

Serbia: Power utility EPS financial results impacts national economy

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Public companies have paid EUR 176.5 million to the budget, based on dividends and profits, which is three times more than the Minister of Finance, Dusan Vujovic had planned when cutting the state budget for 2016.

If the budget is in excellent, and public companies are in terrible position, why is there so much pressure on companies to pay the most of their profits to the state budget?

Only in the case of a public company - "Electric Power Industry of Serbia", which paid EUR 24.4 million to the budget last year, it can be seen how favourable cash injection to the state treasury at the same time can mean the financial drain on the balance sheet of the company.

It all started on one of the turbulent session of the government in mid-September 2014, which was attended by thirty directors of public companies.

Prime Minister Aleksandar Vucic, who criticizes EPS today and points out that this year only this company makes a problem when it comes to economic growth, states that at that time he sharply criticized the directors of public enterprises, because they filled the state budget insufficiently.

After that dramatic session, several tabloids, citing unofficial sources, published nearly identical details on how the prime Minister scolded the directors of state companies. Vucic told them harshly to "stop filling the gangsters' pockets and start filling the state budget."

"Kurir", for example, then published that Vucic had most objections on work of Aleksandar Obradovic, the former EPS general manager to whom he said that " he knows that it is easier to import electricity, rather than make efforts that this does not happen".

Since that time until today, the Prime Minister has repeated several times that he expects from the state-owned companies, many of which have the monopoly on the market, to now return the part of the profits to the state budget. And in the last few years public companies have really done that.

Only during the last year, according to calculations of the Fiscal Council, the state-owned companies have paid EUR 176.5 million to the budget, on the basis of dividends and profits.

This is almost three times more than the Minister of Finance Dusan Vujovic had planned when cutting the state budget. By the Law on budget for 2016 it is planned that EUR 65.1 million is paid by the public companies. Only owing to the payment of one state-owned

company, and that is "Telekom Serbia", Vujovic transferred the annual plan. Last year, this company paid EUR 72.3 million to the state budget.

For this year, Minister Vujovic has an even more ambitious plan than last year. Revenues from public companies are planned to be at the level of EUR 126 million.

However, the Fiscal Council warns that "the damage that could occur due to a lack of investment is much higher than the short-term benefits achieved owing to the payment of their profit to the budget." In other words, in such way the state budget is "eating" the growth of the state-owned companies.

The production in the electricity sector in February decreased by 9.8 percent, compared to the same month last year, partly due to lack of investments. EPS had to import electricity because of production decrease in the first quarter, and it paid "cross-border kilowatts" EUR 42 million.

Many economists now see EPS as an obstacle for the dynamic growth of the Serbian economy.

This is how we came in almost paradoxical situation: at the same time EPS is a land mine for the state budget, due to poor operation, and because the money is transferred to the state budget instead for investments, the power system of Serbia increasingly has "circuit breakers trip". Therefore, EPS "is eating" the economic growth of Serbia and the state budget "erodes" the balance of EPS.

- This is a statistical game with no clear calculation - estimates Ljubodrag Savic, the professor of the Faculty of Economics. - The state, on one hand guarantees the loans for public enterprises and often takes their obligations, while at the same time the state companies transfer a large part of their profits to the budget and thus are left without the necessary money for investments. This is system of "watering a stake". Therefore, public companies are a dark hole of the Serbian economy - concludes Savic.

Of course, no one disputes the legal basis on which the State, as the owner, has the right to ask from these companies its part of the profit. After all, according to the Law on Public Enterprises, the company founded by the Republic of Serbia, shall, not later than 30 November of the current budget year pay at least 50 percent of the profits. Payment is carried out in accordance with the schedule specified by the Ministry of Finance. However, the government may decide not to take profit from the company and to leave the money. And in the case if the company, with the consent of the government, reaches a decision to increase capital from the profit. Or if it decides not to allocate surplus in the account, and use the available liquid funds to finance investments.

However, Professor Ljubodrag Savic believes that the Serbian government is eager to show that it has a surplus each month, and that public enterprises have greatly contributed to that nice budget picture.

- A wise government had to think about the future. A growth and development are impossible

without investments - concludes Savic.