

# Financial performance of state-owned enterprises

Summary and main findings

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# Main objectives and data sources

- ❑ The main objective: determine the financial performance of state-owned enterprises and draw attention to issues arising from the way their business operations are monitored.
- ❑ The primary sources of the data; the Financial Agency (Fina), the Ministry of Finance and the Ministry of State Property.
- ❑ Analysis focuses on the 2008 – 2016 period

# State owned enterprises

- ❑ According to the Fina Register of Annual Financial Reports, 1,149 enterprises in Croatia were majority-owned by the state in 2016
- ❑ In 2017, out of all enterprises (2017 Draft Plan for the Management of State Assets) more than 600 were controlled by the general government, but majority-owned by local and regional self-government
- ❑ Among enterprises controlled and majority-owned by the state, 49 are classified as being “of strategic interest” or “of special state interest”. The distinction between the two types of enterprises, however, is not very clear

# The structure of government's portfolio

- In 2013, the central government's strategic part of the portfolio was divided into three categories:
  - 1) Enterprises and other legal persons of strategic interest for the Republic of Croatia
  - 2) Enterprises of special interest majority-owned by the Republic of Croatia
  - 3) Enterprises of special interest less than 50% owned by the Republic of Croatia, listed on the stock exchange

# The size and structure of government's portfolio

Period	Enterprise owned by the state and local self-government units	State-owned enterprise		Mixed enterprises –majority public capital	Enterprises majority-owned by the state, total	Mixed enterprises – majority private capital
		Transformation of ownership is ongoing	Transformation of ownership is pending			
	1	2	3	4	1+2+3+4	5
2008	638	59	81	267	<b>1,045</b>	434
2009	666	45	76	272	<b>1,059</b>	430
2010	705	46	67	242	<b>1,060</b>	439
2011	714	48	69	219	<b>1,050</b>	432
2012	749	57	69	199	<b>1,074</b>	421
2013	740	24	63	178	<b>1,005</b>	408
2014	819	22	43	170	<b>1,054</b>	390
2015	849	24	47	144	<b>1,064</b>	369
2016	925	43	42	139	<b>1,149</b>	340

Source:  
Authors'  
systematization  
according to Fina  
(2017)



# Gross operating results of enterprises of strategic interest pertaining to state portfolio, 2005 – 2016 (in HRK m)

	Number of companies	Enterprises of strategic interest for the Republic of Croatia	Enterprises of special interest majority-owned by the Republic of Croatia	Enterprises of special interest less than 50% of which is owned by the Republic of Croatia	Total profit/loss of enterprises of strategic interest in the portfolio	Total share capital	Modified ROE (%)
2005	9	-	-	-	1,811	39,122	4.63
2006	8	-	-	-	1,619	39,122	4.14
2007	20	-	-	-	1,661	128,288	1.29
2008	19	-	-	-	-265	119,288	-0.22
2009	69	-	-	-	-3,260	145,058	-2.25
2010	63	-	-	-	2,258	143,323	1.58
2011	49	-171	399	2,755	2,983	49,015	6.09
2012	49	-656	-519	1,089	-86	49,015	-0.18
2013	49	1,068	-314	-2,194	-1,440	49,015	-2.94
2014	49	3,804	-1,065	-2,491	249	49,015	0.51
2015	49	2,947	421	-1,224	2,144	50,785	4.22
2016*	49	4,426	294	967	5,687	50,785	11.20

\* A report on the operating results of enterprises pertaining to state portfolio has not been made public in 2016; the authors have thus systemized the operating results of publicly-owned enterprises marked as enterprises of strategic interest in 2015. Vukovar Port has not made public its operating results for 2016 and was thus exempt from the analysis.

Source: Authors' systematization based on Ministry of State Property's report on the management of state assets, publicly-owned enterprises' financial reports, and Government report on the implementation of the state asset management plan.

# Gross profit of state-owned enterprises, 2008 – 2016 is HRK 29,5 bill

- ❑ In 2005, only nine companies made a gross profit amounting to HRK 1.8 bn. In 2016 there were 38 companies with a gross profit amounting to HRK 6 bn. More than one half of the profits in the portfolio were generated by two publicly-owned enterprises – HEP and INA
- ❑ As many as 15 enterprises have made less than HRK 10 m in profits in the last nine years
- ❑ What is even more worrying is the fact that some enterprises which have been owned by the state the longest are nowhere to be found among profitable enterprises – the Institute of Immunology, Croatian Railways – Infrastructure, or the Marine Electronic Centre
- ❑ The weak performance of the majority of SOEs suggests that detailed audits are required and decisions regarding their future in the state portfolio must be made

# State owned enterprises profit/dividends and payments into the state budget, 2011 – 2016

Year	Liabilities according to Government decision	Amount paid	Amount due	
			Total	HEP Group
2011	1,015	924	91	0
2012	1,181	682	499	235
2013*	971	577	394	155
2014	1,319	1,107	211	164
2015	1,650	884	766	731
2016	2,645	1,469	1,176	470

*Source: Author's systematization according to data on the financial reports of publicly-owned enterprises found on the Ministry of Finance website, Government decisions on the payment of profit/dividend into the state budget and the Decision on profit distribution available on the Fina (2017).*

*\* The 2013 Government decision was not found; therefore, an estimation was made as per the 2012 decision, according to which 50% of net profits are to be paid into the state budget.*



# Net losses of the largest SOEs, 2008 – 2016 is HRK 16,8 bill

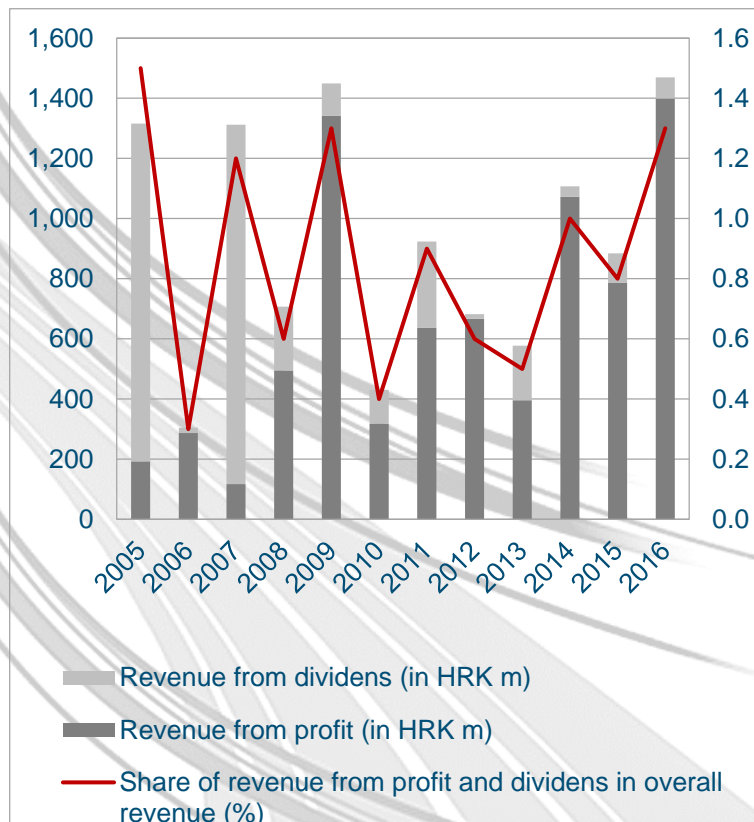
	2008	2009	2010	2011	2012	2013	2014	2015	2016	Total 2008– 2016
Croatian Railways – Infrastructure					-245	-838				-1,083
3. maj		-455	-243							-698
Borovo		-146								-146
Brodosplit		-129	-427							-556
Brodotrogir		-175	-253							-428
Croatia Airlines		-199	-157	-113	-488					-957
Croatia Bank					-104					-104
Croatia Insurance						-229	-466			-695
Croatian Post	-254	-207								-461
Croatian Postal Bank		-449					-630			-1,079
Croatian Railways – Cargo)					-249	-198	-170		-121	-738
Croatian Railways – Passenger Transport)					-146	-362				-508
Đuro Đaković						-189				-189
INA		-631				-1,508	-1,897	-1,418		-5,454
IPK Osijek		-153								-153
Kraljevica Shipyard		-128	-258							-386
Motorway Rijeka – Zagreb)	-246	-213	-325	-371	-239					-1,394
Petrokemija		-268	-136		-187	-327	-364			-1,282
Podravka		-381								-381
Sunčani Hvar						-176				-176
<b>Total</b>	<b>-500</b>	<b>-3,534</b>	<b>-1,799</b>	<b>-484</b>	<b>-1,658</b>	<b>-3,827</b>	<b>-3,527</b>	<b>-1,418</b>	<b>-121</b>	<b>-16,868</b>

*Source: Author's systematization in accordance with the publicly-owned enterprises' reports on the Ministry of Finance website, the Ministry of State Property website, and the report on the execution of the 2015 Plan on the Management of State Assets.*

*Note: The table only contains the enterprises that have sustained the most significant losses.*

# Profit/dividends and payments into the state budget, 2011 – 2016

Revenue from profit and dividends, and share in total revenue, 2005 – 2016



- Revenue from profit is an unstable revenue source, its amounts fluctuating from only HRK 117 m in 2007 to HRK 1,342 bn in 2009
- The primary factor influencing such fluctuations is the number of enterprises of strategic interest in a given year (there were 69 such enterprises in 2009, and 49 in 2011), but they also depend on the enterprises' financial performance
- It is quite unusual when the best state-owned enterprises operate at a loss, but this happened as many as four times between 2005 and 2016
- The largest share of revenue in the 2005 – 2009 period was revenue from dividends, while in 2009 the largest share came from profits
- The state owned a larger number of joint-stock companies that paid dividend regularly before 2009

# Conclusion

- ❑ The Croatian government has committed to the transparent management of state assets as well as to the opening of the economy to private investment and the market
- ❑ The state still plays a leading role in the market due to having (either majority or minority) shares in all major companies, which have not been subject to market valuation since they are not listed on the stock exchange
- ❑ Many state-owned enterprises earn low profits, and their payments into the state budget are not made public

# Conclusion – key issues (1)

- ❑ The number of SOEs has been growing continuously for the last nine years
- ❑ The state owns enterprises pertaining to many different sectors of economy without having a clear strategy on how and why a particular enterprise is chosen
- ❑ SOEs are, for the most part, not joint stock companies, which is one of the reasons for the underdevelopment of the financial market and the inability to obtain market valuation
- ❑ The state's ownership portfolio lacks a strategic-level direction and is divided among a number of sectors, without making it clear which are of higher importance for the state
- ❑ Even though there are more than a thousand SOEs, only some fifty are enterprises of strategic interest bound to pay a part of their profit (and dividends) into the state budget

# Conclusion – key issues (2)

- ❑ The performance of enterprises of strategic interest is unpredictable; in many cases they operate at a significant loss, this leading to the conclusion that they are not profitable for the state (pursuant to return on ROE analysis)
- ❑ The payment of profits/dividends into the state budget is not made public, while many enterprises are late or in default with the payment
- ❑ Decisions on profit distribution that are made public are not always consistent with actual payments into the state budget, making statistical analysis impossible
- ❑ Revenue from profit and dividends is an unstable source of revenue. Prior to 2009, the majority of revenue from publicly-owned enterprises came from dividends, and after 2009 from profit



# Conclusion – recommendations (1)

- ❑ The state portfolio should be reduced, especially minority shares in companies which are majority privately-owned
- ❑ The state portfolio should be focused on strategic sectors of the economy (energy, transport, water supply, etc.) rather than being present across almost all sectors. Croatia must determine its priorities when it comes to SOEs
- ❑ The Government should disclose a list of enterprises defaulting on their payment of profits into the state budget (like it did in 2012 with defaulting taxpayers, which encouraged many of them to pay their debts due to public pressure)

# Conclusion – recommendations (2)

- ❑ The Government should determine and disclose the deadlines to be met by state-owned enterprises when making payments into the state budget
- ❑ Boards of companies that do not comply with their legal obligation to make a timely payment should face legal consequences
- ❑ Companies should disclose the annual amounts of profit they paid into the state budget or the reasons why they were unable to do so
- ❑ The Government should exert its influence on the development of the domestic capital market by obliging public enterprises majority- and minority-owned by the state to be listed on the Zagreb stock exchange in order to have a better insight into the value of its assets and more precisely evaluate the potential to reduce the deficit and public debt

# Past issues

- ❑ [No. 1. – Operations of football clubs in Croatia](#)
- ❑ [No. 2 – The restructuring and privatisation of the shipyards in Croatia](#)
- ❑ [No. 3 – The Gas Sector in the Republic of Croatia - Liberalisation and Financial Operations](#)
- ❑ [No. 4 – Restructuring the railway companies owned by the Republic of Croatia](#)

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