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Serbia and Montenegro: new year, new crisis

The end of last year saw parliamentary elections being held in Serbia. Rather than resolving problems, they deepened the existing crisis. The Radical Party headed by Vojislav Šešelj, currently facing war crimes charges in the Hague Tribunal, came ahead with about 27% of the votes cast. Five other parties got between 7% and 18% of the votes. Four of those are considered to be democratic, while the fifth is the Socialist Party headed by Slobodan Miloševic, the former president of Serbia and Yugoslavia who is currently on trial in the Hague on charges of genocide and other war crimes. So far, the parties were unable to agree on the composition and the programme of the new government.

This new crisis is being played out against the background of a worsened economic situation and general dissatisfaction with reforms and transition. Industrial production dropped by about 3% in Serbia (about 2.7% in Serbia and Montenegro as a whole).[1] Agricultural production decreased by as much as 10%, GDP nearly stagnated. Unemployment continued to grow, though the labour market data are not reliable. Real wages also grew much faster than output, though, again, that information is not very reliable. Exports in euro have declined and the trade deficit is well above 20% of GDP. The only positive result is the increase in foreign direct investments, which have probably reached close to USD 1 billion in 2003.

The increase in foreign direct investment comes mostly from the sale of the tobacco industry. Most other privatizations did not bring all that much money (thousand companies were sold by the end of 2003). Also, the dissatisfaction with privatization is quite widespread. Except for the Democratic Party, which is the backbone of the outgoing government, no party is happy with it and all have called for one or the other type of revision of the actual privatizations and of the privatization law as well. A report by the anti-corruption council has also severely criticized the process of privatization as have some of the trade unions. At the moment, the process has been practically stopped.

The outgoing Serbian government was unable to secure the passage of the law of the budget, so the current financing is on the same level as that of the previous year. This will not contribute to overall consumption in the current year. Unlike the fiscal policy, the monetary policy has become somewhat more lax last year. The nominal exchange rate

[1] Increasingly, the data released by the statistical office of Serbia and Montenegro cover Serbia only. When Montenegrin data are included, those are for the most part quite different from those published by Montenegrin sources. As Montenegro is a very small economy, the data for Serbia and Montenegro do not differ significantly from the ones for Serbia only. There is clearly the need to treat these two states separately when it comes to statistics, but that is not always possible because the statistical institutions have yet to be reformed to provide reliable and internationally comparable data.

has depreciated faster than inflation, though only by few percentage points. Also, monetary aggregates have started to grow, after falling sharply in the first three quarters of last year. This has not had a significant impact on either production or foreign trade so far – nor on inflation, which has continued to slow down.

Institutional transformation was practically paused last year. Even before the assassination of the then prime minister Zoran Djindjic in March 2003, the process of reforms was at a standstill. Thereafter, a lot of energy was wasted on the new law of the central bank and on the change of the leadership in that institution. Rather than settling the disputes between the finance ministry and the central bank, the sacking of the old governor and the election of the new one caused an even greater political crisis. That took the second part of the year. The government was unable to introduce the VAT at the end of 2003, as planned. Indeed, most of the structural targets agreed with the IMF have been missed.

It is fair to say that the reform that started with the political change in October 2000 have now come to an end with only a few important changes being accomplished. At the moment, Serbia has hardly any functioning institution of public governance. This will change once the government is elected and the presidential elections are held. It is, however, not clear what the new government's programme will be. All parties want to revive production and create jobs – but it is not set out how they plan to go about doing that. Perhaps one idea appears more often than others: reliance on the budget rather than on private, especially foreign, investments. Given that this is exactly the opposite of that which is possible, it is clear that the failure of the reforms so far has increased the confusion rather than doing anything else. Thus, it is anybody's guess what the new government will actually do if and when it is elected. Chances are that early elections are unavoidable in about a year.

In Montenegro, political stability is not threatened, though the current government lacks enough support for the realization of its main goal – the referendum on independence. The opposition parties also lack the ability to challenge the government effectively. The emerging third political force, called the Group for Change, may eventually play a significant role, but at the moment the political scene is basically frozen.

The government of Montenegro reports encouraging developments, with industrial and GDP growth returning and inflation remaining relatively low. The public, however, is not persuaded and points towards the problems with the fiscal sustainability. The data are not very transparent despite the fact that Montenegro has introduced the treasury system of controlling expenditures and has also introduced the VAT in the first half of last year. In many ways, Montenegro is ahead of Serbia in reforms in a number of areas, it is difficult to assess how transformed the economy and public governance are.

The common state union of Serbia and Montenegro has practically stopped functioning in the second half of 2003. The parties that are most likely to form the new Serbian coalition government are committed to preserving this union. That may be so on paper, but it is hard to see the union gaining some practical life. It will remain in existence because the EU is committed to it and for the lack of an alternative. In reality, the union is just the army, which is in fact Serbian but answers to the parliament of the union. This position of the army is quite tricky, as it can be a way to diminish its political influence and also the democratic control over it.

Prospects for the economies of Serbia and Montenegro are not very promising in the next couple of years. Most of the current year will be lost on political conflicts and confusion in Serbia. Montenegro, on the other hand, will continue to muddle through because the country is almost evenly divided over the issue of independence. Finally, international support and investment are rather uncertain, because the transparency of the transition in Serbia and Montenegro has been lost.

Table CS

Serbia and Montenegro: Selected Economic Indicators *)

	1997	1998	1999	2000	2001	2002	2003 [1]	2004 forecast	2005 forecast
Population, th pers., mid-year	10600.1	10616.9	8372.7	8342.5	8326.4	8304.7	.	.	.
Gross domestic product, CSD mn, nom.	112355	148371	191099	381661	771800	1006900	1113000	1226000	1364000
annual change in % (real) [2]	7.4	2.5	-18.0	5.0	5.5	4.0	1.0	2	3
GDP/capita (EUR at exchange rate)	1635	1336	1945	2990	1558	1996	.	.	.
Gross industrial production [3]									
annual change in % (real)	9.5	3.6	-23.1	11.1	0.0	2.0	-2.7	0	2
Gross agricultural production									
annual change in % (real)	7.3	-3.2	-1.0	-12.9	17.2	-2.1	.	.	.
Goods transport, mn t-kms	38164	45601	32978	32852	17456	5503	.	.	.
annual change in %	31.8	19.5	.	-0.4	-46.9	-68.5	.	.	.
Gross fixed investment, CSD mn, nom.	13525.3	17893.2	24867.8	59315.5	80002.8	.	.	.	.
annual change in % (real)	0.8	-2.2	-26.3	13.3	.	.	.	.	.
Construction output, value of work done									
annual change in % (real)	6.9	-0.8	-9.9	14.4	.	.	.	.	.
Dwellings completed, units	14768	13096	13123	12732	12156	12776	.	.	.
annual change in %	-2.6	-11.3	.	-3.0	-4.5	5.1	.	.	.
Employment total, th pers., average [4]	2332	2504	2298	2238	2243	2201	.	.	.
annual change in %	-1.5	-0.1	.	-2.6	0.2	-1.9	.	.	.
Employees in industry, th pers., average	864.1	887.0	804.5	764.7	744.0	684.0	.	.	.
annual change in %	-3.4	2.6	.	-5.0	-2.7	-8.1	.	.	.
Reg. unemployed, th pers, end of period	793.8	849.4	774.3	812.4	860.5	980.8	.	.	.
Reg. unemployment rate in %,end of period [5,6]	25.5	25.4	25.5	26.7	27.9	31.2	34.4 Oct	32	32
LFS - unemployment rate in %, average	13.8	13.7	13.7	12.6	12.9	13.8	14	15	15
Average net monthly wages, CSD [6]	803	1063	1309	2588	5545	9113	12254 I-XI	.	.
annual change in % (real, net)	21.2	2.0	-15.0	6.5	13.3	24.6	.	.	.
Retail trade turnover, CSD mn	35433	48748	57697	119522	252134	321386	.	.	.
annual change in % (real, calc.)	11.8	3.9	-13.5	10.2	11.6	9.4	.	.	.
Consumer prices, % p.a.	21.6	29.9	44.9	86.0	88.9	16.5	9.4	8	8
Producer prices in industry, % p.a.	19.5	25.5	43.4	106.5	85.1	8.7	4.6	5	5
General government budget, CSD mn									
Revenues	47455	61360	79321	138749	320475	507008	490677 I-XI	.	.
Expenditures	55315	70739	.	.	.	.	.	.	.
Deficit (-) / surplus (+)	-7860	-9379	.	.	.	.	.	.	.
Deficit (-) / surplus (+), % GDP	-7.0	-6.1	.	.	.	.	.	.	.
Money supply, CSD mn, end of period									
M1, Money [7]	9148.0	10807.3	14779.0	27051.0	58287.0	93996.0	98368.0 Oct	.	.
Broad money [7,8]	38948.4	62352.0	24941.0	65302.0	125805.0	192598.0	231055.0 Oct	.	.
Discount rate, % p.a., end of period	33.7	33.7	26.3	26.3	16.4	9.5	9.0 Nov	.	.
Current account, EUR mn [6,9]	-1128	-589	-672	-382	-728.7	-1828	-1500	-2000	-2000
Current account in % of GDP	-11.2	-7.6	-13.3	-3.9	-5.4	-11.0	-8.8	-11.7	-11.7
Gross reserves of NB, excl. gold, EUR mn [9]	245.2	167.7	157.9	429.9	1138.6	2076.8	3900 Nov		.
Gross external debt, EUR mn [9,10]	9509	9856	12422	12292	13306	11352	15847 Oct		
Exports total, fob, EUR mn [11]	2360.0	2517.7	1391.1	1808.2	2097.0	2399.0	2270	2360	2480
annual growth rate in %	48.2	6.7	-44.0	30.0	16.0	14.4	-5	4	5
Imports total, cif, EUR mn [11]	4245.2	4283.5	3080.8	3892.1	5390.7	6647.5	6440	6400	6400
annual growth rate in %	30.6	0.9	-26.4	26.3	38.5	23.3	-3	0	0
Average exchange rate CSD/USD	5.72	9.34	11.01	16.69	66.84	64.19	57.44		
Average exchange rate CSD/EUR (ECU)	6.48	10.46	11.74	15.30	59.44	60.79	65.26	72	80

Notes: *) CSD: New international currency-code for Dinar. From 1999 excluding Kosovo and Metohia. - 1) Preliminary. - 2) Up to 1998 based on GMP. - 3) Excluding private enterprises. - 4) Employees plus own account workers, excluding individual farmers. - 5) In % of unemployed plus employment. - 6) From 2003 Serbia only. - 7) From 1999 Serbia only. - 8) From 1999 excluding frozen foreign currency saving deposits. - 9) Converted from USD. - 10) In 2003 including a part of Montenegrin foreign debt. - 11) Converted from the national currency to EUR at the official exchange rate.

Source: wiiw Database incorporating national statistics; wiiw forecasts.