

## Serbia and Montenegro

### Background

At present administrative division of Yugoslavia consists of 2 republics and 2 normally autonomous provinces Vojvodina and Kosovo. On 27 April 1992, Serbia and Montenegro, the only remaining republics of the former Yugoslav Federation, agreed to unite and declared themselves a new Federal Republic of Yugoslavia. This move inherently acknowledged the independence of the four breakaway republics, even while Yugoslavia continued to support the Serbian forces in Bosnia and Herzegovina. However, the "new Yugoslavia" was not recognized by the international community, with the exception of China. In May 1992 Bosnia and Herzegovina was recognized by the United Nations (UN) as an independent nation.

### Population

Since 1990 the Federal Republic of Yugoslavia comprises the republics of Serbia and Montenegro. In Serbia, most people (66 per cent) are Serbian. The outbreak of war in Bosnia and Herzegovina and Croatia in the early 1990s caused many Bosnian and Croatian Serbs to flee to Serbia. Despite its small size, Serbia is an ethnically diverse country. Ethnic Albanians (90 per cent) are concentrated in Kosovo, which has been the site of serious tensions between Serbs and Albanians. Hungarians (4 per cent) are concentrated in Vojvodina. Serbia is also home to smaller numbers of Romanians, Croatians, Turks, and Slovaks.

In Montenegro, more than three-fifths of the people are ethnic Montenegrins, a group similar in heritage to the Serbs. Minorities of Slavic Muslims, Serbs, Albanians, and Croatians also reside in Montenegro.

Yugoslavia Ethnic groups: Serbs 63%, Albanians 14%, Montenegrins 6%, Hungarians 4% other 13%.

### Demography

Population (1998): 11,206,039 (Montenegro -679,904; Serbia -10,526,135). Population growth rate in 1998 Montenegro 0,07%, Serbia 0,02%. The birth rate is 13,55/1000, Serbia 12,62 births/1000.

Urban-rural (1991): urban 52.0%; rural 48.0%. Net migration rate: Montenegro: %4,3 migrants/ 1000 population, Serbia 3,1 migrants/1000 population. Religions: Orthodox 65%, Muslim 19%, Roman Catholic 4%, Protestant 1%. Other 11%.

Sex distribution (1991): male 49.6%; female 50.4%.

### Economic indicators

**Table 1**

GNP per capita USD	1990	1991	1992	1993	1994	1995	1996	1997	1998
	2 530	2 370	1 740	1 270	1 390	1 510	1 545	1 455	

Source: Federal Statistical Office

On the basis of National official statistics the GDP purchase power parity was 24,3 USD billion in 1997, the real growth of GDP is 7.4 in 1997. The average salary is about 300 DM, 175 US\$ per month in 1998. The average pension was in 1989 470 US\$, while today it is 173 US\$. Average monthly wage in Yugoslavia before NATO attack was about 150 - 200 DM.

The CNP per capita decreased. The level of the income per capita is the highest in 1990 2 530 US\$ before economic and political crisis in Yugoslavia. After 1990 the trend is to slowdown the income per capita and living standard. Expected GDP per capita for 1999 would be 750 US\$.

**Table 2**

GDP US\$ mn	1992	1993	1994	1995	1996	1997	1998
	18 140	13 340	14 570	15 910	16 340	18 5 00	15 700
Real GDP growth	-27.9	-30.8	2.5	6.1	5.9	7.4	2.6

Source: Federal Statistical Office

Table 3

	1992	1993	1994	1995	1996	1997	1998
Annual change in Gross industrial production (%)	- 22	-37.3	1.3	3.8	7.5	9.5	3.4
Annual change in Gross agriculture production (%)	-17.7	-3.7	5.9	4.0	1.3	7.2	- 5.9

Source : Federal Statistical Office

Industrial products manufactured in Yugoslavia include cement, steel, machinery, and motor vehicles. In Yugoslavia following sectors are developed:machinery, transport equipment, weaponry, electrical equipment, metallurgy, mining, textiles, footwear, foodstuffs, appliances, electronics, petroleum products, chemicals, pharmaceuticals.

The overall economic situation have gotten worsening, before NATO attacks, because of the devastating impacts of sanctions and international isolation. The expected industrial production will be lower more 20% compared to December.

### Labor Force

total: 2.178 million

by occupation : industry 41%, services 35%, trade and tourism 12%, transportation and communication 7%, agriculture 5%. (1995)

	1992	1993	1994	1995	1996	1997	1998
Employment total (thousands)	2 536	2 464	2 406	2 379	2 363	2 332	
Annual change of employees in %	-3,4	-2,8	-2,1	-1,4	-0,5	-1,5	
Employees in industry (thousands)	940	915	894	870	852	820	795
Employees in industry change in %	- 5,2	-2,7	-2,3	-2,7	-2,1	-3,8	-3,0
Unemployment average (thousands)	747,5.	738,7	726.0	775,5	819,4	814,1	838
Unemployment rate average in %	22.8	23.1	23.1	24.6	25.7	25.9	30

Source: Research Reports No 248 February 1998, The Vienna Institutes for International Economic Studies.WIW 1999

Data shows a trend of decrease of total number of employees and employees in industry also. It is a sign for movement of economy to recession.

	1992	1993	1994	1995	1996	1997	1998
retail trade turnover annual change in %	-44.5	-35.9	70.1	4.5	7.5	11.3	
Consumer price change in %	n.a	n.a	n.a	78.6	91.1	21.6	30

Source: Research Reports No 248 February 1998, The Vienna Institutes for International Economic Studies.WIW 1999

Despite of the administrative price control the level of the consumer price registered constant growth for 1995 . 1998

Cnsumption increase is not significantly for recovery of the demand on the domestic market after financial instability in 1992.

The hyperinflation was occurred in 1993, after that the prices were relatively stable. Inflation remains a serious economic problem The inflation is 21.6% in 1997. But it is more because the foreign

exchange rate is higher on the parallel market.. Average price growth rate did not rise above 30%,while the total price increase in 1998 reached 44.3%(December 1998 - December1997). In Montenegro, retail prices increased 2.9%. In Serbia they increased 2.0%. Average annual inflation rates was 1998 in Montenegro is 27.6% and in Serbia 30%.

## Foreign Trade

**Table 6**

	1992	1993	1994	1995	1996	1997	1998
Export total USD million	2539	n.a	n.a	n.a	1 842	2677.2	2 858
Import total USD million	3859	n.a	n.a	n.a	4112.0	4826.3	4 849
Trade balance USD million	-1 320	n.a	n.a.	n.a	- 2 260	-2149,1	-1991
Current account USD million	n.a	n.a	n.a	-500	-1317	-1837	-1200

**Source:** Federal Statistical Office

In 1998 exports increased by 6.8%, imports grew up 0.5% compared to 1997. Consequently deficit was decreased by 7.3%. At the beginning of 1999, there is a decreasing trend of foreign trade turnover and current account deficit will grow up. In 1998 the current account deficit percent of GDP was 8%.<sup>1</sup> May be the current account deficit will be above 10% of GDP in 1999 as a results of completely destroyed industrial sector.

In 1998 the trade balance was deficit. Total exports amounted to 2,858 USD million and imports were 4.849 USD million in 1998.The trade deficit 1 991 USD million was recorded in 1998. The volume of trade increased by 2.7% in 1998 compared to 1997.

Majority of foreign trade turnover is oriented to other former Yugoslav republics, nations of the former Union of Soviet Socialist Republics (USSR), European Union (EU) countries (mainly Italy and Germany), Eastern European countries, and the United States. The main partners are Germany, Italy and Russia.

The biggest share in export structure are manufactured goods, food and live stocks, raw materials.

The import structure consist of folowing commodities: machinery and transport equipment, fuels and lubricans, chemicals, food, gasoline.

## Fiscal policy<sup>2</sup>

The internal public debt was 120% of GDP in 1997. The revenues of the growth of industrial sector for periods 1994 -1998 have been used for covering of the budgetary gap. According to National Statistic of Serbia a share of the public revenues of GDP is 59% in 1998. Military expenditures are 6% of GDP and 76.6% of government expenditure.(estimated 1998).

Analysis of capital market development and privatization is impossible to be made by reason of lack of information.

## Health services

An extensive national health system covers the rural and urban populations. Private practice was legalized in 1990, and a growing number of doctors, dentists, and nurses now choose to operate in the private sector. However, most people cannot afford private medical or dental treatment, and public hospitals are often short of supplies and equipment. In general, the country has experienced a lowering of health standards.

The state health system guarantee free care at nominal personnel costs. The revenues for health care are from state social security system.

## Conclusions

Before 1990 the former Yugoslavia's economy was based on market socialism, characterized by social ownership (as opposed to Soviet-style public ownership), in which enterprises were controlled

<sup>1</sup> Estimation of Gligorov Vladimir, The Vienna Institute for International Economic Studies (WIW).1999

<sup>2</sup> No official data for budget deficits. According to information of Ministry of Finance the budget is always balance. Experts estimated that the general government budget deficit can not be less 10% of GDP in 1998.

by their workers through a complex system of committees and councils. The roots for economic disequilibria were set in model of Socialist Federal Republic of Yugoslavia. The economic growth in the periods 1970 -1990 was due to "huge unilateral transfer from the West and inspired by well - known political considerations" and "cheap strategy for mobilizing domestic resources through the unpreceding transfer of labor from agricultural and non- agricultural activities"<sup>3</sup>

Yugoslavia's present economy is in chaos for several reasons. After 1990, the government proceeded to dismantle the old system, divide its assets, set up new institutions, and try to make the economy more market-oriented. However, external trade was blocked and foreign assets were frozen as part of a package of international sanctions. The collapse of the socialist system leads to break-up relations among previous republics of Yugoslavia and loss of markets. In addition substantial public resources were devoted to supporting Serbs in warring parts of the former Yugoslavia. Yugoslavia has also borne the burden of housing some 850,000 refugees both from Bosnia and Herzegovina and from Croatia. The collapse of the Yugoslav federation in 1991 has been followed by highly destructive warfare, the destabilization of republic boundaries and the break up of importance interrepublic trade flows. Output of Serbia and Montenegro dropped by half in 1992, 1993. Like the other republics Serbia had depended on the other republics for energy, and industry products. The break up of many of the trade links, the sharp drop in output as a results of destroyed relations among suppliers and markets have contributed to the economic difficulties for Serbia.

In December 1993 inflation was running at 21,000 per cent a month, and the economy shrank by 35 per cent. Living standards plummeted, and food rationing was not uncommon. The introduction in 1994 of a new currency, still called the dinar, and implementation of macroeconomic stabilization program helped to bring inflation down to 1 per cent to increase industry production, but the economic outlook remains grim. The macroeconomic stability was very fragile, because of the lack of will of the government for privatization, structural reform and for efficient allocation of the resources. A slowdown of the economy is a consequence of inadequate economic and social policy leaded by Milosevic and democratic elected government.

At the beginning of 1998 the outlook was relatively promising for the Yugoslavia economy: a small but still positive GDP growth was reported for 1997. GDP started to grow after 1993. The growth of GDP was lower in 1998 than in 1997. Despite of the GDP growth, statistic indexes show that rate of inflation moved up, GDP per capita decreased. Unresolved problems are inflation, high level of unemployment, lack of foreign investment and slump of productivity in the state enterprises. The Kosovo crisis enforced the recession and internal macroeconomic disequilibria.

#### **Yugoslavia is faced with economic catastrophe**

Economic indicators show that Yugoslavia(Serbia and Montenegro) is war economy acting under hard conditions. The main characteristic of Yugoslavia's economic development during the recent years is trade deficit, current account deficit and budget deficit. The main budget expenditures are for army. Yugoslavia's foreign debt increased and it amounted in 1998 11, 500 USD million(estimation of National Statistic office of Belgrade.). At present the foreign debt can not be restructured, because of the economic sanctions and a lack of agreement with International financial Institutions. A current account deficit is high and it will lead to balance- payment problem, which will have a negative impact on the stability of the domestic currency, and whole macroeconomic development in the future.

The slowdown in economic growth results from a combination of external and internal factor. External factors are economic isolation of Yugoslavia, and the lack of agreement with International financial Institution. The internal factors are authority regime of Milsovic, Kosovo crisis, a slow speed of market reform. Many institutions of the old Yugoslav system remain in place, while the black market, corruption, and illegal economy flourishes. The reform of banking, fiscal procedures, and property ownership remains as an urgent priority in the future.

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<sup>3</sup> see Madzar Ljubomir "The roots and implications of Yugoslav economic adversity"Research report No 250 October 1998. The Vienna Institute for International Economic Studies(WIWI), p.70. ,=

Experts estimated the official unemployment rate at about 50% for the country as whole. Particular some regions the industrial city Kraguevac has unemployment rate estimated at 70% and Kosovo 's unemployment rate is estimated at 80%<sup>4</sup>.

At the same time, the informal sector of the economy is a significant source of employment in Serbia. Statistic can not determine, because of the lack information for illegal activities. Faced with low salaries and widespread unemployment, many people have taken on additional jobs, usually both formal and informal. The informal jobs (gray economy) included selling imports goods in small quantities in the street without paying tax and tariffs, odd jobs in transport and construction. Some able to add to their household income by renting rooms and houses. The high unemployment rate is a result of sharp declining of industrial sector. The sharp decline of the industry sector has contributed to late and unpaid wages. The state sector is unproductive. The people are nor fired, but forced stay at home or no pay.

At present industrial sector is completely destroyed as a results of NATO attack.

Constitutional and legal provisions have been made for liberalizing property ownership and business activity, but the authorian regime is obstacle for their enforcement now.

Montenegro is very small and suffered of Serbia dependence. The absence of economic dependence has made impossible for Montenegro to introduce the necessary changes and economic reforms. The democratic party in Montenegro make attempts for achievement its independence from Serbia in terms of domestic and international policies.

### **Prospective for Yugoslavia economy**

Growth prospect for next years will depend on how Kosovo crisis will completed and the speed of economic reform. Economic improvement will be impossible without financial support of the International financial institutions and EU - countries. Serbia private sector needs of enforcement of the rule of market trough competition and out of state control. The institutional reform will encourage responsiveness of the government and civic engagement.

Yugoslavia economy is open and the production is limited by the lack of imported inputs now. Many enterprises are unproductive, the export in the following period will be not high.

Increasing level of the trade deficit will have negative impact on the companies' performance and will have pressure on depreciation of domestic currency. The foreign currency market continue to be unstable for next year. This due of the existing parallel currency market, high inflation expectations and public debt deficit and administrative control on the prices growth. Hence the inflation rate will grow up, may be expected average annul inflation rate will be more 50% in 1999.

International confidence in the economy's future is low, and capital tends to leave rather than to enter the country to the end of Kosovo crisis. The political risk and uncertainty of the economic situation in Yugoslavia will limit foreign direct investment and capital inflow.

The decreasing path of foreign investment will be improved after significant political changes, mainly through democracy election of new president and government and introduction market - oriented policy. Without foreign aid , with Milosovic in power Yugoslavia will be isolated, poor, with great unemployment, with low ability to rebuild its industrial sector and damage infrastructure. Mladjan Dinkic, a professor of economics at Belgrade University estimates that the unemployment will double, 500 000 people laid off work and 100 000 will seek to emigrate from a country.

The fixed assets are destroyed. Yugoslavia is an important transit route in the Balkans The disruptions of the roads, railroads as well as the bridges of the river Danube limited the foreign trade activity and provoke high transport costs to many counties, besides Yugoslavia.

The economic circumstances and the war will have impact on decreasing the quality life and welfare in long-run. Economic collapse could not be avoided after finishing Kosovo war. The economic growth of 1991 will be achieved in 2003 in case of financial support of outside, but the leaving standards will be low, and may be the GDP will be increase after 2005. Business risk will be on a high level, because of expected slow growth of living standard and significant distortion of fixed assets.

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<sup>4</sup> see "The Pulse of Serbia"- A Qualitative Research Project on Public Sentiment Regarding Social and Economic Issues, Woodrow Wilson School of Public and International Affairs, Princeton University January 1998.

The possible way for economic recovery is to abolish the authoritarian regime of Milosovic, accelerate privatization of state-owned enterprises and introduction of the market rules.

### **Transitional issues**

International disputes

Disputes with Bosnia and Herzegovina over Serbia populated areas. Serbia and Montenegro is disputing Croatia's claim to the Preveka Peninsula in southern Croatia because control the entrance to Boka Kotorska in Montenegro. Preveka is currently under observation by the UN military observer mission in Prevlaka.

Future development of Yugoslavia depend on radical change of the current policy, improvement of the international relation and acceptance NATO requirements for solving Kosovo crisis.