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## **State-owned enterprises in the Central and Eastern Europe in the age of the COVID-19 pandemic**

**Economic crises usually mean a return to state interventionism and a more active role for the state as owner. It is no different today. The COVID-19 pandemic reopens the debate on state-owned enterprises. Due to the history of economic ownership, it has particular resonance in the countries of Central and Eastern Europe. Especially that in the region is increasingly announcing the recapitalisation of state-owned enterprises and even nationalisation of private. The focus of the current issue is on airlines.**

**Pre-pandemic situation.** Recent decades have brought significant changes to the ownership role of the state in Central and Eastern Europe. This was done most spectacularly in the 1990s, after the fall of the communist regimes. The unprecedented extent of ownership transformation has led, over the decade, to a transition from a state-based economy to an economy with a clearly dominant private sector. Such a diametrically reducing scope of state domination was particularly the case in those countries of Central and Eastern Europe that later joined the European Union.

However, after the turn of the century, especially after the crisis of 2008-2009, the process of “renationalisation” of the economy has slowed down significantly in most countries of the region. There have been several reasons for that. First, in many countries, the social climate around privatisation has been significantly weakened due to the, not always positive, experiences associated with it. This included suspicions of fraud in this area but also reluctance to restructure privatised companies where there were often collective redundancies. Secondly, the economic policy has evolved toward the goal of keeping companies in the sectors considered strategic under the control of the state, especially in energy, petrochemical, banking, and transport. This was accompanied by the growing importance of non-economic objectives imposed by state-owned enterprises (SOEs). Finally, the financial crisis, which significantly violated the current socio-economic order, has contributed to the evolution of national economic policies towards a more active role of the state.

The result was a halt to the privatisation processes and, in some countries, even a subsequent nationalisation of previously privatised enterprises (e.g. in 2015, after 20 years of privatisation, the Hungarian Budapest Bank became a state bank again, and in Poland the state regained control of the previously privatised bank Pekao SA) or nationalisation from the outset as private enterprises (e.g. in 2016 the largest commercial bank in Ukraine was nationalised – PrivatBank).

It should be added that the range of SOEs in Central and Eastern Europe varies. Their share of the economy, measured by employment participation and/or value-added creation, amounts to around 30% in Belarus, 10-20% in Serbia, Bosnia and Herzegovina, Poland, and Ukraine, 5-10% in Bulgaria, Romania, Croatia, Albania, Slovenia, Hungary, and Latvia, and below 5% in Lithuania, Slovakia, the Czech Republic, and Macedonia.<sup>1</sup>

**The state is coming to the rescue...** When the economy is affected by the crisis, the confidence in the reliability of the market-mechanism is often shaken. There is then a social acceptance, and even some expectation, to increase the role of the state in the economy, including the state as owner. This scenario took place in many countries during the already mentioned global financial crisis. In this aspect, the current crisis related to the COVID-19 pandemic is also announced. Governmental interventions, also in terms of ownership, focus, as demonstrated by the recent crisis, on support for the most affected industries.

<sup>1</sup> C. J. Richmond, M. D. Benedek, B. Cegar, M. P. Dohlman, M. Hassine, B. Jajko, ... & M. J. A. Miniane, *Reassessing the Role of State-Owned Enterprises in Central, Eastern and Southeastern Europe*, International Monetary Fund, 2019.

Currently, airlines are in a challenging situation, facing a loss of liquidity and bankruptcy in two months (10% of all flights were cancelled in early March 2020, compared to 2019, while 40-60% in late March, and 80% in April (!)). States own many of these companies in Europe and have directed their assistance to them, mainly in the form of loan guarantees. These solutions were implemented initially by Nordic countries: the Danish and Swedish governments, with less than 15% of SAS shares (guarantee amount – EUR 274 million) and the Finnish government, with less than 56% of Finnair shares (EUR 600 million). For Central and Eastern European countries, this type of government support can include the Romanian state-owned airline Tarom (EUR 65 million), with 97% of shares. Belavia, which is 100% owned by Belarus, also received aid.

However, some countries are moving forward and are providing assistance through recapitalisation. The Latvian Government announced an investment of up to EUR 250 million in airBaltic's equity capital, which would increase its shareholding from 80% to 91%. This form of compensation for losses caused by COVID-19 is also planned for, the previously mentioned airline, Finnair. The latter plans to issue shares up to EUR 500 million and the Government, which is now the majority shareholder, announced participation in the offer. The Estonian Government makes the increase in the share capital of the state airlines of Nordica conditional on the merger of Estonian aviation assets (including the redemption of Regional Jet, which is partly owned by LOT's Polish airlines).

In addition to increasing the shares in SOEs in the aviation industry, ideas are put forward to save private airlines from bankruptcy as well. This was suggested by Czech Prime Minister Andrej Babiš for the Czech Airlines flagship carrier. The President of Ukraine Volodymyr Zelenski also spoke about the need to establish a state airline.

**...on strict rules.** Public aid, targeted on principles such as airlines, can quickly expand to other sectors as the crisis is going to slide. In the European Union, where under normal circumstances the granting of state aid in any form to a single economic operator, leading to distortions of competition in the free market, is, in principle, prohibited, specific conditions have been laid down to enable it to be granted in times of pandemic. These include, for example, the obligation to develop post-crisis exit strategies for large companies that have received significant state aid for recapitalisation or a strict limitation of the remuneration of their management, including a ban on premium payments.

Public aid should be granted only if no other solution is available. International institutions, including the International Monetary Fund, in the context of the current crisis, recall that governments should also regularly check whether there is a material justification (usually in the form of market failure) for the company to be state-owned. Examples of SOEs going beyond the framework of such justifications are the sanatorium in Belarus, the footwear company in Croatia, and the circus in Ukraine.

**Conclusions.** The final scale of the economic crisis following COVID-19 is not yet known. However, as with the global financial crisis of 2008-2009, it may result in a wave of rescue nationalisation and recapitalisation of SOEs. These should be calculated in order to achieve a specific objective after which the ownership interests of the states will be sold, as recommended by the European Union while recognising the need for a temporary loosening of the rules on state aid. At present, the aim is to prevent the bankruptcy of key transport companies (in the long term, companies from other sectors may also be included).

In Central and Eastern Europe, where the scope of autonomous economic policy pursued at the national level has been strengthened for more than a decade, this pattern may prove difficult to implement. SOEs are often considered as "national champions" of particular importance for national economies, not only economically.

It is sufficient to mention that SOEs open the largest corporate income lists in many countries of the region: Poland – PKN Orlen, Hungary – MOL, Slovenia – Petrol, Ukraine – Naftogas. Moreover, their subsidiaries open lists of the largest companies in other countries. This is the case, for example, in Lithuania, where Orlen Lietuva, a Polish company of PKN Orlen, is the largest company, and in Croatia, where in terms of revenues the leader is INA, with the Hungarian MOL and the Croatian government as the largest shareholders.