

INTERNATIONAL MONETARY FUND

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State-Owned Enterprises: The Other Government

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Old and new challenges

Growing interest in SOEs

- Some are multinationals
- Government ownership in times of crisis (GFC, Pandemic)

Governments struggling to manage SOEs

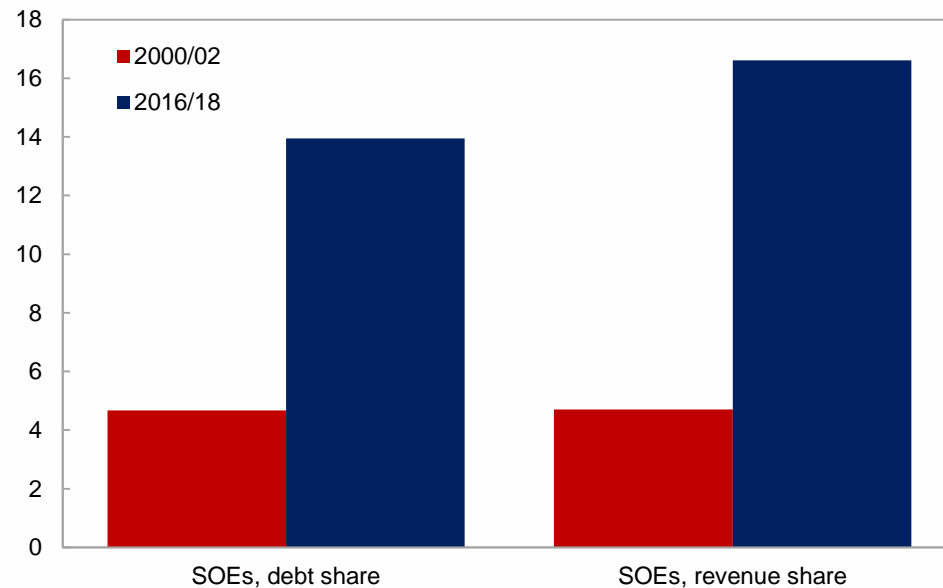
- Poor performance; large fiscal costs; corruption
- Vulnerabilities for overall public sector

Lessons and policy advice based on country experiences

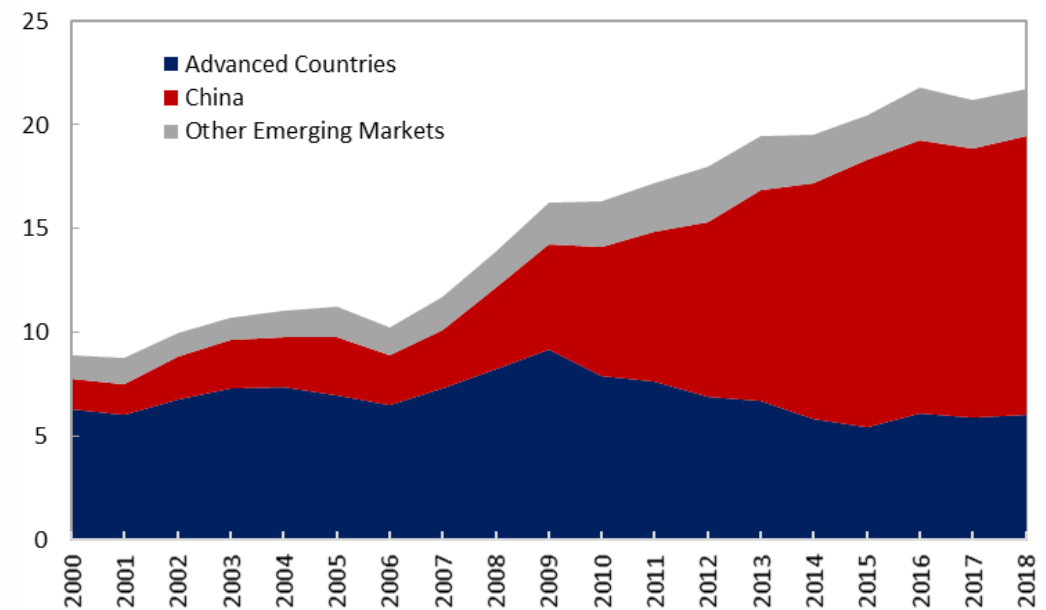
- How to get the most out of SOEs?
- Good global citizen: How to promote a level playing field?

SOEs are among the world's largest firms

Largest SOEs have seen significant growth
in operations and debt
(percent of world's largest firms)



The presence of SOEs among the largest
firms has grown
(as share of assets of world's largest firms)

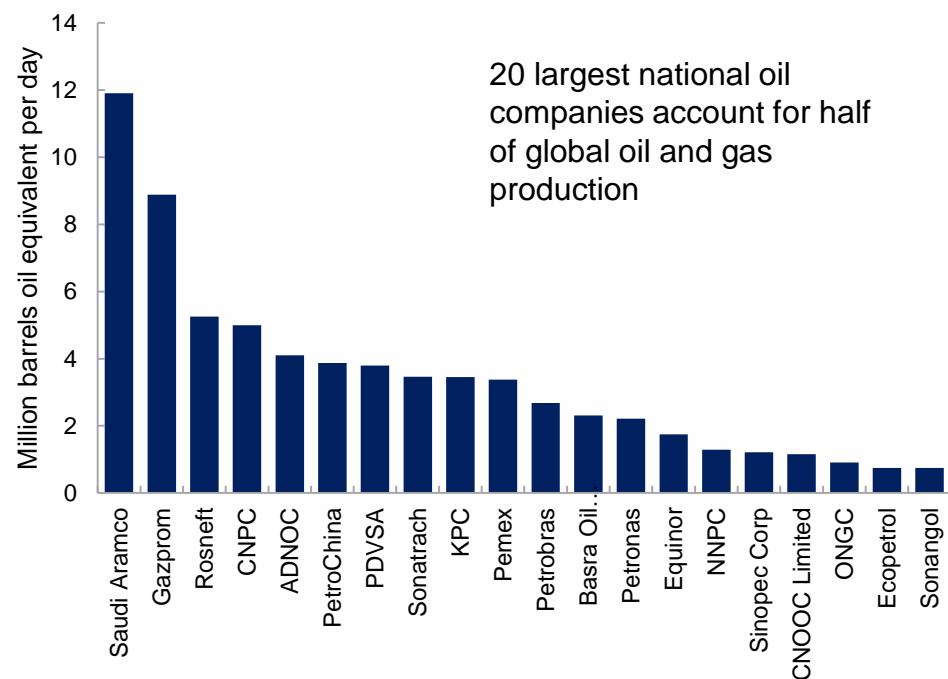


Sources: Capital IQ; S&P Global UDI World Electric Power Plant database; IMF staff calculations.

Note: Charts show aggregate values and share of SOE assets, revenue, and debt, among the world's 2,000 largest firms. The largest 2,000 firms is a composite ranking of separate rankings of annual revenue and assets obtained from Capital IQ.

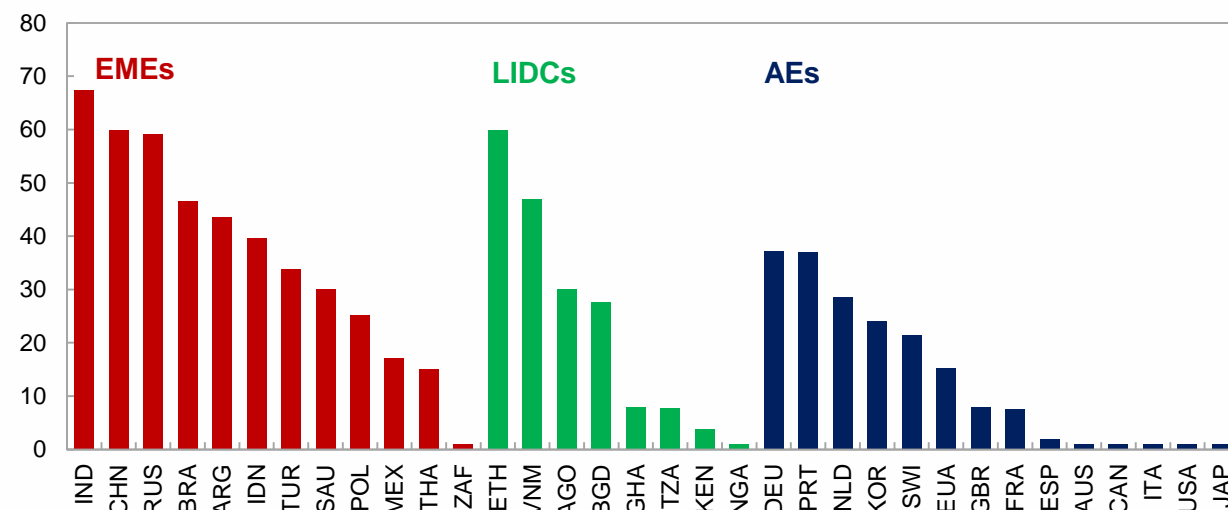
SOEs are present in key sectors

National Oil Companies
(Average oil and gas production, 2011-17)



Sources: NRGi, BP, and IMF staff estimates

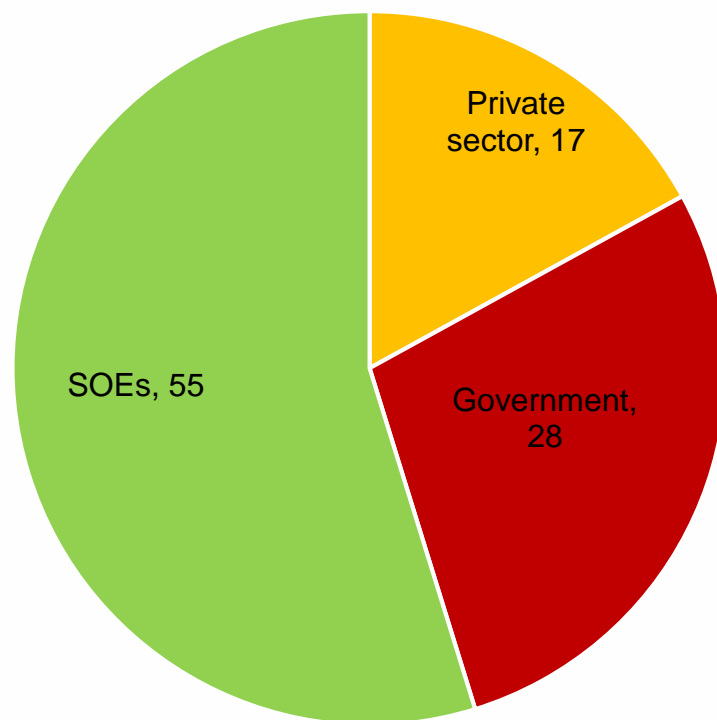
Public banks have a significant presence in many countries
(Share of banking system assets)



Sources: The World Bank - Bank Regulation and Supervision Survey (2019), Central Banks (Ethiopia, Italy, Japan), CEIC (China).

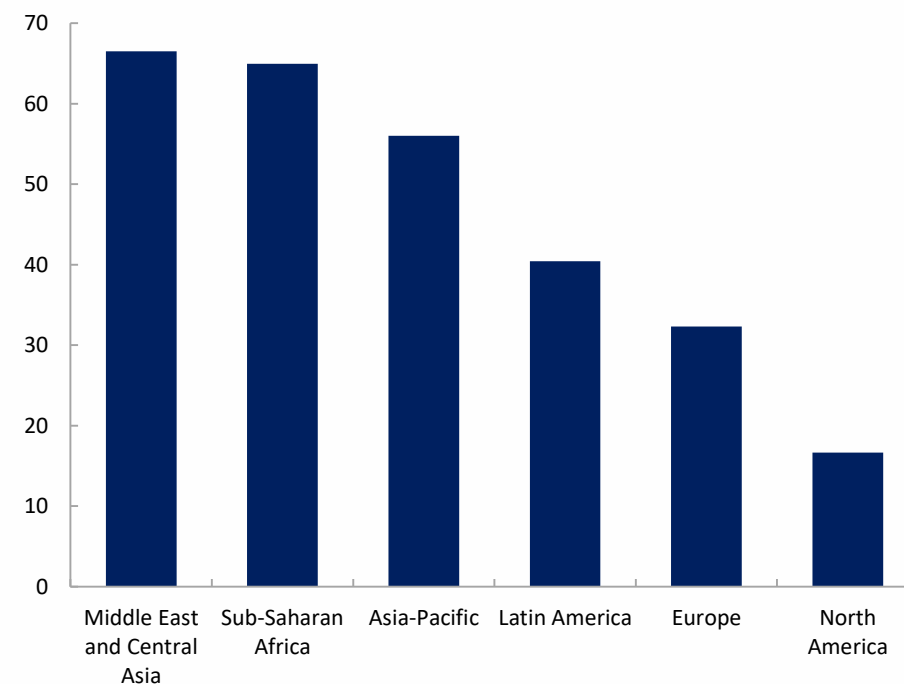
SOEs are also major players in infrastructure

SOEs' Share of Infrastructure Investments in
EMs and Low-Income Countries
(Percentage of total investment value)



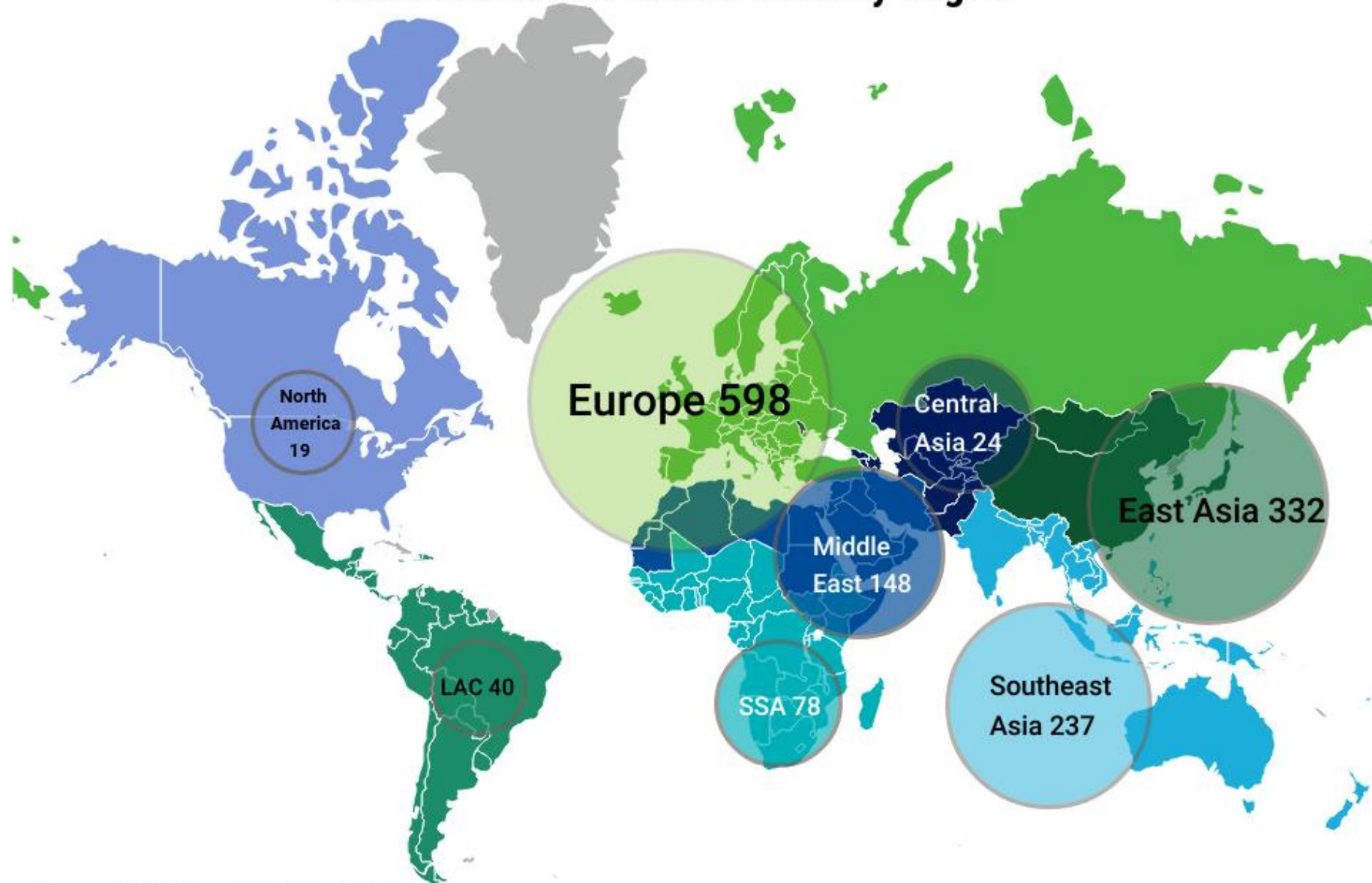
Source: World Bank (2017).

SOEs power generation capacity,
2017
(Percentage of total by region)



Sources: S&P Global UDI World Electric Power Plant database (WEPP); and IMF staff calculations

Number of Multinational SOEs by Region



Source: UNCTAD and IMF staff calculations.

Do SOEs deliver value for money?

Network sectors (power, water, transportation)

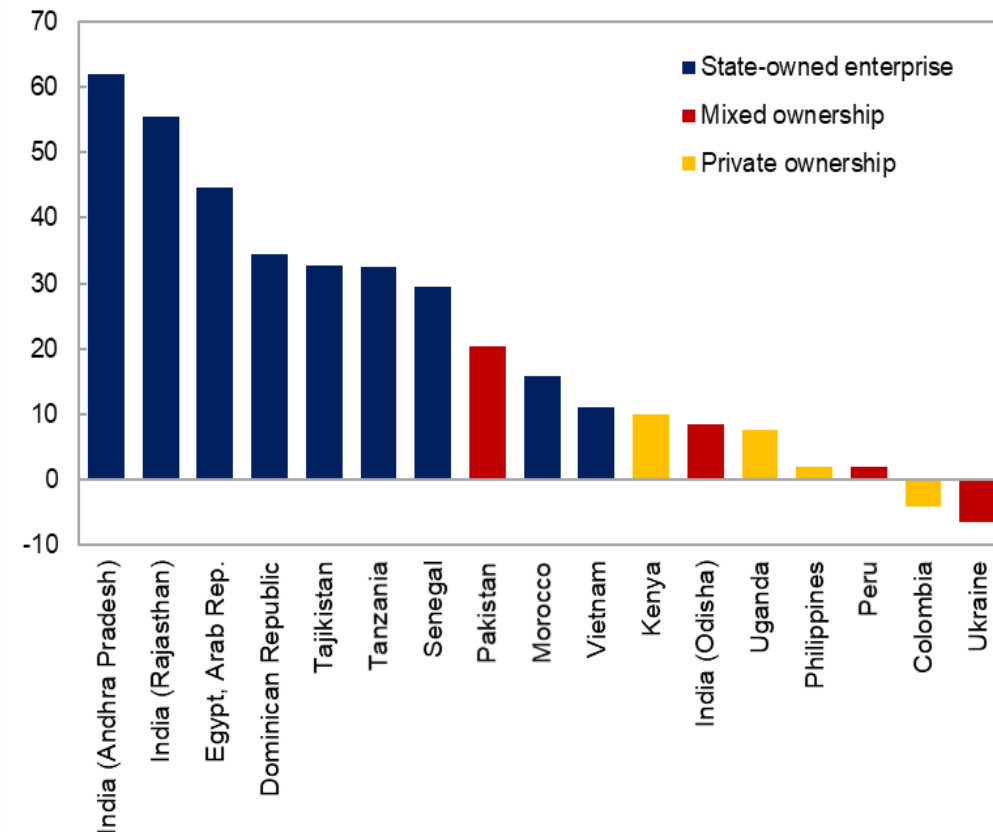
Natural monopolies; basic services

- Choice of type of state intervention
- SOEs prevalent in most AEs and EMDCs
- Bringing private sector in has proven challenging

EMDCs: urgent to improve access

- 2 billion people without access to safe water
- 840 million people without electricity

Gap between costs and electricity tariffs
(Percent of total cost)

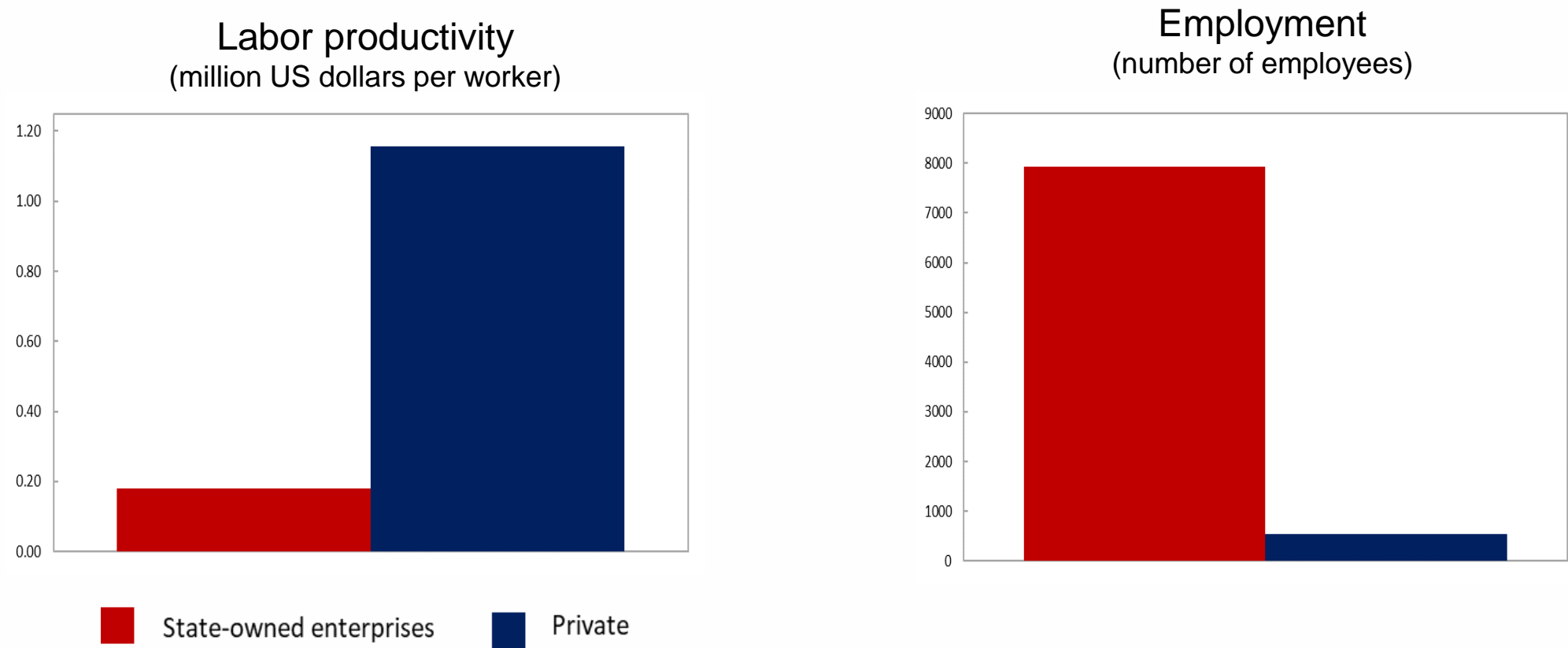


Sources: IMF staff and World Bank (2019).

Note: Percent of total cost is the gap (the difference between total cost and the tariff) divided by total cost.

Many, and unfunded, mandates undermine performance

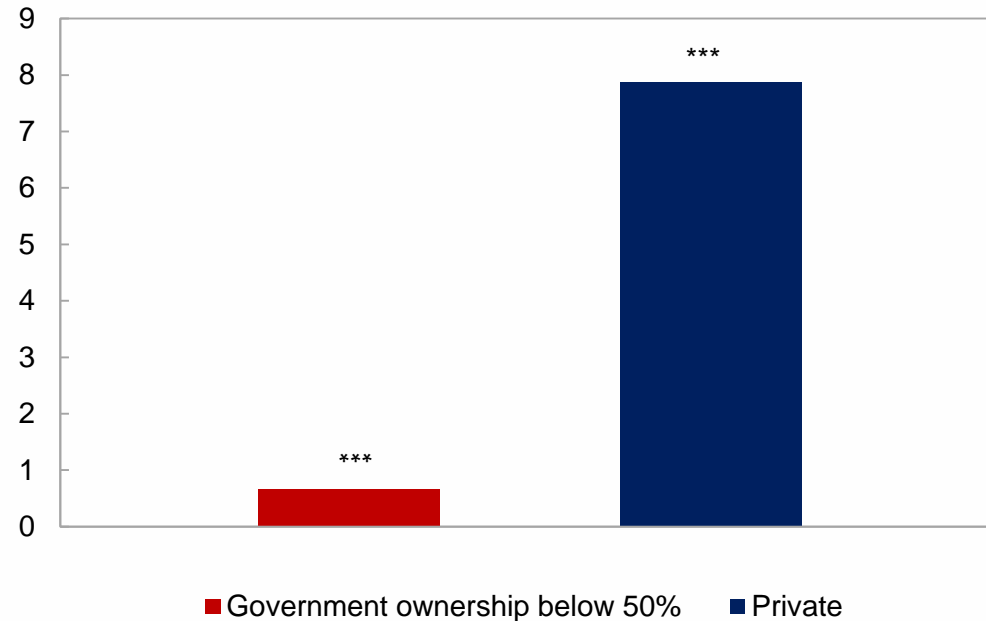
National Oil Companies, Productivity and Employment



Source: Orbis, National Resource Governance Institute, and IMF staff estimates.
Note: The sample includes 98 NOCs and 1520 private firms.

SOE financial performance and its drivers

Private firms are more profitable than SOEs
(ROE; reference group: government majority ownership)



SOE productivity improves with governance



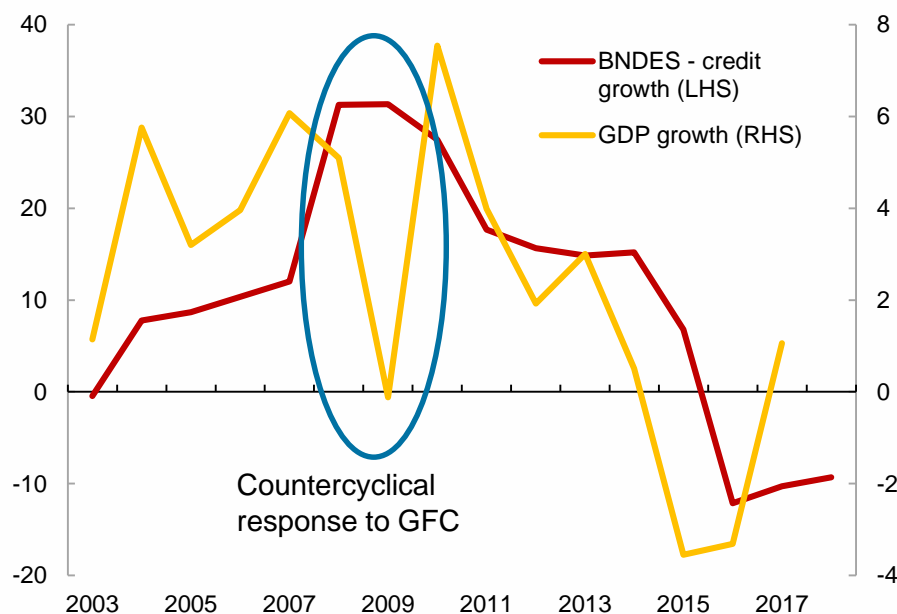
- SOEs are concentrated in few sectors (utilities, transportation) in countries with strong governance.

Source: Orbis, Worldwide Governance Indicators, and IMF staff estimates.

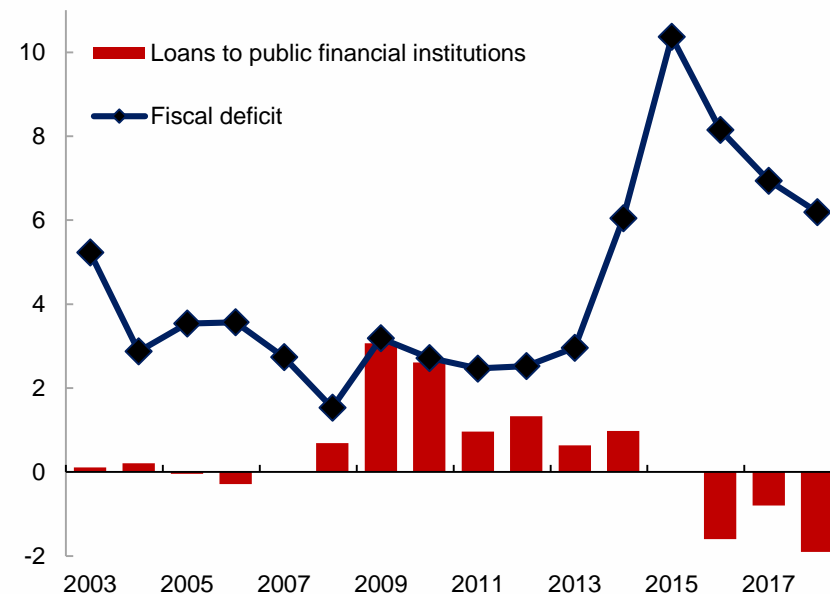
Note: In the left hand-side figure, profitability is measured by return on equity (ROE). The right-hand side figure illustrates the effect of control of corruption on firms' performance in a panel of 109 countries. Productivity proxied by sales per employee. Sales data based on 2017 prices. To measure governance, we use control of corruption from the World Governance Index. The regressions control for the type of ownership (public vs private), the control of corruption and the interaction between the type of ownership and control of corruption. It also controls for some firm-specific variables and some country-specific variables (e.g., GDP per capita).

Fiscal policy, public banks, and stabilization

Brazil. Economic growth and BNDES credit growth (percentage change)



Brazil. Policy lending and fiscal deficit (share of GDP)



Source: World Economic Outlook, BNDES, and IMF staff estimates.

Fiscal Risks from SOEs

Policy mandates, fiscal risk, and costs

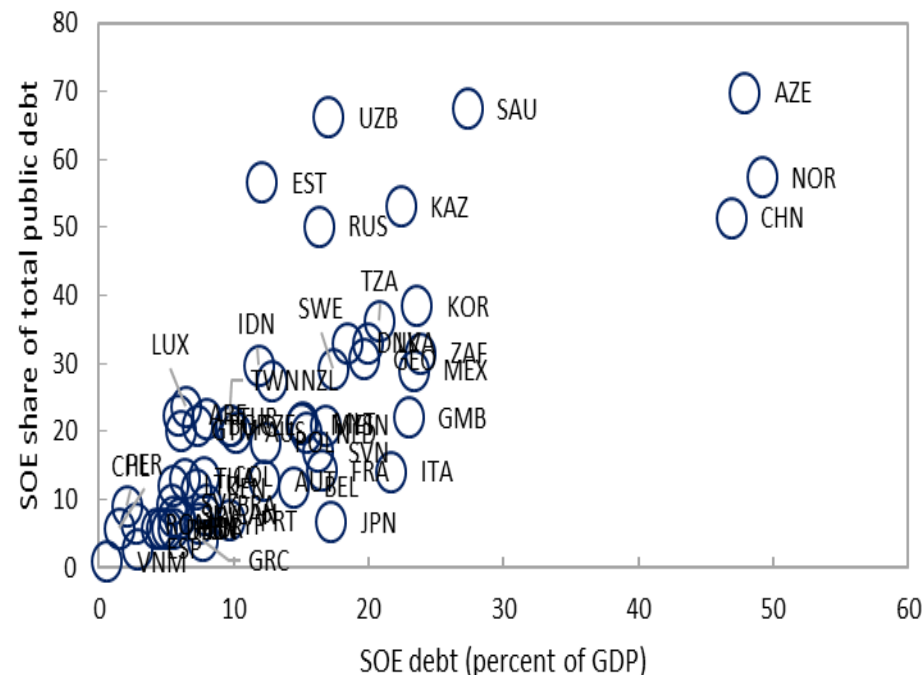
Challenges

- Unclear and multiple goals
- **Underfunded mandates**
- Soft budget constraints
- Institutions (oversight/transparency)

Vulnerabilities

- Debt sometimes higher than government debt
- Support to non-financial SOEs in some cases above 10% of GDP
- Financial sector even larger (Algeria: almost 50% of GDP over eight years)

Non-financial SOE Debt



S&P Capital IQ, and IMF staff calculations.

Note: Debt drawn from S&P Capital IQ is only for the largest SOEs in the country. S&P Capital IQ and Eurostat data are for 2017 or 2018. Debt data drawn from the PSBS database covers a range of years from 2012 – 2016 and, for some countries, represent total liabilities less equity. Data labels in the figure use International Organization for Standardization (ISO) country codes.

Options to support SOEs during pandemic

Principles

- *Prioritize between many demands*
- *Target exceptional and temporary support to most systemically relevant SOEs*
- *Equal treatment among SOEs and private competitors*
- *Transparency is imperative*

Measures

- *Strengthen cash flow of SOE or facilitate borrowing (deferrals; subsidies; guarantees; loans)*
- *Strengthen balance sheet (equity injection; debt assumption; private sector participation)*

How to get the most out of SOEs

How to get the most out of SOEs?

Use public resources appropriately

- Periodically review rationale for SOEs (e.g. Germany)
- Close or privatize SOEs when markets are competitive

Consistency with macro-fiscal policies

- Broad public sector perspective (New Zealand)
- Include in fiscal targets

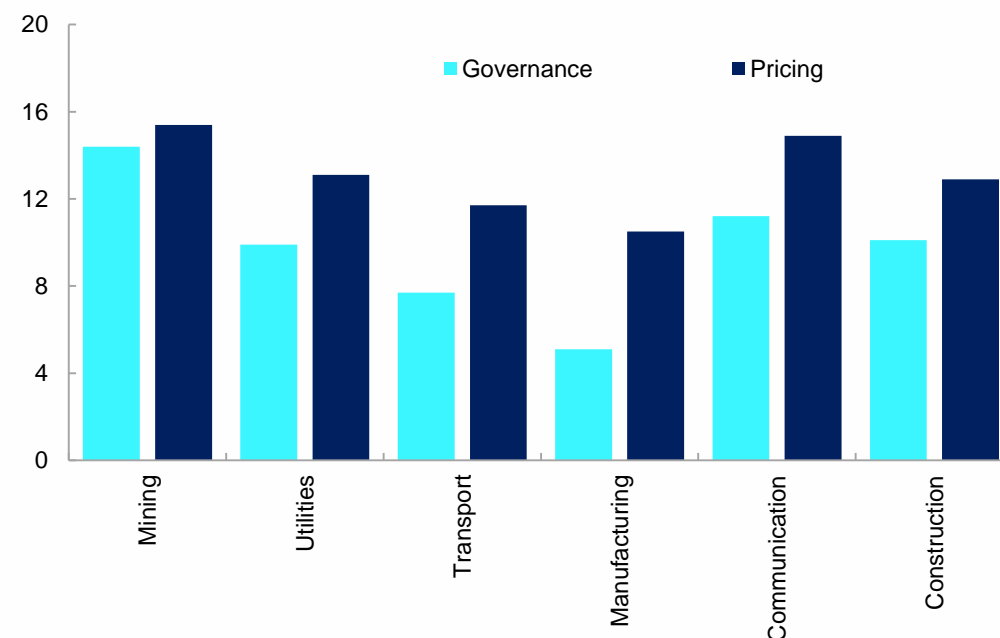
Getting incentives right

- Pricing policies; regulation

Quality of Institutions

- Oversight and ownership function
- Transparency

Impact of SOE reforms, 2002-17
(Percent change in productivity)



Source: IMF staff estimates.

Note: "Pricing" includes, among others, implementation of automatic fuel prices and electricity tariffs adjustments. The coefficients measure the impact of SOE reforms on average productivity and average cost changes. The coefficients can be interpreted as the average improvement of productivity following reforms.

Government support and competition

Government support

- Explicit or implicit
- Finance for policy mandates

Does it distort competition?

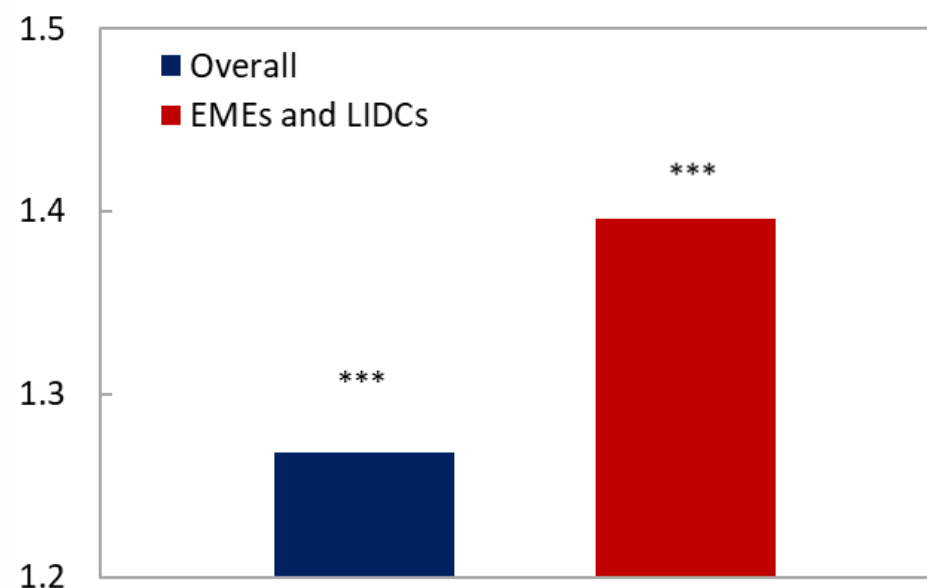
- Domestic and global

Addressing concerns

- Trade agreements
- EU: state aid regulations

But remains unresolved

Private firms' interest premium, 2000-17
(Percentage point difference to SOEs' interest rate)



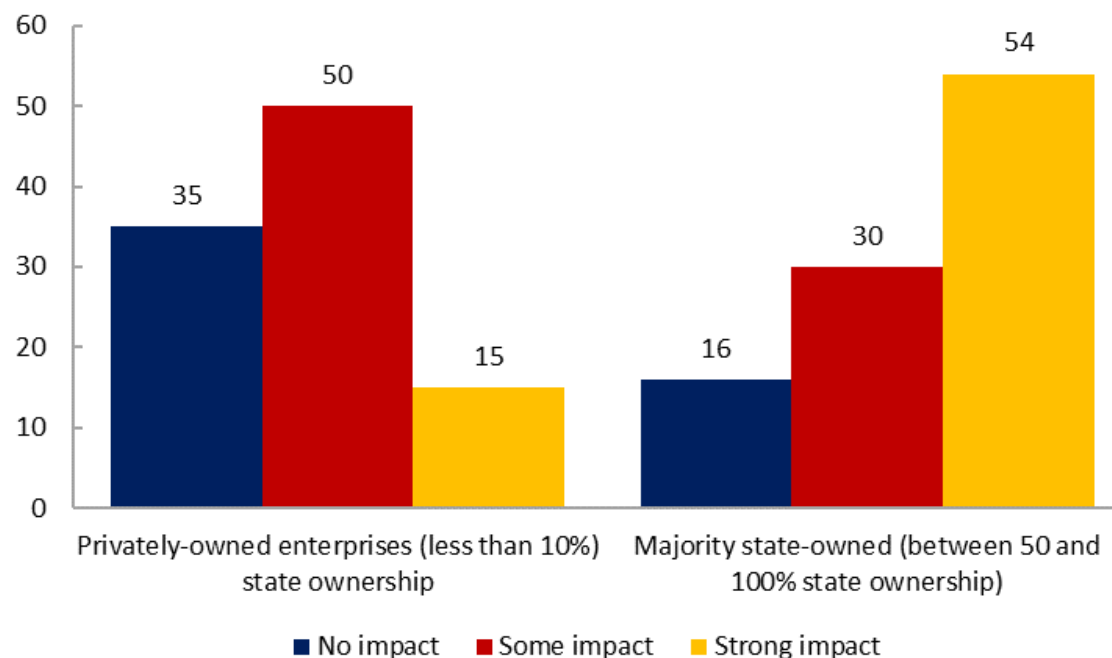
Sources: Orbis; and IMF staff estimates

Note: The sample includes 65 countries, of which 37 are emerging market and developing economies. Interest was calculated as firm interest paid in (t) divided by the stock of debt in (t-1). The analysis controls for firms' size and economic sector. EMEs = emerging market economies; LIDCs = low-income developing countries.

*** indicates statistical difference from zero at 1 percent significance level.

Business views on government support

Preferential treatment for foreign competitors
(Percent)



Source: OECD Business Survey on State Influence on Competition in International Markets.

Notes: Preferential treatment is defined as government measures or actions, which affect costs or prices of commercial enterprises and which are extended only to certain specific enterprises or groups of enterprises. Own government is defined as the government of respondent's country of headquarters.

Some international approaches toward leveling the playing field

Bilateral: Trade and investment agreements (US-Chile FTA, US-Singapore FTA; US-Australia FTA; EU-South Korea).

Sectoral: US and Gulf country agreement and EU directive on airline competition

Regional

- Comprehensive and Progressive agreement for Trans-Pacific Partnership (CPTPP)
- EU-Japan Economic Partnership Agreement
- US-Mexico-Canada Free Trade Agreement (USMC)

Multilateral: WTO disciplines

Pandemic amplifies pre-existing concerns

- Japan, United States, and European Union joint statement on industrial subsidies (January 14, 2020)
- So far this year, countries representing 59% of world GDP have tightened their rules on foreign investments (Economist, May 16)
- Sweden's Government Steps Up Efforts to Vet Foreign Takeovers (Bloomberg, June 8)
- EU White Paper on levelling the playing field as regards foreign subsidies (June 17)
- UK Take Over Rules: Not for Sale (Financial Times, June 22)

Being a good global citizen

SOEs can also contribute to global goals

- Reduce involvement in foreign bribes
- Support environment and climate change goals (power, oil and gas exploration)

Competitive neutrality

- Promote efficient use of resources domestically and internationally
- General, multilateral guidelines for SOEs coupled with guidance for recipient countries

Hurdles to leveling the playing field

Need agreement on methodology to measure and implement

Concept

Cost allocation transparency

Compensation of policy obligations

Market consistent rate of return

Debt neutrality

Similar tax/regulatory/procurement rules

Some challenges/complexities

- What type of policy mandates should be compensated?
- Methodologies to appropriately allocate cost between commercial/non-commercial activities.
- Assuring debt neutrality – Value of an implicit government guarantee?
- What is an appropriate benchmark for assessing return adequacy?
- What is the value of a legally created captive home market?
- Valuing compensation – what about in-kind benefits such as free land?