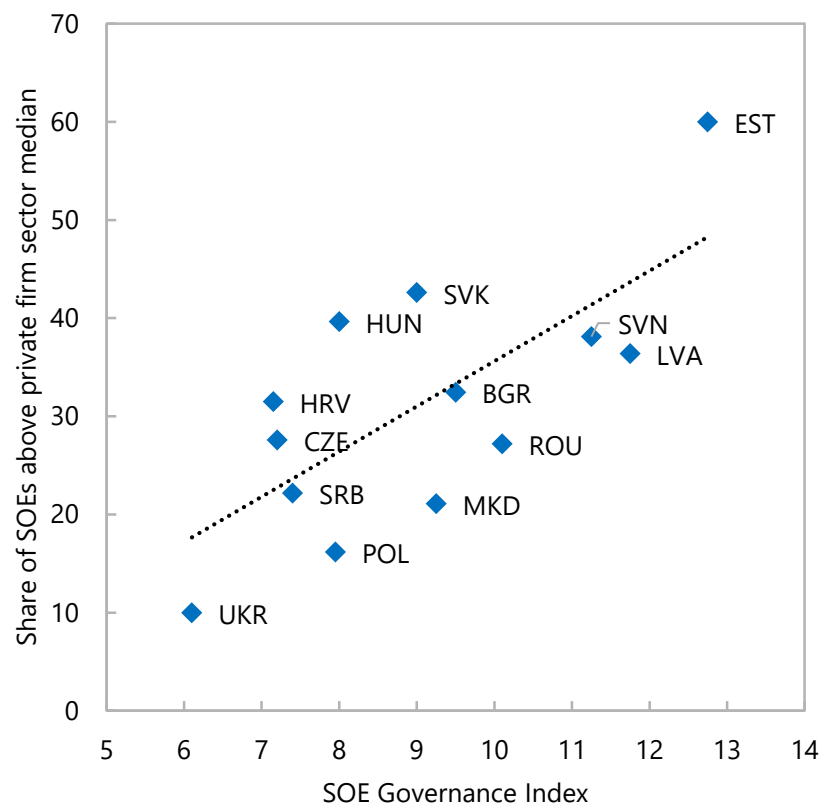
Notes: 1./ Includes capital injections, debt restructuring, guarantees called net recoveries; 2./ Including to SOEs.  
Sources: Belarus country authorities, Serbia Ministry of Finance, IMF staff calculations.

# Better SOE governance = better performance

Employee cost share



Revenue per employee



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