Life Offices Association
of Zimbabwe

Demystifying Insurance Part 15

Welcome to part fifteen of Demystifying Insurance, a continuation of the Life Offices Association (LOA)'s ongoing National drive to make insurance easily understood by all. This week, we turn the clock back to 1990s Eastern Europe, when Yugoslavia was paralysed by hyperinflation.

Over the past two weeks we have examined how economies in post-war Germany and Hungary were affected by hyperinflation — and how they recovered. In the spotlight this week is Yugoslavia, the final destination on our global journey through hyperinflation before the focus falls once again on our own country.

Multi-ethnic nations

Two hundred years after the concept of a single state for South Slavic people first caught on, Yugoslavia was born by the coming together of a group of multi-ethnic nations in the period between World War One (WWI) and the Second World War (WWII).

Signs of strong division first emerged as inter-ethnical and political wars broke out during WWII between the Yugoslav Partisans led by Josip Broz 'Tito' and the royalist Chetniks. In 1943, Tito established a new Social Federal Government of Yugoslavia (SFRY) with six republics: Slovenia, Croatia, Serbia, Bosnia Herzegovina, Montenegro and Macedonia. Under Tito, Yugoslavia became an industrial powerhouse with a GDP growth rate that averaged 6.1% per annum from 1960 to 1980.

The political upheaval caused by divisions along ethnic lines, however, continued to trouble the SFRY for many years. The crisis escalated from 1992-1995 when the Serbian-led Yugoslavian army helped Bosnian Serb forces to commit atrocities against the Muslim Bosniaks in Eastern Bosnia.

Hyperinflation in Yugoslavia

The United Nations and the international community responded to the crisis in 1992 by imposing sanctions on Yugoslavia for its role in fomenting war among the Bosnian Serbs.

This began to have a devastating impact on the economy. In 1988, the highest currency denomination was 50,000. This rose to 200,000 by 1989, and 500,000,000,000 in 1994.

In October 1993, the government created a new currency. Despite this, the Yugoslavian Dinar fast became less acceptable to society as a medium of exchange. Businesses and individuals began to prefer barter exchange, or the German Deutschmark.

The Deutschmark cometh

In November 1993, the exchange rate was 1 Deutschmark = 1 million new Dinars. By mid December, this had deteriorated to 1 Deutschmark = 3.7 billion new Dinars. The value of the last re-denominated Dinar — in which nine zeroes were cut off — was about 1 US dollar to 22.5 quadrillion old Dinars.

Meanwhile, inflation peaked at 313 billion% per month and 64.6% per day in January 1994, which was, at the time, second only to the inflation rate in Hungary.

30 quadrillion dollars

At this rate, the price of a dollar's worth of bread would have increased to 30 quadrillion dollars within 3 months. Some workers went on strike, as their wages fell lower than 2% of the cost of living for a month.

The government paid set pensions through post offices and regularly reviewed the levels of pensions to keep pace with inflation. However, not enough money could be sent to post offices to pay pensions and post offices would sometimes rely on people to walk in and purchase postage stamps in order to pay the next pensioner in the queue.

Nightmare for pensioners

Pensioners queued for hours, waiting to receive pensions. The value of money rapidly declined, hour by hour. Two pensioners, waiting in line at a post office, were so grieved by their situation that when they noticed a stranger loaded with bags of groceries from the black market, they were said to have immediately developed heart attacks and died right there in the queue.

Efforts to control hyperinflation in Yugoslavia

The SFRY government imposed laws to control prices and compel businesses to accept the Yugoslavian Dinar as a means of exchange. Businesses responded by refusing to supply their products on the formal markets, channeling them instead through informal markets at very high prices. Yugoslavia's situation was made complex by the fact that the central bank lost control over money supply (as the central banks of the regions that formed Yugoslavia also issued money).

The political differences between the regions that made up SFRY made it difficult for the government to make any meaningful fiscal or structural adjustments in response to the economic crisis.

Breaking away

From 1989 through to 1992, the worsening economic and political situation led to the breaking away of the Social Federal Government of Yugoslavia into smaller nations, including Slovenia, Croatia, Macedonia and Serbia.

Although war later broke out again in Kosovo between 1998 and 1999, leading to further military intervention by NATO forces, the intervention of the international community and the breaking away of the federal republics of Yugoslavia later restored stability and placed the region on a path to economic recovery.

Full circle

This article on Yugoslavia concludes our examination of countries that have been affected by hyperinflation. As with Hungary and Germany, similarities occur between Yugoslavia and Zimbabwe. For example, many Zimbabwean pensioners who witnessed their funds destroyed by hyperinflation in 2008 will empathise with Yugoslavian pensioners of 1994.

The good news is, as we reach the midway point of 2013, even the most cynical investors are beginning to believe. . . that Zimbabwe is on its way back.

Thank you for joining us and be sure to read next week's article, in which we turn back the hands of time to look at the effects of hyperinflation on our own economy.

The Jupiter Drawing Room (Harare) 065015

The Life Offices Association of Zimbabwe
4 Josiah Tongogara Ave
Tel: +263 4 29 33 655-6 / 0712339305 / 0713033519