MASARYK UNIVERSITY

Course: **Finance**

Topic: **Hyperinflation in Yugoslavia**

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Hyperinflation in general

Inflation is a sustained increase in the general price level of goods and services in an economy over a period of time. When the price level rises, each unit of currency buys fewer goods and services. Consequently, inflation reflects a reduction in the purchasing power per unit of money – a loss of real value in the medium of exchange and unit of account within the economy. A chief measure of price inflation is the inflation rate, the annualized percentage change in a general price index (normally the consumer price index) over time.

Hyperinflation is ruinously high increase (50 percent or more per month) in prices due to the near total collapse of a country's monetary system, rendering its currency almost worthless as a medium of exchange. Although hyperinflation is caused mainly by excessive deficit spending (financed by printing more money) by a government, some economists believe that its roots lie in political rather than economic causes.

Causes (1990-1992)

Political

Following the fall of communism in the rest of Eastern Europe, each of the Yugoslavian republics held multi-party elections in 1990. During 1990, the communists lost power to separatist parties in the first multi party elections held across the country, except in Serbia. In particular, Slovenia and Croatia elected governments under Milan Kucan and Franjo Tudjman respectively. Nationalist rhetoric on all sides became increasingly heated. In 1991, one by one, republics proclaimed independence (only Serbia and Montenegro remained federated). After a string of inter-ethnic incidents, the Yugoslav Wars ensued, first in Croatia and then, most severely, in multi-ethnic Bosnia and Herzegovina; the wars left long-term economic and political damage in the region.

Economical

Under Tito, Yugoslavia ran a budget deficit that was financed by printing money. This led to a rate of inflation of 15 to 25 percent per year. After Tito, the Communist Party pursued progressively more irrational economic policies.

As the country disintegrated in 1991 and 1992, the trade was halted between ex republics, causing a severe downturn in the output of many industries. The Federal Republic of Yugoslavia was left with much of the huge bureaucracy, including the bigger military and police than needed. The escalation of war and the rapidly deteriorating regional security situation, led the authorities to postpone any orderly fiscal adjustment, particularly of expenditures. In May 1992, the United Nations imposed an international embargo on almost all commercial transactions with the Federal Republic of Yugoslavia, including foreign trade, financial transactions, and transportation, and in April 1993 the embargo was expand to all transactions and transportation except humanitarian aid.

Hyperinflation

One of the biggest hyperinflations ever hit Yugoslavia in 1993.

Country	Month with highest inflation rate	Highest monthly inflation rate	Equivalent daily inflation rate	Time required for prices to double
Hungary	July 1946	4.19×10^{16}%	207%	15 hours
Zimbabwe	November 2008	79,600,000,000%	98%	24.7 hours
Yugoslavia	January 1994	313,000,000%	64.6%	1.4 days
Germany	October 1923	29,500%	20.9%	3.7 days

The government used up all of its own hard currency reserves and proceeded to loot the hard currency savings of private citizens. It did this by imposing more and more difficult restrictions on private citizens' access to their hard currency savings in government banks. The fiscal deficit increased from 3% of GDP in 1990 to 28% in hyperinflationary 1993 and reached 71% of total expenditures. The level and dynamics of the deficit are similar to those recorded in other classical hyperinflations, such as in Austria and Germany in the 1920s, and Hungary in the 1940s. The public revenues recorded a dramatic decline. During 1993, the monthly collection of tax revenues in real terms fluctuated considerably from US$144 million in January 1993 to only US$27 million in January 1994.

The network of stores was government-owned and the available goods were supposed to be sold at artificially low prices. However, the goods were hardly ever available, and the only places to obtain them were free markets where the prices were far above the declared prices of the government stores. Furthermore, all of the government gasoline stations were eventually closed and gasoline was available only from roadside dealers who were selling from a plastic can of gasoline sitting on the hood of their cars.

The government was desperate and continually printed money, however, that was not enough to maintain the infrastructure. Pot holes developed in the streets, elevators stopped functioning, and construction projects were closed down. The unemployment rate exceeded 30 percent. Price controls were imposed to try to counter the inflation. But when inflation continued, the government price controls made the prices so ridiculously low for the producers that they simply stopped producing. In October of 1993 the bakers stopped making bread and Belgrade was without bread for a week. The slaughter houses refused to sell meat to the state stores which meant that meat became unavailable for the majority of the population. At the same time, a new currency unit was created. One *new* dinar was worth one million "old" dinars. In reality, the government simply removed six zeroes from the paper money. This, of course, did not stop the inflation.

Inflation was so big that, the value of the pension would decrease drastically if the pensioners did not pick up their pension on the first day from the Post office. The telephone bills for the government operated phone system were collected by the postmen. People postponed paying these bills as much as possible and inflation reduced their real value to next to nothing.

German Deutsche Mark became the currency of Yugoslavia, since nobody wanted anymore to use dinar as a currency.

Date	1 DM
November, 12th	1,000,000
November, 30th	37,000,000
December, 15th	3,700,000,000
December 29th	950,000,000,000
January 4th	6,000,000,000,000

Economic program of the new governor, Dragoslav Abramovic, stopped the hyperinflation in Yugoslavia on 24th January 1994 introducing new "super" Dinar, which was equal to 10 million the new Dinars.

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