New Countries and New Economies in the Balkans

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Abstract: The newly created economies in the former Yugoslav space advance on the transition road with more or less success. Each of the former Yugoslav republics has implemented its own transition policy, encountering different economic, political and social opportunities, as well as constraints. From another aspect, certain important similarities are also evident. This paper aims to present divergent economic and transition policies implemented in the Yugoslav space, and different outcomes in building the new economies. Particular attention is paid to comparative analysis of the privatization process carried out in all of them. Finally, the paper analyzes the progress achieved in building market economy structures in the new states. The analysis supports conclusions that, regardless of the speed of liberalization and privatization, different transition outcomes may have been influenced in the short run by the initial conditions, but in the long run the most important factors have been macroeconomic policy and institutional and regulatory reforms.

Keywords: transition, Yugoslavia, macroeconomic policy, reforms, regulation.

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Resumen: Las economías recién creadas en el espacio de la ex República de Yugoslavia han tomado un camino de transición con mayor o menor éxito. Cada una de las repúblicas yugoslavas ha puesto en marcha su propia política de transición, encontrándose con diferentes oportunidades económicas, políticas y sociales. Por otra parte, ciertas similitudes importantes también son evidentes. Este trabajo tiene como objetivo presentar políticas de economías divergentes y de transición, implementadas en el espacio de la ex República de Yugoslavia, como también resultados diferentes obtenidos en la construcción de nuevas economías. Se presta especial atención al análisis comparativo del proceso de privatización que se está

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realizando en cada uno de los países recién formados. Finalmente, el trabajo analiza los progresos realizados en la construcción de estructuras de economía de mercado en los nuevos estados. El análisis apoya la conclusión de que, independientemente de la velocidad de la liberalización y la privatización, los diferentes resultados de transición han sido influenciados, en el corto plazo, por las condiciones iniciales, pero a largo plazo los factores más importantes han sido la política macroeconómica y las reformas institucionales y normativas.

Palabras clave: transición, Yugoslavia, política macroeconómica, reformas, normas.

JEL classification: P30, K29, F36, E60, O10.

Introduction

The case of Yugoslavia and the new countries that have been created after its demise in the early 1990s might serve as illustrative examples of different factors influencing various transition paths that had begun from a more or less leveled playing field. The economic transition of South-Eastern Europe and the Balkans has been researched by numerous authors taking different approaches to the notion of transition, its outcomes and accomplishments. For the purpose of this paper, we will assume that the transition is a process of moving from a centrally/politically planned (usually socialist-oriented) economy with dominant state/social ownership towards a newly structured and institutionalized market economy with dominant private ownership. Taking such a view, it is necessary to include an analysis of privatization, as the critical process in transition. However, as the case of transition of the ex-Yugoslav republics might not resemble transition of other socialist economies, it might be also needed to present the country's economic rise and decline, as the starting base for the various transition routes taken by the new states.

As transition experience progresses, recent research puts more emphasis on an adequate institutional development of transition systems and the role of the state. "Effective market systems require: a functioning legal system to enforce contractual obligations; regulation to deal with external effects and concerns about social cohesion; property rights protection —for both physical and intellectual property; and competition policy" (Besley, Dewatripont and Guriev, 2010, p. 8)—. So, political decisions to embark on the transition wave are necessary but not sufficient steps in building a functioning and sustainable market economy. In addition to proper legal environment and competition policy, further policy measures are needed to improve the credibility of state and regulators (corruption), protect consumers, workers and investors, allow adequate access to financial resources and maintain a balanced fiscal burden.

Among numerous analyses of economic performances of transition economies, a very useful one is done by Campos and Coricelli (2002), who summarized methodologies and findings of dozens of researchers and built their own approach to measuring growth rates and its determinants. They focus on how macroeconomic policies and market reforms (including institutional changes) influence changes in the results. Also, Fischer and Sahay (2000) present their own approach to measuring transition growth, emphasizing macroeconomic and structural policies. Another more recent research of transition countries was done by Coricelli and Maurel (2010), pointing out to different abilities of transition countries to resume-revive growth after the initial transition recession and after an economic crisis, in addition to the depth and length of the crisis as other components of transition growth. Sanfey (2010) also analyzes the adverse effects that the current crisis has had on the South-Eastern Europe and concludes that one good outcome can be identified: despite the severity of the crisis, it seems that market-oriented reforms are almost an irreversible process in the region and the transition has already produced relatively solid grounds (except regarding the fiscal policy) for the economies to sustain the crisis impact. The European Bank for Reconstruction and Development (2011)'s *Transition Reports* have been the source of different data on transition. The transition indicators, originally developed in 1994, focus on five dimensions of transition, and the findings will be presented in the following sections.

I. Yugoslavia's Building and Falling Apart

After the Second World War, the new Federal People's Republic of Yugoslavia experienced two decades of political, economic and cultural struggles to form a multiethnic state of socialist orientation. Officially, the Socialist Federative Republic of Yugoslavia came into being in 1963 and the following decades saw a rapid building of the country's political structures (dominated by the Yugoslav Communist Party) and a specific socialist-planned economy based on self management of workers. In 1981, more than 22 million people of 15 different nationalities inhabited the area of a quarter of a million km^2, comparable to today's population of Australia and slightly less than the land area of the United Kingdom. The country was enjoying progressive economic development, with an average domestic product growth rate of 8.3 per cent in the period 1953-1980, at constant

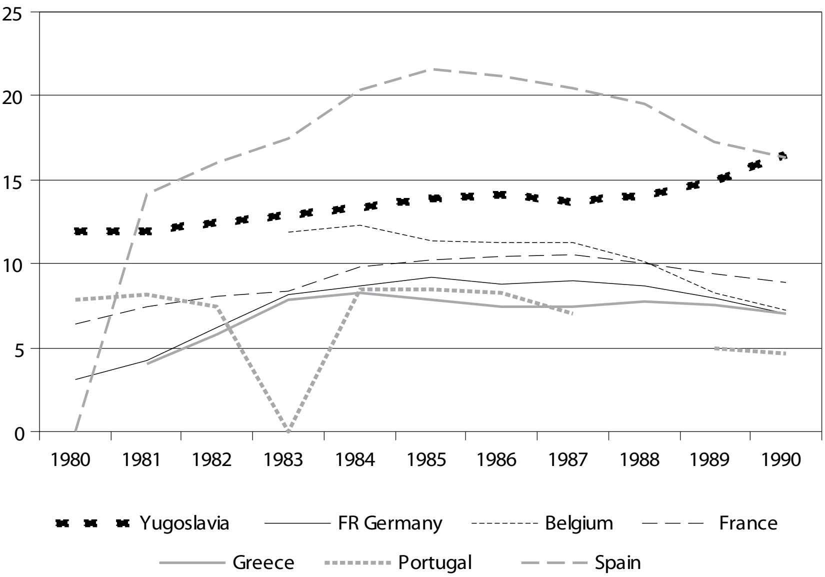
1994 prices (Latifić, 1997, p. 10). At the same time, the annual real GDP growth rates in Europe as a whole varied 6.6 per cent in 1961 to 2.2 per cent in 1980. In the period 1952-1990, the contribution of industry to the Yugoslav GDP rose from less than 20 to 43 per cent (Latifić, 1997, p. 16). There was a steady growth of urban population (more than 50% in 1990) while the rate of agricultural population came down to about 17 per cent from over 60 per cent three decades before (Latifić, 1997, pp. 201-207). The living standard was rising, as well as the life expectancy and the level of population literacy (Filipović, 2011). The country was enjoying relatively good international standing, particularly within the Non-Aligned Movement, but also with regard to major Western countries.

Since the country's dissolution in 1991, the picture of Yugoslav space has changed from numerous (almost all) political, economic and social aspects, in many dimensions for the better. Although the transition from the Yugoslav self-management economy towards the market-oriented one had started even before the country's break-up, today's economic picture of the Yugoslav space has been shaped by the new countries' transition paths, policies and outcomes. Nevertheless, in order to understand the basis from which the transition of new countries has started, initial conditions and the economic state of Yugoslavia in the years before its demise have to be outlined.

The development of market rules and institutions were not the highlights of the Yugoslav economy, particularly in the early days, following the pattern in all socialist economies. The economic reforms of the self-management system, implemented in 1965 and in the 1970s introduced the concept of 'negotiated' (among the subjects of a transaction) trade and prices, which might be seen as a limited introduction of certain market principles but far from the market concept implemented in the West. From the ideological point of view, this was presented as an improvement of 'economic democracy' lacking in the western-style of market economy, but from today's point of view, this was probably the seed of future discrepancies, uneven development, investment decline, rising debt, etc.

Although developmental disparities had been evident even in the Kingdom of Yugoslavia before the Second World War and people's revolution, the signs of progressive economic divergence among the Yugoslav republics became evident in the beginning of the 1980s. In the period 1980-1989 differences in economic structures and progress among the republics (as well as other political and social factors) started to show significantly (Mills, 1989). Not only has the overall GDP per capita declined substantially

Figure 1. Unemployment rate (average, annual), selected countries, 1980-1990



Source: ILO.

(a drop of 5.3% in 1972 US$), but the decline was not even: Serbia's (and the province of Vojvodina) economic growth remained the same, while that of the province of Kosovo, Macedonia and Montenegro seriously decreased. Bićanić (1996) points out that Yugoslavia had been a uniform economic space until 1988, when economic 'segmentation' began, internal trade barriers were set up, central monetary authority was seriously questioned and fiscal federalism started to break up. This resulted in further economic discrepancies: in 1989, per capita income in Yugoslavia was of $2.158, while, in Slovenia, it was of $5.675, Croatia, $3.182 and Bosnia and Herzegovina, $1.609 (Bićanić, 1996, p. 138). Dramatic slowing down of economic activities, caused also by the recession on the international scene, has also induced a major rise of unemployment (up to 15% in 1985).

That was, according to Woodward (1995), the first sign of defeat of self-management policy which had the full employment, job-for-life and guaranteed standard of living as main priorities. As Woodward (1995, p. xii) puts it:

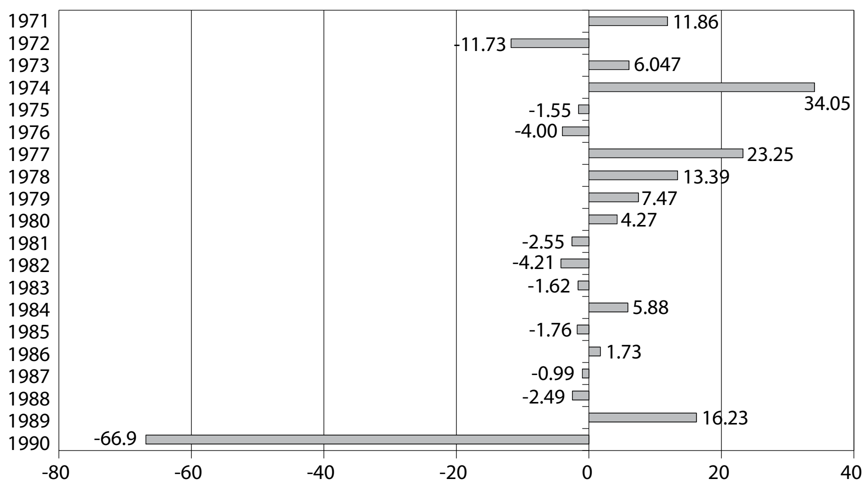
> [...]economic democracy gave workers the right to manage their firms, and they chose to maximize their incomes at the expense of new investments.

> Yugoslavs had made the syndicalist dilemma into an organizing principle of society.

Using standard macroeconomic tools, this can be further illustrated by a declining trend of gross capital formation in the country, after the second half of the 1970s. Gross capital formation is a part of the gross domestic product and presents the value of new and used fixed assets, acquired by enterprises, government and households and, as such, indicates the level of new value added that is invested rather than consumed. This macroeconomic indicator actually shows the growth of productive capital stock and in that way may serve for estimating future business activity and economic growth in an economy. During the 1980s, the value of capital employed in the country was actually declining thus reducing (in absolute terms) and finally disintegrating the real sector of the economy.

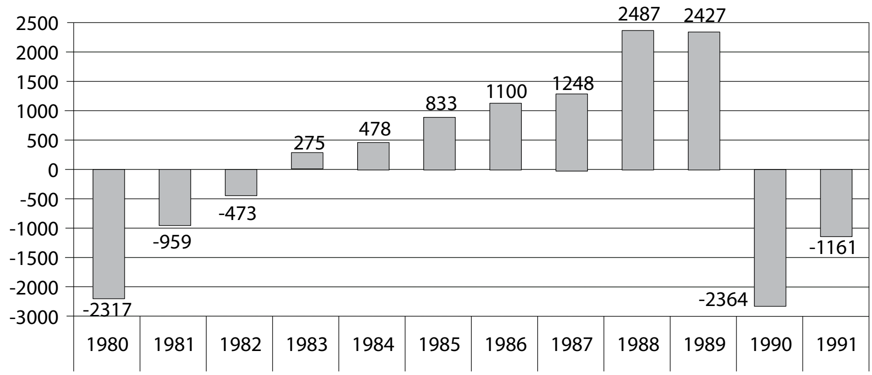
Yugoslavia was developing a relatively open economy, with substantial cross-border transactions. According to Lampe (2000, p. 278), impressive economic growth was partly based on developing a more balanced distribution of foreign trade: in the period 1954 to 1980, more than half of Yugoslav exports (primarily machinery and equipment) were realized in Western Europe and the United States, but over the time, the exports to the

Figure 2. Gross capital formation, 1970-1990



Source: UNCTADstat.

Figure 3. Yugoslavia: balance of payments, current account net, annual, 1980-1991, mill. current US$



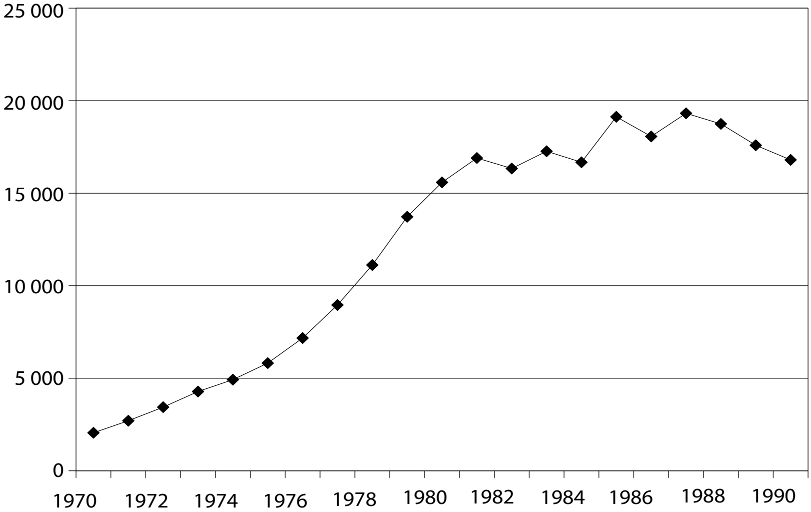
Source: UNCTADstat.

USSR also grew considerably. The growth of export in the second half of the 1980s, combined with a rising trend of remittances from workers abroad, led to a significant improvement of its balance of payments (current account) in 1988-1989, which are usually considered to be the last ‘good’ economic years for Yugoslavia.

However, as Petak (2003, p. 59) emphasizes, Yugoslavia was an economy wherein federal units were trading more among themselves rather than with other countries. For some of the federal units (e.g. Montenegro, Serbia and Macedonia), the trade with other republics accounted for 37-52 per cent of the overall trade, while the others recorded a relatively lower level of Yu-interdependence. This would probably explain why some of the republics, later as independent states, more easily discovered their place in the international division of labour and at the world market while others still have not managed that successfully.

Contrary to rising globalization trends in the second half of 1980s, the country’s economic policy failed to recognize the needs for adjustments to the world market’s demand, as well as the needs to reconsider its foreign economic policy and strategic relations. Neither had it implemented measures to attract significant investments from abroad (in the meantime, they have gone to other developing destinations around the world), which coupled with the lack of internal accumulation / savings and extensive welfare-like-state spending, led to extensive borrowing from abroad and mounting debt.

Figure 4. Yugoslavia: Total outstanding long term debt, annual, mill. current US$



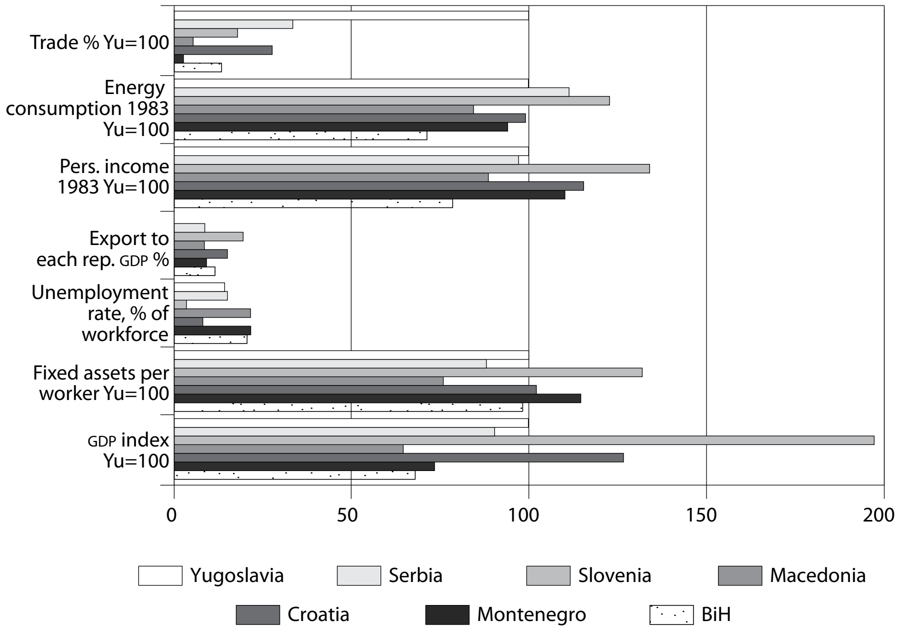
Source: UNCTADstat.

Yugoslavia's external debt (by far dominated by government debt) rose particularly during the 1970s, due to diminishing domestic investments and increasing unemployment, as well as the rising prices of significant oil imports. During the 1980s, the debt level remained stable but high. At the end of 1987, the outstanding Yugoslav debt amounted to nearly $22 billion, which was almost eight times higher than in 1970 and was equivalent to ¼ of the country's GDP (Latifić, 1997, pp. 34-36).

In sum, during the last decade of the Yugoslav economy, major economic differences surfaced and selected indicators of that heterogenous space are shown in figure 5.

In order to summarize, one can conclude that the most obvious (and critical) disparities are identified when the GDP of republics is compared: Slovenia seceded with a GDP almost double the average level of Yugoslavia as a whole, while Macedonia and Bosnia and Herzegovina parted from Yugoslavia with a GDP of 60 per cent of the Yugoslav average. The same level of differences were related to the unemployment rate in the republic economies, less regarding energy consumption and personal incomes, and even lesser when fixed assests per worker were compared (the latter be-

Figure 5. Yugoslav republics 1983-1989. Relative comparison of development indicators



Sources: Petak (2003), Latifić (1997).

ing probably due to heavy investments and funds transfers to the less developed regions of Yugoslavia).

II. Transition in the Yugoslav Space

As for the obvious differences in the level of transition success and economic development of ex-Yugoslav republics, most of the authors in this field emphasize an unequal starting base at the time of dissolution. Nevertheless, it might not be academically justified or sufficient to focus only on the economic parameters. In that sense, Aslund (2002, pp. 4-6) explains that there are three basic alternative paths during the transition, primarily from the aspect of the role of state: 'real reformers' undertake to build a democratic state with more social justice; dictator-like 'despots' pursue only their own personal gains and power aims, while 'rent-seeking' is the third alternative used wherein the state by politically-linked 'tycoons', primarily during privatization for their own economic gains. Aslund concludes that transition is a process of constant struggle between, on one side, powerful officials and actors from the corporate sector pursuing their own commercial interests, and actors pressing for 'real' changes that would bring a new democratic state and market economy into being. So, the differences in outcomes result from a dual base: deliberately taken policy coupled with the outcomes of the power struggle.

Allcock (2000, pp. 8, 14) emphasizes that history cannot be defined as the only source of many differences among the Yugoslav republics, contrary to widely held opinion on that issue. He admits that there might be certain developmental lines between the Habsburg and the Ottoman legacy, the whole process of building Yugoslavia was marked by contradictions between needs for modernization (capital accumulation, rise in productivity, centralization of political power, political participation) and the inherent anti-modern characteristics of socialist Yugoslavia. The political processes and the whole political context actually brought these inherited differences to irreconcilable levels. Furthermore, the Yugoslav economic scene at the time and the inherent regional disparities must be viewed

> …both within the context of economic rationality and in the light of conceptual political orientation, i.e. main national strategies that treated Yugoslavia as a transition or as a permanent solution to an ethnic (state-related) issue (Ocić, 2005, p. 16).

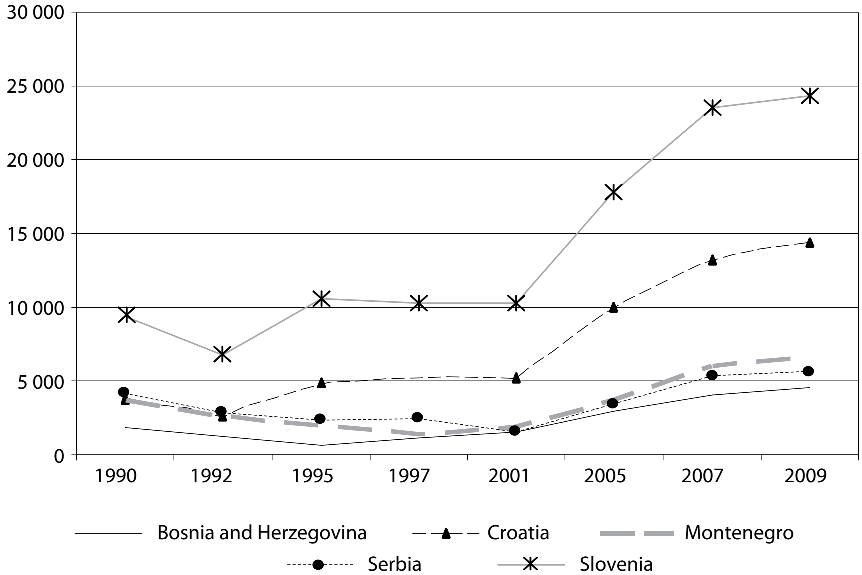
Bićanić (1996) stresses that in a heterogeneous economic environment, as Yugoslavia was, transition might take the role of a significant destabilizing factor. This might lead to strong subnational policies that support the striving for independence. Regional (in the Yugoslav republics) pro-active policies and regional reflexive policies were both designed and implemented to gain more benefits and to reduce harmful effects from uniform 'national' policies. Thus, even before the Yugoslav break up (starting in 1988), a certain level of transition (monetary and fiscal stabilization packages 1989-1990, privatization, trade liberalization) was already in place but at various levels across the republics and that exacerbated the economic discrepancies. Once they became independent, new states have pursued different transition roads on which they varied in "… designing, implementing, sidestepping, back-pedaling and modifying transitional economic policies" (Bićanić, 1996 p. 131). This approach is compatible with the one of Campos and Coricelli, who define, among other factors, initial conditions that determine the transition options and later growth performances: "policy-induced distortions, natural characteristics, weight of the inheritance from the previous regime, and the degree of the development of a market mechanism, albeit primitive" (Campos & Coricelli, 2002, p. 21). Among the initial conditions, the concept of social property and its later misuse during the privatization processes in the region has been particularly emphasized by some authors (Pečujlić & Taboroši, 1997), as the key factor behind divergent transition outcomes.

Two papers are of a particular importance for our research. Godoy and Stiglitz (2006) explore the influence of privatization speed, initial conditions and policies on transition countries' growth. They conclude that the gradualist approach to privatization, coupled with adequate legal and regulatory infrastructure, has proven to yield more sustainable economic growth. In the long run, initial conditions seem to loose their significance, in comparison to privatization models, regulation and macroeconomic policies. The work of De Melo *et al.* (1997) is another interesting paper especially for the selection and assessment of initial conditions in a transition country. The transition success critically depends on initial conditions and policy measures, the first group affecting macroeconomic stability and the second influencing growth rates. Among initial conditions to be taken into account, De Melo includes: location, previous economic growth, resource endowment, achieved level of GDP per capita, inflation, trade with industrialized economies, etc.

III. Broader Economic Picture

The former Yugoslav space has been on the road to the European Union accession since its breakup but its constituent parts experienced different levels of progress. Thirteen years after gaining independence from Yugoslavia, in 2004 Slovenia joined the European Union and in 2007 it entered the Euro zone as the first transition country to be accepted in this 'exclusive' zone. Croatia will join the European Union in July 2013, while the other former Yugoslav republics are differently positioned on the accession scale: Bosnia and Herzegovina is an EU potential candidate with the Stabilization and Association Agreement signed in 2008; Montenegro is a candidate country and its accession negotiations started in 2012; Macedonia is also a candidate country and, despite the EU recommendation, the negotiations on the Macedonian accession to the EU have still not been opened; Serbia is an EU candidate country, still waiting for the EU recommendation for the accession negotiation to commence.

Figure 6. GDP per capita 1990-2009, current US$



Source: The World Bank (2009) and http://data.worldbank.org/indicator/NY.GDP.PCAP.CD (accessed January 2011).

It is estimated that in 2010, Slovenia had just under US$ 23.000 GDP per capita (current US$). In contrast, for example, Bosnia, Herzegovina, and Macedonia have managed to produce GDP per capita at the level of 1/5 of that of Slovenia in 2010, while Serbia's 2010 GDP per capita is estimated to be around US$ 5.200. In 2010, unemployment rate in Macedonia was of 32 per cent, while in Slovenia it was of 7.8 per cent. The disparities in the Yugoslav space have been increasingly developing with the progress of transition, particularly after 2001, when Slovenia and partly Croatia have recorded substantial intensification of development. In the period from 1990 to 2009, Croatia quadrupled its GDP per capita, while the increase in Serbia was only of 40 per cent.

Regarding the comparison of the GDP growth, as presented in figure 6 above, one must note a substantial level of inflation in Yugoslavia in the period 1989 to 1990 (between 45 and 59.7%) and in the period 1992 to 1994, with the peak yearly hyperinflation in the Federal Republic of Yugoslavia/Serbia and Montenegro of 313 billion percent (Rostowski, 1998). Other former Yugoslav republics did not experience such a dramatical inflation surge and have managed to keep it within 1.5-8 per cent band during the period, measured by CPI. On average, the inflation rate in most former Yugoslav republics was between 1-4 per cent before and after the 2008-2009 crisis, while it rose to 6-10 per cent in the peak of the crisis. Montenegro experienced a steep rise in inflation during 2002-2003 (over 26% annually) but has managed to lower it to 1-3 per cent afterwards (World Bank). As for the monetary stability of the new states (inflation rate as annual percentage change in consumer price), in 2010, Serbia held the 27th place in the world (Index Mundi ranks higher countries with a higher inflation rate). The next ex-Yugoslav republic on the same list is Montenegro, holding the 127th place with an inflation rate of 3.4 per cent, while Croatia is the best ranked at the 193rd place with just 1.3 per cent inflation rate (Index Mundi).

Foreign direct investments and external debt are two important criteria for our analysis, keeping in mind different economic starting positions, but also varying transition strategies. With regard to attractiveness to foreign direct investments, Croatia has recorded a steep rise in the period 2004-2008 and even with a decline afterwards, it is the most desired destination for foreign investors among the ex-Yugoslav republics: in 2009, Croatia's FDIs were 2.5 per cent higher than the ones in Slovenia (Croatian National Bank, 2006). If the stock of FDI per capita in the country is compared among the former Yugoslav republics in 2010, Montenegro leads the way with $8.6 million, Croatia has recorded almost $8 million per capita, Slovenia slightly over $7 million, while the other former republics achieved much lower results - between $1.7 and 2.1 million stock of inward FDI per capita (UNCTADStat). Serbia has attracted significant FDIs in 2006 and 2008/2009, primarily in the food and banking industries, telecommunication, etc. (Siepa, 2011). Macedonia has also attracted investments mainly in the banking and retail sectors, but also in mining, electricity, leather production, etc. (National Bank of Macedonia, 2009). As for the FDIs in Bosnia and Herzegovina, they have gone primarily to the banking and wholesale sectors, then metal and wood industry (Central Bank of Bosnia and Herzegovina, 2010). Similarly to other former Yugoslav republics, Slovenia has also attracted the majority of its inward FDIs into financial intermediation and wholesale/retail trade, but has managed to diversify the inflow of foreign capital to develop other industries as well (Bank of Slovenia, 2010). FDIs in Montenegro have been focused on the energy sector, tourism and infrastructure (Central Bank of Montenegro, 2011). So, despite crucial differences with regard to the starting base and countries' profiles, significant similarities can be found in the FDIs origins and sectoral distribution in the region.

When 'official' credit ratings of the countries are compared, the picture changes. In 2011, Montenegro and Slovenia received AAA Standard and Poor's rating, Croatia has BBB+ rating, Macedonia BB+ (all three in the investment grade, 'secure range'), while Bosnia and Herzegovina and Serbia have the same rating BB (speculative grade rating, 'vulnerable range') (Standard & Poors, 2011).

Data for external debt show a varying degree of indebtedness. Croatia seems to be the most heavily indebted in the Yugoslav space: its total external debt (private and public) was estimated to be around $64.5 billion (in current US$) at the end of 2011, which presented 79 per cent of its GDP, thus ranked 54th in the world in 2011 (CIA Worldfact Book, 2011). Slovenia has doubled its government gross debt in the period 1995 to 2011, from 17 to 103 per cent of GDP and its external debt has risen substantially (estimated around $61 billion in June 2011, CIA Worldfact Book, 2011) but it is not considered to be heavily indebted due to healthy export revenues (IMF, 2010). Serbia was also heavily relying on foreign financial sources and in 2011 its total external debt was over $31.5 billion which represented 39.4 per cent of its GDP (CIA Worldfact Book, 2011). In 2011, Bosnia and Herzegovina and Macedonia had a relatively lower absolute level of external debt (around $8.8 billion and $6.7 billion, respectively) but the comparison to the GDP shows a different picture: Bosnia and Herzegovina's external debt was around 27 per cent of its GDP, while Macedonian external debt rose to 63 per cent of GDP.

Regardless of the level of economic development, former Yugoslav republics do not differ that much with respect to their governments' debt and expenditures relative to GDP. Except for Macedonia, whose government revenues/expenditures are around 30 per cent of GDP, other governments are more burdening to the GDP, with the range between 45 and 50 per cent. With different levels and trends only in the period 2006-2009, similar developments with regard to governments revenues are recorded for all ex-Yugoslav republics.

IV. Creating Market Economy: Privatization

Privatization is the key to successful transition and its success is primarily linked to the choice of implementation models. The models that have been used in privatization in the Eastern European countries (Czech Republic, Hungary) were partly the basis for implementation of the privatization model applied in the former Yugoslav republics. However, such models were not completely applicable due to two main characteristics of the Yugoslav economy.

The first is the existence of social property. In Yugoslav legislation, this form of property was without its legal-property owner thus the transfer of property became an irresolvable legal issue. Socially-owned companies were not in the situation to transfer the property onto a future owner, i.e. investor via legal transaction. The 1989 Law on Transformation of Social Capital into Private Capital offered a solution for this formal-legal obstacle, thus creating the conditions for the privatization to commence. The main concept was to allow acquisition of private property as a form of co-ownership along with social property. In the beginning, it seemed as a practically and economically justified solution but it functioned only when newly issued shares were purchased by the employees and not 'proper' investors. This further deteriorated the principles of legal security and transparency and adversely affected economic feasibility as well. In such a situation, certain authors proposed statization as the intermediary phase in the approach to privatization (Taboroši, 1993), which was actually implemented in the early stage of privatization.

The second reason for specific character of privatization in the former Yugoslavia was the existence of a unique legal system. A unique legal system itself would not have been the decisive factor in selection of privatization model but a number of factual circumstances, resulting from destruction and splitting of the country, determined it specific character (Pečujlić and Taboroši, 1997, p. 214). After the war, the new states failed to establish a stable new legal system and its efficient control. Newly built legal systems still functioned on the basis of socialist institutions —formal ones (organizations, institutes) and informal ones (ethics, norms, customs)—. This resulted in weak new institutions, partly deriving from inadequate legal solutions and partly from improper implementation of regulation and/or its politization. Publicly, in the daylight, privatization was carried out through the formal-legal framework, while in the grey zone the capital was leaking into private hands through thousands of invisible loopholes. That was the situation in almost all republics of the former Yugoslavia. There was no readiness to completely break up with the previous regime even though the deficiencies of the socialist system should have been rectified within the privatization process, i.e. through the establishment of private property (Kušić, 2007). Artificially created obstacles and frequent regulatory changes, as well as the absence of institutions in charge of control, created conditions for the so-called 'illegal-grey' privatization model to appear. This did not stop the privatization process but the effects significantly shaped these new market economies and results of the economic reforms turned out partial and incomprehensive. Moreover, the existence of 'illegal-grey' privatization channels have produced wider social implications, in terms of growing of corruption, reducing the trust in the legal system and social reforms in general.

IV.1. Legal Framework of Privatization

The analysis of a legal framework for privatization in each of the former Yugoslav republics compares the formal-legal framework and commitment to a certain privatization model.

Slovenia

Privatization of socially owned companies in Slovenia started in 1992 with enactment of the Law on Ownership Restructuring of Social Enterprises, which was changed and amended several times.

Slovenia implemented a combined model of privatization that included different models in addition to partial allocation (free of charge) of shares to the employees. All three models included 40 per cent of the capital to be transferred to three public funds (Development Fund, 20%; the state, 10%; and Pension Fund, 10%), while the remaining part was privatized in one of the following ways:

1) *Privatization through a public sale of shares:* 40 per cent was offered to the public, 20 per cent assigned to the employees;
2) *Privatization by employee buyout:* 40 per cent of shares sold to the employees with deferred payment, 20 per cent assigned to the employees free of charge;
3) *Privatization by management buyout:* 40 per cent of shares sold to a group of managers or enterprises that was established specifically for the purpose of buying shares (the so-called bypass corporations), 20 per cent assigned to the employees, former employees and their relatives free of charge.

The companies were independent in selecting the privatization model but the Agency for Privatization of Slovenia had to approve it.

The results of privatization models implemented in Slovenia are difficult to evaluate empirically since a compromise prevailed in practice. Negative consequences of the first model were particularly emphasized: concentration of wealth and, in the case of credit-financed management buyouts, the credit was actually paid off by the enterprise (Kržan, 2011, p. 19). The European Bank for Reconstruction and Development (EBRD) has developed a complex scheme for assessing different aspects of transition.[1] EBRD gives the score of 3 for the Slovenian large scale privatization, and 4* for the small scale privatization.[2] Although being an EU member since 2004, Slovenia has received recommendations to privatize a significant part of large state holdings and to improve their management.

Croatia

The first phase of privatization started with the 1991 Law on Transformation of Socially Owned Enterprises according to which all socially owned enterprises had to become joint stock companies. The process of transformation was to be carried out through the sale of enterprises in whole or in parts, through investing of capital or transformation of investments and liabilities into shares.

The next phase targeted all enterprises that had not been privatized and they came under a direct supervision of the Croatian Privatization Fund (2/3) and Pension Fund (1/3). The funds were in charge of privatization and the selection of privatization models. Different models were used, primarily public sale of shares at the Zagreb Stock Exchange or direct sale of the whole or part of enterprise. A new Law on Privatization was enacted

[1] The transition indicators range from 1 to 4+, with 1 representing little or no change from a rigid centrally planned economy and 4+ representing the standards of an industrialized market economy. The most important indicators for the analysis of privatization are: Large-scale privatization and small-scale privatization. Large-scale privatization includes four levels of development achieved: *1)* Little private ownership; *2)* Comprehensive scheme almost ready for implementation, some sales completed; *3)* More than 25 per cent of large-scale enterprise assets in private hands or in the process of being privatized (with the process having reached a stage at which the state has effectively ceded its ownership rights), but possibly with major unresolved issues regarding corporate governance; *4)* More than 50 per cent of state-owned enterprise and farm assets in private ownership and significant progress with corporate governance of these enterprises; *4+)* Standards and performance typical of advanced industrial economies: more than 75 per cent of enterprise assets in private ownership with effective corporate governance.

[2] Small-scale privatization indicators include: *1)* little progress achieved; *2)* substantial share privatized; *3)* comprehensive programme almost completed; *4)* complete privatization of small companies with tradable ownership rights; *4+)* standards and performance typical of advanced industrial economies: no state ownership of small enterprises; effective tradability of land.

in 1996 and all enterprises that had not been privatized were transferred to the funds, actually transforming them into state property. According to this law, the funds could sell the stocks, shares and rights via public sale or tender. All the proceedings were transferred into the Croatian Bank for Reconstruction and Development but later they were paid into the state budget (pursuant to the changes and amendments of the law in 1997). The objectives of privatization were formally declared but they remained shadowed by political objectives (Gregurek, 2001, p. 161). Afterwards, a decision was made to include large-scale voucher privatization as one of the privatization models. This caused numerous problems due to low quality of the portfolio (illiquidity of the shares and/or the issuer). The next privatization phase was marked with the enactment of the 1999 Law on Responsibilities of Ministries of the Republic of Croatia. The transactions related to privatization, restructuring and remediation, as well as the supervision over the Croatian Privatization Fund were transferred onto the Ministry of Economy. The packages of up to 25 per cent of ownership were sold at the Stock Exchange and through public tenders while the remaining part was prepared for financial consolidation, namely initiating of the bankruptcy procedure.

Pursuant to changes and amendments of the Law on Privatization in 2000, small shareholders were allowed to buyout the unpaid and subscribed shares with an 80 per cent discount. So, the model of employees' shareholding was also implemented in the privatization process. The efforts to end the privatization and investigate/correct possible privatization malpractice have yielded fruit and Croatia has signed the EU membership agreement in 2011. EBRD has assessed the Croatian privatization with the score of 3* for its large scale privatization and 4* for the small scale one, emphasizing a significant improvement made in the process. The recommendations point out the need to continue with large companies restructuring and elimination of state subsidies they receive.

Macedonia

The first model of privatization in Macedonia was based on internal shares being offered to the employees of socially owned enterprises. The privatization speed increased in 1993 by the enactment of the Law on Transformation of Socially Owned Enterprises. The objective was to transform all socially owned enterprises into companies with completely defined ownership structure. The model of privatization implemented in Macedonia was also a combined one. During the first phase of privatization, 30 per cent of social capital was offered to the employees under privileged conditions (a sort of voucher substitution), 15 per cent of capital was automatically transferred free of charge into the state Pension Fund, while 55 per cent of the capital was available for sale as ordinary shares with same conditions for domestic and foreign investors. The law set forth a special procedure for the discount sale to the employees. In addition, the following models of privatization were also used in Macedonia:

1) Employee buy out: 51 per cent of the capital, with installment payments over five years;
2) Public sale of medium size enterprises (in the form of shares or stocks): organized by the Agency for Privatization;
3) Management buyout: tenders organized by the agency;
4) Issue of shares for raising additional equity: up to 30 per cent of the capital;
5) Debt-equity swap: this model was beneficial for creditors since they could convert the existing debt into shares.

Furthermore, direct sale of enterprises has started in 2000. In 2005, with still incomplete privatization process, Macedonia was granted the status of an EU candidate country. The latest EBRD assessment of the Macedonian privatization includes a score of 3* for its large scale privatization and 4* for the small scale privatization. The recommendations underline a need to improve the privatization process and the market development which would facilitate tender sale of several large companies and bring fresh capital.

Montenegro

The privatization regulation of 1990 advocated the model of insider privatization, which was mainly based on sale of shares (part of the capital) to employees under privileged conditions. From 1992 to 1999, the state became the largest individual shareholder. The Development Fund, Fund for Pension and Disability Insurance, and National Employment Bureau were also involved in the transformation of the economy. Privatization of small and medium sized enterprises was carried out at public auctions with the possibility of deferred payment (the sale of the so-called control package of shares).

The second phase of privatization started in 1999 with new privatization models: *1)* large-scale voucher privatization; *2)* sale to strategic investors via tenders; *3)* sale to all interested investors via public auctions or capital market. It was planned to encompass all enterprises, in the fields of telecommunications, tourism, postal services, electric distribution enterprises, etc. Vouchers were issued based on the estimated (unrealistically high at that moment) value of property of socially owned enterprises (Vukotić, 2000, p. 11). Large-scale voucher privatization resulted in new owners not being interested in business operations of the companies, impossibility of issuing of additional shares and setting of a control share package. Despite of all that, this model contributed to the development of the capital market and emerging of privatization funds (Fabris & Jandrić, 2011, p. 114).

Sale through international tenders followed the large-scale voucher privatization. The main shortcoming of this model was that only the highest bid (price) was taken into the account, regardless of the reputation and actual financial strength of the bidder. The sale through auctions and capital market was also used from 2000 to 2001, mainly for small and medium sized enterprises. This form of privatization was carried out relatively quickly and successfully without significant deviations from the prescribed rules. The evaluation of this part of privatization speaks in favor of that —it received a score of 4 by the EBRD (EBRD, 2010)—. Nevertheless, the large scale privatization in Montenegro was assessed with 3*, noting that there was a limited progress in the privatization process due to the fact that some transactions were annulled (*e.g.* Montenegro Cargo) and yet other have not been completed.

Bosnia and Herzegovina

Bosnia and Herzegovina is a state with particular organization, composed of two entities. Adoption of the Dayton Peace Agreement in November 1995 resulted in the conclusion of the war and two entities of the country being recognized. The specific state organization invoked numerous difficulties in conducting the privatization.

Federation of BH (FBH)

The basic privatization regulation in the FBH has been changed and amended ten times due to various conditions.

The first segment of large-scale privatization (purchase of shares via public tenders) was carried out from 1997 to 2002. This finalized a large-scale transfer of ownership onto citizens and investment funds. Simultaneously, in 2000 the second segment of privatization has started with sale of the state owned capital and additional issuing of company shares. In 2004, the third segment of privatization has been initiated with transformation of state property in the fields of electricity, telecommunications, waters, natural gas and utilities. However, the results have been relatively poor in this domain.

Republic of Srpska

The privatization was carried out at a slow pace through several phases. In the first, war phase from 1991 to 1995, there was practically no privatization. The Declaration on Privatization was passed as legal basis for transformation of the whole economy into state property. The second phase could commence only after the war, namely in 1995 with the enactment of a new legal framework. The new regulation set the models of voucher privatization and transfer of the state property (shares) onto state / para-public funds.

The third phase was the turning point and in cooperation with the international community a new regulation was passed to create a comprehensive institutional environment for privatization. The whole privatization procedure was bureaucratized since the key role in the implementation was given to the Government and its Directorate for Privatization. According to the European Commission (EU Enlargement Report, 2011), the 2011 decision not to extend the candidate status to Bosnia and Herzegovina was mainly due to the absence of institutions to lead and monitor the country's development. Therefore, it is not surprising that the privatization process in this country was not evaluated as successful – EBRD assessed it with the score of 3. Its recommendations emphasized a need to foster the privatization and create proper institutions that would positively affect investment inflow and the country's development.

Serbia

The privatization in Serbia had started as insider privatization (20% of capital to be bought by employees) in 1991. In 1997, the second privatization phase began: capital limit for the insider privatization was raised to 60 per cent. Radical changes occurred in 2000 with the overthrowing of Milosevic's regime and plans to make a strategic turn to market economy. That was also the objective of a new Law on Privatization of State and Social Property, promulgated in 2001, which introduced completely new models of privatization. The auction sale of enterprises and tenders has become basic privatization models. In addition, it has become mandatory to allocate 30 per cent of the capital to the employees. In the absence of interested investors, the state could start the enterprise reconstruction program. Finally, the privatization of public enterprises has allowed free distribution of shares to the general public. The Commission for Auctions that was established by the Agency for Privatization has been entrusted with the control over the auction sale of enterprises. Privatization could not any more be initiated by employees but only by the state.

Privatization revenues are being paid into the state budget. A significant part of those revenues was spent on covering the budget deficit made by the state 'investments' in social peace, for example covering the deficit in the republic pension system, subsidizing public enterprises so that they can keep low prices of utilities, etc. Gradual abandoning of the model of fast privatization that had promised recovery opened the door for politics to enter into that process, which increased the probability of corruption and reduced transparency. Therefore, EBRD assessed Serbia's privatization with the score 3 for the large scale privatization and 4 for the small scale one. At present, one can conclude that the privatization in Serbia is on hold: a large number of privatization contracts have been annulled due to malpractice, a significant number of state enterprises have still not been privatized, there is general lack of investment interest, etc.

There is no doubt that privatization is the key process in the transition but it only creates a basis for market economy.

IV.2. Weaknesses and Uneven Privatization Results: Possible Causes

As our analysis has demonstrated, all six former Yugoslav republics have adopted similar legal frameworks and privatization models but in some republics the selected models produced better results than in the others. The question is what has caused these uneven results. Besides the widely known consequences of war, sanctions and economic decline, in our opinion, the misuse and abuse of the social ownership specifics (specifics being described in the paragraph bellow), unwillingness of the new elected political authorities to reform the system, weak institutions and corruption have contributed to the failure of some privatizations.

In comparison to other socialist countries, wherein the dominant form of ownership over the means of production was the state one, the ex-Yugoslav space featured *social property* as a special type of collective ownership. Social property, in contrast to private and state property, did not have a clearly defined titular (as defined in the 1974 Yugoslav Constitution).

Due to this 'negative' definition of the property, it was difficult to deduct positive ownership rights: the right to possess property (*ius possidendi*), the right to use property (*ius utendi*), the right to enjoy the fruits from the property (*ius fruendi*) and the right to dispose of property (*ius disponendi*). Social property contained only the right to dispose upon which an enterprise's employees could exercise control and make decisions on the holding, use and disposal of the productive means of the enterprise. So, employees could dispose of property even in the absence of the possession right. The property belonged to everybody and nobody. These particulars of the social property opened the doors for its wide abuse in the transition process. The rights to dispose of and make decisions on the social property, derived from the workers' self management concept, actually belonged to the management function, i.e. to the enterprise director.

Membership in political parties was one of the criteria in selecting management and decision of a political party depended on a candidate's suitability to serve the party by performing the role of the director. Though initially producing positive results (decentralization in decision-making, early commencement of the reform process), the given structure within the former Yugoslavia, social property and workers' self-management have set a number of difficulties for the process of privatization. Heavily influenced by the legacy of workers' self-management and social property, the newly elected political structures in all the former Yugoslav republics tried to keep the old patterns under the new conditions. The consequence of the inherited ways of decision-making was the fact that legislators (elected majority party) had to make the choice of privatization methods but instead of striving to overcome the gap between the old and new system, they resorted to maintaining ties with the old system. While reviewing the legal framework for privatization we noted that instead of privatizing public enterprises by sale, there was a tendency to opt for a model of labor or management purchase. Consequentially "insiders" (ex-directors), assisted by political structures, have bought the enterprises they had managed and, regardless of the capital needs, had no interest in sharing the control over the company with new "external" (foreign) investors (Kušić, 2007, p. 101). Therefore, we can conclude that public property or state property in all the former Yugoslav republics have more or less taken the features of a "political-party" property, which represents a form of its abuse (Pečujlić and Taboroši, 1997).

Unwillingness of the newly elected political structures to conduct substantial reforms was evident through their efforts to maintain social property as the dominant property form, the existence of equality of all property forms and institutionalization of the autonomy of social enterprises. Advocates of the social property emphasize that reformed social enterprises could compete with the state and private property. Hence, enterprises with mixed property appear. The level of the republics' readiness for a "real" reform could be identified by analyzing the adopted regulation. In Slovenia, the Law on Ownership Restructuring of Social Enterprises, promulgated in 1992, required all social enterprises to be privatized with no delay, and so private property had to become the dominant property form. In contrast, the Serbian Law on Ownership Transformation (promulgated in 1991) allowed a possibility for workers to decide whether their enterprise was going to be privatized or not. So, on the day of the Slovenia's secession (25 June 1991), there was the readiness to take the road to market economy without any links to the previous system. In Serbia, such a decision was not taken and the privatization was not mandatory thus creating the possibility for different property forms to co-exist in the business sector. Advocating the maintenance of social property and the autonomy of social enterprises to decide on their privatization came from the wish of the party-appointed corporate directors to increase their personal wealth by working closely with private subcontractors and thus stripping the enterprises of their assets. It was only after the Milosevic's fall (October 2000) that a new Law on Privatization of State and Social Property was passed (2001) and the privatization became mandatory. Croatia left Yugoslavia on 8 August 1991 and soon after has passed the law which permitted partial privatization thus signalling the absence of the new country's readiness to embark on the reform. After the hostilities had ended, a new law has been passed forcing all social enterprises to enter into the privatization. So, the readiness of Slovenia to conduct substantial reforms resulted in its EU membership, while the Croatia's efforts in the reform process has been rewarded by its joining the EU in 2013. Macedonia passed the law on complete privatization in 2000, Montenegro did that in 2006 following its independence from the union with Serbia, while Bosnia and Herzegovina adopted such regulation in 2005. Based on this overview, one can conclude that although the privatization models were similar, the results achieved were quite different due to *inter alia* different level of the republics' readiness to conduct the reform of the socialist system residues in their economies. Poorer results have been achieved in the republics which delayed the regulation on complete privatization.

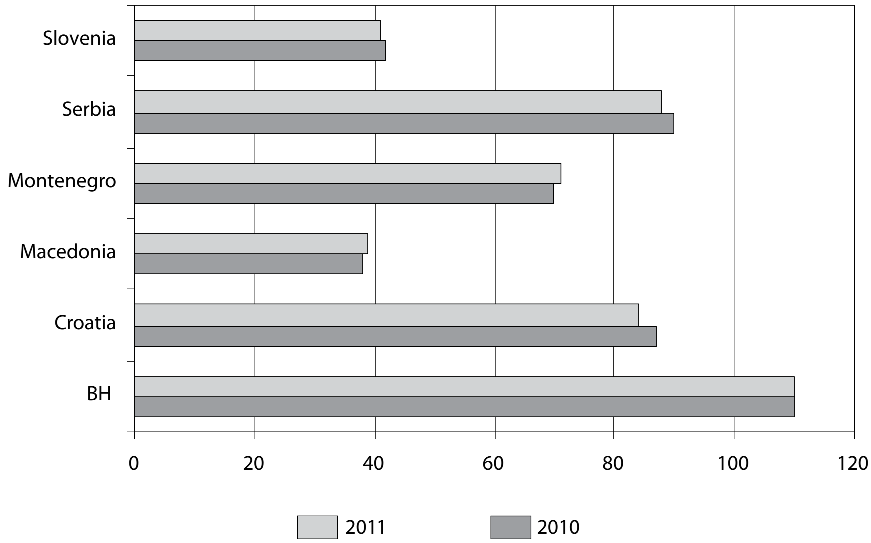
Weak institutions are also one of the reasons for the insufficient results of the privatization. Simply speaking, implementation of the rules of positive law is organized through the formal institutions: the state. The institutional framework is therefore very important for the efficiency of the economy, particularly in the implementation of the overall social changes because it needs to ensure enforcement of the adopted rules. In the former Yugoslav republics, the formation of new legal systems is determined by the construction of proper institutions (privatization agencies, funds or Ministry for Privatization). Those institutions, as parts of the state structure of the newly established countries, together with a slow detachment from socialist informal institutions (rules of ethics, customs), have not positively affected the process of privatization. Initially, the reasons were incomplete legal framework and, later, the weakness in law enforcement. The state institutions, although responsible for the implementation and control of the privatization, have failed to make that process efficient and transparent. The key problem in their operation was the fact that they were controlled by the political parties, in the old-fashioned style of political domination, so the state institutions have not done anything to tackle the emerging model of "grey-illegal" privatization. Nonetheless, Slovenia and Croatia have succeeded in sustaining/confronting the impact of such a scheme and started to develop institutionally (in Croatia, it was demonstrated in the cases of investigating Hypo Alpe-Adria-Bank, Podravka and so on). The emergence of "grey-illegal" privatization model, that co-existed side by side with legal privatization, has favored the growth of *corruption*, being yet another reason for the failure of the transition processes. In the privatization process, the political influences were often used to convey ownership of public property into private hands.

V. Developing New Market Economies

For the purpose of this paper, we will use three well known (but sometimes contested) approaches: World Bank (Doing Business), the Heritage Index of Economic Freedom, and European Bank for Reconstruction Transition Indicators. The World Bank approach includes nine indicators[3], and ranks are on the scale from 1 (the best business environment: Singapore) to 183 (Chad) (IBRD/The World Bank, 2011).

[3] WB Doing Business indicators are: starting a business, construction permits issuance, registering property, access to credit, investors' protection, tax system, cross-border trade, contract enforcement and procedures to close business.

Figure 7. Ease of Doing Business Rank 2010-2011

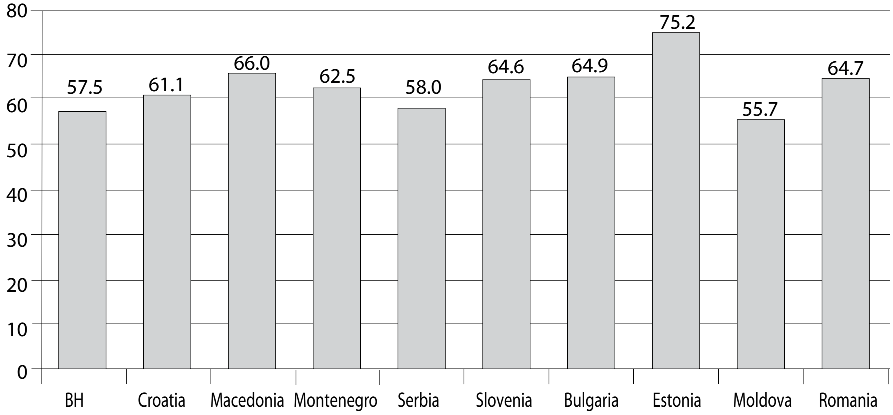


Source: The World Bank, http://www.doingbusiness.org/rankings (access May 2012).

Former Yugoslav republics (except for Macedonia and partially Slovenia) have not been highly ranked, in comparison to other transition or post-transition countries. The majority of ex-socialist countries (*e.g.* Czech Republic, Slovakia,) are better rated, some ex-Soviet republics (*e.g.* Georgia's rank 12, Estonia's rank 17) have been ranked significantly higher than ex-Yugoslav republics, while the Russian Federation and some of the other ex-Soviet republics (*e.g.* Kazakhstan, Moldova) have recorded lower ranks.

Contrasting regulatory differences are present when the criterion of starting business is evaluated (in that area, Macedonia keeps the 5th position in the world), but differences are also noted in the areas of investors protection and fiscal burden. The worst scores former Yugoslav republics receive in the area of construction permits but unfortunately there is very much convergence of these ranks (except for Serbia holding the rank of 176 out of 183 in 2011) and the situation also similar in the area of registering property. The best scores ex-Yugoslav republics receive in the areas of credit access and easiness to conduct cross-border trade (except, surprisingly, for Slovenia, where the situation in this respect is worse than in

Figure 8. Heritage Index of Economic Freedom 2011, ranks



Source: The Heritage Foundation. Miller and Holmes (2011). *Note:* Ranks 59.9-50 = mostly unfree; 69.9-60 = moderately free, world average around 60.

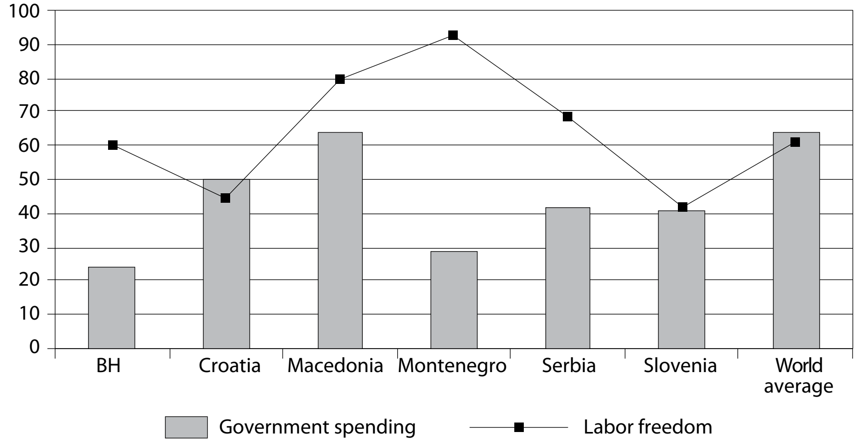
the rest). The good scores for the financial area are probably based on their largely privatized and transformed banking sectors and the resulting competition, which is a characteristic all the countries share. Another common feature of their transition is certainly liberalization of foreign trade and in this area all the countries have made progress in 2010-2011.

From another perspective, the Heritage Index of Economic Freedom is used (Miller and Holmes, 2011) to assess the results of the governments in terms of economic openness and economic success of 183 countries.[4]

Despite all the disparities pointed out earlier, it cannot be detected significant discrepancies in the overall rating (average on all indicators) of the former Yugoslav republics. The original gap has started to narrow like those previously assessed as less market-oriented have intensified their reforms, particularly since 2006. It has to be pointed out that Macedonia and Montenegro have put large efforts in reducing the overall government intervention in the economy, the first being rated higher than Slove-

[4] The ten components of economic freedom are: business freedom (starting/closing businesses, licenses, costs), trade freedom (absence of barriers for exports and imports), fiscal freedom (level of taxes and tax revenue as a percentage of GDP), government spending, monetary freedom (inflation and price controls), investment freedom, financial freedom (banking security and independence from government), property rights, freedom from corruption and labor freedom (minimal wages and regulation of labor relations).

Figure 9. Major Regulatory Divergences - Heritage Index 2011



Source: The Heritage Foundation. Miller and Holmes (2011).

nia. But, overall, Bosnia and Herzegovina has recorded the highest rise of its ranks of more than 20 places in the period 2002-2011.

The best scores, similar to the findings of the World Bank analyzed above, the ex-Yugoslav republics receive in the areas of fiscal (level of individual and corporate taxes, and overall tax revenue as a % of GDP) and monetary freedom (average inflation rate and price controls). The most significant problem is still a relatively high level of corruption and that is the area where all the countries (except Slovenia) have ranked very poorly. Discrepancies in the assessment of economic freedom are most obvious in the areas of labor freedom (where Montenegro has introduced significantly relaxed labor regulation) and government spending: the countries rank from 24th to 64th place regarding the government total expenditures, including consumption and transfers, relative to the GDP.

All the countries have almost the same rank for the financial freedom which does not come as a surprise. However, most progress has been achieved with regard to labor and trade freedom, the latter being assessed significantly more ‘free’ than the world average (except Serbia which is in line with the world average freedom in trade). According to Corruption Perception Index (CPI) 2010 (Transparency International, 2010), the countries are not ranked very high: the best position (27th of 178) is held by Slovenia, with the CPI 6.4. The rest have scored the CPI between 3.2 (Bosnia and Herzegovina) and 4.1 (Croatia), with no major changes over the last years. From the national surveys conducted by Transparency International, privatization and management of construction land are the two areas where most of the corruption is perceived.

Bearing in mind different transition starting points, duration and paths, the EBRD's assessment of the transition success[5] of the former Yugoslav republics does not show discrepancies to an expected extent. However, if a general assessment of individual countries is done, Slovenia is significantly ahead in meeting the standards of industrialized economies, closely followed by Croatia in a number of fields (in some actually doing better, e.g. banking sector reforms). The transition in Serbia and Bosnia and Herzegovina evolves less dynamically.

Much similarity can be found in comparing the transition progress in the following areas: price liberalization, large and small scale privatization (up to 25% of large enterprises in private ownership, complete privatization of small enterprises) and private sector share of GDP (60 to 70%). Unfortunately, all the countries have been much less successful with regard to the competition policy: none of the countries (except Slovenia to a certain extent) have succeeded in implementing an effective competition policy, in terms of free entry to most of the markets. All of them have created legal and institutional conditions for competition policy but entry restrictions are still present, as well as monopoly-like dominant firms. Similar situation with regard to competition policy is found in the majority of transition countries under the EBRD survey.

Almost the same level of the EBRD transition indicators is detected with regard to financial sectors of all former Yugoslav republics. Significant progress has been achieved in the banking supervision and regulation, lending to private sector and private ownership in the banking sector, along with full liberalization of interest rates. Croatia has moved even further towards implementing the banking and financial standards of the Bank for International Settlements and has created a more favorable environment for banking competition.

Overall infrastructure reform shows progress in the sectors of electricity, railways, roads, telecommunications, water and wastewater. Predominantly, the countries' infrastructure is assessed as being fairly decentral-

[5] The European Bank for Reconstruction and Development transition indicators serve to assess a transition country's progress in comparison to the standards of industrialized economies, on the scale from 1 (no progress) to 4+ (standards of an industrialized market economy).

ized and commercialized (minimum subsidies), considerably liberalized (mobile telecommunications), with a certain degree of private sector involvement. The only exception in this respect is Serbia whose infrastructure is much less commercialized (political interference in tariff set-up), with minimal participation of the private sector.

The time dynamic is another similarity of the transition of all former Yugoslav republics. When time series of various transition indicators are analyzed, one can conclude that considerable progress towards industrialized economies standards was achieved in the periods 1995-1998 and 2000-2004, with certain exceptions related to Slovenia and partly Croatia which had started reforms earlier.

VI. Conclusion

After twenty years of separate political and economic life, one would expect very significant discrepancies in the transition models and outcomes in the Yugoslav space. The differences are most obvious in comparison of the overall level of economic development (measured by e.g. GDP per capita, household final consumption). Slovenia is a member of the Euro area and has recorded an income substantially higher than the rest. In spite of that, Croatia has recorded the largest advancement: its GDP is four times higher than in 1991. Serbia, on the other end, has managed to increase its GDP 40 per cent since 1991. Inflation has been, to a lesser (Croatia) or higher degree (Serbia) a companion throughout the transition process so far. The indicators of monetary stability vary to the highest extent among the former Yugoslav republics. Croatia has proved to be the most attractive for foreign direct investments, while foreign investors are less keen to invest in Macedonia and Bosnia and Herzegovina. All of the former Yugoslav republics, except Slovenia, have encountered significant foreign debt in relation to their GDP. The governments have maintained similar expenditure/revenues shares, with the exception of Macedonia whose government takes the lowest (30%) share of the GDP.

The transition outcomes in the former Yugoslav republics have been assessed with contrasting scores and ranks. It seems that Macedonia has, overall, received the best scores for creating a business-friendly environment, wherein it is easy to start a business, investors are adequately protected and the fiscal burden is bearable. Bosnia and Herzegovina, on the other hand, has received the lowest scores in easening the business environment, and, together with Serbia, has been classified as “mostly economically unfree" by the Heritage Foundation. From the EBRD's point of view, the scores transition in former Yugoslav republics receives do not vary as expected. Slovenia is the only one which has moved much further in approaching standards of European industrialized economies. The overall advancement has been recorded in the areas of price and interest rate liberalizations, as well as banking sector reforms (best scores overall for the Yugoslav region). All of them, except Slovenia, have failed in the area of competition policy. Regulatory framework has been developed but the implementation of effective competition policy is still far from industrialized economies' standards. In the EBRD's view, this might be one of the crucial impediments in the transition towards an effective market economy.

The legal framework for privatization in the Yugoslav space, as well as the privatization models was quite similar but the achieved results are far from being the same. In addition to disparate starting levels, different newly-created environments allowed for varying opportunities for the abuse of social property. Many cases of privatization on doubtful legal basis, the so called "grey-illegal" privatization, have been identified. Weak institutions, being controlled by political parties, most often do not undertake corrective/preventive actions in this respect. This conclusion does not apply to Slovenia and Croatia that have managed to identify cases of improper privatization and allow the institutional actions to be taken (the Hypo Alpe-Adria-bank case, or Podravka case, etc.). A major consequence of such weak institutions is a rising level of corruption which has been assessed as one of the critical obstacles for the advancement of privatization and transition.

Even before the Yugoslavia's break-up, distinct regional policies had started to disintegrate the already heterogeneous economy and could be seen as paving the way for new economies to be created. This is to support the argument of De Melo *et al.* (1997) that initial conditions play certain role in the beginning of transition. Each of the former Yugoslav republics has tried to construct its own transition road but none could have detached itself from its own piece of Yugoslav heritage. Furthermore, each of them encountered different economic, political and social opportunities as well as constraints on the transition road. Regardless of so many differences before and during the transition of their economies, it seems that the majority of them still share certain common difficulties. Among the common problems, one must emphasize those related to a significant level of public debt and government spending, rather complicated and bureaucratic environment for doing business (particularly regarding the issuance of construction permits), a significant level of perceived corruption and a general lack in implementing an effective competition policy in the majority of new economies. Even more, when a general economic picture is drawn, the majority —those previously oriented to the 'internal' economic flows— have produced similar transition outputs. Two of the former republics, Slovenia and partially Croatia, that had been more exposed to international economic influence and later pursued vigorous economic reforms, saw more rewarding transition consequences. In support of the argument of Godoy and Stiglitz (2006), it seems that the speed of privatization and liberalization was not the critical element in the transition success. What essentially shaped the transition destiny was the comprehensiveness of institutional reforms, development of legal framework, creation of a business-conducive environment and proper macroeconomic policy (especially monetary policy). The same parameters might be decisive factors that have produced the discrepancies in the economic scenery twenty years after the dissolution of Yugoslavia.

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