Yugoslavia Needs Greater Business Competition to Meet Economic Challenges

Firm action by the new Serbian government over the past two years has helped stave off a further humanitarian and economic disaster after the devastation of the 1990s. But according to the OECD’s Economic Assessment of the Federal Republic of Yugoslavia, published today, reform momentum must be maintained in order to build a flourishing domestic competitive environment.

Both Serbia, which accounts for more than 90% of economic activity in the Federal Republic, and Montenegro have laid the foundations of economic growth, but they face major challenges in implementing the structural reforms necessary to sustain expansion in the future. Although the renegotiation of government debt by the Paris Club of creditor countries has brought some respite, the budgets of Serbia and Montenegro remain fragile. The inevitable restructuring of industry will cause job losses and require increased government spending to maintain a social safety net. At the same time taxes need to be cut to encourage entrepreneurship and attract foreign investment.

These difficult policy problems will be resolved if the economy of the Federal Republic of Yugoslavia moves quickly into a period of export-led growth and attracts significant levels of foreign direct investment, says the report. The problem is particularly acute in Montenegro which has large budget and current account deficits, financed largely out of foreign aid. With this aid likely to decline sharply in the near future, major macroeconomic adjustment will be required.

The OECD estimates that after growing at around 6% a year in 2000 and 2001, helped by exceptionally good harvests, the rate of economic expansion is expected to be somewhat lower this year and next. Rising household incomes have stimulated increased consumption but this has largely been met by a rapid growth in imports. Recovery in domestic industry has been weak as it adjusts to lower subsidies, newly restricted access to credit and greater competition from imports.

The report says the business sector is under pressure as profit margins are being squeezed by higher costs and increased competition from imports. Based on the findings from an extensive survey of the sector, the report notes that overall there is a worrying lack of dynamism among small enterprises, and that they face a difficult future as the government cracks down on the grey economy on which many by necessity rely, even while it tries to improve operating conditions for legitimate firms.
The governments of Montenegro and Serbia are attempting to address the weakness in the small business sector by establishing support and monitoring agencies. However, the OECD report recommends that the state, rather than designing special privileges to support the sector, should reduce the burdens placed on small businesses. In Serbia, for instance, company registration should be made easier and cheaper.

In a similar vein, rather than creating tax advantages to encourage foreign direct investment, the OECD advocates improving the domestic business environment. Policies that are good for local business are also good for attracting foreign investment, says the report.

In promoting trade, it is important that policies do not simply benefit established firms at the expense of potential new companies, the report adds. Exports could be boosted by creating more fluid borders while accession negotiations with the World Trade Organisation would be helped if Serbia and Montenegro could establish a single rather than two sets of customs tariffs.

To obtain a copy of the Economic Assessment of the Federal Republic of Yugoslavia, journalists are invited to contact the OECD’s Media Relations Division (news.contact@oecd.org). A summary of the main findings of the survey in English and French is available on the OECD’s website at www.oecd.org. For further information, journalists are invited to contact Stephen Di Biasio at the OECD’s Media Relations Division (tel: [33] 1 45 24 81 03 or stephen.dibiasio@oecd.org).