

Implications of hyperinflation on economic activities: The example of the Former Yugoslavia

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Affidavit

I hereby affirm that this Bachelor's Thesis represents my own written work and that I have used no sources and aids other than those indicated. All passages quoted from publications or paraphrased from these sources are properly cited and attributed.

The thesis was not submitted in the same or in a substantially similar version, not even partially, to another examination board and was not published elsewhere.

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Abstract

The research work focuses on the implications of hyperinflation in FR Yugoslavia during 1990-1994 and testifies to various attempts to implement stabilization programs and monetary strategies to target inflation. At the same time, the beginning of the transition process in the observed period and the transition to a market economy forced Yugoslavia to face the problem of rising prices and inadequate policies implemented in that area. Specifically, the paper focuses on the research of an extremely difficult period for the country in transition and its economic position at that time, the environment and movement of economic activities within the FR Yugoslavia in conditions of galloping inflation, and the outcome of hyperinflation. The first part focuses on defining the concept of inflation, partial frameworks for creating orthodox stabilization programs, as well as key elements for their implementation and evaluation to achieve the results of targeting and suppressing (hyper) inflation. The second part focuses on a direct review of the situation before its emergence, as well as on the key factors of the effect of hyperinflation in FR Yugoslavia, observed in the period 1990-1994, the key characteristics of the orthodox stabilization programs that were implemented, but also monetary reforms as a strategy for building transparent, credible and responsible monetary policies. The third part provides insight into the conducted qualitative research through in-depth interviews with economic experts from Serbia along with the analysis of their expert views and opinions on the researched topic.

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List of Abbreviations

HICP - Harmonised Index of Consumer Prices

SR Yugoslavia - Federal Republic of Yugoslavia

DEM – German mark

NBJ - National Bank of Yugoslavia

1 Introduction

Globalization as a world order had contributed to unfavourable conditions for countries in development and transition, such as the example of FR Yugoslavia. Namely, inflation and its definition through price jumps (Gonzales, 2009) and the insufficient speed of monetary policy suppression contributed to steps toward the slide of the economy into hyperinflation. Consequently, countries in transition, wanting to suppress inflation, implemented stabilization programs. However, insufficiently specified stabilization programs and the selection of an inappropriate nominal anchor, as a practice of targeting nominal variables, led to failure. As Đukić (2018b) and Ognjanović (2018) point out, conducting an expansive monetary policy with two opposing goals, suppressing inflation and increasing real GDP, affects the success of the defined and implemented stabilization program. And so, Yugoslavia witnessed infamous experiences with stabilization programs from 1990-1993. (Dušanić, 2009), and he achieved success through the program only in 1994, better known as the Avramović program. In particular, Avramović (2007) was responsible for the final suppression of hyperinflation in Yugoslavia by pegging the domestic currency to the foreign currency and stopping price growth in just three months.

The transition of SR Yugoslavia from a socialist to a capitalist system through free adjustment of prices through the market mechanism and indirect control of product prices from the interests of the country (Bukvić & Ilić, 1996) was the chosen price policy in the period before the outbreak of hyperinflation (Popović, 2022). At the same time, the growth of the budget deficit and its covering by the primary emission of money along with the cheapening of loans to banks and the formation of a black market of foreign exchange are only some of the settings that contributed to the creation of hyperinflation. According to Avramović (2007), the exchange rate was adjusted on the black market without reference to the rate defined by the NBJ. Second, the insufficient independence of the NBJ and the gradual loss of credibility affected the firmness in the implementation of monetary policy. Due to the rigidity of the regime and disturbances in the monetary sphere, there have been pronounced problems in production through reductions, and on the other hand, the strengthening of the black market and the growth of speculative activities. Products

(oil and oil derivatives) whose prices were controlled were in short supply at sales points, and trading took place on the black market, where prices were formed without respecting the prescribed level. Such a situation on the markets was accompanied by the tying of earnings to foreign currency without taking into account the purchase price (Bukvić & Ilić, 1996), i.e. a black market of foreign currency was gradually created. However, changes in controlled product prices and regulations at the federal and state level accelerated the confrontation with rising prices and the implementation of a stabilization program as early as 1990. The disintegration of the Federal Republic of Yugoslavia in 1992 was caused by the inconsistent conduct of monetary policy, as well as the conduct of partial policy within the member states. Therefore, the collapse of the former Yugoslavia and the outbreak of civil wars in the region with the introduction of sanctions by international organizations only accelerated the emergence of hyperinflation (Eremić and Bešević, 1994).

Specifically, the analysis of inflation and all indicators are related to the events surrounding money and the money supply in the economy, the value of the domestic currency, the exchange rate, and more (Ognjanović, 2018). In this context, each case of hyperinflation in history should be analysed individually. At the same time, the emergence of hyperinflation and dealing with it are specific from country to country, that is, from economy to economy, but also from different socio-political arrangements, which additionally affects the complexity of studying (hyper) inflation trends in one country. That is why hyperinflation in Yugoslavia is an excellent example for clarifying the complex concept of hyperinflation, but also a witness to the complexity of the conditions in which such high inflation arose. Furthermore, the results of the stabilization programs provide answers about the elements necessary for positive results expressed through stopping price growth and reducing inflation.

The issue of inflation cannot be analysed as a separate or isolated phenomenon. Accordingly, the fate of the economy of SR Yugoslavia confirmed that the sources of hyperinflation are also in the domain of the central bank and the conducted monetary policy, socio-political relations, and the consequences of the civil war in the region as external additional shocks, but also the price policy and compliance

during the implementation of the stabilization program. Therefore, the conducted research and analysis on the implications of hyperinflation in the then FR Yugoslavia highlight the key factors responsible for the collapse of an economy, the collapse of a federation, and the continuation of critical conditions for further growth and development of the national economy. Therefore, this paper seeks to answer the following questions:

- 1) What factors contributed to hyperinflation trends in countries in transition, as was the case in SR Yugoslavia?
- 2) What are the implications of hyperinflation for an economy?

How can an economy in transition suppress price growth and eliminate the presence of hyperinflation?

2 Literature Review

2.1 Inflation: Prices on the Rise

The presence of inflation has long intrigued economists in different periods of the development of economic thought. The explanation of inflation can be stated as the presence of higher demand than supply, which results in the growth of retail prices (Pavlović & Lazić, 2007). In addition, inflation also represents a disproportion between public expenditures and income in the economy, which is adjusted by rising prices (Bećirović, 2008). In this context, the economic theory of inflation is extensive in the literature because it is impossible to single out all modalities of its cause, course, and direction of inflation action (Komazec et al., 2012).

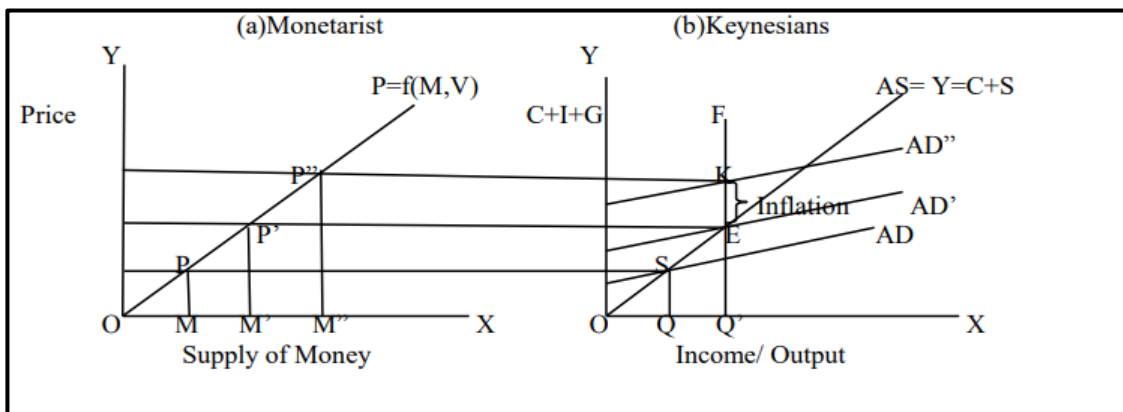
Different views on inflation are the result of explaining the causes and consequences of inflation and its connection with other key variables of macroeconomic theories that have been developing for decades. In this context, the failures in terms of stopping or suppressing inflation in the previous decades influenced the replacement of inflation theories from different economic schools, from monetarist to the new Keynesian, all to explain the phenomenon of inflation, the consequences of its continuous presence and cause-and-effect relationships and effects with other key macroeconomic terms. Mainly within the literature, economists dealt with the causes of inflation expressed through different opinions of economic schools.

From the point of view of the monetarist direction, the presence of inflation is explained as a result of the growth of the amount of money in circulation without corresponding changes on the side of the supply of goods (McCallum, 1987). Consequently, the consequence of an excessive amount of money in circulation contributes to an excess of aggregate demand about aggregate supply, which directly affects price growth. Moreover, Figure 1 shows this situation when an increase in the money supply from M to M' , but also from M' to M'' , implies an increase in prices from P to P' , that is, from P' to P'' increasing inflation. In this regard, the rise in prices is a consequence of the movement towards balancing aggregate demand and supply to realize the social product. In particular, the growth

of the money supply implies changes that contribute to the development of prices if the expansion of production is omitted in the economy. Thus, monetarists, through the quantitative theory of money, emphasize the role of money in causing demand inflation (Belongia, 1996). Thus, the classical theory explains the conceptual determination of inflation without including other variables such as unemployment, interest rates, and others.

Unlike the monetarists, the Keynesians did not agree with the arguments of the previously ruling economic paradigm and the theoretical postulates of the monetarists because they emphasized that the money supply does not imply direct price changes (Dimitrijević & Fabris, 2012). Contrary to the emphasis on money and its very strong association with inflation, Keynesians focus on aggregate demand and its role in determining inflation in the economy. Moreover, the money supply in Keynesian economic thought represents one of the determinants of aggregate demand. When the level of aggregate demand increases from AD to AD', and AD' to AD'', it implies an increase in production from K to K'', and a balance is reached that does not affect the increase in inflation. However, the growth of aggregate demand above the level of AD'' causes the occurrence of inflation.

Figure 1: Price growth (inflation) from the perspective of monetarists and Keynesians



Source: Pangannavar (2014).

Furthermore, when there is an increase in retail prices, the value of money decreases because it affects the increase in the quantity demanded of money. As

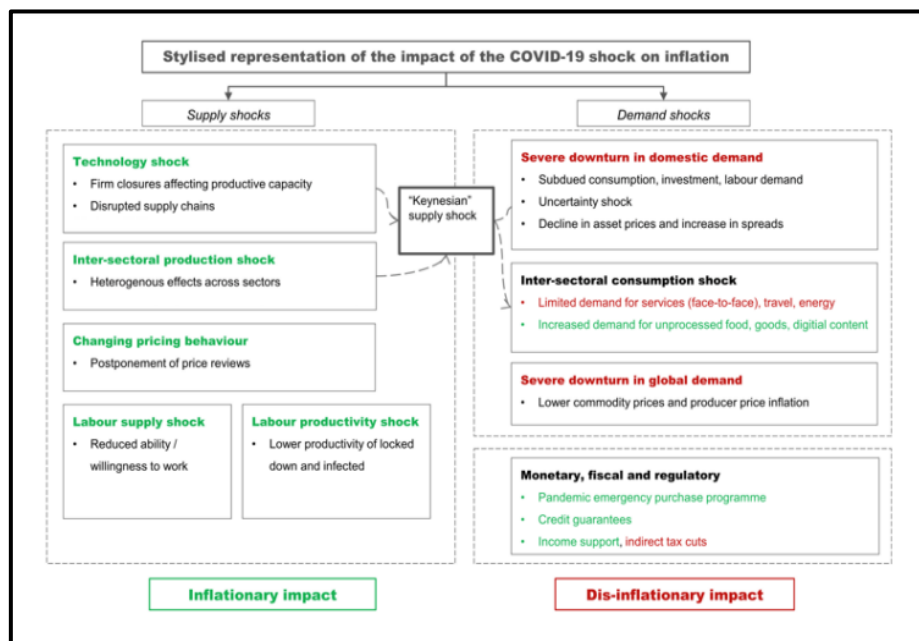
Mirković (2016: 35) stated, "inflation is the devaluation of money, i.e. the reduction of its purchasing power". The growth of the general price level reduces the real value of money, which results in a smaller consumer basket for one monetary unit (Jakšić, 2004). On the other hand, the value of money depends on the creation of the money supply by the central bank, which is equalized according to the demand at the determined level of interest rates in the short term. At the same time, inflation represents a macroeconomic problem because the instability of the inflation rate also affects the business environment (Iolanda, 2017). At the same time, Martin (2019:162) highlighted another issue related to inflation - mistrust, so "monetary authorities should be aware that the process of restoring confidence in the domestic currency is a long one". Therefore, the problem of inflation is also related to the confidence of the population in the stability of the domestic currency in the future.

Taking into account geopolitical tension and the post-pandemic period, as well as cyclical inflationary trends that include rising inflation rates, indicates that the choice of monetary policy is one of the key issues in every country. "The report shows, using the results of an accurate empirical analysis, that several factors influence the formation of expectations; in particular, the report finds that inflation expectations depend on the inflation regime, with the update of expectations becoming more or less back to the actual inflation regime in which observers operate (Bonati, Fracasso & Tamborini, 2022:19)." Furthermore, research has shown that the inflation targeting regime as a monetary strategy has become a global mainstream approach. "Inflation targeting proclaims an explicit goal of the priority (price stability), promoting other goals to the extent that the achievement of those goals does not jeopardize the achievement of the primary goal (Davidović, Grubor & Mehmedović, 2013:302)."

In particular, the COVID-19 pandemic and its global economic consequences can be characterized as a shock that affected both supply and demand. Moreover, the supply shock contributes to the decline in production capacity in the economy, and the impact on demand is reflected in the reduction of consumers' willingness to buy products at a defined price (Blot, Bozou & Creel, 2021). Therefore, identifying the

aggregate shock is important for explaining price movements in the COVID-19 crisis. Thus, the depression of economic activity as a consequence of the crisis contributed to the impact on price movements. However, the application of the AD-AS macroeconomic model can lead to confusion during shock analysis, and therefore its application should be excluded when explaining the movement of variables. The studies conducted mostly use disaggregated data to provide the effects of shocks that have major implications for economies around the world.

Figure 2: Supply and demand shocks during COVID-19 crisis



Source: Blot, Bozou and Creel (2021).

Therefore, understanding the nature of the crisis, i.e. whether the crisis is caused by a negative supply or demand shock, is important for understanding the implications of the crisis on the economy. When the negative shock is on the supply side, then the outcome is expressed through the emergence of inflationary pressure (Dauvin & Sampognaro, 2021), while the impact of a negative shock on the demand side implies deflationary pressures in the country. Implications regarding the COVID-19 crisis point to a negative demand shock in the first stages of the crisis, and that is why countries were faced with a fall in the inflation rate, while after this stage, in the following period, countries were faced with the inability to adjust supply, which

directly affected price growth in the near to all sectors (Brianca, Duarte, & Faria-e-Castro, 2020) and still the effects of the inability to establish a balance persists. At the same time, due to the devaluation of the currency, there is a long-term increase in prices, which represents the persistence of inflation (Ibrahim, 2019).

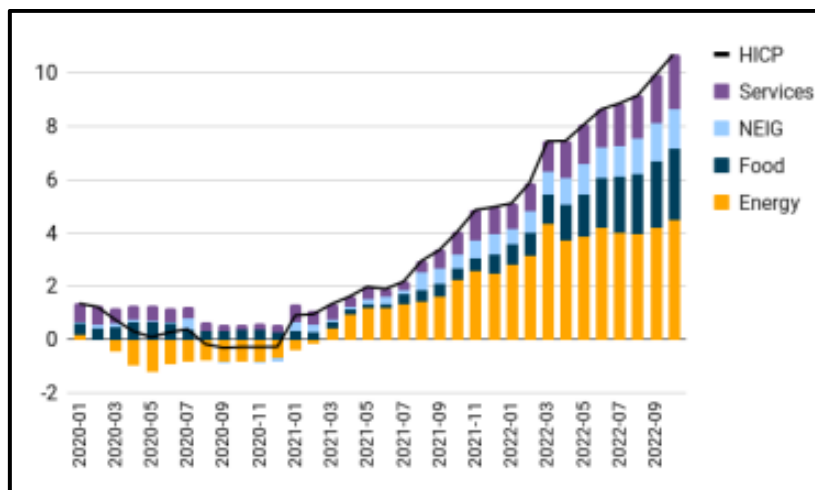
Moreover, the shock due to the COVID-19 pandemic contributed to contractions in aggregate demand as a result of the quarantine and its implications for consumption, employment, and price movements of energy and petroleum products. The outcome of this period during the pandemic shutdown was a marked drop in inflation. Bernoth and Ider (2022) pointed out in their study that the Harmonized Index of Consumer Prices (HICP) fell to a level of 0.3% in the middle of 2020 and hovered around 0% until the end of the year. However, the end of the beginning of 2021 was the beginning of the growth of the inflation rate, inflation grew on average monthly around 0.9% as a result of the technological jump and changes in the components that form the HICP index (Bernoth & Ider, 2022). The key reason for the drop from the highest level of 1.5% in January to 1% in July, but also the jump again to over 1.5% in August 2021, was the jump in energy prices (Bernoth & Ider, 2022). What's more, inflation continues to move above expectations and forecast projections with rising cost pressures and global inflation. The effects of the slowdown in global growth since the first phase of the pandemic were still felt in 2022. And so, the NBS (2022:1) pointed out that "when it comes to the Eurozone, and according to the assessment of the International Monetary Fund and Consensus Forecasts, the economic growth for 2023 has been significantly corrected downwards, to 0.5% and 0%, respectively, and a recession is expected for Germany and Italy as well."

In particular, the events of the last 4 years have led central banks in most countries to decide on a more dynamic monetary policy to achieve price stability due to the consequences of the pandemic, the rise in the world price of energy, and geopolitical tensions. However, the uncertainty due to the supply of natural gas in Europe and price movements in the winter period imposed additional challenges in conducting monetary policy. In this context, an indispensable segment of the conduct of monetary policy refers to the correction of the inflation projection. As a

result of a series of situations, the European Central Bank and the Federal Reserve System have decided to increase interest rates in the period September-November 2022. Therefore, such decisions indicate a tightening of monetary policy by the leading central banks.

Nevertheless, the recovery of the world economy is accompanied by an increase in the inflation rate. Experts explain the current movement of the inflation trend through an excess of aggregate demand about supply that occurred either as a result of a positive shock in terms of aggregate demand or a negative shock of aggregate supply (Moschella & Poliak, 2022). Accordingly, the negative shock implies the consequences of rising prices of raw materials and energy products. "From 2021-22, the ratio increased dramatically – as the GDP recovery slowed, HICP inflation escalated three to four times above the official target of 2% (Bonatti, Fracasso, & Tamborini, 2022:19)."

Figure 3: HICP inflation in the Eurozone



Source: Moschella and Polyak (2022).

From the perspective of the Eurozone countries, inflation reached double digits during 2022 and the highest level was around 10% as a result of supply-side shocks due to the COVID-19 pandemic, geopolitical tensions, and the war in Ukraine, which implied an increase in energy prices (Moschella & Polyak, 2022). Specifically, Bagus, Howden, and Gabriel (2014:498) pointed out that "inflation propagates through two different ways - one at its inception, and one on going". Consequently, the global

situation that began after the pandemic testifies to new high volatility of prices and exposure to macroeconomic shocks due to the energy crisis as a reflection of the rise in prices in the energy market (United Nations, 2022). Although some parallels can be found with the oil shocks of the 70s, the war in Ukraine is putting additional pressure on and resulting in rising consumer prices worldwide (Ifo Institute, 2022). So the world is facing an energy crisis and the war in Ukraine which is contributing to the rise in retail prices with further expansion forecast and countries facing inflation around the world.

2.2 Hyperinflation and orthodox stabilization programs

The implications of the effects of inflation on the economy require consideration of the basic characteristics of the origin, intensity, and period of the presence of inflation (Ristić, Komazec & Ristić, 2015). In the case of hyperinflation, the consequences are catastrophic, as witnessed by countries around the world at different times in the last century. Thus, after World War I, Austria, Germany, Hungary, Poland, and Russia faced hyperinflation, while China, Greece, Hungary, and Taiwan faced hyperinflation after World War II (Dimitrijević & Fabris, 2012). In such a situation, they strove for macro balance but were faced with rising unemployment and falling real wages. For example, Germany faced a marked unemployment rate during the hyperinflationary episode of 1923 and a drastic drop in unemployment in the post-stabilization period. Also, at the end of 1923, 1 kilogram of bread in Germany cost about 400 billion marks as a reflection of the consequences of wartime inflation, which had catastrophic proportions for the economy and its economic activity (Komazec et al., 2012).

In the period when the economy is faced with price growth and the accompanying decline in the purchasing power of the domestic currency affects, the growth of inflation will contribute to mistrust in the domain of currency and the denial of savings and investments (Hoflmair, 2022). Of course, as a connected circle, such a situation in the environment of an economy also contributes to the spiral spread of effects on the growth and development of the national economy itself. The authors Kriezium and Durguti (2019) pointed out as the results of most studies that there is a

positive correlation between the two variables here, the inflation rate and the economic growth rate. And that is why, due to its negative effects on the growth and development of an economy, countries were forced to implement stabilization policies to stop the negative movements of inflation (Ha, Kose & Obnsorge, 2019). What's more, depending on the intensity of the same inflation, it also depends on which stabilization program will be implemented. However, it is necessary to take into account the economic costs of possible inflationary episodes, so the appropriate style of monetary policy is a key economic issue in every country.

Classical hyperinflation implies the collapse of the monetary and fiscal system, while inflationary expectations are adjusted according to the black exchange rate. It is also characterized by the explosion of prices on the border of self-generating hyperinflation with the monetization of the budget deficit as a key factor in the emergence of hyperinflation. On the other hand, the more recent hyperinflation is characterized by a lower intensity and a smaller number of months with inflation over 50%, but also incomplete dollarization with the absence of a dominant factor for its outbreak (Ristić, Komazec & Ristić, 2015). In the case of classic hyperinflation, the key cause was the budget deficit, so the application of stabilization programs with an orthodox character ensured an immediate halt to price growth and monetary reform (Jakšić & Prašćevića, 2019). Moreover, the general characteristics of countries that were facing high classical hyperinflation were the presence of high budget deficits, disturbances due to money supply growth during the presence of higher inflation rates, and price growth due to poorly implemented policies (Hall, 1982). A characteristic for stabilizing hyperinflation is taking the exchange rate as the main nominal anchor, which was generally overvalued. Likewise, in all hyperinflation, there was external financial support, except in the case of Federal Republic of Yugoslavia (Dimitrijević & Fabris, 2012).

In this context, orthodox stabilization programs imply a set of economic policy measures, primary coordination, and consistency of fiscal and monetary policy to eliminate the causes of hyperinflation. By implementing the stabilization program, the minimum costs of implementing the stabilization of hyperinflation in the economy are achieved (Kiguel & Liviatan, 1988) with the establishment of price

stability and economic growth as two key strategic goals. The success of the orthodox stabilization program requires action against the underlying causes of inflation with an appropriate conception of economic policy measures. Consequently, the measures implemented within the program can be grouped into four key areas of economic policy. First, fiscal measures affect the establishment of fiscal balance, that is, the elimination of the budget deficit. The inclusion of a real revaluation of tax rates along with the expansion of the tax base implies tax policy measures, while the reduction of state expenditures, subsidies, and freezing of wages in the public sector are measures implemented to reduce public expenditures.

Second, the monetary policy measures imply the termination of the primary issue that finances the budget deficit and limit credits as an image of restrictive monetary policy. At the same time, the introduction of an independent central bank, based on which the credibility of the monetary and stabilization policy is accelerated, all to preserve price stability and thus the value of domestic money. For developing countries, the key to the success of monetary policy stabilization measures is the restructuring of the banking system and the development of the financial market.

Third, monetary reform is the key to breaking hyperinflation. What's more, the monetary reform rests on the introduction of a new currency and the return of all functions to the new domestic currency (Dimitrijević & Fabris, 2012). The exchange rate policy as the key nominal anchor of the program ensures rapid and effective disinflation due to the implementation of control and fixing of the foreign currency. The implementation of stabilization programs implies a phase of rapid disinflation, within which hyperinflation is broken for a short period and price stability is ensured, and it implies the implementation of monetary reform and the establishment of a fixed exchange rate. Flexibility is the next phase and its focus is on maintaining price stability and starting structural reform, as the final phase that ensures an efficient economic environment.

2.3 Hyperinflation in the economy of FR Yugoslavia

FR Yugoslavia faced the intensity of hyperinflation, which during the 90s of the 20th century was at the very top of international comparisons. Hyperinflation settings date back to the end of 1990 and the implementation of the price policy, which was based on the transformation of the system through the transition to a market mechanism and direct price control of products and services of exceptional importance (Jakšić, 2004). Second, the growth of the budget deficit, which was mostly financed from the primary emission, that is, the monetization of the fiscal deficit, is one of the key factors of the coming hyperinflation (Dušanić, 2009). On the other hand, one of the consequences of hyperinflation, which is measured in millions of per cent, was reflected in the disastrous impact on numerous spheres of society and the economy, as well as the banking sector. Such an outcome is the result of the disintegration of the former Yugoslavia, in which only Serbia and Montenegro remained, but also the outbreak of conflicts in two neighbouring countries, then the cessation of interregional trade, and finally the introduction of sanctions by international organizations (1992) through an embargo on almost all trade deals with FR Yugoslavia (Petrović, Bogetić & Vujović, 1999).

However, regional problems cannot be considered the only cause of inflation, because the basis of the outbreak of inflation was also the inefficiency of the economic structure in the country, which started the process of transition from the socialist system to the adoption of the capitalist regime. Second, the attempt to stabilize the galloping inflation in 1992-1993 by printing money instead of introducing a tax system meant moving toward hyperinflation. In particular, the capital market was not developed, and the system of the beginning of self-management through enterprise autonomy and apparent freedom of pricing with price control for important products did not represent a safe and stable economic system. At the same time, it was believed that the sanctions and the civil war would last extremely short, and therefore no steps were taken for systemic changes (Avramović, 2007).

2.3.1 Prerequisite for the development of hyperinflation in FR Yugoslavia

The first half of the last century was marked by dramatic changes in the then-Federal Republic of Yugoslavia (FR Yugoslavia) in almost all segments of economic and social life (Lempi, 2004). First, the oscillation expressed in the regulation and the practice of implementation from the price aspect expressed through rigid price control was characteristic of the entire economy, but it also affected production. Second, the changed composition and position of the federal and republican state bodies shifted the focus on the implementation of price policy at the republican level (Gligorov, 2014). Nevertheless, the basic institutional solutions were not changed in the period up to the 2000s, but the positions of the state and its transformation from socialist to privatization were changed and affected the domain of price control. Consequently, in 1989, the Law on Price Control was passed, which left behind the period of state (social) price control characteristic of the 70s and 80s, when Yugoslavia was under socialist rule. The new law directed the formation of the price by the company with the set of methods for social intervention in the setting of prices. In particular, a step was made towards price formation by applying the market mechanism and abandoning the socialist regime in the economy. This was preceded by the first wave of inflation and its growth of 50% of monthly growth in December that the country is facing, so a stabilization program was adopted together with the law (Bukvić & Ilić, 1996).

The stabilization program was based on the introduction of the convertibility of the dinar due to the transition process of the then FR Yugoslavia and the denomination of the domestic currency, the exchange rate was pegged to the German mark at a parity of 7 dinars per mark with fluctuation towards other currencies together with the German mark. Although the program predicted a reduction of inflation below 13% with the sacrifice of reducing GDP by around 2%, the result was completely different (Eremić & Bešević, 1994). A drop in industrial production by 12% and an increase in wages, and due to the application of monetary expansion, inflation reached 8% and at the end of the year 121%, that is, the exchange rate to the German mark was 13 dinars for one German mark (Popović, 2022).

Figure 4: Federal Republic of Yugoslavia: Annual Economic Indicators 1991–1993

	1991	1992	1993
Inflation (retail prices) (%) ^a			
Annual average	117.8	8954.3	1.16×10^{14}
Monthly average	10	55	1011
Monthly average annualized	234	1913	1.15×10^{38}
GDP (\$ billion) ^b	23.2	15.8	10.9
Growth rate (%)	-10.9	-31.9	-30.8
GDP per capita (\$)	2000	1500	1000
Money M1: end of period (% GDP)	6.9	2.8	0.2
Inflation tax on M1 (% GDP)	16	15	22
Seigniorage on base money (% GDP)	10.4	9.6	10
Real exchange rate (1989 = 100)	67	112	733 ^c
Tax revenues (% GDP) ^d	34	20	13 11
Government expenditures (% GDP) ^d	47	41	47 39
Fiscal deficit (% GDP) ^d	13	21	34 28
Exports of goods and services (% GDP)	25	20	
of which goods	20	16	
Imports of goods and services (% GDP)	26	27	
of which goods	24	25	
Net imports of goods and services (% GDP)	0.8	7	
of which goods	4	8	
Net transfers	-2	-6	

Source: Petković, Bogetić and Vujović (1999).

At the same time, macroeconomic indicators testify to the beginning of opening the door to the emergence of hyperinflation. First, the income per capita was US\$ 2000 in 1990, while in three years it fell to US\$ 1000 (Petković, Bogetić & Vujović, 1999). Second, the growth of the fiscal deficit indicates the state's inability to harmonize its economic policy during the period when the economy is facing external shocks, and as a result, there is a drop in foreign trade turnover and domestic production itself, which is shown in the following table (Petrović, 1990). Third, the value of seigniorage was approximately similar to the level of the budget deficit in 1991, and in 1992 it was almost three times higher. In particular, covering the fiscal deficit through money printing and pumping into the economy led to the loss of control over money creation, affecting the key settings for the emergence of hyperinflation. At the same time, short-term monetary policy decisions contributed to the picky growth of inflation and the transition to galloping inflation, all as one of the consequences of the random walk monetary standard. On the other hand, the process of dollarization was more and more present and expectations about exchange rate movements were more stable about the domestic currency (Eremić & Žižić, 1994).

In terms of monetary policy, the function was separated from fiscal and credit policy. Such a setting of the new monetary policy imposed the abolition of selective loans of

the National Bank from the primary issue, and the creation of money from the primary issue was directly linked to foreign exchange transactions, excluding automatic monetization (Petrović & Mladenović, 2000). From the perspective of the market mechanism and price policy, the focus was on the establishment of the market economy and the formation of the goods market as the foundation of the transition process based on reforming the entire economic system. The key challenge was the establishment of an effective mechanism between reforming the structure and the way internal trade functions. The reorientation to the principle of profit maximization as an element of the market mechanism directed the economy towards the direction of the autonomy of trade activities in relation to production as a concept of a new setting of the economic system (Bukvić & Ilić, 1996). Specifically, the reform began on the principle of free price formation based on market conditions, while within certain areas (power industry, railways and PTT transport, as well as oil and oil derivatives, coal and coke, CMA and non-ferrous metallurgy, basic chemistry, and medicines) as natural monopolies, the formation of prices was in accordance with standardized market criteria that were defined in advance (Bukvić & Ilić, 1996). Therefore, only in the domain of natural monopolies is price control retained to some extent as price limitation of the most important inputs in the economy. That is why there was an original division of products into products of interest for the entire country that were subject to price control, while the prices of other products were freely established through the market mechanism. However, important activities for the country in the price policy have become one of the key focal points for inter-republican-provincial conflicts and a prerequisite for the beginning of a political crisis, and one of the factors in the emergence of hyperinflation (Dušanić, 2009).

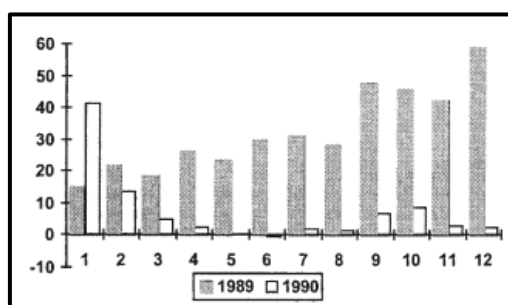
2.3.1.1 Price policy in the period 1990-1992

The inertia of price growth was halted in April 1990, recording a decline of 0.2% after a narrow period, while retail prices and the cost of living reflected a growth of 2.8% (RZZS, 1994). Namely, the growth of retail prices in 1989 amounted to 2700%, while already in 1990 it fell to 121.7% (RZZS, 1994). In particular, economic policy measures implemented at the beginning of 1989 led to a certain stabilization of

prices. The realization of the mixed concept of price movement with the liberalization of imports contributed to the market mechanism affecting the radical reduction of the rate of price growth. The liberalization of price establishment through the market mechanism continued throughout the year, giving room for further price liberalization and the release of previous price control by the state as a reflection of the socialist regime. Moreover, the first phase of market liberalization was successful, as evidenced by the success of defined price and exchange rate policies implemented through low deflation in the mid-1990s.

The change in the orientation of the states within the FR Yugoslavia in the second half of 1990 turned into a barrier to the reform that had been successfully implemented until then and was reflected by the end of the year in frequent interventions in the area of prices. The change in the orientation of the states within the FR Yugoslavia in the second half of 1990 turned into an obstacle to the successfully implemented reform until then, which was reflected in frequent interventions in the area of prices by the end of the year. In this context, the member countries were most interested in participating in the control of the prices of oil and oil derivatives (Repe, 2021). Consequently, the key factor leading to hyperinflation is the frequent changes in the price level of oil and oil derivatives, as well as the taxation rate, which affects the definition of compensation for their claims. Nevertheless, the 1990s depict price stabilization compared to the previous year, which is evidenced by the comparative display of the growth rate of retail prices (see Figure 1).

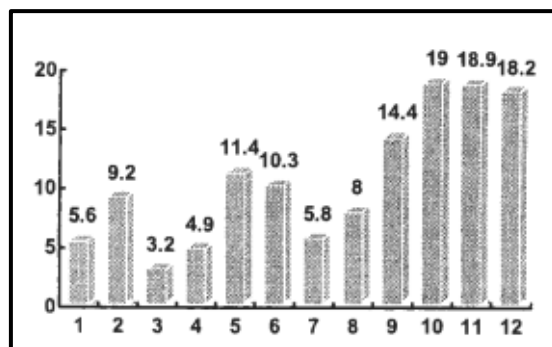
Figure 5: Retail price growth rates, 1989- 1990



Source: RZZS (1994).

The following year is characterized by accelerated dynamics of retail price movements, as a jump is already observed in February to the level of 9.2%, then a decline in March and April, and a re-growth in May and June. After a short respite in July (5.8%) and August (8%), since September, retail prices grew at a rate of about 15% per month and at the end of the year reached a level of 18.2% (Ognjanović, 2018). A clear trend of price increase indicated the short range of the implemented program and within it, the price policy and the conditions of high overall price growth were reflected in the disproportions that were characteristic of previous years before the introduction of policies and the implementation of stabilization programs. Such a trend in retail price movements imposed interventions that further reduced the concept of price liberalization through the market mechanism due to the presence of indirect control.

Figure 6: Movement of retail prices in 1991



Source: RZZS (1994).

What's more, 1990 and half of 1991 presented indirect price control, which was formally introduced in the second half of 1991, accelerating the growth of inflation and future escalation. However, 1992 was crucial for the emergence of hyperinflation. First, at the beginning of the year, direct price control covered almost 17% of producer and 18% of retail prices (Ognjanović, 2018). On the other hand, the expansion included direct price control for products of importance to the state, which further reduced the liberal harmonization of prices through the market mechanism, and during the year, a mandatory volume of food products placed on the market was imposed (Dimitrijević & Fabris, 2012). Such an approach to price

control and the violation of the independent harmonization of levels for most products on the market contributed to the pressure and imposed a continuous correction of the price control regime. Although the success of dampening price growth during 1992 was somewhat successful (from 48% to 33%) (Bukvić & Ilić, 1996), product prices rose 170 times by the end of the year.

2.3.1.2 Attempt to stabilize inflation in 1992

FR Yugoslavia was facing the growth of regional differences and gradual separation in the domain of price policy, but the country was facing a civil war (summer 1991) accompanied by sanctions that only added a burden to the already existing problem and the outcome was the disintegration of the then Yugoslavia in which the Republic of Serbia and Montenegro remained in the composition. Second, the first four months of 1992 reflected inflation of about 45% per month and the economy managed to function without going into hyperinflation, unlike other countries with such high inflation (Avramović, 2007). The continued increase in the intensity of inflation reached a pace of 80% in May, and already 100% in June, creating anxiety in all markets. Such a situation required urgent stabilization so that the economy would not slip into hyperinflation.

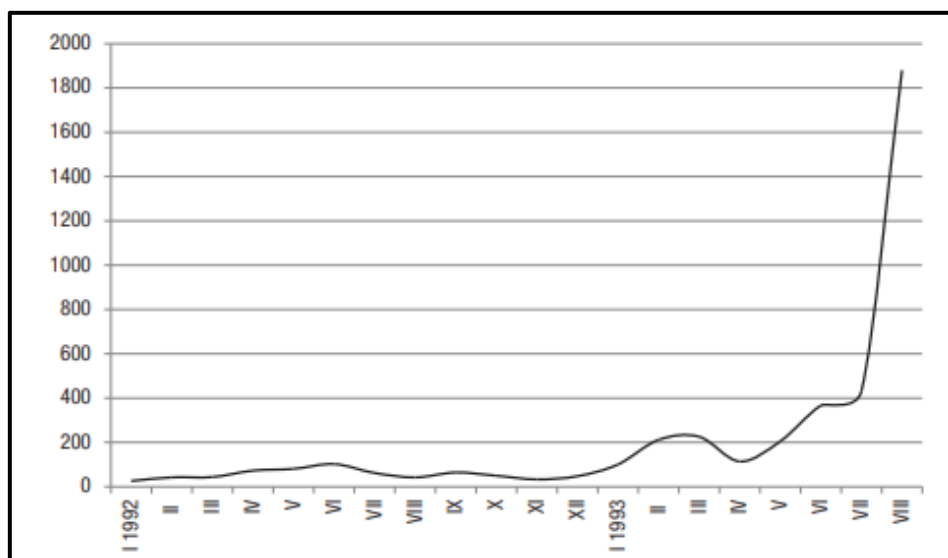
The beginning of the planning of the stabilization program was based on the theoretical domain of reducing the rate of growth of the money supply resulting in price growth, so a well-calculated price control would ensure a reduction in prices and thus inflation (Helsinki Committee for Human Rights in Serbia, 2017). Such a solution resulted from the experience under the Nixon administration, realized through the price control mechanism (Avramović, 2007). At the same time, the stabilization program was accompanied by the freezing of the prices of products of key importance for the economy and a more elastic element in terms of price control. However, the problem lay in defining the permissible expansion of the money supply. Accordingly, after the summer of 1992, inflation was reduced below 50% per month (Đukić, 2018a). However, the growth in demand for foreign currency is the result of the purchase of two banks in the former Yugoslavia, Dafiment Banka, and Jugoskandik. So, Dafiment Bank was attracting new foreign currency depositors through rising interest rates. However, such an influx of foreign currency investors

into the bank did not immediately see that it was a debt pyramid because there were no specific areas for investment in the country. In this way, the inelastic demand for foreign exchange influenced the growth of the value of the foreign currency (German mark) with the result of the rise in prices at the end of the fall of 1992 and the weakening of the applied stabilization program.

2.3.1.3 Implications of hyperinflation on the economy of Yugoslavia in the 90s

The environment in the economy of Yugoslavia, in which the monetary policy was conducted, contributed to the central bank not maintaining the continuity of the monetary policy and thus reduced its key role - the stability of the financial system. Thus, at the beginning of 1993, the National Bank of Yugoslavia (NBJ) agreed on monetary policy plans without an established concept of economic policy recognized by the Federal Government (Dimitrijević & Fabris, 2012). On the other hand, two conflicting goals, curbing inflation and real GDP growth, required the institutionalization of independence and the centralization of monetary policy at the federal level in an extremely short period, adopted only in June 1993 (Đukić, 2018b).

Figure 7: Trend of inflation (1992-1993)



Source: Đukić (2018).

That is why the challenge for the NBJ was to suppress hyperinflation in the second half of 1993. However, the centralization of monetary authority at the federal level did not affect the suppression of the already persistent gray economy and the black foreign exchange market. The difference between primary money and dinar placements as an indicator of the gray economy contributed to the 2.46 times greater irregular money creation compared to regular issues by the NBJ (Đukić, 2018a). So the result of such operations caused the legal limit to be exceeded in terms of primary emissions to cover budget expenditures.

Table 1: Volume and structure of federal budget revenues

The date of adoption of the Federal Budget - Rebalancing	The total scope of the budget - rebalancing	BUDGET REVENUES						Exchange rate for 1 DEM (%)
		Original		Long-term loans with NBJ		Revenues from issuing bonds		
		DEM	%	DEM	%	DEM	%	
31.03.94	2.130.778.947	1.304.252.632	61.2	783.578.947	36.8	42.947.368	2	0.02375
16.07.93	297.152.558	204.575.116	68,8	89.145.814	30	3.431.628	12	4.3
26.08.93	917.150.688	550.117.647	60	275.145.206	30	91.887.835	10	170
29.10.93	3.705.672.000	2.297.517.333	62	1.111.701.333	30	296.453.334	8	37.5
26.11.93.	185.494.444 1	115.006.555	62	55.648.333	30	14.839.556	8	18.000.000

Source: Đukić (2018b).

During December, there was a further erosion of tax revenues, so the state of public finances in FR Yugoslavia approached the state of public finances during the hyperinflation in Germany at the end of 1923. On the other hand, in January-August, the change in the structure of the NBJ's dinar placements during 1993 reflected the representation of the share of loans NBJ intended for banks about the share intended for budgets. Due to the pressure to monetize the budget deficit, in

November 1993, about 80% of the loans from the primary issue were directed to the budgets. The change in the structure of loans from the primary issue and retention resulted in blocking the mechanism of real interest rates as an instrument of anti-inflationary policy, capital protection, and defence of the national currency exchange rate. What's more, it resulted in a massive expansion of the money supply due to a drastic reduction in the price of loans in April 1993 as a result of the decision of the NBJ to lower the discount rate.

On the other hand, the rapid withdrawal of cash from regular to irregular flows of the black foreign exchange market produced a growing dependence of the banks' liquidity position on the inflow of funds from the primary issue. Postponing the adoption of a consistent economic policy program only favoured the conduct of a passive monetary policy and abnormal price growth. The movement of prices in 1993 was characterized by the adoption of a series of decisions, as a result of which direct price controls were introduced for a wide range of products and services in production and trade, and thus the state once again assumed responsibility for the largest part of industrial production, as two-thirds of production was placed under control (Đukić, 2018b). So, in the first half of the year, prices under control were increased 327 times, and free prices were increased 663 times (Đukić, 2018a).

Galloping inflation and the volatility of regulations on the mandatory introduction of certain types of products into circulation resulted counterproductively in the gradual collapse of the market and production with the emergence of the dinar denomination. The growth of the fiscal deficit from 3% of GDP in 1990 to 28% in the year of inflation is a consequence of classical hyperinflation (Petković, Bogetić & Vujović, 1999). Consequently, an increase in the money supply resulted in a decrease in real value, despite the increase in prices. From the aspect of the domestic currency, the formation of the black foreign exchange market and spontaneous dollarization influenced the dinar to be replaced by German marks. On the black market, the daily exchange rate was adjusted independently at the current level and the purchase and sale took place at street dealers.

Table 2: Issue of Money in FR Yugoslavia in 1993

Date	Dinars
1 October 1993	121,000,000,000
2 November 1993	204,193,800,000,000
23 November 1993	748,420,000,000,000
3 December 1993	4,045,878,400,000,000
8 December 1993	106,142,000,000,000,000
15 December 1993	233,641,840,000,000,000
22 December 1993	6,777,954,185,000,000,000
29 December 1993	54,368,800,185,000,000,000
31 December 1993	98,416,573,285,000,000,000

Source: Popović (2022).

Before the onset of hyperinflation, the Central Bank of Yugoslavia lost control over the money supply because a few years ago money printing was used as a measure to cover the fiscal deficit. After the dissolution of the FR Yugoslavia, the fiscal deficit was mainly related to Serbia and Montenegro, which were the only ones that remained part of Yugoslavia. Thus, the growth of the fiscal deficit was accompanied by a decline in real GDP, which reached its peak in the fall of 1993 with a growth rate of -30.8% (Đukić, 2018). In addition to the effects of hyperinflation, this result of the fall was achieved due to the imposed sanctions and the impossibility of international trade and transactions. At the same time, public revenues declined rapidly as a result of reduced economic activity as a result of sanctions and the growth of the shadow economy.

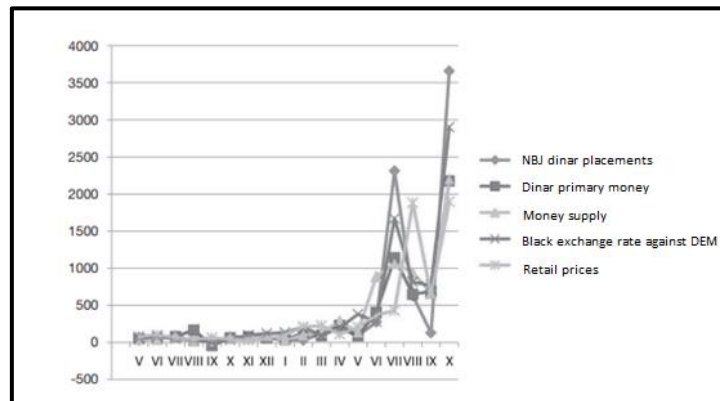
Table 3: Growth of Real Gross Domestic Product, Industrial Production and Inflation Rate in SRY (1990-1993), in %

	Real GDP	Industrial output	Inflation*
1990.	-7.9	-12.0	121
1992.	-27.9	-22.0	9237
1993.	-30.8	-37.0	116*10 ¹²

Notes: Inflation rates are given as average annual rates in %.

Source: Popović (2022).

Figure 8: Presentation of monthly growth dynamics of NBJ dinar placements, dinar primary money, and DEM exchange rate on the black market, money supply and retail prices (July 1992-October 1993)



Source: Đukić (2018b).

In particular, the monetary policy also supported the provision of production, which emphasized its expansive character, even more, relying on the monetization of growing deficits. Although the planned growth of the money supply at the end of the third quarter of 1993 was about 450%, the growth of bank loans and non-return of previously taken loans was reflected in the fact that in September the growth of the money supply was five times higher than planned (Đukić, 2018a). Nevertheless, price controls moderated the effects of monetary expansion through a sharp jump in

prices. However, after the relaxation of price controls during the IV quarter of the same year and freer formation, the registered inflation rate jumped to 1896% (October 1993) (Ognjanović, 2018). At the same time, the final stage is the end of 1993, when the country reached entry into hyperinflation and the outcome is the loss of the national currency through the devaluation of banknotes issued by the NBJ. Denominations of 10,000 and 5,000 dinars put into circulation on the first of October were lost until the day of the new denomination, i.e. for fourteen days 66% of the value measured according to the DEM exchange rate (column 5 in Table 5:).

Table 4: The degree of depreciation of banknotes issued in the fourth quarter of 1993

Denomination-nominal value	Release date	Denomination value in DEM*		4:3
		Release date	The date of release of the new denomination into circulation	
1	2	3	4	5
10.000	1. X	3.85	1.33	0.34
5.000	1. X	1.92	0.66	0.34
50.000	14. X	6.66	1.25	0.19
500.000	30. X	12.50	0.55	0.04
5.000.000	12. XI	5.55	0.66	0.12
50.000.000	23. XII	6.66	0.91	0.14
500.000.000	2. XII	9.09	0.08	0.009
5.000.000.000	11. XII	8.33	1.25	0.15

50.000.000.000	15. XII	12.50	0.38	0.03
500.000.000.000	23. XI	3.85	-	-

* Based on the sale rate of DEM on the black market between individuals.

Source: Đukić (2018b).

Finally, the growth of retail prices in July 1993 took part, while during August they increased about 18 times (Kovačević, 2018). By reducing the price in September, growth of 20 times was ensured and continued at an accelerated pace until the reconstruction of the system in 1994 (Avramović, 2007).

Table 5: Monthly indices of retail prices (1990-1996)

Month	Year				
	1990	1991	1992	1993	1994
January	141.5	105.6	129.1	200.6	313563658.0
February	113.6	109.2	150.7	311.8	2243.3
March	105.2	103.2	141.9	325.8	93.3
April	102.8	104.9	177.5	214.1	99.6
Maj	100.2	111.4	180.8	305.2	99.7
Jun	99.7	110.3	202.3	466.7	98.6
Jul	102.2	105.8	162.0	531.6	98.7
August	101.9	108.0	142.4	1980.6	99.5
September	107.1	114.4	164.4	743.2	100.2
October	108.1	119.0	149.8	1995.6	101.4
November	103.0	118.9	133.3	20290.1	107.0
December	102.7	118.2	146.6	178982.0	102.5

Source: Bukvić and Ilić (1996).

Retail price growth peaked in January 1994. Second, the value of foreign currency jumped tenfold on the black market in July 1993, while the value of domestic

currency rapidly declined and was devalued. Thirdly, the difference in prices on the market and the free prices of foreign exchange on the black market contributed to the fact that the offered quantity of products attracted foreign buyers and resulted in the emptying of the market in the country (Dimitrijević, 1996). Therefore, the frozen dinar prices in stores did not follow the movement of the dinar exchange rate as a whole to ensure the stability of the system.

Table 6: Inflation trend (July 1993-January 1994; in %)

A month in 1993	Monthly inflation rate	Annual inflation rate	Daily inflation	Hourly inflation
Jul	436.6	2.2×10^6	5.37	0.23
August	1881.0	3.2×10^7	1.07	0.40
September	643.2	1.5×10^8	6.69	0.27
October	1856.0	1.9×10^9	10.38	0.41
November	20290	2.8×10^{11}	18.77	0.72
December	$1,78 \times 10^5$	3.5×10^{14}	28.30	1.04
January 1994	$3,13 \times 10^8$	5.2×10^{20}	61.83	2.03

Source: Dimitrijević (2000).

Accordingly, at the beginning of 1994, the state introduced more rigid price controls. However, the rates of price growth exceeded millions, so during January, retail prices increased by over 313 million per cent (Petrović, Bogetić & Vujošević, 1999). At the same time, a depreciation of 58 million per cent was reflected in the black market of the exchange rate (Petrović, Bogetić & Vujošević, 1999). Therefore, after the events of the previous years, hyperinflation broke out in early 1994 and accelerated unfavourable trends in the state of Serbia, which together with Montenegro was part of the FR Yugoslavia.

2.3.2 Key effects of hyperinflation

The transition from galloping inflation to hyperinflation already in July 1993 resulted in three key effects (Avramović, 2007). First, the impoverishment of a large part of

the population in the country due to the drop in wages since 1991 (Eremić & Žižić, 1994) and the relative increase in retail prices in the next few years. Second, at the end of 1993, most of the state's revenue came from printing money and the outcome was the erosion of state revenue when galloping inflation turned into hyperinflation (RZZS, 1996a). Erosion of government revenues in hyperinflation conditions is a testimony to the effect of the Tanzi-Oliveira theorem, which emphasizes the time difference between reporting income for taxation and tax collection, while in inflation conditions, the real value of taxes is destroyed (Dimitrijević & Fabris, 2012). At the same time, the weakness of the fiscal mechanism is due to the higher growth of tax collection costs about the value of tax revenues. So, the gradual dominance of the black market and thus the gray economy that enjoyed not paying taxes contributed to a stronger Tanzi-Oliveira effect.

On the other hand, the black foreign exchange market contributed to the growth of foreign exchange within the country regardless of the existing blockades due to the sanction. However, the instability of the domestic currency prompted dollarization denominated in German marks as the dominant foreign currency in which almost all transactions were conducted during the period of hyperinflation. However, the use of foreign currency was also a problem during the restoration of the stability of the new dinar as part of the final stabilization program. At the same time, the consequences were reflected in the redistribution of the social product and national income (RZZS, 1996b). An unorganized and unprepared devaluation contributed new energy to inflation itself (Ognjanović, 2018), while the growth in demand for domestic products naturally influenced the growth of retail product prices. In particular, devaluation in the conditions of blocked foreign trade relations did not have a positive effect on production conditions, retail prices, and the volume of the trade itself. Nevertheless, hyperinflation contributed to the cancellation of all claims and debts, but pension funds also stood out during 1993 (Kovačević, 2018). Statistical data showed that the drop in GDP in 1993 was about 30% compared to the previous year (RZZS, 1996a).

2.3.3 Monetary reconstruction program - Avramović's program

Considering the dead-end hyperinflation from mid-1993 to January 1994, the stabilization program should have been based on monetary reform (Avramović, 2007) because the domestic currency (dinar) was extremely compromised due to the abnormal inflationary crisis of the Serbian economy. In particular, the situation in the economy demanded the stabilization of the currency and the construction of a new entire monetary and foreign exchange system. On the other hand, the previous failures of the stabilization programs were due to the assumption that the growth of monthly prices should be reduced to 50% because the economy can survive at such a rate. Considering previous experiences, Avramović (2007) understood and emphasized in his plan that due to previous failures, a total stabilization of the currency must be done with the preparation of a plan within a minimum period of two months.

First, the plan was called reconstruction of the monetary system, within which there were several goals, namely, stabilization of the exchange rate of the dinar, balancing of internal state finances, recovery of companies, and investment planning primarily for pressing needs. Second, the abandonment of the credit allocation system was carried out during the transitional period specified by law (until the end of December 1994) (Avramović, 2007). In this way, the budget should have taken over financial support for agriculture as an example in developed market economies. However, an underdeveloped financial market like FR Yugoslavia faced a barrier that limited the central bank's key functions due to the instability of open market operations and rediscounting.

Table 7: Monthly retail price indices (1994-1996)

	Year		
Month	1994	1995	1996
January	313563658.0	112.4	109.5
February	2243.3	101.9	104.8
March	93.3	102.1	107.2

April	99.6	108.2	103.1
May	99.7	105.1	101.8
Jun	98.6	105.3	103.3
Jul	98.7	106.6	106.6
August	99.5	107.6	102.3
September	100.2	110.2	101.2
October	101.4	109.9	101.4
November	107.0	105.5	101.4
December	102.5	107.4	101.2

Source: Bukvić and Ilić (1996).

Avramović's program was implemented at the end of January 1994, and in March of the same year, he was appointed governor of the National Bank (Kovačević, 2018) because the National Bank did not have a governor until then. What's more, monetization is not the key factor that caused hyperinflation, but rather contributed to its growth and expansion. The course of inflation growth can be compared to the inflation of a balloon and its escalation into hyperinflation due to the presence of excess consumption over available as an indirect consequence of sanctions. The program introduced a new dinar that ensured the containment of hyperinflation, that is, by tying the new dinar to the German mark in a ratio of 1 to 1 (1 new dinar for 1 German mark). At the same time, retail prices fell already in the first two months after the start of the program and from the index value of 2243.3 in February fell to 93.3 in March, after which they varied in an extremely small interval in the following two years (See Table 7).

3 Methodology

This section provides insight into the selected research design and applied research methods with the inclusion of secondary data collected from the literature on the given topic. The aim of the methodology section is based on presenting the selected tools and methods that were necessary for the needs of this work. Consequently, clarification of the chosen methods by the researcher to collect primary data will complete the answers to the research questions and knowledge regarding the topic of the work.

3.1 Research design and Qualitative methods

The research carried out within the study was conceived on a qualitative design to collect primary data through an in-depth interview. The choice of the interview as a research method is crucial in a qualitative study because the researcher directly collects data from the participants (Showat & Parveen, 2017). On the other hand, the research method within the study was chosen to clarify and answer the research questions. Accordingly, qualitative research aims to investigate and understand the behaviors of observed phenomena relying on data without the possibility of calculating numerical values (Jackson, Drummond & Camara, 2007). Specifically, the study aimed to investigate hyperinflation in the former FR Yugoslavia, which was in the process of transition from a socialist system to a capitalist economy at the time of facing its effects.

The design of the research questions was based on the settings of the topic in sections 1 and 2 with the direction that the research process keeps the entirety of the problem in the work (Hancock, Ockleford & Windridge, 2009). The questions from the considered theoretical areas presented earlier referred to the identification of events and cause-and-effect relationships with hyperinflation in FR Yugoslavia 1990-1994. Therefore, the focus of the research questions presented to the participants during the interview focused on the development factors key to the occurrence of hyperinflation, the impact of hyperinflation on economic activities, and economic policy measures to suppress it.

3.2 Data collection

Conducting interviews focused on obtaining answers to the designed questionnaire from at least three experts in the field of macroeconomic analysis. Questions designed exclusively for this research by the author were attached to respondents in English and Serbian. Accordingly, the method for collecting responses from the relevant number of respondents was based on access to experts via e-mail. Given that the questions were specifically defined, such a method of collecting primary data was feasible. At the same time, the collected data expressed in the form of written answers and forwarded to the researcher's e-mail address facilitate the categorization and preparation for the analysis of the obtained results. At the same time, the collected primary data should be compared together with the available secondary data in the literature. In this way, the researcher comes to concrete results about reality and its matching with existing data and the overall result is a supplement to the existing literature on the researched topic.

4 Findings and interpretation of the interviews

Within this section, the results obtained on the basis of the defined questions and answers of the respondents, which are interpreted by the researcher, are attached. The key parts of the interviews with the respondents are shown as evidence of events in the period 1990-1994 in the then FR Yugoslavia. Also, each participant rated the sequence of events chronologically, highlighting key segments for building setups to break through hyperinflation. Moreover, objectivity was maintained to the greatest extent possible by presenting expert opinion as a participant analyst. In addition, the obtained results will be compared with the reviewed and reviewed literature in the previous sections. The final number of respondents, i.e. experts, after the conducted qualitative research, included a total of three experts from the macroeconomic field related to the topic. Specifically, during the conduct of the research, the researcher was faced with the omission of responses to emails sent to a large number of selected experts. Nevertheless, three experts who witnessed the events and outcomes from the time before, during, and after hyperinflation approached the answers to the defined questions in detail and thus provided the primary data for the conducted research.

Firstly, the growth of the nominal money supply as an exogenous determination of monetary policy will imply negative effects expressed through price growth (Duodu et al., 2022). Specifically, the respondents confirmed the facts in the second question and stated that the excessive printing of money to cover the fiscal deficit that Yugoslavia was facing contributed to the growth of retail prices, i.e. inflation. However, the excessive use of such a strategy contributed to the gradual preparation of the hyperinflation scenario. Accordingly, respondent C pointed out that

"By printing fake dinars, the fiscal deficit did not decrease, but, on the contrary, it increased from year to year, because the greed of the regime was increasing, since they were convinced that they had created a perfect financial system that, without work and savings, maintains itself."

The testimony of the second respondent, who was a member of the government at that time and was present at the National Bank and his answer to the question about the effects of money printing on other macroeconomic variables, indicates the key answer of the monetary strategy in the practical economic sphere. Moreover, respondent A pointed out that

"the coverage of the fiscal deficit in the conditions of the impossibility of borrowing on the international financial market (due to sanctions, according to the regime that was in power in Serbia) and the lack of money supply on the domestic market, could only come from the primary issue of money."

A study on the monetary illusion conducted by Erber (2010) pointed out that oil price shocks during the 1970s and 1980s showed for the first time the simultaneous presence of high inflation and output stagnation. In this context, the control of product prices by the government, as well as questions regarding the compromise between two variables, unemployment, and inflation, insufficient firm monetary, and unsustainable fiscal policy had the effect of leaving room for hyperinflation by other unfavourable conditions. In this context, respondent C pointed out that the previous disintegration of the former SFRY in 1992 affected the flow of the economy in the following year and a half until the outbreak of hyperinflation, stating:

"Decades ago, Titoism was disintegrating towards the established republican borders, which were a major obstacle to free trade in bankrupt Yugoslavia." The national oligarchies did not have any solutions to get out of the growing economic crisis, they did not know how to deal with the inefficient socialist economy and how to stop further borrowing, so they looked for a solution in the conflict with other nations of the former common state. The banks were already territorially divided and capital did not go beyond the republic's borders. The breakup of Yugoslavia in 1992 was only the bloody end of a failed state-building concept, which could no longer survive because it was not based on pure economic calculations."

Other unfavourable conditions included the lack of credibility and independence of the central bank, which directly affected the omission of an effective monetary policy (Brekalo & Brekalo, 2018). The respondents' answers to the question about

the key monetary projections that influenced the decision on price control in 1992 as part of the key strategy of the stabilization program of that year and its contribution to the escalation of hyperinflation in 1993 only confirmed that the whole spell of conditions that prevailed in the economy after the collapse of the SFRY, from political pressures, geopolitical tensions in the region between the former members of the SFRY, up to the introduction of sanctions contributed to the hyperinflation outcomes. Specifically, in the 90s, in the economy of Yugoslavia, in addition to the decline in production, the most unfavorable event was marked by one of the largest hyperinflations in world history, which was mainly caused by the Yugoslav conflict and the internal disintegration of the country, excessive monetary and credit expansion, and also high budget expenditures, almost as a whole covered by the money issue (Dimitrijević & Fabris, 2012). The claims of respondent A confirm the conditions that prevailed in the economy of Yugoslavia with their answers:

"The National Bank has completely lost its independence and credibility, as key conditions for conducting an effective monetary policy."

"First the sanctions and then the civil war are the main causes of hyperinflation." Markets stopped functioning, the flow of people and capital was stopped, and war expenditures were getting bigger and bigger as the civil war in the territory of the SFRY spread. Not only was there no possibility of borrowing on the international financial market, but significant financial resources of the National Bank and companies under sanctions were blocked abroad. Specifically, the answers of respondent C point to the situation in the country as a contribution to the vicious circle of inflation growth:

"GDP was inflated by high inflation, which turned into hyperinflation." Debts followed the rise in prices. Wages unsuccessfully tried to catch up with the exponential growth rate of inflation. The standard of citizens was drastically declining. The middle class has collapsed and the entire society is pauperized."

As already pointed out in one of the previous paragraphs, the sanction that was introduced in the former Yugoslavia implied that the state was not able to cover the fiscal deficit by borrowing from states or organizations (Dušanić, 2009). On the other

hand, the continuous rise in prices and attempts to contain them through tighter price control of retail goods left room for a stabilization program as the only possible solution seen by economic policymakers. At the same time, the stabilization programs that were formulated before the outbreak of the acute financial crisis were based on the assumption that the economy can function with a monthly price increase of 50% (Avramović, 2007). Respondent C stated:

"They showed a nominal increase in prices of 50% because the real increase was several times higher. They were trying to drop an anchor to calm the ship in a hurricane, but the anchor chain was short and could not touch the bottom of the social abyss."

In addition, respondent B, in the context of the question about the failed stabilization programs that preceded Avramović's program, rightly pointed out that the biggest part was the disintegration of the former Yugoslavia and sanctions, which further confirms the impact of external factors on future abnormal hyperinflation values.

"By capping certain prices a) lack of some products is unavoidable plus b) all other prices are increasing even more. The whole system gets out of control. If you start micromanaging the market system it usually ends up in a disaster. The cause of the hyperinflation was not the stabilization program but the political breakup of the country."

Second, from July 1992 to January 1994, four currency denominations were carried out, which, among other things, sometimes made a million but also a billion equal to one dinar. On the other hand, the transition of a country like Yugoslavia required firm leadership during the regime change. (Đerd, 2003) to avoid the collapses that Yugoslavia witnessed in the end, not entirely through its fault, but accelerated by exogenous factors imposed from the outside world of geopolitical tensions. Specifically, concerning markets and trade, instead of liberalizing, as a rule, the Yugoslav government took steps aimed at maintaining strict price control. What's more, the first deviation from the set goal defined through the liberalization of the previous price control (Dušanić, 2009) and the interference of first the federal and

then the local government, was reminiscent of a "*balloon that was constantly being inflated*", stated respondent C. Such complex and time-limited tasks expressed through the stabilization of galloping inflation, but also the beginning of the process of liberalization, institutional reforms are one of the postulates for the smooth functioning of a market economy (Đerd, 2003) towards which Yugoslavia also aspired. Therefore, one of the reasons for the introduction of the stabilization program was the presence of a budget deficit, but also the application of monetization of the budget deficit, devaluation of the national currency, dollarization, and the formation of an informal black foreign exchange market as key arguments in support of Avramović's stabilization program. The new currency was supposed to restore confidence in the domestic currency by pegging it to the foreign currency that dominated the black foreign exchange market, as pointed out by respondent C:

"Germany was Yugoslavia's largest foreign trade partner. The largest number of workers from Yugoslavia worked in Germany. Citizens, due to high inflation, were looking for a haven for their capital and had the most confidence in the brand. Incompetent creators had no choice. They had to adapt to the financial reality. Other currencies could not compete with the German currency."

Nevertheless, in the conditions set by various factors that were successively in the way of suppressing the galloping inflation, the indispensable moment is state intervention. However, Yugoslavia faced the wrong approach of state intervention which to some extent benefited from regime transformation. Despite the emphasis of the literature and respondent B who states that "*there is no way that you can stop inflation without state intervention as the main engine was the state*", the overall result was in favour of hyperinflation. However, respondent A emphasized state intervention as

"Yes, state intervention was the dominant strategy in suppressing inflation for several reasons. First, ineffective monetary policy - interest rates as its main instrument had almost no significance, and banks were left without capital and

savings. Second, the state had to reduce taxes and other fiscal burdens to reduce pressure on costs and prices."

Although through data from the literature we refer to the success of the Avramović program as a detailed approach to the situation and governing circumstances in the economy of Yugoslavia, taking into account the key factors that fuelled inflation in the past few years, the reality was a little different. The respondents agreed with the answers that Avramović influenced the economic field with the qualities of "*benevolent and honest*". Based on the responses of respondent C, we can learn that the government used economic policymakers to implement regime transformation and move towards goals that focused more on the personal interests of the minority compared to the majority (population).

"It is a big misconception that Avramović's stabilization program was successful. I knew Avramović personally and I can say that he was an extremely likable, well-intentioned, and honest man, whom the Despot skilfully used in moments when he needed such a man. Namely, the Despot created hyperinflation due to the robbery of the citizens, and when that robbery was over, when he saw that less and less money was flowing into his pyramid banks and the party coffers, he decided to stop the printing of fake dinars. He needed a man, politically inexperienced and naive, politically harmless for him, who will be exposed in public and gain all the glory he defeated the hyperinflationary dragon. This is how the myth of Grandfather Abraham was born. To the biblical prophet with a hat, our humble fellow citizen, who bravely, like Theseus, entered the hyperinflation labyrinth and killed the bloodthirsty Minotaur. Mitt succeeded. The worshiped people believed in and loved Grandpa Avram. But the real truth was that Avramović did not have a good economic program, that he was, after all, only a bureaucrat and an official of the World Bank, that he had no experience in the economy and the market, that he did not change anything systemically and that he was brought in by A despot to play his intended role."

5 Conclusion

Based on the conducted research, the result shows that Yugoslavia faced a large number of devaluations of the national currency in the period 1990-1994. In addition to an objective opinion, the participants in the qualitative research were also witnesses of the current events with their expertise in the researched field, additionally confirming the facts from the literature. On the other hand, the transition process the country is in and the insufficient experience of its key figures at the top led to bad creations of monetary and fiscal policy, as well as the chosen goals based on their strategy, so hyperinflation was inevitable. Thus, the participants confirmed and additionally evoked the situation during the observed period in the country, and time contributed to the clarification and confirmation of the analysed phenomenon (hyperinflation and orthodox stabilization programs).

Faced with hyperinflation, the country was under sanctions, further hampering international trade flows. The gradual decline in the value of the domestic currency due to covering the deficit with primary issues resulted in distrust in the domestic currency and the switch to foreign currency. In addition, such a situation contributed to the creation of a black foreign exchange market and the adjustment of exchange rates on it without taking into account the defined exchange rates of the NBJ. The outcome and hyperinflation in mid-1993 imposed a demand for innovative system reform and a new stabilization program. Such a stabilization program was implemented in 1994, better known as the Avramović program, which reconstructed the monetary system and contributed to the stabilization of price growth already in the first three months after January of that year. Despite the numerous negative implications of hyperinflation in the areas of Yugoslavia, the bright spot was based on the chance for the regeneration of fiscal and monetary policy, i.e. innovative economic policy, which was done. In particular, the experiences of Yugoslav hyperinflation point to the necessity of planning stabilization programs and emphasize that the conditions in which hyperinflation occurs depend from economy to economy.

Given that the topic of the work is conceived on an extremely complex event, the hyperinflation of Yugoslavia, and the work represents a selected period of research, one of the limitations faced by this study is based on a short period of observation, research, and analysis. Moreover, the events and the entire development of the selected economy before the observed period require thorough research through macroeconomic and political-social indicators, because the collapse and appearance of hyperinflation were preceded by a socialist economy consisting of several states. Therefore, concrete answers to the breakup and hyperinflation can be found in the period before the breakup of Yugoslavia. Consequently, the period from the 80s to the 90s requires a deeper analysis and can be seen as a limitation for further answers to research questions, as well as a setting for the next area of research. In this context, this study provided initial statements and answers to this complex topic that requires further research with the expansion of research that should be based on the use of econometric methods, and not exclusively from applied in-depth interviews.

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Appendices

“Dear Participant,

My name is Nevena Panić and I am a BSc student at Modul University Vienna, currently in the last semester, working on my thesis.

The thesis is based on researching the implications of hyperinflation on economic activities in former Yugoslavia during the period from 1990 to 1994. Currently, I am reaching out to potential interview partners to gather their expert opinions on this topic.

Therefore, I would very be grateful if you decided to participate in my research and agreed to thoroughly answer the following questions. Preferably, the questions should be answered in writing by responding to this email. However, I would also be available for a phone or video call.

I guarantee that your answers will be used exclusively to create my final thesis and to contribute to non-paid university research. All your personal information can be kept anonymous should you require me to do so.

Thank you very much in advance for your time and your contribution.

Kind regards,

Nevena Panić

BSc student at Modul University Vienna”

Appendix A.1: Interview question concept

- 1) Did the printing of the money supply ensure the reduction of the fiscal deficit?
- 2) What effects did money printing contribute on macroeconomic indicators?
- 3) Why is the goal of stabilization programs expressed through a monthly price increase of 50% accepted?
- 4) Why did the creators of the stabilization programs tie the monetary currency (dinars) to the German mark as a financial stabilization

strategy? What did the creators want you to achieve directly and indirectly by doing so?

- 5) How did the disintegration of the then-SFRY in 1992 affect the flow of the economy? What are the key implications for economic policy?
- 6) Based on which monetary projections did the creators of the stabilization program in 1992 decide on price controls and price freezes? How did this stabilization program contribute to the escalation of hyperinflation in 1993?
- 7) Can the situation in the country itself (civil war and sanctions) be considered the key culprit for the outbreak of hyperinflation? Why is it or is it not the cause of hyperinflation?
- 8) Should the inclusion of state intervention be the dominant strategy in suppressing inflation? Explain the reason.
- 9) Was the conduct of a proper monetary policy denied due to the resignation of the position of the governor of the NBJ from 1991 until March 1994?
- 10) Why was Avramović's stabilization program successful compared to other previous stabilization programs? Specifically, list at least three key reasons.

Appendix A.2: Interview of respondent A

- 1) Did the printing of the money supply ensure the reduction of the fiscal deficit?

Pokriće fiskalnog deficita u uslovima nemogućnosti zaduživanja na međunarodnom finansijskom tržištu (usled sankcija, prema režimu koji je bio na vlasti u Srbiji) i nedostatku ponude novca na domaćem tržištu, moglo je biti isključivo iz primarne emisije novca. Preciznije, preko 95% prihoda budžeta i javnih fondova (Fonda za penzijsko invalidsko osiguranje i Fonda za osiguranje u slučaju nezaposlenosti) poticalo je iz nefiskalnih izvora-štampanjem novca. Bio sam kao ministar u vladi Srbije nedeljno prisutan u Narodnoj banci Srbije kako da trebam novac za sve vrste socijalnih izdataka iz budžeta i za penzije.

2) What effects did money printing contribute on macroeconomic indicators?

Štampanje novca rezultiralo je visokom stopom inflacije (merena indeksom rasta cena od preko 100 % na nedeljno nivou), depresijacijom nacionalne valute, rastom deficita budžeta i tekućeg bilansa, smanjenjem realnih zarada i pada životnog standarda. Emisija novca ne može da utiče na bruto domaći proizvod i zaposlenost.

3) Why is the goal of stabilization programs expressed through a monthly price increase of 50% accepted?

Clj je bio da se hiper inflacija "primiri" na relativno prihvatljivom nivou. Naime, novčana iluzija o količini novca koja može rešiti problem pojedinca i kompanija imala je snažan psihološki efekat.

4) Why did the creators of the stabilization programs tie the monetary currency (dinars) to the German mark as a financial stabilization strategy? What did the creators want you to achieve directly and indirectly by doing so?

Nemačka marka u to vreme bila je dominantna valuta za međusobni obračun i plaćanje usled nepoverenja u domaću valutu. Od prodavaca na pijacama do najvećih domaćih kompanija cene roba i usluga su se iskazivali u nemačkim markama, a plaćanje u dinarima po kursu na dan izvršenja obaveza (dinar je i dalje bio jedino zakonito sredstvo plaćanja). Nemačka marka je bila stabilna valuta, građani i poslovni ljudi imali su veliko poverenje da će putem tog monetarnog sidra sačuvati svoje realna potraživanja i imovinu.

5) How did the disintegration of the then-SFRY in 1992 affect the flow of the economy? What are the key implications for economic policy?

Raspad SFRJ izazvao je tektonske poremećaje na ekonomiju svih njenih delova, prekidom robnih i finansijskih tokova, ograničenim kretanjem ljudi i kapitala na do tada jedinstvenom tržištu. Najviše su bile pogođene najmanje razvijene Republike bivše SFRJ, Srbija posebno jer su prema njoj uvedene, prvo energetske a zatim i druge sankcije. Privreda Srbije postala je vremenom potpuno izolovana od ostatka sveta. Ciljevi, mere i instrumenti ekonomske politike morali su se prilagođavati

novim okolnostima. Ključne posledice ekonomske politike bile su hiperinflacija i pad životnog standarda. Zaposlenost se nije smanjivala u nisko zaposlenim ili potpuno nezaposlenim preduzećima. Nastala je visoka stopa skrivene nezaposlenosti koja je uzrokovala rast socijalnih troškova na teret države.

6) Based on which monetary projections did the creators of the stabilization program in 1992 decide on price controls and price freezes? How did this stabilization program contribute to the escalation of hyperinflation in 1993?

Narodna banka je potpuno izgubila nezavisnost i kredibilitet, kao ključne uslove za vođenje efikasne monetarne politike. Inflacija nije bila uzrokovana dominantno ekspanzijom novčane mase već je bila posledica rasta javne i privatne tražnje iznad ponude na tržištu roba i usluga, usled niskih proizvodnih mogućnosti i produktivnosti. Zato su kreatori ekonomske politike pribegli administrativnim merama, ograničavanju i zamrzavanju cena. Posledica je bila nestašica gotovo svih roba na tržištu, prazni rafovi delovali su sablasno i zastrašujuće, crno tržište dobija primat nad legalnim, realni fiskalni prihodi gube na značaj-postaju marginalna veličina.

7) Can the situation in the country itself (civil war and sanctions) be considered the key culprit for the outbreak of hyperinflation? Why is it or is it not the cause of hyperinflation?

Da, prvo sankcije pa građanski rat glavni su uzročnici hiperinflacije. Tržišta su prestala da funkcionišu, protok ljudi i kapitala je zaustavljen, ratni izdaci postajali su sve veći kako se građanski rat na prostorima SFRJ širio. Ne samo da nije postojala mogućnost zaduživanja na međunarodnom finansijskom tržištu, već su značajna finansijska sredstva Narodne banke i kompanija pod sankcijama bila blokirana u inostranstvu.

8) Should the inclusion of state intervention be the dominant strategy in suppressing inflation? Explain the reason.

Da, državna intervencija jeste bila dominantna strategija u suzbijanju inflacije iz više razloga. prvo, nefikasna monetarna politika-kamatne stope kao njen glavni instrument nisu imale gotovo nikakav značaj, a banke su ostale bez kapitala i štednje. Drugo, država je morala da smanjuje poreze i druga fiskalna opterećenja kako bi smanjila pritisak na troškove i cene. Ta mera je išla do potpunog oslobađanja od poreskih obaveza većeg dela privrede i građana, čime se stvorio veliki fiskalni deficit. Treće, da bi predupredila socijalne nemire država je pribegla svojom Uredbom rigidnoj meri-zabrani otpuštanja radnika i redovnoj isplati plata (ne zarada). Plate su bile u funkciji očuvanja socijalnog mira, a ne rezultat proizvodnje i produktivnosti.

9) Was the conduct of a proper monetary policy denied due to the resignation of the position of the governor of the NBJ from 1991 until March 1994?

Guverner Narodne banke u takvim društveno političkim uslovima i autokratske vladavine nije mogao imati nikakvu ulogu. Šta više ni vlada nije imala potrebni nivo samostalnosti u vođenju ekonomske politike.

10) Why was Avramović's stabilization program successful compared to other previous stabilization programs? Specifically, list at least three key reasons.

Najvažniji razlog tome je što su se svi predhodni stabilizacioni programi pokazali neuspešnim. Drugi ključni razlog za to je ugroženost političkog sistema postajala sve očiglednija. Trebalo je uz delimično odricanje od političke dominacije na ekonomske tokove vratiti autoritetom nezavisne ličnosti-eksperta iz Svetske banke poverenje u Narodnu banku i monetarnu politiku. Guverner Avramović je od početka 1994 godine, dakle pre formiranja nove srpske vlade 24. marta 1994 godine kroz tzv. koordinacione timove za implementaciju Stabilizacionog programa svojim ličnim autoritetom (delimično pozajmljenom moći) izvršio snažan uticaj i na kreatore ekonomske politike.

Appendix A.3: Interview of respondent B

1) Did the printing of the money supply ensure the reduction of the fiscal deficit?

Printing of money secures the financing of the fiscal deficit but on an unfounded way and therefore causes inflation. If one knows that money can be printed that only increases the “fiscal alcoholism” i.e. makes the fiscal deficit even bigger.

What effects did money printing contribute on macroeconomic indicators?

Increased all money supply aggregates, M1, M2 and M3, substantially increased speed of money turnover and caused in a short time a hyperinflation. Watch this film *Inflacija 93 u SR Jugoslaviji* – YouTube.

2) What effects did money printing contribute on macroeconomic indicators?

I do not remember such a goal. Once the ghost is out of the bottle it is very hard to get it back i.e. you need a robust, credible and overreaching program to stop it. There were two tries in the nineties to do it but both failed after relatively short time period: Ante Markovic program (1DM = 7YUD) the other was Avramovic program in 1994 1DM = 1YUD.

3) Why is the goal of stabilization programs expressed through a monthly price increase of 50% accepted?

I do not remember such a goal. Once the ghost is out of the bottle it is very hard to get it back i.e. you need a robust, credible and overreaching program to stop it. There were two tries in the nineties to do it but both failed after relatively short time period: Ante Markovic program (1DM = 7YUD) the other was Avramovic program in 1994 1DM = 1YUD

4) Why did the creators of the stabilization programs tie the monetary currency (dinars) to the German mark as a financial stabilization strategy? What did the creators want you to achieve directly and indirectly by doing so?

It is all about credibility and trying to transfer the trust toward the other currency e.g. Deutschmark (legal tender in Bosnia is even today called konvertibilna marka!), US dollar, into the local one. Policies are an absolute must such as low budget

deficit, debt financing instead of printing money, wage growth limits etc. but the effects will be visible only on a long run.

5) How did the disintegration of the then-SFRY in 1992 affect the flow of the economy? What are the key implications for economic policy?

Economy imploded, trade ties fell apart, cheap sources disappeared and everybody producing on local markets was close to bankruptcy. The political breakup brought the country into an economic chaos. The ones who left first the sinking boat were the less affected and the saga lasted much shorter.

6) Based on which monetary projections did the creators of the stabilization program in 1992 decide on price controls and price freezes? How did this stabilization program contribute to the escalation of hyperinflation in 1993?

Price controls / price freezes are causing shortages by default. Take the current example of Hungary where 7 basic food products' prices got capped and the country has currently the highest food inflation in Europe. By capping certain prices a) lack of some products is unavoidable plus b) all other prices are increasing even more. The whole system gets out of control. If you start micromanaging the market system it usually ends up in a disaster. The cause of the hyperinflation was not the stabilization program but the political breakup of the country. Look at the book of Mladjan Dinkic – Ekonomija destrukcije.

7) Can the situation in the country itself (civil war and sanctions) be considered the key culprit for the outbreak of hyperinflation? Why is it or is it not the cause of hyperinflation?

Of course – war costs money and the easiest way of financing it is by simply printing money. Nobody was ready to finance the war among the former SFRY republics. War and sanctions are distorting prices even more.

8) Should the inclusion of state intervention be the dominant strategy in suppressing inflation? Explain the reason.

There is no way that you can stop inflation without state intervention as the main engine was the state. Inflation is not an earthquake created by somebody else but a human / state made phenomena. You need an overwhelming program and support. Several countries are asking IMF to support it as it is all about credibility.

9) Was the conduct of a proper monetary policy denied due to the resignation of the position of the governor of the NBJ from 1991 until March 1994?

That was an ex-lex situation, where the central bank has no autonomy and politics had an upper hand. It is hard to understand it from the aspect of normality we live today.

10) Why was Avramović's stabilization program successful compared to other previous stabilization programs? Specifically, list at least three key reasons.

He himself was an independent professional with international credibility and people trusted him.

He was able to get a full political support for his program as politicians needed him badly.

He got access to some funds that created initial stability i.e. was able to access some Deutschmarks.

Appendix A.4: Interview of respondent C

1) Da li se štampanjem novčane mase obezbedilo smanjenje fiskalnog deficita? (Did the printing of the money supply ensure the reduction of the fiscal deficit?)

Štampanjem lažnog dinara se nije smanjivao fiskalni deficit, već se, naprotiv, iz godine u godinu realno povećavao, jer je pohlepa režima bila sve veća, pošto su bili ubeđeni da su stvorili savršen finansijski sistem koji sam sebe, bez rada i štednje, održava. Lažni novac stvara lažne društvene odnose. Uništava sve tržišne principe, jer forsira zombirane kompanije koje narkomanski parazitiraju na državnim jaslama, dobijajući sve veće doze lažnog novca. Kada prestane dopingovanje lažnim novcem, čitav sistem se brzo raspada.

2) Kakve efekte je štampanje novca doprinelo makroekonomskim pokazateljima?
(What effects did money printing contribute on macroeconomic indicators?)

Balon se neprekidno naduvava. Svi makroekonomski pokazatelji su bili lažni i režim ih je javno falsifikovao. Uspešnost kompanija je zavisila od njihove blizine državnom trezoru. BDP je naduvan velikom inflacijom, koja se pretvorila u hiperinflaciju. Dugovi su pratili rast cena. Plate su bezuspešno pokušale da stignu eksponencijalnu stopu rasta inflacije. Standard građana je drastično opadao. Propala je srednja klasa i čitavo društvo je pauperizovano.

3) Zašto se prihvatao cilj stabilizacionih programa izražen kroz mesečni rast cena od 50%? (Why is the goal of stabilization programs expressed through a monthly price increase of 50% accepted?)

Stabilizacioni programi su bili politička manipulacija za zavedeni, porobljeni i povodljivi narod. Farsa koja je trebala da pokrije veliku prevaru i pljačku građana. Pokušaj da režim prikaže kako se nešto preduzima na suzbijanju inflacije, dok štamparija lažnog novca radi u tri smene. Prikazali su nominalni rast cena od 50%, jer je realni rast bio nekoliko puta veći. Pokušavali su da bace sidro, kako bi brod u uraganu umirili, ali je lanac sidra bio kratak i nije mogao da dotakne dno društvenog ponora.

4) Zašto su uglavnom vezivali novčanu valutu (dinar) za nemačku marku kao strategiju finansijske stabilizacije? Šta su kreatori hteli direktno, a šta indirektno da postignu na taj način? (Why did the creators of the stabilization programs tie the monetary currency (dinars) to the German mark as a financial stabilization strategy? What did the creators want you to achieve directly and indirectly by doing so?)

Nemačka je bila najveći spoljno-trgovinski partner Jugoslavije. Najveći broj radnika iz Jugoslavije su radili u Nemačkoj. Građani su, zbog visoke inflacije, tražili sigurno utočište za svoj kapital i imali su najviše poverenja u marku. Nesposobni kreatori nisu imali izbora. Morali su da se prilagode finansijskoj realnosti. Ostale valute nisu mogle da konkurišu nemačkoj valuti.

5) Kako je raspad tadašnje SFRJ 1992. Uticao na tokove privrede? Koje su ključne posledice po ekonomsku politiku? (How did the disintegration of the then-SFRY in 1992 affect the flow of the economy? What are the key implications for economic policy?)

Decenijama unazad titoizam se raspadao prema uspostavljenim republičkim granicama, koje su bile velika prepreka da se vrši slobodna trgovina u bankrotiranoj Jugoslaviji. Nacionalne oligarhije nisu imale nikakva rešenja za izlazak iz sve veće ekonomske krize, nisu znali kako da se nose sa neefikasnom socijalističkom privredom i kako da se zaustavi dalje zaduživanje, pa su rešenje potražili u sukobu sa drugim narodima nekadašnje zajedničke države. Banke su već bile teritorijalno podeljene i kapital nije odlazio izvan republičkih granica. Raspad Jugoslavije 1992. godine je bio samo krvavi završetak jedne promašene državotvorne koncepcije, koja nije mogla više da opstane, jer nije počivala na čistim ekonomskim računima. Privreda Jugoslavije se raspala, pokidane su sve veze privrednih subjekata i to je dovelo do rasta dugova svih novostvorenih država. Dug SFRJ u vreme njenog raspada je iznosio 22 milijardi dolara, da bi danas sve države ex Jugoslavije imale realne dugove 15 puta veće. Ideologija neoliberalnog kapitalizma je zamenila ideologiju socijalističkog samoupravljanja, samo su dugovi drastično uvećani i socijalno raslojavanje u društvu je doživelo danas svoju biblijsku kulminaciju.

6) Na osnovu kojih monetarnih projekcija su se kreatori stabilizacionog programa 1992. odlučili za kontrolu cena i zamrzavanje cena? Kako je ovaj stabilizacioni program doprineo eskaliranju hiperinflacije 1993? (Based on which monetary projections did the creators of the stabilization program in 1992 decide on price controls and price freezes? How did this stabilization program contribute to the escalation of hyperinflation in 1993?)

Kreatori stabilizacionog programa su verovali da se državnim intervencijama šminkanja mrtvaca može da oživi sahranjena privreda. Kontrola i zamrzavanje cena je odraz nemoći kreatora ekonomske politike da se sučele sa sistemskim problemima bankrotirane države. Bivši titoisti su preko noći postali kapitalistički oligarsi, ali duboko u duši su ostali socijalistički staljinisti. Oni nisu razumeli da je srušen berlinski

zid i da jedna Imperija postaje žandarm Istočne Evrope, koju sprema da je eksploatiše i opljačka. Monetarne projekcije su se pravile za potrebe odžavanja totalitarnog političkog sistema, koji je izgubio svaku vezu sa ekonomskom realnošću.

7) Da li se situacija u samoj zemlji (građanski rat i snakcije) može smatrati ključnim krivcem za izbijanje hiperinflacije? Zašto jeste ili nije uzrok hiperinflacije? (Can the situation in the country itself (civil war and sanctions) be considered the key culprit for the outbreak of hyperinflation? Why is it or is it not the cause of hyperinflation?)

Fenomen hiperinflacije u Srbiji objašnjavam svesnom odlukom totalitarnog režima, konkretno jednog čoveka – Miloševića, koji je uzurpirao svu vlast u državi, da opljačka građane Srbije i da im ne dozvoli da se organizuju i pobune protiv njega, zbog njegove katastrofalne nacionalne politike. Rat se finansirao direktno iz primarne emisije, ali on nije bio uzrok hiperinflacije. Nisu uzrok ni uvedene sankcije. One su, naravno, doprinele rastu cena, ali hiperinflacija je nastala, ponavljam, svesnom namerom Despota da opljačka građane Srbije. To je bio jedan kriminalan i zločinački čin prema sopstvenim građanima, kako bi se oni držali pod strogom kontrolom.

8) Da li je uključivanje državne intervencije trebala da bude dominantna strategija u suzbijanju inflacije? Obrazložite odovor. (Should the inclusion of state intervention be the dominant strategy in suppressing inflation? Explain the reason.)

Ekonomske neznalice i politički totalitaristi decenijama unazad vode državni intervencionizam u cilju svog ličnog bogaćenja i ostanka na vlasti po svaku cenu. Sve što rade u ekonomskoj politici je u funkciji odbrane političke oligarhije i kriminalizovanih tajkuna. Njih ne zanima država, građani, slobodno tržište, demokratija, ljudska prava, inflacija ili zdravstvena i socijalna pitanja u bolesnom društvu, već ih samo zanima kako da manipulacijama, špekulacijama, pretnjama, učenama, hapšenjima i ubistvima sačuvaju karakter totalitarnog političkog sistema. Sve reforme države i privrede, stabilizacioni programi i državne intervencije su propali, jer su nastavili da brane totalitarni politički sistem lažne predstavničke demokratije. Zato nikada inflacija nije suzbijena. Zato se danas nalazimo u najvećoj

ekonomskoj krizi u istoriji čovečanstva. Krizi koja je tek počela i koja će da se rasplamsa do nesagledivih posledica za opstanak čovečanstva.

9) Da li je vođenje pravilne monetarne politike bilo uskrađeno usled odustva pozicije guvernera NBJ od 1991. pa sve do marta 1994.? (Was the conduct of a proper monetary policy denied due to the resignation of the position of the governor of the NBJ from 1991 until March 1994?)

Poznavao sam lično sve guvernere iz tog perioda, ali,nažalost,oni su bili poslušni izvršioci totalitarnog političkog sistema. Nisu imali hrabrosti da se odupru bahatom i nasilnom Despotu, izdali su svoju struku i bili su klovnovi u cirkusu koji se u krvi raspadao.Monetarna politika se vodila iz kabineta Despota i on je odlučivao koliko će novca da se ubaci u oboleli finansijski sistem i ko će da dobije koju količinu novca na poklon za verno služenje kriminalnom režimu. Kako Despot ništa nije znao o kreditno-monetranoj politici, kako je doveden u banku po partijskoj direktivi i kako o bankarstvu suštinski nije imao pojma, onda je bilo potpuno logično da se vodi takva nakaradna monetarna politika koja će da završi u hiperinflaciji.

10) Zašto je Avramovićev stabilizacijski program bio uspešan u odnosu na druge prethodne sabilizacijske programe? Konkretno, navedite najmanje tri ključna razloga. (Why was Avramović's stabilization program successful compared to other previous stabilization programs? Specifically, list at least three key reasons.)

Velika je zabluda da je Avramovićev stabilizacijski program bio uspešan. Poznavao sam lično Avramovića i mogu da kažem da je on bio izuzetno simpatičan, dobronameran i pošten čovek, koga je Despot vešto iskoristio u trenucima kada mu je takav čovek trebao. Naime, Despot je napravio hiperinflaciju zbog pljačke građana i kada je ta pljačka završena, kada je video da se sve manje novca sliva u njegove piramidalne banke i partijsku kasu, doneo je odluku da se zaustavi štampanje lažnih dinara.Trebao mu je čovek, politički neiskusni i naivan, politički za njega bezopasan, koji će da bude eksponiran u javnosti i da pridobije svu slavu da je on pobedio hiperinflatornu aždaju. Tako je rođen mit o Dedi Avramu. Biblijskom proroku sa šejširo, skromnom našem sugrađanininu, koji je hrabro, poput Tezeja, ušao u lavirint hiperinflacije i ubio krvoždernog Minotaura. Mit je uspeo. Sluđeni narod je

poverovao i zavoleo Dedu Avrama. Ali, prava istina je bila da Avramović nije imao dobar ekonomski program, da je on, ipak, bio samo birokrata i činovnik Svetske banke, da nije imao nikakva iskustva iz privrede i tržišta, da nije sistemski ništa promenio i da je bio doveden od strane Despota da odigra namenjenu ulogu. To sam Avramoviću lično rekao, kada smo se sreli, pozvao sam ga da organizuje javni duel sa mnom na državnim medijima i dokazaću pred gledaocima da njegov program nije dobar, da je štetan i da će vrlo brzo da se raspadne. Nije smeo da izađe na taj javni duel. Njegov program se raspao posle tri meseca i kurs dinara nije više mogao da se brani. Nakon dve godine i dva meseca, kada mu više nije trebao, Despot je na najsravniji način oterao zloupotrebjenog Avramovića.

Šta smo naučili iz ove epizode o Dedi Avramu?

Kozmetičkim promenama i lažnim reformama ne može da se zaustavi duboka ekonomska kriza i civilizacijski slom društva. Potrebno nam je, za ozdravljenje zajednice, sistemske političke i ekonomske promene, kojih, nažalost, još uvek nema. Pre njih, potreban nam je duhovni preporod društva, jer bez toga nema nikakve mogućnosti da izađemo iz vrtloga kriza, revolucija i političkih sukoba u svetu.