

FINANCIAL PERFORMANCE IN THE PUBLIC ADMINISTRATION SECTOR: COMPARISON BETWEEN ROMANIA AND HUNGARY

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Abstract:

We investigate the long-run relationship between profitability, liquidity and solvability for companies acting in the public administration and defense sector, using firm-level data for the period 2006-2015. Our panel cointegration analysis proves the existence of a long-run relationship between the analyzed variables. The DOLS results posit in the favor of a trade-off between liquidity and profitability for Hungary, but not for Romania. At the same time, the solvency ratio negatively impacts the profitability ratio for Romania only. These results are validated by a series of robustness tests, considering different profitability indicators. Our findings have noteworthy implications for the financial management of companies acting in the field of public administration and defense, showing different financial management strategies for the companies located in the two analyzed countries.

Keywords: financial performance, public administration sector, firm-level data, panel cointegration