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SCIENTIFIC REVIEW

Problems of Financial Management in the Public Sector

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ABSTRACT – *The paper discusses the financial management in the enterprise Serbian Railways. The construction of the first railroads in our country began back in the mid of the last century, when a large part of our territory ruled by the Austro-Hungarian Monarchy and the Ottoman Empire. The development of railway transport in the region saw the expansion of the late nineteenth and early twentieth century, twisting in the territory of the then country: Serbia, Montenegro, Austria-Hungary and Turkey. Today Serbian Railways railway network is 4.347km, 1.387km of which electrified (32%). The main activity of eating the transport of passengers and goods, hauling the trains and maintenance of traction units, trains and rolling stock, track maintenance and control over them, control over other lines and station structures and installations, maintenance and construction of equipment and installations.*

The significance of this research is the promotion of modern methods of financial management and for pointing out the importance of the same for efficient business operations. Using modern methods of financial management it is possible to identify and monitor the needs for financial resources and their sources. It is de facto one of the central category of financial management.

The main objective of this study is to monitor and analyze the financial resources of the company "Serbian Railways", that they are optimal from the viewpoint of the situation and trends, and to the short and long term. Financial management includes compliance tools and resources in the process of business where revenues are greater than expenses. It is therefore important that in addition to the scope, structure and resources to be covered by the method of determining the necessary financial resources.

KEY WORDS: *finance, management, financial ratios, results, financial plan*

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Introduction

Modern approach to financial management emphasizes the continuous earning ability of the company, ie the ability to make a profit through the implementation of strategic objectives (growth, development and market share).

Modern methods of financial management assume that the assessment of the financial situation must be based on the correlation of the balance sheet and income statement. The necessity of using both reports originating from their character as balance sheet and income statement are connected parts of one whole. These changes in the economy have contributed to the increasing responsibilities of financial managers, which includes:

- Determining the amount of funds that should be engaged, depending on the size of the company and growth rates,
- Raise funds on favorable terms and determining duties,
- Allocation of funds in the form of determination means,
- Management of working capital. (Ljutić, 1995, pp. 308).

The responsibility of managers for the contemporary theory is focused on internal and external stakeholders of enterprises (shareholders, creditors, state, employees, suppliers and customers). These responsibilities of managers imposed the application of modern scientific methods in making financial decisions, which contributed to the development of the theory of financial management as a scientific discipline. Businesses initially used traditional methods in making financial decisions. However, the modern theory of financial management contains a systematic approach to making decisions about the optimal use of financial resources, aimed at achieving the goals of the company. It can be said that modern scientific conceptions emphasize the need to adapt ways of managing the implementation of the strategic and financial objectives of the company in accordance with the principles of productivity, profitability and competitiveness.

This means that modern methods of financial management attach importance to the competitive position and competitive advantage of companies in the market. Competitiveness Indicators rooted in the different levels of customer satisfaction. Inclusion of customer satisfaction is expanding the number of indicators of operating performance in the modern financial management. There are basically the following six performance indicators, strategic financial management companies:

- the performance indicators in relation to competition, such as market share, participation in a particular segment of consumers, growth, etc.,
- the financial performance indicators, such as profitability, liquidity, capital structure, etc.,
- the quality of services, such as availability, reliability, acceptability by consumers, accessibility, etc.,
- the flexibility of the "package deal", such as flexibility of scale, flexibility in delivery of goods, flexibility in size range, price, etc.,
- the usefulness of the assets, such as productivity and efficiency and
- the effects of the process of innovation in all areas of activity of the company. (Lovreta, 2014, pp. 324).

The exposed elements of business success boil down to competitive and financial indicators. Between these elements there is a high degree of interdependence. Financial indicators to measure the success factors that determine the success and competitive position of companies in the market. Their interdependence is coming to the fore in the harmonization of short-term financial goals related to "yield" and long-term goals related to the competitive position of the company. In the "package deals" there is a link between productivity and efficient use of resources and quality of services.

Modern management is expanding the number of indicators of effectiveness and efficiency. Special attention was given to indicators of productivity and profitability, which play a central role in the integrated management of the company. Modern approach to financial operations, thus actualize the need for integrated management of productivity and profitability of the company. (Lovreta, 2014, pp. 325).

Results financial management in the case of company "Serbian Railways"

The scope of activities for 2014.: Company "Serbian Railways" JSC in 2014. realized around 3.7 billion dinars, which is about 3.5% less than in the year 2013. and the gross income from the transport conveyor of about 10.9 billion dinars, which is about 2.8% more than in the year 2013.

Passenger transport: The suspension of traffic on many lines caused by snow drifts in February and floods in May, resulted in a significant reduction in the number of passengers carried. A large number of canceled trains caused the reduction of passengers in international traffic, while in Beovoz fall transported passengers caused by the transition of some trains on the application of tariffs from local traffic, which is why passengers are recorded as travelers from local traffic. Only in the domestic traffic recorded the carriage of passengers at last year's level.

Transport of goods: Difficult traffic conditions on certain lines due to severe flooding in May, significantly affected the functioning of the transport of goods. In such conditions, increased transport of goods in domestic traffic, import and export turnover was mainly due to increased transport Fiat cars and spare parts, then gravel and other aggregates, increasing the transport of oil and oil products, as well as the increase in production in "Smederevo steelworks" etc.

Financial indicators for 2014.: According to balance sheet positions for 2014., Basic indicators of liquidity, or short-term financial balance are unsatisfactory, and amount to 0.21 (general liquidity ratio), followed by 0.14 (Current Ratio) and 0.03 (current liquidity ratio).

"Serbian Railways" JSC in 2014.. realized a total income in the amount of about 26.3 billion. dinars (of which around 10.9 billion related to net transportation revenue with income from the use of foreign cars), total expenditures in the amount of about 34.5 billion and a net loss of about 8.1 billion. At the height of the most affected by the loss of accrual of expenses (amortization in the amount of about 5.7 billion and exchange rate differences in the amount of about 2.3, billion).

In 2014. on account of the Company, after all receipts and payments of cash, remains an amount of 1,223 million dinars, which is about 462 million dinars more than at the end of



2013. (Mostly balance in the account referred to Eurofima investment funds that are spent in 2014.).

The scope of activities for the year 2015.:

Directorate for Infrastructure: Network railways of the Republic of Serbia is more than a century, and over 55% of all stripes have been built in the 19th century. Regulation on categorization of railways made the categorization of the main, regional, local and handling lines.

Permanent lack of funds for maintenance caused a drastic reduction in the length of repaired lines, as well as the lack of capacity on the revitalization of electrical lines and increasing the difference between the actual average and the projected average speed.

Given the level of revenue in 2015. It is possible to provide for these purposes around 1,297 million. These funds are sufficient, especially for the already initiated procurement procedures, as well as for the rehabilitation of the flood-damaged sections of lines and plants for a minimum volume of new works.

Organization of Transport - Timetable 2014/2015: According to the planned timetable for the 2014/2015., In traffic every day should be 500 trains to transport passengers.

Bearing in mind that the design of the railway timetable begins a year before the entry into force, due to the material support of rolling stock for its implementation, are set timetable will be adjusted depending on the availability of railway trains.

Transport capacity: In 2015. expressed the high rate of immobilization of certain series of towed vehicles (diesel locomotives and carriages *dezelmotorni*), as well as passenger cars. For 2015. average was 158 correct towing vehicles, 52 passenger and 4,000 freight cars. Based on the average number of correct towing vehicles by series, asserts that for driving the execution of the Order 2014/2015. lacking five electric locomotives, two electric trains, one diesel locomotives, while the towed trains lacked 20 passenger cars.

According to estimates by the Directorate for transport, the necessary funds to maintain capacity in 2015. amounted to 4.8 billion dinars. In assessing the funds needed have been taken into account the technical condition and capacity deadline for implementation of repair of vehicles, in accordance with the applicable Rules on maintaining of railway vehicles. (Rules 241 "Sl. Glasnik RS" no. 2/84, 2/88, 5/88, 7/88, 9/88 and 13/98)

Necessary financial resources for services amounted to about 3.33 billion pounds, with the following the structure:

- to maintain traction vehicles 1,507 million dinars
- to maintain the trucks 1,200 million dinars
- to maintain passenger cars to 300 million dinars
- for cleaning and car washing 136 million dinars
- to maintain the other assets of 110 million dinars
- to maintain warehouses and buildings 109 million dinars

In addition, the necessary funds for the purchase of materials, spare parts and repair amount to 1.44 billion dinars.

Given the level of revenue in 2015, it is possible to provide for these purposes around 1.333 million. Most of the funds spent on the already started procedures for procurement of services and spare parts for maintenance.

Volume of transportation: After the economic downturn caused by large floods in the future he felt a gradual economic recovery, so that the Serbian Railways ad in 2015. with an increase in the workload of approximately 15.6%.

For 2015. achieved the transport of about 18.8 million passengers, compared to the execution in 2014. an increase of 8.7%. No BG trains for 2015. achieved the transport of about 7.9 million passengers, an increase of 23.6% of the number of passengers carried in 2014.

The increase in transport volume is based, inter alia, the effects of the importation into service of new EMUs, as well as increased passenger transport operations to restore traffic on the Belgrade-Vrbnica-border.

In 2015. increase revenue by about 22.1%. Within the revenues from passenger transportation achieved revenues from BG train in the amount of 361 million dinars. These revenues are not correlated with the number of passengers carried, but depend on the actual driving kilometers.

In 2015. to complete the delivery of all EMUs train "Stadler" from the EBRD loan funds III and the beginning of delivery dizelmotornih trains from the project loan of the Government of the Russian Federation, while the funds secured from Eurofima, carry out activities for the supply of used passenger cars, which allows successive replacement of old and non-performing capacity for the transportation of passengers and contribute to significant improvement of quantitative and qualitative indicators, and thus income, the passenger rail transport and allows for more competitive performance on the transport market.

In 2015. achieved the transport of about 12.5 million tons of cargo, which is in relation to the assessment of the implementation of transport in 2014, year, 14.7% more.

The increase in transport volume is based on the recovery of economic activity after the May floods and the establishment of traffic on the damaged lines, the expected new transport services Zelezarz Smederevo, RTB Bor, then, COSCO transport trains from the port of Piraeus to European destinations, as well as increased transport of stone, grain, concrete sleepers, iron and others.

In order to reduce costs, take over the activities on the development of direct cooperation with other railway companies in the region, to the international commercial contracts for the transport of goods to avoid intermediaries in freight transport and thus reduce transport costs and increase the competitiveness of the railways, and thus the economy, etc.

Started investments in rolling stock for the transport of goods in the form of procurement of new multi-system electric locomotives from the EBRD loan funds IV in the coming years should contribute to increasing the quality and quantity of work in cargo traffic.

Estimated financial highlights for 2015

Positions in the Balance Sheet are planned starting from the estimated states and the sources of funds at the end of 2014. as well as the investment plan. Implementation of the investment plan or CIP, depends, among other things, the level and dynamics of providing

necessary funds for financing and indirect variable costs, as well as the participation, for the realization of these projects.

Expected characteristics of the planned balance sheet as at 2015.years are:

- the high share of fixed assets, primarily property, plant and equipment of 97.3%, conditional on the realization of investments,
- there is still high share of stock from 28.5% in the total assets of the rotation,
- the degree of self-financing, as seen through the share capital in liabilities, decreased from 72.5% to 65.6% due to the cumulative loss,
- of the total liabilities, long-term liabilities relating to 45.7%

Maturities of the principal debt on long-term obligations and the creation of short-term liabilities arising from the repayment of part of credit commitments from the state budget, leading to an increase in short-term liabilities and the difficulty of improving the liquidity of the underlying indicators:

Table 3.1. *Liquidity ratio*

	31.12.2014.	31.12.2015.
1. The general liquidity ratio (the ratio of turns assets and current liabilities)	0.21	0.21
2. Current Ratio (ratio of working assets and current liabilities excluding inventories)	0.14	0.15
3. The ratio of current liquidity (coverage Short-term cash commitments)	003	0.04

In the income statement for 2015. are planned for the following positions: Within operating income, net transportation revenues (including revenues from the use of kola) refers to 12.8 billion dinars. Although the planned increase in net transport revenues of over 17%, the projected income at the level estimated in 2014. Due to a significant decrease in revenues from the budget, primarily, regular subsidies, as well as dedicated revenue of the Ministry of Finance to finance the cost of maintenance and modernization of railway vehicles, or on arrival by management largely can not be influenced.

It is planned that its own operating income per unit of work (RTKM) in 2015. stay at the level of 2014., to a nominal operating expenses fell by over 11% (from 7.9 on the 7.0 pounds).

Table 3.2. *Structure of total income, expenses and loss (In millions of dinars)*

Serial number	Description	Realization	Assessment of realizat. 2014.	The program for 2015.	Index
1	2	3	4	5	6
I	TOTAL REVENUES	26.740	26.324	25.542	97,0
1.	Business income	24.954	24.331	24.373	100,2
1.1	Revenues from sales	10.788	11.396	13.272	116,5
1.2	Other operating income	14.166	12.935	11.101	85,8
2.	Financial income	582	486	447	91,9
3.	Other income	1.040	1.134	591	52,1
4.	Revenues from value	164	373	132	35,3

Serial number	Description	Realization	Assessment of realizat. 2014.	The program for 2015.	Index
1	2	3	4	5	6
	adjustments of assets				
II	TOTAL EXPENDITURES	34.438	34.453	31.512	91,5
1.	Business expenses	29.199	28.816	29.457	102,2
2.	Financial expenses	1.966	3.594	1.157	32,2
3.	Other expenses	2.461	1.771	702	39,7
4.	Expenses from value adjustments of assets	608	41	55	132,5
5.	Net loss from discontinued operations	25	230	141	61,4
	Deferred tax expense	179			
III	Net profit / loss	-7.698	-8.129	-5.970	73,4

The structure of operating revenues illustrates the following display:

Table 3.3. Operating income (in millions of dinars)

Serial number	Description	Realization	Assessment of realizat. 2014.	The program for 2015.	Index
1	2	3	4	5	6
I	Business income	24.054	24.331	24.373	100,2
1.	Own income	11.215	11.813	13.679	115,8
1.1	Transportation revenues	10.497	10.886	12.752	117,1
	passenger transportation	1.823	1.726	2.049	118,7
	transport of goods	8.674	9.160	10.703	116,8
2.	Income from commercialization	453	452	595	131,7
2.1.	Other income	265	475	332	70,0
2.2.	Subsidies	13.739	12.518	10.694	85,4
2.3.	Ordinary subsidies	13.065	12.221	10.376	84,9
2.4.	The funds from the Development Fund	581	103		
2.5.	Funding for projects		61	318	519,1
4.	Funds for construction		41		
5.	Other	93	93		

The structure of operating expenses illustrates the following display:

Table 3.4. Structure of operating expenses (in millions of dinars)

Serial number	Description	Realization	Assessment of realizat. 2014.	The program for 2015.	Index
1	2	3	4	5	6
I	Business expenses	29.199	28.816	29.457	102,2
1.	Cost of materials	4.135	4.327	4.441	102,6
1.1.	Spare parts	897	869	1.108	127,6
1.2.	Energy costs	3.022	3.179	3.001	94,4

Serial number	Description	Realization	Assessment of realizat. 2014.	The program for 2015.	Index
1	2	3	4	5	6
1.3.	Protective clothing and footwear	61	140	180	128,4
1.4.	The cost of oil and lubricants	61	58	60	104,4
1.5.	Other materials	94	81	92	112,6
2.	Wages	15.442	15.177	14.718	97,0
2.1.	Gross earnings	11.845	11.534	10.674	92,5
2.2.	Contributions	2.275	2.215	2.040	92,1
2.3.	Other fees	1.322	1.428	2.004	140,4
2.4.	Business travel costs	486	354	286	80,7
	The costs of transport workers	597	582	582	100,0
	Impairment Earnings		153	927	605,2
	Other fees	239	338	208	61,7
3.	Amortization	5.377	5.726	5.687	99,3
4.	Other operating costs	4.290	3.613	4.697	127,9
4.1.	Production services	2.641	2.289	3.468	151,5
4.1.1.	Maintenance services	946	566	1.833	323,8
	From its own resources	467	419	1.521	362,8
4.1.2.	Costs of common use	788	742	747	100,6
4.1.3.	Research costs	12	111	106	95,8
4.1.4.	Communal services	321	223	232	104,2
4.1.5.	Fire protection	190	219	201	92,1
4.1.6.	Other production services	384	429	348	81,3
4.2.	Immaterial costs	1.650	1.384	1.229	88,8
4.2.1.	Non-production services	525	531	435	81,9
4.2.2	Representation	14	15	6	40,0
4.2.3	Insurance	102	96	94	98,6
4.2.4.	Payments	348	289	251	86,8
4.2.5.	Membership fee	37	47	49	106,3
4.2.6.	Tax expenses	545	317	305	96,2
4.2.7.	Other expense	79	89	88	98,9
4.2.7.1.	Fees	51	63	69	110,0
4.2.7.2.	Professional literature	11	12	13	110,0
4.2.7.3.	Other	18	15	6	42,2
5.	Revenues	46	86	86	100

In the context of the position 4.1.3. Column 5 shows the costs of which are financed from earmarked funds of the Ministry of Construction, Transport and Infrastructure in the amount of about 5.8 million for the cost of services for the development of project documentation on relocation of capacities in the area of the railway station in Belgrade, as well as funds for the development of Spatial Plan special purpose infrastructure corridor railway Belgrade-Stara Pazova-Novı Sad-Subotica-Hungarian border, with two stripe track.

Serbian Railways are already in the year 2013. took over and continued continue to implement actions to reduce costs, especially predominantly fixed expenses: cost of compensation (per diem), costs of production services, insurance, payments, taxes, costs, etc.

Plan profit / loss for 2015: the Law on Budget of the Republic of Serbia for 2015., Subsidies for "Serbian Railways" JSC was reduced by about 2 billion dinars, which will neutralize the effects of the planned growth in transportation revenue and internal undertaken austerity measures. How to be to alleviate the shortage of funds for current operations in 2015. In terms of the cumulative increase in prices of production inputs railway services, numerous operating expenses in the program for 2015. the maximum planned restrictive.

The consequences of the natural disaster in May 2014., Which caused major damage to the building and electrical engineering infrastructure of railways, will be continuously transmitted and in 2015. the final training for all parts of lines for railway traffic. Also, the effects caused by the floods to infrastructure capacity will also be financed in 2015. exclusively from its own funds. Company, which is one of the main reasons for the absence of the possibilities of providing adequate resources for the work of the new procurement of goods, services and works for the maintenance of railway capacities.

The Company will in 2015. to deal with the loss, but the loss will be generated primarily as accounting depreciation expense category. Coverage of loss is possible after resolving the causes of unprofitable operations, of which the most important are:

- the lack of compensation for OJP funding,
- high level of transportation revenue, due, still present effects of the global economic crisis, as well as the consequences caused natural disasters (floods)
- low level of resources to cover infrastructure costs (subsidy can cover 62% of the total expenditure of the Directorate of Infrastructure).

Cash Flow Statement: In 2015., As part of cash flows from operating activities is planned inflow collected transport and other operating income, plus prepayments received subsidies from the budget of the Republic of Serbia and other inflows. From operating activities are planned payments to suppliers, payments to employees, outflows from other public revenues, etc.

In the area of investment is planned for the negative balance (net outflow). Financing the investment will be carried out to the extent that funds are secured.

In the area of financing planned inflows and outflows from financing activities. Given that the net change in short-term and long-term loans (ie the amount of inflow of long-term and short-term loans, net of repayment of these loans) is positive, the amount is shown as part of the cash inflows from financing activities.

Subsidies: The most significant sources of funding current operations as its own operating revenues, which account for about 56% of the total projected operating revenues and subsidies from the state budget.

The Law on Budget of Republic of Serbia for 2015. defined the budgetary funds or subsidies, "Serbian Railways" JSC in the amount of 10.4 billion dinars. Until the establishment of a new way of funding infrastructure, and the full establishment of financing obligations of public transport, distribution and use of budget funds will be made pursuant to a special act of the Government. Starting from the year 2013. Significantly reduced the amount of current subsidies, as well as a percentage share of GDP, so that the Company in



all the difficult economic situation because despite the growth of transportation revenues is not able to replace the reduction of subsidies and to finance the costs necessary amount.

In addition to subsidies for current operations, the budget of the Republic of Serbia are provided funds amounting to 1,419 million dinars earmarked for the participation of "Serbian Railways" ad in the project loan agreement, which Serbia received from the Government of the Russian Federation, which will be used to deliver the goods, performance of works and provision of services in the field of railways, in accordance with the Law on Ratification of the Agreement between the Government of the Republic of Serbia and the Government of the Russian Federation on the approval of the national export credit to the Government of the Republic of Serbia.

Revenues of Railways exercise alone are sufficient to cover only one third of operating expenses. In the last five years of income without subsidies amount to about 10-11 billion, while operating expenses about 30 billion dinars. Were it not for government subsidies amounting to about 14 billion pounds per year, net loss from operations amounted to about 20 billion. (RS, Fiscal Council, pp. 44)

Direct annual budget expenditures (subsidies and guaranteed loans paid) for Railways amount to as much as 18 billion pounds. Railways are the largest recipient of subsidies from the state budget, with about 13 billion pounds a year. The amount of subsidy is reaching a higher value (15.5 billion in 2011) and gradually reduced in the period 2012-2014. The nominal decline in subsidies to the GDP growth led to a decline in the relative importance of subsidies (in GDP), but it should be borne in mind that the goods resulting from the reduction of subsidies to budgetary problems and not from the restructuring and savings in salaries in the Railways. In other words, there is a risk that the reduction of subsidies resulting in redirection of other expenditure on wages, less expenditure on maintenance and the like, which would further aggravate the situation in the railway transport. Subsidies from the budget complement operating income, are used to cover part of the operating expenses (less than the annual wage bill) and can not be used for maintenance or new investment. In addition to subsidies, the state pays activated guaranteed loans instead Railways. This amount is in the period 2014-2016 is projected at more than 5 billion pounds per year (about 6 billion of total credit commitments in 2014). (RS, Fiscal Council, p p. 44)

Earnings and employment policy

Total staff costs in 2015. amounted to 14.7 billion dinars, which is 3% less than the costs of employees in 2014.. and the same account for about 50% of operating expenses.

As part of the cost of employees, the largest amount refers to the weight of earnings amounting to 12.7 billion dinars, which is 7.5 less than in 2014. Within other employee benefits expenses and other personnel expenses, which amount to about 2 billion pounds, is the planned amount of funds to be paid into the budget of the Republic of Serbia on the basis of the Law on the regulation of temporary base for the calculation and payment of salaries, wages and other regular income in public funds.

Total planned mass for earnings with contributions paid by the employer amounts to 12,714 million dinars from the stated amount of contributions paid by employers is planned to be directed to 2.040 million, while the remaining 10.674 million dinars includes the costs of

gross earnings (10,650 million dinars) and cost per the basis of conduct or use of benefits, amounting to about 23.8 million dinars, around 3.8 million dinars for subsidies that have the character earnings (net amount, including taxes and contributions paid by employee) and 20 million dinars based on privileged driving employees and goods on international agreements (taxes and contributions paid by employee).

Operating revenues are not sufficient to cover the wages, since earnings amount to about 15 billion pounds annually. All sizes listed are fairly stable in the last five years, which shows that there is no change and progress in the business model and results. And in the program of operations for 2014 is estimated to be basically unchanged dynamics and structure of revenues, expenses and net results. In doing so, such as a stable revenue categories (own and subsidies), so they are stable and categories of expenditure - salary costs, so make up between 15 and 16 billion dinars during the whole period. Number of employees at the end of 2013 is approximately 18,000 and the five-year period was reduced by about 1,500 people (the largest decrease in the number of employees in 2010; in 2014 the reduction applies only to the number of employees who retire). (RS, Fiscal Council, p p. 44)

The dynamics of employment, "Serbian Railways" JSC have extremely unfavorable structure of employees, dominated by old, with insufficient and outdated skills, with which they are unable to accept and implement the effects of modernization of railway capacities on the basis of current investment projects and market orientation that has to be built through restructuring "Serbian Railways" JSC employees have a need for specialized professions of all kinds, especially engineering, and certainly for the young and modern educated people. The reception staff in the "Serbian Railways" ad will be aligned with the arrangement of the "Serbian Railways" ad permanently reduced to 2018.god.

The planned structure of employees: On 31.12.2014.god. structure of employees in the "Serbian Railways" ad shows the following characteristics: VICE employees with secondary education (42.7%), while employees with higher education relations 10.2; the average age of employees is approximately 47.7 years and the largest number of employees by length of 31-35 years, about 23%.

Wages paid in 2014 and the plan of payment of wages for 2015: Funds for salaries have been planned in accordance with the Law on the regulation of temporary base for the calculation and payment of salaries, wages or other income and other in public funds.

Mass of earnings for all employees (management and other employees) is planned starting from the average salary paid to this category of employees in November 2014., Estimated the number of employees at the end of 2014.. and in accordance with the planned schedule of employment. Planned mass of salaries can be adjusted in accordance with the principles of fiscal management and policies of the Government.

The monthly value of food during the work and value of one twelfth of recourse for annual leave are contained in the value of a working hour. "Serbian Railways 2" ad is paid 13 salaries.

Planned charges union members: The amount of compensation for the chairman and members of the Assembly of "Serbian Railways" JSC, which are paid monthly, determined on the basis of Resolution of the Government 05 No. 120-4780 / 2008 of 6.11.2008. In the amount of a single net average salary in the Republic paid in October 2014., plus projected inflation



of 4.2%; compensation for the work of the President of the Assembly has increased by 50 percent. Assembly of the "Serbian Railways" JSC has 15 members.

Investments

As a consequence of these results, the total investment is financed from the loan. Country or issuing guarantees for borrowing Railways or directly debited to the needs of Railways. Railways have received loans from the Development Fund. The state guaranteed the loans granted Railways is about 300 million euros, while the approved (not revoked) a total of about 750 million euros. Setting priorities for investment (and debt) stems from the fact that the budget will continue to finance these expenditures. (RS, Fiscal Council, pp. 44)

In 2015. investment projects were funded primarily from loans and other arrangements of the international financial institutions. Capital projects that were started in the past and whose financing will be continued in 2015. As well as new capital project of reconstruction and modernization of the railway line Niš-Dimitrovgrad-jredita Phase I of the Czech Export Bank, which has provided a guarantee of the Republic of Serbia, presented are attached to Point 7.1., and include the following projects:

1. Railway Rehabilitation Project II - a loan from the European Investment Bank (EIB IV) in the amount of 80 million euros. The project includes three components, namely the reconstruction and modernization of Batajnica-Golubinci railroad Belgrade-Sid-State border, section Gilje-Cuprija-Paracin railroad Belgrade-Nis and Cele Kula-section Stanicenje of Nis-Dimitrovgrad-Bulgarian border (the last component will be financed from the credit of the Czech Export Bank, with the approval of the EIB.

The modernization of Batajnica-Golubinci is completed. In 2015., On the section Gilje-Cuprija-Paracin, expected completion of all contracted to build a new bridge across the Velika Morava River in the length of 322,5m, construction of new double-track line in the length of 10,2km and procurement of equipment and works the reconstruction and modernization of electrical installations (the work had begun 06.11.2013.god., and the deadline for completion of all work on completing the new electronic signaling and safety equipment for Cuprija station is 730 days, ie November 2015.).

After reviewing all the necessary papers, physical and financial implementation of reconstruction and modernization of the section Ginje-Cuprija-Paracin, propose funding for new components from the remaining part of the loan and in cooperation with the bank take appropriate decisions

2. Project Rolling stock - electromotive multipart sets - a loan from the European Bank for Reconstruction and Development (EBRD III) in the amount of 100 million euros. The project includes the purchase of 30 electric multiple furniture. In 2014.. realized the delivery of trains 5 of the agreed procurement of 21 new EMUs with Swiss company "Stadler Bussnang AG". In 2015. planned delivery of the remaining trains and completion of the project.

3. Project Corridor H - a loan from the European Bank for Reconstruction and Development (EBRD IV) in the amount of 100 million euros. The project includes three components: 1) the rehabilitation of railway lines along Corridor H, including the purchase of machinery for track maintenance and 2) the purchase of approximately 15 multi-system

electric locomotives. In 2015., As part of the rehabilitation component lines along Corridor H, involved the delivery of new material for the permanent rehabilitation of six sections along the Corridor H, whose works will be financed from the Russian loan, and delivery of new machinery for the maintenance of the building infrastructure.

4. Project Rehabilitation of railway line - a loan from the European Bank for Reconstruction and Development (EBRD V) in the amount of 95 million euros. The project includes the reconstruction of sections of the Belgrade-Rakovica-Resnik and rehabilitation sections along Corridor H.

At the beginning of the project "Belgrade on Water" 2014., there was a necessity of correction of the first component, or change the length of the section to be implemented under this component. EBRD officially informed that due to define new priorities of the Republic of Serbia in connection with the Belgrade railway junction, railways rehabilitation project to be amended for the component Beograd-Rakovica-Resnik (will be done the overhaul on a smaller scale than originally envisaged).

Serbian Railways Board of Directors has made in December of 2013. The decision on the redefinition of the components to be financed from the loan in the EBRD, which is a bank and a list notified redefined komponenti submitted to the Bank for information 2013.

In accordance with the above, reference were developed for all planned components and the drafting of project documentation.

After devastating floods, which occurred in late May 2014. The Government of the Republic of Serbia has conducted a needs assessment in training and reconstruction of infrastructure affected and in September submitted to the EBRD to consider partial reallocation of the loans, which became effective and which implementation at the moment has not yet begun.

The proposed components of the project are as follows:

- Program updates, due to the damage caused by the floods on the lines of Serbian Railways,
- The reconstruction and modernization of facilities for the purposes of the system BG Voz,
- Program updates on streaks along the Corridor H and EBRD Loan V (in accordance with the previously planned project).

By the end of 2014. were not adopted appropriate decisions, which causes postponement of implementation of other components of the loan for 2016.

5. Project Railroad station Belgrade Center-Stage I - a loan from the Kuwaiti Fund for Arab Economic Development in the amount of 10 million Kuwaiti dinars. The project includes the construction of missing track, construction and equipping of the platform, the reconstruction of stable electric traction facility, contact network and telecommunications facilities with the installation of new pieces of equipment and construction of access roads. In 2014.. The contract was signed with a consortium led by "Energoprojekt". With the works began on 3 December 2014., The deadline for completion of works is 420 calendar days, so during 2015. expected to be the largest part of the works.

6. Project procurement of new multipart dizelmotornih furniture - Eurofima loan in the amount of CHF 43 million. The project includes two components 1) the purchase of 12 multi-



part dizelomotornih furniture (delivered to all 12) and procurement of major components, equipment and special tools necessary to equip the capacity to maintain as well as parts and components for the maintenance of diesel trains Series 711 and 2) the purchase of additional equipment, tools, parts and components in the amount of unused part of the loan.

7. Project Procurement of used passenger cars - Eurofima loan in CHF equivalent to the amount of 5 million euros. The purchase of used passenger cars will create conditions for improving the supply of passenger transport, both in quantitative (number of available passenger cars) and qualitatively (by types of car, car interior, etc.) And create conditions for realization of the planned arrival of the passenger traffic, ie, its increase. In December 2014.. launched a public procurement procedure ten rounds with five beds and sleeper.

8. The project of reconstruction and modernization of the railway line Nis-Dimitrovgrad-Phase I - Czech Export Bank loan in the amount of 51 million euros. The loan is not agreed whether the guarantee provided by the Budget Law of the Republic of Serbia for 2015.

9. Infrastructure projects and rolling stock - Project Loan Government of the Russian Federation, the Republic of Serbia in the amount of \$ 800 million. With the participation of the Republic of Serbia of 15% of the total value of the project amounts to 941 million dollars.

For the realization of the project is planned to conclude contracts Annex 5 (Annex 1 - Construction of the second track of the Belgrade Centre - Pancevo Main, Annex 2 - Reconstruction of 6 sections on Corridor H, Annex 3 - Reconstruction and modernization of the section Stara Pazova - Novi Sad, Annex 4 - reconstruction of the Belgrade-Vrbnica (Bar) and Annex 5 - Delivery dizelomotornih trains.

Annex 1 covers the financing of the reconstruction and modernization of the section Pancevo bridge Pancevo Main, 15km in length, on the line BG Centar-Pancevo-Vrsac-main border. At this section, includes construction of the second track, as well as construction and reconstruction of existing track capacity and infrastructure in the cells Krnjaca, Ovca, Pancevo bridge, and stop Sebešs Krnjaca bridge and a new bridge on the Tamis in the length of 241,90m and the new lower bridges and engineering structures. The contractor is the Russian company "RZD International" doo. Earth-moving sub-contractor was selected domestic "Energoprojekt engineering" sd Belgrade.

Annex 2 for the reconstruction of 6 sections on Koridroru H concluded 03.2014.years between "Serbian Railways" JSC and "RZD International".

In May 2014.. Russian contractor "RZD International" doo has received from "Serbian Railways" ad proposal that a contract for Annex 2 separated into two parts, "North" and "South" as it is only three so-called. "North" section of Corridor H building permit and provided funds for the down payment, which is a prerequisite for the commencement of works.

Serbian Railways and "RZD International" doo, signed in October 2014.. contract for the reconstruction of three "northern" sections of the trans-European railway Corridor H: Golubinci-Ruma (oko17,9km), Sopot Kosmajski-Kovacevac (about 18,4km) and Mala Krsna-Velika Plana (about 29,5km), and the total value of the contract is about 56 million dollars. "Serbian Railways" at the end of December 2014. paid the Russian company "RZD International" amount of approximately \$ 7.3 million on behalf of the Serbian state participation of 15% in the project, thus creating conditions for the start of works.

In 2015. work began on three 'N' shares and the completion of the preparation of project documentation for three "southern" section.

Annex No. 5 provides for the acquisition of dizelmotornih trains. "Serbian Railways" and "RZD International" doo, signed in October 2014.. contract for delivery of 27 new diesel trains, which will be manufactured in the Russian company "Metrovagonmaš". The value of this contract is \$ 100 million. Law on Budget of the Republic of Serbia for 2015. are provided earmarked funds of the Republic of Serbia on behalf of the Serbian state participation of 15% in the project in the amount of 1.4 billion dinars. At the end of 2015. it is expected that the first delivery of the new trains dizelmotornih.

Signing of other Annex in 2015. (2.2, 3 and 4) will depend on the moment of providing funds for participation in the amount of 15% of the contract value, as well as the completion of the necessary project documentation and land expropriation.

Financing of capital projects in 2015. Is planned in the amount of 29.2 billion dinars, and to 27.7 billion dinars (94.9%) from international funding sources 1.4 billion (4.8%) from the Budget of the Republic of Serbia and 0.05 billion dinars (0.2%) of the Company's assets.

The condition for realization of the planned investments is to provide the means for financing and indirect variable costs. For the preparation of technical documentation, participation and other indirect costs and dependent plans funds in the amount of 1.5 billion dinars, of which the largest part relates to the funding of participation, and the participation of the Russian loan. Law on Budget of the Republic of Serbia for 2015. provided 1.4 billion earmarked for the participation of JSC "Serbian Railways" the Russian loan. Part of the funds for these purposes, in accordance with the financial capabilities, the Company financed, so as not to jeopardize further implementation of the project, while providing the necessary funds for the participation of countries expected to participate.

In addition to the above, to finance the project documentation has been provided and donor funds IPA funds of the European Union, for. The project of reconstruction and modernization of the railway Novi Sad - Subotica, the value of the donation is 3,95 million; project of the railway bypass around Nis, the value of the donation is hinjada 900 euros and the project of reconstruction and modernization of the existing track and the construction of the rest track of the Belgrade-Nis, shares Stalac-Djunis the value of the donation is 1.5 million. The donation from the IPA funds of the European Union, by means of AP Vojvodina and the city of Novi Sad financed the project of building a new "Zezel Bridge" over the Danube in Novi Sad. Preprojekta value is 45.4 million euros.

In addition to resources for indirect and attributable costs that are provided from the Budget of the Republic of Serbia or its own funds Railways (provided funds are presented in the form 7.1., Attached to the program of operations), have not yet been provided, or did not plan the necessary resources for indirect and associated costs the following projects:

Memorandum of understanding and cooperation on the project Hungarian-Serbian railways between the People's Republic of China, Hungary and the Republic of Serbia 2014. the realization of the project of reconstruction and construction of the Belgrade-Budapest, "Serbian Railways" JSC were called to the authorized organization of the Republic of Serbia on the preparation of the Feasibility Study of the project, with the task of joint action with the other two parties in the preparation of the Study. Since the decision of the Government of the



Republic of Serbia on Education Working Group to find a model of financing the project of reconstruction and construction of the Belgrade-Budapest in 2015. is defined by the model of financing, both for the preparation phase of the project (preparation of project documentation and expropriation), as well as for the implementation phase of the project, and the start of implementation of activities whose defining also expected.

Indebtedness

Capital projects are largely financed loans from international financial institutions. On the day 2014. total liabilities of "Serbian Railways" JSC amounted to 40.5 billion dinars, of which 40.4 billion to foreign creditors and 121 million dinars to domestic creditors. The total credit obligations are liabilities arising so far exploited or withdrawn, and the outstanding amount of foreign loans for which the Republic of Serbia has given guarantee (EIB, EBRD, the Kuwait Fund for Arab Economic Development), as well as loans contracted without guarantee (Meinl Bank). Given that "Serbian Railways" ad are not able to service all obligations, expected assistance of the Republic of Serbia in the settlement of liabilities arising from loans that were given guarantees and loans Eurofima while credit obligations to Meinl Bank and domestic creditors (Bank Intesa development Fund and the RS Fund of solidarity) "Serbian Railways" ad settled from its own funds.

In 2015. matured for payment of total liabilities in the amount of 7.9 billion dinars, of which 7805.6 million dinars based on foreign loans and 104.4 million dinars on the basis of domestic credit.

Outstanding debts and unpaid claims: Estimated-outstanding receivables as at 2014. amounted to 4.3 billion dinars (amount without value adjustment). Estimated outstanding obligations as at 2014. amount to about 11 billion dinars.

Railways The main problems arise from the ordinary course of business, not of debt. The largest enterprises imbalances resulting from the loss from operations. Operating loss determines the lack of funds for maintenance and investments and, consequently, the borrowing company. However, the standard indicators of indebtedness are still not alarming (for example, the debt to capital ratio to about one quarter). Liquidity is not at a high level (current assets are about one-quarter of current liabilities), and it contributed to the small claims (about 2 billion), and moderately high short-term liabilities (primarily trade payables, about 11 billion dinars). It appears that the road to better results is based on solving the cause of the problem - income and expenses. (RS, Fiscal Council, p p. 44)

Prices

The last price increase in cargo traffic was realized in the first quarter of 2008. (25% in domestic traffic), and in passenger traffic in the first quarter of 2010. (16% in domestic traffic), where the railway is facing a constant increase in cumulative cost of inputs in the production of transport services.

In domestic passenger traffic in the second half of 2015. possible activities are ashamed of initiating procedures for obtaining the approval of the Government of the Republic of Serbia for the adjustment of prices only to the level of inflation according to the latest official data of

the Republic Institute for Statistics of the Republic of Serbia. In domestic freight traffic for 2015. not provided price increase.

The Company will, if the need arises, the transport of passengers, certain measures of tariff policy (through possible correction commercial privilege or correction of the borders of tariff zone) affect the level of transportation revenue, present activities towards market orientation towards the business model.

According to all users who have completed the interview credited carriage of goods in internal traffic, apply the same principle of price levels for the same, or similar transport conditions (quantity and type of goods, transport relations, etc.).

The international freight traffic (implementation of agreements on the central billing of transport), the price level to be contracted will be in line with market is acceptable, what is needed to define the prices in accordance with the intensity of competition, seasonal fluctuations, quantities and types of goods offered the transport, the degree of capacity utilization, organization of transport (individual journeys, groups of circuits, block trains), in accordance with the mode of payment and other criteria. Expected foreign share of revenues from the international traffic amounts to about 47.5 million.

Risk management

In its normal course of business the Company is exposed to a different extent certain financial risks, the risk of reduction in State benefits, changes in exchange rates of foreign currencies, the risk of changes in interest rates, the risk of price changes and liquidity risk. Risk management in the Company is aimed at minimizing the potential negative impact on the financial position of the Company's operations.

The risk reduction of state fees: In 2015. government subsidies for "Serbian Railways" JSC have been reduced by about 2 billion dinars. This reduction leads to the risk of payment to creditors, then the risk of technical readiness for the transport of goods and passengers because of the very difficulty of securing the necessary funds to maintain, and therefore leads to risks in the context of road safety.

Price risk: Given that prices for domestic services controlled and subject to the approval of the Government of the Republic of Serbia, in the circum exposure avoid the risk of disapproval price increases, an increase in transmission revenues in passenger traffic for 2015. not based on the increase in the price of transport.

Credit risk:

a) *The risk of changes in interest rates:* interest calculation is carried out every six months and the interest rate is equal to six-month EURIBOR-a + 1% fixed percentage. The main credit risk arises from the possible variations EURIBOR and its changes.

b) *The risk of paying rates on the undrawn portion of the loan in accordance with the Opposition on the loan,* the Borrower pays the fee on the undrawn portion of the loan, which is part of the standard procedures of the EBRD and calculated the total available amount of the loan as well as any amount of the Loan which is subject to debt payment but has not yet been withdrawn and amounts to 0.5% of the 'Year' level. This fee is calculated and paid twice a year. The main risk for the "Serbian Railways" ad on this basis, is untimely loan



disbursements, delays in project implementation, causing a large amount of commission payments, and therefore a longer period of payment of the same.

c) *The risk of repayment of loans:* for loans to "Serbian Railways" ad repaid independently from its own resources, there is a risk of untimely repayment of the loan due to lack of funds.

The risk of changes in foreign exchange rates: The Company is exposed to risk from changes in foreign exchange rates arising out of future business transactions, as well as from significant foreign currency liabilities, primarily borrowings, but also to foreign railway administrations, as well as foreign suppliers. On the one hand, the change of course in terms of depreciation of the dinar, especially against the euro and the Swiss franc, the cost increases through increased foreign exchange losses and higher credit and other commitments are translated into dinar amount. On the other hand, the change of course in terms of strengthening the dinar's value, especially against the euro, may affect the lower income denominated in dinars in the income statement than planned, given that the Company realizes a significant amount of foreign currency earnings.

Liquidity risk: Liquidity management aims to ensure that the Company of its obligations on due dates. Despite the fact that due to operating losses and long-term financial imbalance of liquidity risk management is difficult, the Company regularly pay taxes and contribute to the State. Risk management is more difficult when it comes to borrowings, foreign railway governments and foreign suppliers, due to the aforementioned credit risk and the risk of changes in exchange rates and foreign currencies.

Management reform program public finance 2016 – 2020

The Government of the Republic of Serbia signed a Memorandum of Economic and Financial Policies (MEFP) with the IMF in early 2015, in which he presented the economic policy of the Government of the Republic of Serbia intends to implement in the context of stand-by precautionary arrangement (SBA) in the period from 2015 to 2017 in order to solve existing economic imbalances. MEFP determined based and provides a framework in which to implement the reform of the management of public finances in the medium term as part of the overall reforms of public administration, while it contains some of the key themes and elements that occur in all the sub-systems of public finance management. (RS, Ministry of Finance, pp. 5)

The program of reform of public finance management strongly relies on a number of previous analyzes undertaken by the European Commission and carried out during the screening process in the accession negotiations in the period from 2013 to 2015 as part of a number of negotiation chapters which include, among others, Chapter 5 - Public procurement, Chapter 11 - Agriculture and rural development, Chapter 16 - Taxation, Chapter 17 - Economic and monetary policy, Chapter 19 - Social policy and employment, Chapter 22 - Regional policy and coordination of structural instruments, Chapter 23 - Judiciary and fundamental rights Chapter 29- Customs union Chapter 32 - Financial control, and Chapter 33 - Financial and budgetary issues. These estimates are further supplemented by an annual report on the progress of the Republic of Serbia, as well as the reports arising from the assessment conducted by SIGMA program in the period from 2012 to 2015, with special emphasis on the estimates of the management of public finances from 2014 to April

2015, in relation to the principles of public administration throughout the relevant horizontal level management system. (RS, Ministry of Finance, pp. 6)

Displaying the current situation in public finance management, Report of SIGMA on the management of public finances for 2015 states a slight improvement over the 16 observed the principle of public finance management, pointing to a weak commitment to transparency in the state budget for 2015, the lack of new programming plan for the development internal financial controls in the public sector (IFKJ) in the future, low level of awareness about the importance of internal audit in public funds, low percentage of implemented recommendations of the State audit institution in the published annual audit reports for 2013, certain inconsistencies in the regulatory framework for public procurement, although it is largely harmonized with the EU *acquis*, as well as the poor quality of the result 7 (RS, Ministry of Finance, pp. 6)

Further recommendations arising from the Report of SIGMA on the assessment of the legal framework and organizational and institutional capacity building to consolidate the financial management and control and indirect management of EU funds under the IPA II, which requested the Ministry of Finance in early 2014, are incorporated into the program of public administration reform finances in an effort to consolidate the management of all public funds in the Republic of Serbia, regardless of the source, the harmonization and integration of financial planning, control and execution of EU pre-accession assistance into the national budget system, to ensure the highest level of coordinated and effective planning and programming of public investment and establish a meaningful and unique system of financial control of public funds in the Republic of Serbia.

IMF report on the assessment of fiscal risks, reporting and budget preparation from 2015 is one of the cornerstones of the program of reform of public finance management. At the same time, it provides a vital link with the MEFP by the Government of the Republic of Serbia signed with the IMF in early 2015 for economic reforms that it intends to apply under the SBA as a precaution in the period from 2015 to 2017, and supports its implementation.

The report of the IMF from 2015 on the assessment of fiscal risks, reporting and budget preparation states that Serbia made significant progress in the implementation of public finance reforms, while emphasizing that a large fiscal deficit and the need for fiscal consolidation in order to preserve fiscal sustainability increases the importance of continuing the reform of governance public finance. Faults as indicated in this report include the limited credibility of the budget because of the focus on an annual budget in the budget process, limited includes the national budget due to the fact that significant parts remain outside the budget of the Republic, the lack of reliable estimates of fiscal risks and liabilities, what is the answer spreads a work program to improve fiscal reporting and the expansion of the current cash to accrual accounting in the medium term.

Finally, the report repeated the assessment of public expenditure and financial accountability of the World Bank provides the basis for the preparation of the current reform program of public finance management as it provides a comprehensive and detailed assessment of the current situation in all subsystems of public finance management with a comparison with the results of that assessment, which was carried out in 2010. Therefore, the reform program of public finance management relies heavily on inputs obtained from the



PEFA assessment of 2015 in order to eliminate deficiencies therein. (RS, Ministry of Finance, pp. 7)

Conclusion

IMF report on the assessment of fiscal risks, reporting and budget preparation from 2015 is one of the cornerstones of the program of reform of public finance management. At the same time, it provides a vital link with the MEFP by the Government of the Republic of Serbia signed with the IMF in early 2015 for economic reforms that it intends to apply under the SBA as a precaution in the period from 2015 to 2017, and supports its implementation.

As an example of a public company, this paper presents the company Railways of Serbia, which is already in the year 2013. took over and continued continue to implement actions to reduce costs, especially fixed expenses: costs of fees (per diem), costs of production services, insurance, payments, taxes, costs, etc.

Revenues of Railways exercise alone are sufficient to cover only one third of operating expenses. In the last five years of income without subsidies amount to about 10-11 billion, while operating expenses about 30 billion dinars. Were it not for government subsidies amounting to about 14 billion pounds per year, net loss from operations amounted to about 20 billion.

The Government of the Republic of Serbia signed a Memorandum of Economic and Financial Policies (MEFP) with the IMF in early 2015, in which he presented the economic policy of the Government of the Republic of Serbia intends to implement in the context of stand-by precautionary arrangement (SBA) in the period from 2015 to 2017 in order to solve existing economic imbalances. MEFP determined based and provides a framework in which to implement the reform of the management of public finances in the medium term as part of the overall reforms of public administration, while it contains some of the key themes and elements that occur in all the sub-systems of public finance management.

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