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Yugoslavia:
The Economic Costs of Disintegration

MILICA UVALIC

European University Institute, Florence

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The Economic Costs of Disintegration**

MILICA UVALIC

BADIA FIESOLANA, SAN DOMENICO (FI)

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European University Institute
Badia Fiesolana
I – 50016 San Domenico (FI)
Italy

1.Introduction[1]

In order to understand what has happened to what used to be the Socialist Federal Republic of Yugoslavia, it would be necessary to consider a number of highly relevant issues, including the history of the Slav nations and the birth of the Yugoslav states, the upsurge of pro-Slav political movements which ran parallel to nationalistic tendencies and conflicts, the ethnic, cultural, religious and other diversities that have for centuries characterized the balkan nations, and so forth. While these issues will be the object of useful potential research, I leave them to historians, political scientists and scholars of other disciplines, who will probably find in them a fruitful area for enlightening the complex roots of disintegration of a state that had existed for over 70 years.

This paper has much smaller ambitions, as it is more limited in both its time frame and scope. It focuses mainly on the most recent period, and analyses primarily the economic consequences of disintegration of Yugoslavia (despite the importance of both history and politics in shaping the actual events). The principal economic reasons which have contributed to disintegration are discussed in section two. Section three examines the level of interdependence between the Yugoslav republics preceding disintegration. The consequences of disintegration for the economies of the newly-created states in two main areas - the monetary sphere and trade - are analysed in section four. Concluding remarks are drawn in section five.

1. I am grateful to the participants of the 2nd EACES Conference (Groningen, September 1992) for their comments and discussion, as well as to Renzo Daviddi, Dinko Dubravcic, Mario Nuti, Saska Posarac and Zoran Trputec for comments on a first draft of the paper. Marko Jaklic, Pavle Petrovic, and Marjan Svetlicic provided very useful sources of information. Any errors are my own responsibility.

2. Background: economic roots of disintegration

The starting point for understanding the economic reasons which have contributed to the breaking up of Yugoslavia is the uneven level of development between the more developed and the less developed republics and regions.[2] In order to bridge the gap between the "North" and the "South", mechanisms had been devised which were to ensure the continuous transfer of resources towards the less developed regions. The main channel was the Federal Fund for the Development of Less Developed Republics and Regions, to which all more developed republics had to contribute a certain percentage (less than 2%) of their respective Gross Material Products (GMP).[3] Despite such policies, the differences in the levels of development actually widened: the gap between GMP per capita between the most and the least developed region, Slovenia and Kosovo, increased from 5:1 in 1955 to 8:1 in 1989. In 1990, Slovenia with 8% of total population produced 16% of Yugoslav GMP and contributed over 25% of total exports and imports; while Kosovo, representing also 8% of the population, contributed only 2% of Yugoslav GMP and around 1% of both imports and exports (see table 1).

At the background of these problems is a long-lasting controversy over who was "exploiting" whom. On the one hand, the more developed republics felt exploited because of obligatory transfer of resources which remained outside their direct control and hence were often used in unproductive sectors and in an inefficient way, and other policies to their disadvantage which had hampered their own development and growth (e.g. retention of foreign currency earnings from exports and tourism). On the other hand, the less

2. Yugoslavia was a federation composed of six republics (Bosnia and Herzegovina, Croatia, Macedonia, Montenegro, Serbia and Slovenia) and two autonomous regions (Kosovo and Voivodina) within Serbia. The more developed regions included the republics of Croatia, Serbia, and Slovenia, and the region of Voivodina, while the less developed the republics of Bosnia and Herzegovina, Macedonia, Montenegro, and the region of Kosovo.

3. GMP, or "social product" in Yugoslav terminology, is the value-added at market prices of the "productive sectors" of the economy, thus excluding certain "non-productive" sectors such as education, health, defence, banking and other services. In this sense, it is similar to the concept of Net Material Product used in other socialist countries, but differs from such a concept because it is gross of depreciation. Initially these transfers were in the form of grants, while after 1971 in the form of obligatory credit at highly concessionary terms; from 1975 onwards the possibility was also introduced for direct investment by firms in less developed regions as part of the republican quota.

developed republics felt exploited, and hence thought they had the right to development aid, because of the unfavourable terms of trade deriving from the structure of their economics (a large share of production in basic industries characterized by low efficiency and high capital-output ratios) in combination with distortions in relative prices (more diffused price controls of basic, respect to those of processed industries, implying lower prices in general). Although the debate has been going on for years, there is no clear evidence supporting either of the two views.

Another factor which has contributed to disintegration of the Yugoslav economy are existing institutional arrangements introduced by the 1974 Constitution, which transferred significant discretionary powers regarding credit allocation, fiscal policies, prices, and to a lesser extent the use of foreign exchange to the individual republics, who had thus gained the right to "sovereignty" over their respective economies. This had reinforced a form of "economic nationalism", leading to uncoordinated investment strategies - unnecessary duplication of plants in many sectors - and rising regional autarky and fragmentation of the Yugoslav market, as evidenced by the falling share of inter-republican trade throughout the 1970s. Besides the fragmentation of the product market, there were also impediments to the mobility of capital and labour across republican borders, and weak inter-republican integration of enterprises, most operating on their own territory.[4]

The economic crisis present since 1979, which progressively led the Yugoslav economy into a deep recession culminating in 1989 with hyperinflation, had added further impetus to regional conflicts of interests. However, it is only in 1990 that these conflicts sharpened, primarily for political reasons. In the second half of 1990, along with political disagreements between the republics, there was also dissatisfaction with the continuation of the federal stabilization programme (successfully implemented in the first half of 1990), which was believed to be contrary to the interests of all: the more developed republics, as major exporters, were affected by the fixed exchange rate and were pressing for a

4. The reasons for such tendencies are multifold, and go beyond the scope of this paper; for a further discussion of these problems, see Uvalic (1983).

devaluation, while the less developed republics were primarily hit by monetary restrictions. This led the federal government to accept certain compromises - initially concerning monetary restrictions - which marked the beginning of progressive weakening of federal control over economic policies (see Uvalic, 1992). In September 1990, Serbia failed to transfer sales taxes to the federal budget; in October there was the "trade war" when Serbia imposed special taxes on Slovenian and Croatian products (equivalent to introducing trade tariffs) and blocked payments to these two republics. Then there was the "currency war" between the republics which started in the autumn of 1990: following the general shortage of foreign exchange due to increasing withdrawals from bank accounts, commercial banks had started buying foreign exchange on the black market in neighbouring republics and competing over the conditions on which they would exchange foreign currency. In December 1990, there was a monetary raid on the monetary system, when the Serbian National Bank had surpassed by huge amounts the limits of credit expansion set by the National Bank of Yugoslavia. By the end of 1990, laws had been adopted by practically all republics which were not in conformity with federal legislation. With the progressive abuse of fiscal obligations towards the federation, in January 1991 the fiscal system had practically disintegrated, and in February-March, Croatia and Slovenia definitely stopped paying federal taxes.

These negative economic developments were preceded (and accompanied) by the worsening of the political-institutional crisis - frequent conflicts between republican governments and continuous disputes on the right compromise between Serbian demands to preserve the federation and the attempts by other republics to institute a loose confederation or independent states. The last attempt of the Yugoslav Prime Minister, in Spring 1991, to reach a compromise on a common set of economic policies which would enable Yugoslavia to remain united, had failed. In June 1991 the war began, in October Slovenia and Croatia became independent states and with their official recognition in January 1992 by the European Community, Yugoslavia ceased to exist.

It could be argued that if it had not been for the progressive worsening of the political situation, these economic factors by themselves need not have led to disintegration.[5] But in combination with the unfavourable political developments, these economic factors had become an additional (and important) reason for secession.

3.Local autarky or interdependence?

In order to evaluate the possible consequences of disintegration of Yugoslavia, is is necessary to determine the level of integration - or interdependence - between Yugoslav republics. An efficient functioning of a federation, in theory, implies a certain degree of economic specialization among its members, according to comparative advantages dictated by resources endowments, which in turn presupposes free mobility of goods, services and production factors. Some of the already discussed factors which have contributed to disintegration - regional disparities, absence of factor markets, substantial republican autonomy in economic policies, the tendency towards local autarky and the resulting fragmentation of the Yugoslav market - suggest that Yugoslavia was not an "ideal" federation and that strong elements in favour of effective disintegration were already there. This is in line with the view that Yugoslavia was an artificial entity so that its breaking-up was logically inevitable (see e.g. Ferfila, 1992).

However, there were also factors which were keeping the Yugoslav economy together (besides communist ideology), in spite of the non-existence of a favourable institutional framework. A closer look at the level of inter-republican trade flows reveals that during the 1970s, the share of inter-republican trade in total trade had indeed progressively declined (from 27.4% in 1970 to 22.2.% in 1980), along with a proportionally greater increase in intra-republican trade (from 59.9% in 1970 to 68.6% in 1980), confirming an increasing orientation towards local markets (see table 2).[6] With

5. On the condition, however, that there was readiness on all parts to introduce fundamental systemic changes in the Yugoslav economy. In the 1970s and even more in the 1980s, a radical reform of the economic system was essentially blocked by political constraints. Thus despite all economic reforms in Yugoslavia, the Yugoslav economy continued to be characterized by features common to other socialist economies (see more in Uvalic, 1992).

6. This trend was evident in all republics and regions except Macedonia where domestic trade was traditionally very important.

the economic crisis of the 1980s, however, this tendency was somewhat modified. In table 3 the shares of deliveries to the local market and to other republics in Gross Domestic Product (GDP) of Yugoslav republics are presented for the years 1976, 1983 and 1987.[7] In 1983 with respect to 1976, the relative share of deliveries to the local market decreased in all but one region (Kosovo), and relatively **more** than the registered fall in deliveries to other republics (thus contrary to the trend observed for the 1970s); the contraction of domestic sales (both local and regional) was compensated by a substantial increase in the relative share of exports.[8] Comparing 1987 with 1983, the opposite trend is evident: both deliveries to the local market and to other republics increased, although this time with a proportionally larger increase in local sales, parallel with a substantial drop in the share of exports in GDP. Taking the whole period into consideration, by comparing 1987 with 1976, in two republics, Bosnia and Herzegovina and Montenegro, deliveries to other republics actually **increased** (although slightly, from 22.7% to 24.2% and from 22.6% to 25% respectively).

Since the above analysis is based on data for selected years,[9] some of which may represent outliers (as e.g. 1983), it only permits some tentative conclusions. The analysis suggests that the widely held view in Yugoslavia - on the general and continuous tendency towards closing-up of republican economies through the reduction of inter-republican trade - is not valid for the entire period, and in particular for the early 1980s. The trend in inter-republican trade was not unidirectional, characterized by a continuous decline over the last 20 years, but rather by substantial variations, sometimes also in the opposite direction. The observed variations also show that the proportions between local, inter-republican, and foreign trade were closely related to export performance; in times of deteriorating external

7. These data are not directly comparable with data in table 2, since they do not represent total trade which beside deliveries would also include purchases, and because they are based on OECD estimates of GDP (and not the Yugoslav concept of GMP).

8. The exceptionally large share of exports in 1983 was partly the result of stabilization policies implemented in 1981-83 aimed at reducing the huge current account deficit.

9. Annual detailed statistics on inter-republican trade for the whole period (until 1987) do exist at the Federal Statistical Office in Belgrade, but unfortunately were not obtained.

conditions, as in the early 1980s, the existence of alternative (republican) markets was an important factor compensating for the loss of foreign markets, suggesting that the swings in inter-republican trade were compensatory, rather than structural.

Moreover, in 1987 (the last year for which data for all republics was obtained), Yugoslav republics were more integrated among themselves than with the outside world. As can be seen from table 4, domestic trade in 1987 exceeded foreign trade in all republics, in some cases (Kosovo) by more than seven times. In general, the larger republics - Slovenia, Croatia and Serbia - were less dependent on domestic trade. Serbia (including Kosovo and Voivodina) in 1987 had the lowest share of its GMP traded domestically (40%), followed by Croatia (49%), Slovenia (56%), Bosnia and Herzegovina (58%), Macedonia (65%), and Montenegro (92%). However, Serbia proper (i.e. excluding the two regions), had a 61% share of domestic trade in its GMP, while Voivodina and Kosovo 62% and 88% respectively, suggesting a high level of trade dependence within Serbia (i.e. between Serbia proper, Voivodina and Kosovo) (Ekonomski Institut Beograd, 1991).

Similar observations can be made for the Northern part of the country. A large part of inter-republican trade of Slovenia and Croatia is between these two republics, and thus their dependence on trade with the other republics is lower if trade flows between Croatia and Slovenia are excluded. Croatia and Slovenia taken together in 1987 exported 35% and imported 26% of their joint GMPs to the rest of Yugoslavia (Ekonomski Institut Beograd, 1991). These percentages are nevertheless still higher than the shares of exports and imports of these two republics to/from the rest of the world (19% and 18% of GMP respectively), confirming the importance, also for Slovenia and Croatia, of trade with the rest of Yugoslavia.

4. Major economic consequences of disintegration

At present, the former Yugoslav republics face the same macroeconomic difficulties as other East European countries: falling output, high inflation, disruptions of traditional trade flows, an unstable exchange rate, a substantial budget deficit, rapidly rising unemployment and lack of investment capital. In addition, economic conditions in former

Yugoslavia have been further aggravated by the breaking up of the Yugoslav economic union. The process of disintegration started already in the autumn of 1990, but the Yugoslav economy effectively ceased to exist in October 1991, when Slovenia and Croatia proclaimed independence. The consequences of Yugoslav disintegration in two main areas will be discussed: the monetary sphere, and trade.[10]

4.1.Monetary disintegration

The proclamation of independent states of Slovenia and Croatia in October 1991 marked the end of the Yugoslav monetary union. The National Bank of Yugoslavia blocked all payments to the Northern newly-established states, which in turn established their own central banks and introduced new currencies (Slovenia in October, and Croatia in December 1991). Macedonia left the Yugoslav monetary union somewhat later, in April 1992, and was followed by Bosnia and Herzegovina, both of which have on that occasion introduced their own currencies. The remaining republics, Serbia and Montenegro (or the "new" Yugoslavia), have retained the currency used in former Yugoslavia (the dinar).

Slovenia established its own monetary system and introduced a new currency, the tolar (T), on 8 October 1991.[11] The tolar replaced the Yugoslav dinar and existing notes and coins were to be physically converted, within three days, at a 1:1 conversion rate, in all banks and the Social Accounting Office (see Mencinger 1992b). A flexible exchange rate was introduced, with the DM as the main currency of reference (the Frankfurt cross exchange rates determine the other rates).[12] Two foreign exchange markets were

10. Many other areas are not considered, including problems linked to the division of rights and obligations concerning the federal debt and foreign reserves, property rights (subsidiaries operating in other republics, natural resources, housing), fiscal obligations (past and present debts, including those towards, and of, federal institutions). The consequences of the civil war, including economic sanctions against Yugoslavia in 1991 and those against Serbia and Montenegro in 1992, are explicitly excluded.

11. However, provisional notes (coupons) were printed already during the last months of 1990 by the Slovenian Ministry of Finance, but as a parallel monetary unit within the Yugoslav monetary system (see Mencinger 1992b).

12. The alternative - introducing a fixed exchange rate by pegging the tolar to the DM - was thought to be unfeasible, because of very low foreign exchange reserves, high inflation due to downward rigidity of prices and wages, and high internal debt (see Mencinger 1992a and 1992b).

introduced, called the market for current account transactions and the market for capital account transactions, with two different exchange rates (see Mencinger 1992a and 1992b).[13] The first is, in practice, the enterprise foreign exchange market, on which besides enterprises only commercial banks and the Slovenian National Bank participate. Enterprises repatriating foreign exchange can dispose of their foreign currency within 48 hours, otherwise they must sell it to banks at the official exchange rate.[14] The official exchange rate was devised as a moving-parity obtained from the current account market, by moving averages over a span of 60 days with descending daily weights, the speed of descendence depending on the rate of inflation. Foreign exchange accounts abroad are not allowed. The second foreign exchange market, introduced in order to legalize the black market, serves for trading currencies of individuals, private exchange offices and banks. On this market, the tolar can be exchanged for any foreign currency, at a rate determined by supply and demand, thus implying the introduction of internal convertibility.

At first, the official exchange rate was set at T32=DM1, which implied a depreciation both with respect to the Yugoslav dinar and to the provisional notes issued earlier (Mencinger, 1992b), but immediately after (October 1991) the nominal rate on both markets rose to around T42=DM1. Another major increase in the official nominal exchange rate took place in January 1992, following a sharp rise in the exchange rate on the legalized black market (to T52=DM1). However, due to continuing high inflation (although at a decreasing rate), the tolar has been losing value against the western currencies (although much less than other currencies in former Yugoslavia, see below), and by June 1992 the real exchange rate fell by a third of its initial level (Mencinger, 1992b). Very restrictive monetary policies have caused a shortage of tolars and decreased demand for foreign exchange, and in recent months the supply of foreign currency has

13. This distinction, however, does not fully correspond to the IMF definition of current account and capital account transactions (see below).

14. Until 12 December 1991, 30% of foreign currency earnings also had to be sold for general needs, an obligation which was thereafter abolished.

exceeded demand. Thus paradoxically, the main problem now is the overvaluation of the tolar.[15]

Although restrictive monetary policy has been one of the top priorities of the Slovenia government, initially it was difficult to substantially reduce inflation. Nevertheless, following independence, the monthly rate of retail prices has continuously been falling - from 21.5% in October to 15% in December 1991 to 11% in February and to 5% in April. Among the main reasons for the persistence of inflation was high liquidity of banks, and the fall in imports from the rest of Yugoslavia which has resulted in price increases of domestic products. The latest figure for August 1992 - when the retail price monthly rate was only 1.4% - suggests that inflation may have been put under control (although the annual average rate in the first 8 months was 74.7%).[16]

When the tolar was introduced, the Slovenian central bank had very limited reserves of convertible currencies amounting to $190 million, as it no longer had access to the federal foreign exchange reserves. By April 1992, its foreign currency reserves had grown to over $614 million, and by June 1992 they reached $825 million (Mencinger 1992b). The building up of foreign exchange reserves was initially achieved through the privatization of the publicly-owned housing stock, which was offered for sale in foreign currencies to the population at very low prices. The further accumulation of foreign currency was the consequence of restrictive monetary policies and related wage cuts, which have led to increasing exchange of foreign currency savings into tolars, as well as reduced imports from the rest of Yugoslavia and substitution of part of exports to former Yugoslavia by exports abroad. However, it is evaluated that present foreign exchange reserves are not yet sufficient to assure the regular servicing of Slovenia's foreign debt of $1.7 billion in March 1992 (excluding the share of Yugoslav debt).[17] IMF membership, which is expected in

15. See **Ekonomska politika** no. 2099, 22 June 1992, and Mencinger (1992).

16. See **Ekonomska politika** no. 2110, 7.9.1992.

17. Total Yugoslav external debt (both of the Federation and single republics) amounted to $14.5 billion at the end of October 1991; $2.3 billion is the joint federal debt, which some of the republics disclaim responsibility for, while the remaining is the debt of the single republics.

autumn 1992, will therefore be important.

Croatia introduced a new currency, the Croatian dinar (CD) on 23 December 1991, after which the Yugoslav dinar ceased to be legal tender; but while the Yugoslav dinar became useless in Slovenia, initially it was still valued in Croatia. Apart from securing monetary independence, the introduction of the Croatian dinar was designed to stop the inflationary flood of Yugoslav dinars issued by Serbia to finance the war. For the moment the Croatian dinar is a transitional currency, but the government plans to replace it by a convertible Croatian Krone sometime in 1992.

Initially, the new currency was exchanged at parity with the Yugoslav dinar, but its exchange rate has since diverged. Shortly after its introduction, the exchange rate of the CD to the DM was fixed at 55 (compared with a rate of YD85 per DM in Serbia). The CD was devalued on March 5 by 21%, to an exchange rate of CD67=DM1, indicating the difficulties of the Croatian Central Bank to control inflation. Although monthly inflation fell from 20% in December 1991 to 16% in January and 15% in February 1992, by May the rate was again up to 24.4% (or an average rate from the beginning of 1992 of over 116%).

As with Slovenia, a major problem for Croatia has been the lack of foreign exchange reserves to back up its currency reform. Croatia is, however, in a much worse situation, as its reserves are much lower (estimated at $500 million in September 1992), its foreign debt is almost twice that of Slovenia ($3 billion at the end of October 1991), while the war has substantially reduced potential earnings from tourism and shipping in 1992. In order to improve its foreign currency position, the government has decided to convert all foreign currency deposits held by Croatian citizens (estimated to be about $2.2 billion, with another $1 billion deposited in Belgrade) into foreign currency bonds, with an annual interest rate of 5%. The freeze on foreign currency accounts has greatly discouraged savings, including emigrants' remittances. Croatia may follow the Slovenian example and offer public apartments for sale in foreign currencies. It was estimated that Croatia would need foreign exchange worth $2.5 billion in order to introduce internal convertibility.

In **Serbia**, the monetary situation is far worse than in the Northern states. The Yugoslav dinar was maintained as the official currency in Serbia and Montenegro (or the "new" Yugoslavia, officially a federation since May 1992). Hyperinflation, mainly due to rapid money emission to finance the war, has rapidly reduced the value of the Yugoslav dinar. A new Yugoslav dinar was introduced at the end of 1991, and on 26 January 1992 it was devalued to a rate of 65 dinars per DM, and again in April to 200 dinars per DM. With inflation rising at a monthly rate of over 80% in May 1992, the depreciation of the Yugoslav dinar has accelerated, and the margin between the black market exchange rate and the official rate rapidly increased: in June 1992, the official exchange rate was still held at YD200=DM1, while the black market rate was at the level of YD1,200=DM1, and hence six times higher.[18] In only two and a half years the dinar depreciated from its late 1989 rate of YD7=DM1 to YD1,200=DM1 by June 1992, or more than 170 times.

Only in June did the government elaborate a stabilization programme, which involves a more restrictive monetary policy, major state expenditure cuts, and changes in the exchange rate regime. In July, a currency reform was implemented: the dinar was converted into a new dinar at a rate of 10:1 (i.e. one zero was eliminated in all accounting). The new dinar was devalued by six and a half times, and was pegged to the US dollar at the exchange rate of YD200=$1; the first effect of these measures is a reduction of inflation - the official monthly rate of retail prices in August was down to 42.4%, while the decrease in liquid assets has also somewhat stabilized the exchange rate (the black market rate being "only" twice the official; see table 5).

Serbia has access to the former Yugoslav reserves which, however, rapidly declined (from around $4.5 billion in August 1991 to less than $1 billion a year later), and on which all former Yugoslav republics have claims. The Serbian debt is also greater in relation to foreign currency earning capacity than that of Croatia and Slovenia ($5 billion together with Montenegro, although the share of the latter was only $362 million in May 1992). As with Croatia, it has considerable foreign currency liabilities towards its own citizens.

18. See **Ekonomska politika** no. 2100/2101, 29.6.92.

Already in 1991, in a situation of general shortage of foreign currencies, citizens could withdraw their foreign currency savings only in dinars. At the beginning of 1992, the Serbian government froze most hard currency savings, and it is assumed that the government will convert the frozen savings into long-term bonds. With the currency reform of July 1992, it is presumably again possible to withdraw foreign exchange from bank accounts, but only in dinars and at the official exchange rate, and there is a limit set to DM150 per month.[19]

Macedonia has also set up its independent monetary system and has introduced a new currency, the Macedonian denar (MD), in April 1992, for similar reasons as Slovenia and Croatia (protection from inflation in the rest of Yugoslavia and political independence). The denar was exchanged at parity with the Yugoslav dinar. The intention to introduce a new currency was announced to the National Bank of Yugoslavia in advance; in return Serbia had promissed not to block trade and payments transactions with Macedonia. Since on occasion of the introduction of the denar the inflow of Yugoslav dinars from other regions was substantial, the Macedonian government limited the amount of dinars that could be exchanged into denars. Yugoslav dinars returned to the National Bank of Yugoslavia will cancel part of the debt owed to the federation; the Macedonian part of foreign exchange reserves remaining with the National Bank of Yugoslavia will be used for paying off the Macedonian part of federal debt.

The value of the denar has also been rapidly falling, more than the other currencies in former Yugoslavia. In fact, by August 1992, the tolar was more than three times stronger than the Croatian dinar, five times stronger than the Yugoslav dinar, and almost ten times stronger than the Macedonian denar (see table 5).[20] The exchange rate has somewhat stabilized in the last few months, at the level of MD360=DM1 in August 1992,

19. See **Ekonomska politika** no. 2102, 13.7.92.

20. This is directly reflected in huge wage differentials which have emerged between ex-Yugoslav republics: net average wages in Slovenia (DM 518 in May 1992) were approximately five times higher than in Croatia (DM125 in June), and almost eight times higher than in Yugoslavia (DM 68 in June 1992); see **Ekonomska politika** no. 2106, 10 August 1992.

and respect to the situation in Serbia, the black market premium has been lower. Macedonia's total foreign debt is estimated at about $80 million, while its foreign exchange reserves are just under $30 million (plus a very small amount of gold). The government therefore transformed all savings deposits (worth $1 billion) into bonds of the National Bank of Macedonia, with a redemption period of 20 years.[21]

In **Bosnia and Herzegovina**, since the beginning of 1992 two currencies have been in circulation - the Yugoslav dinar, and the Croatian dinar - and in the meantime two additional currencies have been introduced: the Bosnian Serbs in Krajina, which have proclaimed their own republic (the Republic of Serbian Krajina), have introduced their own dinar, while in August 1992 the Bosnian (muslim) government has also decided to introduce its own currency (which neither the Croats nor the Serbs are willing to accept). At the end of October 1991, the foreign debt of Bosnia and Herzegovina and Macedonia amounted to $2.4 billion. It could be expected that these two new states will have the most difficult time surviving as independent economic entities.

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In conclusion, the introduction of new currencies, as both the premise and consequence of disintegration and monetary independence of the former Yugoslav republics, has had its benefits and costs. In theory, the main positive effect of monetary disintegration is the possibility of having an independent monetary policy, which will allow each ex-Yugoslav republic to proceed with stabilization (and other policies) at a fastest possible rate, since problems deriving from its realization affecting other regions of ex-Yugoslavia can now be disregarded.

At the same time, it has proved difficult to achieve these positive effects immediately. In most (if not all) former Yugoslav republics high inflation (and hyperinflation) persists, exchange rates have been highly unstable (with the black market rates at levels never recorded in post-war Yugoslavia), and the recession has deepened (see

21. The money can be withdrawn earlier only if used for construction of apartments, import of equipment, or buying enterprise shares (see **Ekonomska politika** no. 2093, 11.5.1992).

tables 5 and 6). Even in the case of Slovenia, it has taken 10 months after independence to substantially reduce inflation (which, however, is still at a very high annual rate), and monetary stabilization has been paid by a very rapid fall in output and the highest rate of unemployment growth among all ex-Yugoslav republics.[22] Some of the gains are also likely to have been cancelled out by losses in other areas, primarily trade disruptions (see section 4.2).

The costs and benefits of monetary disintegration have also been distributed very unevenly among the former Yugoslav republics. The benefits have for the moment possibly outweighed the costs in only one out of six former Yugoslav republics - in Slovenia - as it has protected it from the inflationary impact of rapid money emission in Serbia. The same benefit deriving from an autonomous monetary policy was also available to Croatia; but due to war conditions, monetary policies in Zagreb have been very expansionary, similar to those in Belgrade, and consequently the potential positive effects of monetary independence have not yet been realized. As to the rest of former Yugoslavia, the introduction of separate currencies by Slovenia and Croatia did had a strong inflationary impact; after their introduction, the Yugoslav market was flooded by dinars coming from the newly-created states.[23] However, without a more in-depth analysis and detailed statistics, it is impossible to separate these effects from others contributing to inflation (primarily rapid money emission to finance the war, or absence of stabilization policies in Serbia). Therefore for Macedonia and Bosnia and Herzegovina, as late-comers in introducing their own currencies, the effects (and further implications) of monetary disintegration have for the moment been mainly negative (which does not preclude the possibility of longer-term net benefits). Finally, the main loser is Serbia, especially because

22. Respect to other former Yugoslav republics, the rise of unemployment in Slovenia has been the fastest: from 21,000 in 1988, the number of unemployed increased to almost 100.000 in mid-1992 (see Bartlett and Uvalic, 1992).

23. The sale of Yugoslav dinars at a very low price had become a very profitable business for many individuals.

it will no longer be able to share its financial burden (and related problems) with the other republics.

Monetary disintegration has also created very serious payments problems in trade and other transactions between former Yugoslav republics, which have not yet been resolved. In the absence of a common currency, and in a situation of a general shortage of convertible currencies, the tendency has been to return to practices, long-abandoned in Yugoslavia, such as barter trade and clearing account arrangements (see below).

4.2.Trade effects

In the period before and after disintegration of Yugoslavia, the general characteristic of Yugoslav foreign trade was that of trade implosion, which affected all six former republics. For 1991 as a whole, Yugoslav exports fell by 13.7% (to $13.8 billion), while imports fell by 18.2% (to $14.8 billion), and this tendency continued during the first few months of 1992.[24] It is difficult to distinguish which part of the fall in trade derives directly from disintegration (disruptions caused by the breaking up of traditional links between partners, or by the introduction of trade barriers by the newly created states), and which part from the deep recession or from the consequences of the ongoing war (cut in transport and communications, EC economic sanctions). We will therefore concentrate primarily on some of the major problems which have emerged in the past year in mutual trade relations between the former Yugoslav republics.

Slovenia's trade with other republics preceding disintegration accounted for almost one fourth of overall Slovenian activity. In the period January - June 1991, 24% of Slovenian sales and 20% of its purchases were from other Yugoslav republics; and despite the introduction by Serbia, already in October 1990, of trade restrictions (special taxes on Slovenian products), Serbia in this period still accounted for 6% and 5% of Slovenian sales and purchases respectively (see table 7). Nevertheless, for the whole of 1991, a 32%

24. Even in Slovenia, the region with traditionally the best trading performance, although there was a surplus on the trade account in the first quarter of 1992, exports registered a 6.3% decline with respect to the same period in 1991, and imports declined by 37.1% (see Economist Intelligence Unit, 1992).

decline in Slovenian sales and a 30% decline in its purchases from other republics is reported (see Lachi, 1992). In addition, many Slovenian enterprises handled a high percentage of foreign trade for enterprises in other republics, and also had numerous subsidiaries in other parts of Yugoslavia (in 1991, more than 500 in Serbia alone).[25]

After the formal break-up of Yugoslavia, trade with former Yugoslav republics nevertheless continues to form an important part of Slovenian trade. Immediately after independence, in October-December 1991, trade with the rest of Yugoslavia was substantially reduced (the share in total trade of Slovenian exports and imports to the rest of former Yugoslavia had fallen to 23% and 17% respectively); but in the period January-April 1992, Slovenian exports to former Yugoslavia again accounted for 32%, while imports for 29% of total Slovenian trade (see table 8). In the first four months of 1992, Slovenian dependence on imports from former Yugoslavia was evenly distributed between Croatia and other former Yugoslav republics (15% and 14% of total imports respectively), whereas on the export side Croatia was somewhat less important than the rest of Yugoslavia (with a 15% share in Slovenian exports respect to 17% to other former Yugoslav republics). The former Yugoslav republics taken together have thus remained the main Slovenian single trading partner for both exports and imports; if the new states of former Yugoslavia are considered separately, Germany is first, while for Slovenian imports Croatia is the second and the rest of Yugoslavia the third most important partner (for exports the rest of Yugoslavia precedes Croatia). It has therefore been evaluated that the major burden of the trade sanctions against Serbia and Montenegro in June 1992 will be born by Slovenia because it will lose one of its most important trading partners.[26] Despite the absolute fall in Slovenian trade levels, trade restrictions and other political difficulties, markets of ex-Yugoslav republics have remained important for Slovenian trade; and considering that Slovenia was one of the regions least dependent on inter-republican trade,

25. Many of these firms have been confiscated by the Serbian government.
26. See **Gospodarska gibanja** no. 229, June 1992, p. 16.

this clearly illustrates that the level of interdependence between former Yugoslav republics is still high.

For **Croatia**, in 1989 about 20% of all sales went to other parts of Yugoslavia. The most important trade partners were Slovenia (46% of total sales to other Yugoslav republics), Serbia (28%), and Bosnia and Herzegovina (26%). Although Serbian trade sanctions introduced in October 1990 against Croatian products had resulted in a drastic fall in trade with Serbia, there was some indirect trade through Bosnia. Croatia used to purchase about 60% of its imported raw materials and semi-manufactured products from other Yugoslav republics, and many Croatian enterprises are heavily dependent on other inputs from ex-Yugoslavia. On the export side, according to a statement of a Croatian Minister, in 1992 two thirds of Croatian exports were still directed to markets of former Yugoslavia.[27]

Slovenia is by far Croatia's most important country partner. Although trade exchanges between the two republics are down respect to the level when they were part of the Yugoslav federation, during the first four months of 1992 Croatian exports to Slovenia were worth $231 million, while imports from Slovenia $275. Croatia and Slovenia are presently competing very intensely in the search of foreign markets, and there is disagreement over a number of other issues.[28]

Serbia's trade with former Yugoslavia has also suffered in 1991-92. According to a recently conducted research (Ekonomski Institut Beograd, 1991), for Serbia the main consequence on the export side is the loss of markets in Slovenia and Croatia for products such as shoes and leather garments, means of transport, production and processing of tobacco, fibres. As to Serbian imports, for consumer goods imported from the Northern republics it is evaluated that the production of many of these products could be undertaken

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27. See **Poslovni svijet**, 11.3.1992, as reported in Lachi, 1992, p. 103; unfortunately, no official data are available.

28. For example, competition between the ports of Rijeka in Croatia and Kopar in Slovenia, and disagreements over issues such as Slovenian property on the Adriatic coast, fishing areas, or savings of Croatian citizens - around $600 million - deposited in the Slovenian Ljubljanska Banka, which the bank is refusing to pay.

locally; but there are a number of other sectors in which raw materials and intermediate goods imported from other republics account for over 50% of inputs (see Ekonomski Institut Beograd, 1991).[29] For example, the giant car producer Crvena Zastava has had to substitute some domestic inputs for ones it used to procure from Slovenia and Croatia, but to maintain its current level of operations it has had no choice but to continue relying on its old partners. A major problem is energy supply, as in the past Serbia's supplies came through Croatia, and Serbia can only cover around one fifth of its needs for petrol and gas. Serbian enterprises are therefore trying to enter into barter arrangements with oil suppliers in the now independent states, since there is disagreement over which currency to trade in. At the same time, many enterprises are also facing increasing problems with delayed payments.

Another point of contention are the conditions of trade. In order to avoid Serbian customs regulations, trade has frequently been conducted through Bosnia as intermediary on behalf of Croatian and Slovenian partners. In addition to the trade barriers introduced in 1990, Serbia has more recently limited shipments of goods to other republics in order to avoid the possibility of shortages on the domestic market; thus in the winter of 1991-92, a trade embargo on exports of food to Bosnia and Herzegovina was imposed. Further restrictions were introduced by Serbia in January 1992, when tariffs on goods from the Northern republics were increased by 20-40%; the intention was to push Slovenian and Croatian goods out of the Serbian market and those parts of Yugoslavia still using the Yugoslav dinar, thus offering major opportunities to domestic industries in crisis (Lachi, 1992, p. 105). However, the benefits expected from the imposition of trade barriers do not seem to have been realized, as the restrictions have only contributed to a further decline of Serbian production (according to some estimates, by some 20%).[30]

29. Including black metallurgy, metalprocessing industry, construction of machines, processed chemicals, wood processing, wooden products, textile fibres, finished textiles, leather and furs, shoes and processed caoutchouc.

30. **Borba**, 20.5.1992, as reported in Lachi, 1992, p. 105.

Although there is an agreement in principle among the former Yugoslav republics to cancel all trade sanctions imposed by them since the war, most barriers are still effective and new ones are being introduced, and not only by Serbia. In July 1992, Croatia has announced its intention to introduce customs on imports of goods from Slovenia, Bosnia and Herzegovina, and Macedonia, which has provoked protests from the Slovenians as they already had an agreement on economic cooperation which precluded the imposition of customs duties.

In order to improve the general trading conditions, negotiations on the future economic relations between the former Yugoslav republics are in course with the assistance of the European Community. In March 1992, an agreement was reached in Brussels to form a free trade area out of the former Yugoslav republics. [31] In the meantime, bilateral agreements on both trade and payments have been concluded between some of the former Yugoslav republics. In March 1992, Slovenia and Croatia entered an agreement on economic cooperation regulating payments transactions and trade relations. Slovenia has also negotiated a trade agreement with Macedonia, and is in principle interested in forming a free trade area with all former Yugoslav republics.[32] Since 1991, most of Croatian trade with Slovenia, Bosnia and Herzegovina, and Macedonia is regulated through non-residential accounts in domestic currencies. In May 1992, Serbia has reached an agreement with Macedonia on payments through a system of clearing accounts, while negotiations on free trade are in course. In July 1992 the Yugoslav government adopted a law regulating payments between former Yugoslav republics, according to which payments can be made either in foreign currencies or in new Yugoslav dinars through non-residential or clearing accounts; in the case of payments in dinars, credit facilities are also envisaged.[33]

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31. Sanctions against Serbia and Montenegro and the war in Bosnia and Herzegovina have clearly postponed the possibility of putting the agreement into effect.

32. This would greatly expand Slovenia's currently small market, which in turn would make the country much more attractive for foreign investors.

33. See **Ekonomska politika** no. 2104, 27.7.92.

In conclusion, as in the case of monetary disintegration, trade disruptions have also affected unevenly the former Yugoslav republics. The larger republics (Slovenia, Croatia, Serbia), which were less dependent on internal trade, are less affected, but as the case of Slovenia clearly demonstrates, even its own dependence on ex-Yugoslav markets remains high. Besides the loss of a huge export market, the Northern republics are having to replace low-cost imports from the rest of Yugoslavia with more expensive ones. The smaller and less developed regions are, however, incurring major losses: they are affected not only because of a higher dependence on trade, but also because of the traditionally high deficit in trade with the rest of ex-Yugoslavia (see table 4).[34] Since the evening out of trade balances within the Yugoslav federation is no longer possible (as in the past), the largest costs will obviously be born by them, not so much by Kosovo and Montenegro which in the past had the largest trade deficits from inter-republican trade but are now likely to be helped out by Serbia, but primarily by Bosnia and Herzegovina and Macedonia.

The high level of inter-republican trade, maintained even in 1992, points to the benefits of facilitating trade links, rather than imposing new restrictions. The disruptions in trade are only contributing further to the deep recession in all former Yugoslav republics. Making up for the loss incurred by disintegration, by stimulating trade with countries outside the former federation, is proving to be difficult (at least in the short run), and is also almost impossible in the prevailing depressed trading conditions. The return to old suppliers and markets inside the boundaries of former Yugoslavia is effectively the easier solution. Therefore, out of economic necessity, trade transactions ought to be renewed and intensified.

34. In 1987, the more developed regions - Slovenia, Croatia and Voivodina - had a surplus from trade with the other republics, whereas the remaining republics all had a deficit in their trade with the rest of Yugoslavia. However, Croatia had a deficit in trade with Slovenia, but a surplus in trade with the other republics; Serbia had a deficit with Slovenia and Croatia, but a surplus with the other republics (see Ekonomski Institut Beograd, 1991).

5. Concluding remarks

Whether the benefits from disintegration of Yugoslavia have been greater than the costs incurred essentially depends on the importance attributed to certain values - not only economic - and the trade-off between them. It is very probable that political independence to Slovenians and Croats by far outweighs the economic losses deriving from disintegration (especially considering that they did not have much of an alternative).[35] At the same time, from today's - October 1992 - perspective, it may seem out of place to discuss the costs of economic disintegration of Yugoslavia, which effectively are, at this moment, negligible compared to the enormous costs of the war.

Nevertheless, in a longer term perspective, and from an economic point of view, intensifying economic cooperation among former Yugoslav republics would be beneficial for all of them. While there is no way back to a monetary union, this does not preclude cooperation in other areas; thus the effective implementation of the agreement on a free trade area among former Yugoslav republics adopted in March 1992, which could be supplemented with a payments agreement, could very well serve the purpose of facilitating trade links. The main obstacle is obviously political, but the bilateral agreements already being concluded (and negotiated) between ex-Yugoslav republics suggest that such a solution may not be so unfeasible after all. The sooner it is accepted, the better.

35. It is to be recalled that until the war broke out in the summer of 1991, Slovenia and Croatia (but also Macedonia and Bosnia and Herzegovina) were willing to negotiate a new solution for Yugoslavia and had made concrete proposals on how to establish a confederation, but the Serbian government remained firm in its determination to preserve a federation.

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Appendix

Table 1.Yugoslavia - basic regional indicators, 1990

	Territ.	Popul.	Employ.	GMP*	Exp.	Imp.	GMP/cap
	(% share in total)						Yug=100*
Bosnia & Herzegovina	20.1	19.0	15.8	12.9	14.4	10.0	65
Croatia	22.1	19.7	23.5	25.0	20.4	23.5	124
Kosovo	4.2	8.3	3.2	2.1	1.2	1.0	24
Macedonia	10.1	8.9	7.8	5.8	4.0	5.6	65
Montenegro	3.4	2.7	2.5	2.0	1.6	1.0	71
Serbia prop.	21.9	24.6	25.5	25.6	20.7	21.0	100
with K&V1)	34.5	41.5	38.1	38.0	30.2	33.4	88
Slovenia	7.9	8.2	12.3	16.5	28.8	25.0	200
Voivodina	8.4	8.6	9.4	10.3	8.3	11.4	118

1)The two sets of figures refer to Serbia proper, i.e. without the autonomous regions of Kosovo and Voivodina, and with.
*1989.
Source: SZS, **SGJ 1991**, Tables 201-1 and 201-2.

Table 2. Intra- and inter-regional trade in goods and services (% share)

	1970	1974	1980
Intra-regional trade			
Bosnia & Herzegovina	63.2	68.9	70.9
Croatia	62.8	64.5	71.9
Kosovo	56.6	55.8	65.6
Macedonia	66.5	68.3	66.4
Montenegro	48.7	55.5	65.5
Serbia proper	60.0	62.5	69.7
Slovenia	57.8	63.3	64.3
Voivodina	50.0	56.2	64.4
Yugoslav average			
Intra-regional trade	59.9	63.6	68.6
Inter-regional trade	27.4	24.6	22.2
Export and unknown destination	12.7	11.8	9.2

Note: The figures refer to the percentage share of total production of goods and services, in each republic and province, traded inside and outside its own territory.
Source: OECD (1984), **Economic Survey of Yugoslavia**, pp. 48-9, as provided by the Research Center of the Faculty of Economics, University of Belgrade.

Table 3.Trade by destination of Yugoslav republics, 1976-1987

	Deliveries to: the local market (as a share of GDP)			other republics			Exports		
	1976	1983	1987	1976	1983	1987	1976	1983	1987
Bosnia & Herzeg.	61.4	49.1	56.1	22.7	18.6	24.2	15.9	32.3	19.8
Croatia	66.1	59.7	67.0	19.0	14.8	18.7	14.9	25.5	14.3
Kosovo	56.8	58.2	64.6	25.7	19.2	24.0	17.5	22.6	11.4
Macedon.	61.9	55.3	60.8	23.1	18.1	21.4	15.0	26.6	17.8
Monteneg.	59.9	54.4	57.5	22.6	21.0	25.0	17.5	24.6	17.5
Serbia pr.	64.0	52.1	62.3	21.1	16.5	17.4	14.9	31.4	20.3
with K&V	71.3	60.9	69.0	14.8	10.9	13.4	13.9	28.2	17.6
Slovenia	60.9	42.4	57.5	22.0	15.7	20.3	17.1	41.9	22.2
Voivodina	58.8	54.8	58.1	30.1	22.5	28.8	11.1	22.7	13.1

Source: OECD (1992), based on data provided by the Serbian Institute of Statistics.

Table 4.Trade in goods and services of the Yugoslav republics (1987, as a % of respective republican Social Products)

	Trade: Foreign trade	Domestic trade*	Trade balance in 1987: Foreign trade	Domestic trade
Bosnia & Herzegovina	18.5	58.2	-2.3	-13.4
Croatia	15.6	49.4	2.5	1.1
Kosovo	11.7	88.0	0.6	-72.0
Macedonia	19.4	65.2	3.9	-3.7
Montenegro	16.1	91.8	-2.9	-61.4
Serbia proper	19.2	60.8	-2.2	-13.4
with K&V	17.8	40.3	0.6	-2.6
Slovenia	22.4	56.0	-0.5	20.1
Voivodina	16.1	62.4	6.6	34.5

*Domestic trade (IT) is calculated as the share of the average between the republic's imports and exports (IMP, EXP) in Social Product (SP) of the respective republic.

Source: Ekonomski Institut Beograd (1991).

Table 5.Exchange rates of currencies in former Yugoslavia
(August 1992)

	Dinar*	DM (official)	DM (black market)	Black market premium**
Dinar	1.0000	141.8	280	197.5
Denar	0.5657	360	495	137.5
Cr. dinar	1.6471	145	170	117.2
Tolar	4.9123	53.4	57	106.7

*Calculated on the basis of the average exchange rate of the DM on the black market.

**The black market rate divided by the official rate x 100.

Source: Ekonomska politika, 7 September 1992, p. 8.

Table 6.Output and inflation of (former) Yugoslav republics 1990 - Feb. 1992 (average annual percentage change)

	Industrial production				Retail prices			
			1992				1992	
	1990	1991	Jan	Feb	1990	1991	Jan	Feb
Bosnia & Herzegovina	-7.9	-24.5	-25	-21	594	114*	329	429
Croatia	-11.3	-28.2	-29	-28	608	122	286	311
Macedonia	-10.6	-17.2	-	-	608	102**	-	-
Montenegro	-16.6	-13.2	-	-	623	102**	-	-
Serbia	-11.0	-17.6	-18	-3	591	121	304	435
Slovenia	-10.5	-12.4	-18	-12	550	118	269	277
YUGOSLAVIA	-10.8	-20.0	n.a.		588	118	n.a.	

*Cost of living

**January-November

Sources: **Bilten Banke Slovenije**, May 1992; Savezni zavod za statistiku, **Index**, no. 1, 1992 and **Statisticki godisnjak Jugoslavije 1991**; and Ekonomski Institut Pravne Fakultete, **Gospodarska gibanja** no. 225, February 1992.

Table 7. Slovenia's trade (purchases and sales), 1988-1991

	(in %, total=100) 1988	1989	January - June 1991
Purchases from			
Slovenia	62.3	59.0	63.2
Yugoslavia	25.0	27.4	19.8
-Croatia	11.1	14.6	10.7
-Serbia	8.8	7.5	4.9
Imports	12.2	13.3	17.0
Sales to			
Slovenia	59.6	56.4	57.4
Yugoslavia	23.2	23.9	23.8
-Croatia	9.8	11.0	12.5
-Serbia	8.4	7.6	5.8
Exports	15.9	18.1	18.8

Note: The totals do not sum up to 100, which is probably due to statistical discrepancy.

Source: Official data provided by the Statistical office of Slovenia.

Table 8. Slovenian foreign trade since independence, 1991-92

	(in million of US dollars) Oct-Dec 1991			Jan-April 1992			(as % of total**) Oct-Dec		Jan-Apr	
	EXP	IMP	BAL	EXP	IMP	BAL	EXP	IMP	EXP	IMP
1.WORLD*	1.114	1.144	-30	1.279	1.097	+183	77	83	68	71
-EC total				884	651	+233				
-Germany				355	255	+100				
-Italy				245	171	+74				
-EFTA				123	172	-49				
2.FORMER YUGOSLAVIA	329	228	+110	607	448	+158	23	17	32	29
-Croatia		n.a.		275	231	+45	n.a.		15	15
-Other republics		n.a.		332	217	+113	n.a.		17	14
TOTAL (1+2)	1.443	1.372	+71	1.886	1.545	+341	100	100	100	100

*Excluding former Yugoslavia.

**Both foreign trade and trade with former Yugoslavia.

Source: Bilten Banke Slovenije, May 1992, and own calculations.

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