Chapter I

THE SOCIO-ECONOMIC FRAMEWORK
FOR THE DEVELOPMENT OF THE HOUSING SECTOR

A. General information

Serbia and Montenegro is located in SouthEast Europe in the heart of the Balkan Peninsula. The country covers an area of 102,173 square kilometres, and consists of two republics, Serbia and Montenegro. Serbia is considerably larger (88,361 km²) than Montenegro (13,812 km²) and covers 85 per cent of the total land area of Serbia and Montenegro. The country is bounded by the Adriatic Sea, with 199 kilometres of coastline, and 2,246 km of land borders with seven countries. Albania lies to the south-west, Bosnia and Herzegovina to the west, Croatia to the north-west, Hungary to the north, Romania and Bulgaria to the east and the Former Yugoslav Republic of Macedonia to the south-east.

The State of Serbia and Montenegro replaced the Federal Republic of Yugoslavia on 4th February 2003. The two republics share a titular president and run joint policies on defence, foreign affairs, international and domestic economic relations, and protection of human and minority rights.

B. Economy

1. Macroeconomic developments

Among the republics of the former Socialist Federal Republic of Yugoslavia (SFRY), Serbia and Montenegro were average in terms of prosperity and economic performance. Both economies were, however, severely damaged during the 1990s. Armed conflict, international sanctions, and disruption of markets resulting from the break-up of the SFRY led to a drop in GDP by nearly 60 per cent between 1989 and 1993 (see figure 1.2). Unemployment and poverty increased sharply. A slow recovery ensued in 1994 after the end of hyperinflation, but the imposition of a new set of sanctions, supply disruptions, and the destruction of physical infrastructure by NATO bombing related to the Kosovo crisis produced a renewed output contraction in 1999. High inflation and underinvestment depleted the capital stock and led to erratic growth and high structural unemployment.

With the political changes in late 2000, economic performance in Serbia and Montenegro has grown to be more solid. Even though real GDP rebounded from the decline in 1999, it remains at a low level compared to 1989; trade in goods as a share of GDP grew, as did direct foreign investment. Table 1.1 gives an overview of the main macroeconomic indicators between 1999 and 2003.

<table>
<thead>
<tr>
<th>Indicator</th>
<th>1999</th>
<th>2002</th>
<th>2003</th>
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<tbody>
<tr>
<td>GDP (current US $)</td>
<td>9.8 billion</td>
<td>15.7 billion</td>
<td>19.2 billion</td>
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<tr>
<td>GDP growth (annual %)</td>
<td>-18.1</td>
<td>4.0</td>
<td>3.0</td>
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<tr>
<td>Exports of goods and services (% of GDP)</td>
<td>21.0</td>
<td>20.7</td>
<td>22.2</td>
</tr>
<tr>
<td>Imports of goods and services (% of GDP)</td>
<td>34.6</td>
<td>43.8</td>
<td>45.3</td>
</tr>
<tr>
<td>Gross capital formation (% of GDP)</td>
<td>11.6</td>
<td>16.1</td>
<td>17.8</td>
</tr>
<tr>
<td>Trade in goods as a share of GDP (%)</td>
<td>48.7</td>
<td>54.8</td>
<td>-</td>
</tr>
<tr>
<td>Foreign direct investment, net inflows in reporting country (current US$)</td>
<td>112.0 million</td>
<td>475.0 million</td>
<td>-</td>
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Figure 1.1. Map of Serbia and Montenegro

*The boundaries and names shown on this map do not imply official endorsement or acceptance by the United Nations*
The economic structure of Serbia and Montenegro continues to shift gradually away from agriculture and industry, and towards services, following an established pattern of more developed economies. In 2003 industry accounted for an estimated 29 per cent of the State’s Social Product and agriculture 15.5 per cent, with services making up the remaining 56 per cent. However, the two republics have markedly different economic structures. Serbia has a larger agricultural sector, much of which is based in the northern province of Vojvodina, as well as a significant manufacturing sector that includes industries such as textiles, chemicals, metals, machinery, etc. The much smaller Montenegrin economy is more oriented towards services, including tourism, and specialises in the manufacture of a few products, notably aluminium.

2. Income and employment

The economic difficulties resulting from the break-up of the SFRY were not without effect on income and employment in the two Republics.

In Serbia, the real income of the population rapidly decreased between 1990 and 1993. Due to hyperinflation in 1993, the average salary dropped to 15 per cent of its 1989 level. After 1994, real income increased to around 30 per cent of the 1989 level. Real income dropped again in 1999 but picked up after 2000, with the establishment of macro-economic stability and a real increase in GDP, reaching an average of 212.68 Euro (240.75 USD) per month in 2003.

The drop in income was accompanied by a dramatic rise in unemployment. The number of unemployed people in Serbia has been constantly increasing since 1990. While the number of employees in 2003 decreased by 22.1 per cent compared to 1990, the number of unemployed in the same period increased by 102.8 per cent. There has also been a structural shift in employment away from the public sector, where the number of employees decreased by 39.1 per cent in comparison to 1990. At the same time the number of employees in the private sector has increased 7.5 times. However, the increase in the number of employees in the private sector has not been sufficient to compensate for the loss of jobs in the public sector.

Using the ILO definition, the unemployment rate is estimated to be between 8.4 per cent and 11.9 per cent, although some surveys place Serbia’s unemployment rate much higher, at around 30 per cent. The difference is most likely due to the pervasive grey economy and social security and income tax evasion. Unemployment is in particular a growing problem for Serbia’s youth, reaching over 50 per cent in the 19-24 age group.

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1 The Social Product, the common measurement used in Serbia and Montenegro, differs from the GDP in that it excludes government services.


3 Republic of Serbia. Statistical Office.
This trend of growing unemployment has also not been reversed by the overall positive economic development in recent years. Although the economy grew in the period 2000-2002, overall employment fell by 1.6 per cent in spite of employment growth in the private sector of 21.4 per cent. The expansion of employment opportunities is hampered by the lack of capital, inadequate property laws, and the insecure status of privately owned small and medium enterprises.

In Montenegro, employment sharply declined throughout the 1990s. According to official statistics, the employment rate, between 1990 and 2002, dropped annually by about 2.9 per cent on average. The unemployment rate in Montenegro, in 2002, amounted to 30.2 per cent, according to official records, and to 20.7 per cent according to Labour Survey data. The difference is accounted for by “unemployed” workers registered with the labour market bureau who also hold jobs in the grey economy. This strategy enables these employees to qualify for health insurance, which is extended to those who register as unemployed, meaning that they do not hold jobs in the formal sector.

The informal economy in Montenegro has become a major source of employment for a large part of the population. As in most countries in transition, the size of the informal sector increased with the rise in poverty, offering the possibility to earn a living to that part of the population, which was not able to ensure more stable income in the formal sector. The average net income in the informal sector during 2002 amounted to Euro 200-250 per month, which is approximately 30 per cent higher than the average earnings in the formal sector.

Figure 1.3 below shows the decline in employment in Serbia and Montenegro since 1989. The aggregate employment for the two republics in 2002 was 80 per cent of the 1989 level.

Figure 1.3. Employment in Serbia and Montenegro, 1980-2002 (Indices, 1989=100)

Note: From 1999 without Kosovo and Metohia.

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3. Poverty

Poverty analyses show that the poverty rate in Serbia and Montenegro is about 11 per cent. In rural regions of both Serbia and Montenegro, however, poverty rates are much higher than average, ranging from 19 per cent in northern Montenegro, to 23 per cent in south-eastern Serbia. Poverty is generally correlated with unemployment, low levels of education, large family size as well as single-member and elderly households. The highest rates of poverty are found among a number of vulnerable and socially excluded population groups, such as displaced persons, refugees, the disabled, and the Roma population. According to the most recent estimates, 22 per cent of refugees and the internally displaced population (IDPs) live in poverty. Although there are no precise figures, some estimates indicate that there are approximately 360,000 disabled people in the Union. Only one-third of those have a job adjusted to their needs.

In Serbia, according to the Survey on the Living Standard of the Population (SLSP), carried out in 2002, about 800,000 people lived below the poverty line, defined as consumption of less than 4,489 dinar or 72 US$ per month, and about 1.6 million were at risk of falling below the poverty line. With regard to households, 10.3 per cent or about 250,000 households in Serbia lived in poverty, and 19.5 per cent or about 474,000 households were at risk of falling below the poverty line.

The picture of poverty in Serbia is even more sombre than this suggests, since the data do not include all the refugees and internally displaced persons who are more affected and vulnerable than those with permanent residence in Serbia. Figure 1.4 illustrates this point, showing clearly that refugees and internally displaced persons who were included in the SLSP are at much greater risk of poverty than Serbian citizens. It should also be mentioned that the SLSP survey did not include either Roma or the 25,000 people living in collective centres, who certainly belong to the most vulnerable group. Taking into account all these aspects, a rough estimate indicates that around a million people in Serbia are below the poverty line and more than two million are at risk.

In Montenegro, consumption poverty affects about 9.4 per cent of the population; an estimated number of 87,000 people live below Montenegro’s poverty line of 107 Euro per person per month (the cost of the full minimum subsistence basket). The elderly and to some extent children under 16 years of age are more likely to be poor than other age groups. More than 60 per cent of the poorest live in households with pension income. Poverty is particularly acute among minority population groups, especially the Roma. A recent survey in Montenegro found that 52 per cent of Roma live in poverty; they have an unemployment rate of 43 per cent and 70 per cent have not attended secondary school.

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5 Excluding Kosovo and Metohia.

6 The poverty line of 4,489 dinar includes, besides food expenditure, also expenditure for clothing, hygiene and household goods, transport, healthcare and education.

To tackle the problem of poverty, the government, in 2002, developed a Poverty Reduction Strategy for Serbia and Montenegro. This entailed the identification and development of several indicators in line with the United Nations Millennium Development Goals. The poverty reduction strategy includes specific recommendations for the Republic of Serbia and the Republic of Montenegro. The recommendations touch upon three broad strategic areas:

- Establishment of the necessary conditions for dynamic and equitable economic growth, through the creation of a stable macro-economic environment and favourable investment climate, that will create employment and reduce economic vulnerability, as well as the establishment of key programmes to directly promote employment among the poor;

- Prevention of new poverty resulting from the modernisation and restructuring of the economy through targeted training and social measures enhancing the population’s ability to take advantage of new opportunities created in the reformed market economy;

- Improved access for the poor to social services, such as health, education, water and other key infrastructures, through better targeting of existing programmes, and actions that improve the efficiency and quality of services delivered, particularly to the most vulnerable groups in society. The goal of these activities is to initiate a long-term process of empowering vulnerable groups to move out of poverty, through the development of new market-oriented skills, and the provision of minimum standards of living.

The Strategy calls for the establishment of better systems for the implementation of activities targeted at the poor and for monitoring key poverty indicators in close cooperation and with active participation of all relevant government and non-government stakeholders.

### C. Demographic trends

Table 1.2 gives an overview of the main demographic developments in Serbia and Montenegro between 1990 and 2002.

The overall population of Serbia and Montenegro decreased between 1990 and 2002, due to a declining birth rate, an increasing death rate and an outflow of war refugees; at the same time there was a considerable influx of refugees to Serbia and Montenegro.

In 2004, the State Union of Serbia and Montenegro still hosts the largest number of refugees and internally displaced people (IDPs) in Europe. In 2004 there were 283,349 registered refugees (270,341 in Serbia and 13,008 in Montenegro) from Croatia and Bosnia and Herzegovina, and 226,410 registered IDPs (208,391 in Serbia and 18,019 in Montenegro) from Kosovo. The majority of refugees and IDPs live in private accommodation, while only a small percentage live in approximately 190 remaining collective centers, some of which are in very bad conditions (please see chapter 6).

Although the demographic developments in the two republics share a number of common characteristics, in particular with regard to the large refugee population, there are also significant differences as shown in table 1.2.

**Serbia** had a total permanent population of 7,498,001 in 2002, according to final census results reported by the Republic Statistical Office, down from 7,839,142 in the 1991 federal census. However, the results are not strictly comparable with those of the 1991 census, due to changes in measurement criteria. According to the 2002 census, 83 per cent of the permanent population described themselves as ethnic Serbs; the next largest group is the Hungarians, with less than four per cent of the population. Those defining themselves as “Yugoslav” made up 1.1 per cent of the population in 2002, while the Serbo-Croat speaking Muslims accounted for 0.3 per cent. Other minorities include Roma, Vlahs, Bulgarian, Czechs, Slovaks and Ruthenians (Ukrainians).
### Table 1.2. Main demographic indicators

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<tbody>
<tr>
<td>1990</td>
<td>8,542</td>
<td>7,898</td>
<td>644</td>
<td>8,432</td>
<td>7,797</td>
<td>635</td>
<td>8,342</td>
<td>7,688</td>
<td>654</td>
<td>8,326</td>
<td>7,668</td>
<td>658</td>
<td>8,304</td>
<td>7,498</td>
<td>660</td>
</tr>
<tr>
<td>2002</td>
<td>1.727</td>
<td>1.725</td>
<td>1.785</td>
<td>1.692</td>
<td>-</td>
<td>-</td>
<td>1.472</td>
<td>1.436</td>
<td>1.851</td>
<td>1.550</td>
<td>1.529</td>
<td>1.790</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>1990</td>
<td>72.30</td>
<td>72.12</td>
<td>75.57</td>
<td>71.89</td>
<td>71.75</td>
<td>74.11</td>
<td>71.56</td>
<td>71.40</td>
<td>73.66</td>
<td>72.15</td>
<td>72.06</td>
<td>73.91</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>1995</td>
<td>-</td>
<td>99.6***</td>
<td>-</td>
<td>325.1</td>
<td>296.8</td>
<td>28.3</td>
<td>500.7</td>
<td>477.5</td>
<td>23.2</td>
<td>483.8</td>
<td>469.4</td>
<td>14.4</td>
<td>389.0</td>
<td>375.5</td>
<td>13.5</td>
</tr>
<tr>
<td>2000</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>234.9</td>
<td>204.0</td>
<td>30.9</td>
<td>228.5</td>
<td>196.3</td>
<td>32.2</td>
<td>231.1</td>
<td>201.7</td>
<td>29.4</td>
</tr>
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*** A significant influx of refugees was registered from 1992.
Development has been unequal between different regions. Out of a total of 161 municipalities, the number of inhabitants has decreased in 120 of them, while increases have been recorded in just 41 municipalities. Municipalities with positive population growth are mostly within the territory of Vojvodina and almost exclusively in the South Bačka and Srem county, as well as within Belgrade City. These are also the regions where there is a relatively large share of refugees and internally displaced persons. One of the main characteristics of Serbia’s demographic development is an increasingly old age structure, with a decreasing share of young people and a simultaneous increase of the elderly, as well as an increasingly urban population.

Serbian’s urban population has been growing continuously after the Second World War. That increase was intense during the 60’s and 70’s, but continued at a slower pace during the 80’s and 90’s. The graph below gives a comparison between the urban and rural populations in 1981 to the one in 2002.

For Montenegro, the data in table 1.2 suggest that there has been an increase in population between 1990 and 2002. As in Serbia, however, demographic developments have not been even throughout the Republic. There have been considerable population movements towards the southern part of the Republic, especially to Podgorica, mainly due to employment and economic opportunities (figure 1.6.).

The new census also points to a substantial change in the ethnic structure of the population since 1991. The percentage of people describing themselves as Montenegrins fell from 61.9 per cent in 1991 to 40.6 per cent in 2003 while the number of people describing themselves as Serbs rose from 9.3 per cent to 30.0 per cent. According to the first results of the 2003 census Bosniaks and Muslims account for 13.7 per cent, Albanians for 7 per cent, Croats for 1.1 per cent and Roma for 0.4 per cent.

D. Overview of main housing developments and reforms

The last decade has brought considerable challenges to the housing sector, due to the elimination of state/enterprise subsidies alongside the overall difficult economic situation of the country and the influx of refugees and IDPs. There have been, however, few developments with regard to policy or legislative changes to address these challenges. The growing need for adequate housing, in the absence of a strong legislative framework regulating new private initiatives in the sector, has led to immense illegal construction resulting in a great number of new unplanned settlements (see chapter II p. 21 for further details). At the same time, the withdrawal of the State from maintenance and management of the existing housing stock, in particular the multi-unit stock, has led to a continuous deterioration of this stock, due to lack of investment in refurbishing or upgrading.

The Government of Serbia, in recent years, has started to take measures to tackle the challenges brought by the period of economic and political transition. The main challenges identified by the government are:

- Lack of a housing strategy, which makes the planning and coordination of different activities, including the attraction of assistance from international organizations, difficult;
- Inadequacy of the existing legal framework, particularly the Housing Law of 1992, in the new situation where a large part of the housing stock, including multi-unit housing, is privately owned;

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11 First results of the Census of Population, Households and Dwellings, conducted in 2003, indicate that the population of Montenegro in 2003 has risen to 617,740 as compared to 591,269 in 1991. These data differ from the one of the Federal Statistical Office, most likely due to changes in measurement, however they confirm an increasing population.

• Uncertainties with regard to the institutional framework for the housing sector, especially concerning the division of responsibilities between the different levels of government;

• Deteriorating quality of the housing stock, and absence of adequate mechanisms for the management and maintenance of the multi-unit buildings;

• Lack of affordable housing for socially weak population groups, such as refugees and internally displaced persons, poor households, young couples and families, other vulnerable groups;

• Absence of a consolidated housing fund, which could provide stable and predictable financial means for investment in housing;

• Need to modernize the current spatial planning system with an emphasis on measures addressing the problem of illegal settlements, unresolved property rights and incomplete property registration.

To address these challenges, the Republic of Serbia adopted an outline for a National Housing Policy in 2002, including an action plan for drafting this Policy. The aim is to provide a comprehensive basis for addressing the main challenges within the housing sector of the Republic of Serbia. The development of the National Housing Policy, however, proved to be a difficult and lengthy process mainly due to funding constraints and frequent changes in government. It has received a new impetus in the second half of 2004 when, under the leading role of the Ministry for Capital Investments, working groups were established to develop the different aspects of the Policy.

![Figure 1.5. Urban – Rural Population developments, Serbia](image-url)
Figure 1.6. Growth and fall of population by municipalities, Montenegro

Despite some difficulties with regard to financial and human resources, the Government has taken a number of steps to address the most pressing concerns within the housing sector. This is the adoption of the National Strategy for Resolving the Problems of Refugees and Internally Displaced People in 2002. The Strategy focuses on ensuring the conditions for repatriation of refugees and IDPs as well as for providing conditions for local integration. The strategy also recommends the development of “social housing”, in the form of public rental units for the most vulnerable households, as well as the provision of “affordable housing”, in the form of owner-occupied units. Realizing that the provision of adequate housing is a concern not only for refugees and IDPs but also for other vulnerable population groups, which have been affected by the adverse economic and social conditions in the past decade, the Government of Serbia has also initiated the development of a law on “social housing” (please see chapters IV and VI for additional information).

The law on “social housing” also includes provisions for the establishment of a “housing fund” as well as regional/municipal funds, whose function will be to provide resources for housing programmes, to supervise and control the use of money for these programs, to provide expert and technical assistance to carry out housing programmes, and to propose regulations to improve housing finance (please refer to chapters IV p. 44-45 and V).

As in Serbia, when large-scale privatisation and the dissolution of the traditional system for housing management and maintenance and for housing provision to socially weaker population groups came to pass in Montenegro, it was not accompanied by the establishment of efficient new structures. The situation was aggravated by a period of considerable economic difficulties for the majority of the population. Consequently, many of the Republic’s inhabitants were unable to adequately meet their housing needs.
In this context the Government decided, in 2004, to prepare a *Housing Policy Action Plan* (HPAP) to address the key challenges for Montenegro’s housing sector. Among the key challenges identified in the HPAP are:

- Uneven housing stock distribution in Montenegro, resulting in severe shortages in some areas;
- Deterioration of the housing stock, particularly the multi-unit stock, and the current inadequate system of maintenance of this stock;
- Lack of affordable housing and lack of access to financing;
- Need to provide adequate housing to vulnerable population groups, in particular refugees;
- Illegal constructions and informal settlements;
- Inadequate infrastructure and deficiencies in land management and spatial planning.

In tackling these challenges, the HPAP stresses the importance of:

- Creating the conditions for the financial sector to work effectively in support of housing investments;
- Increasing housing options for low-income households, in particular through the development of public rental housing;
- Encouraging private initiative in the production, maintenance and management of housing;
- Regulating market forces through rent control, taxes and other fees.

The HPAP was initiated by the Ministry for Environmental Protection and Urban Planning in 2004 and has been developed through a consultative process with the main national stakeholders in the housing sector, including representatives from banks and housing associations, as well as with international organizations active in Montenegro’s housing sector. The process was supported by the Stability Pact for South East Europe. The HPAP includes a plan for the realization of the projected activities, as well as monitoring benchmarks for activities to be implemented in pursuit of the specified objectives. The government expects the HPAP to be adopted in 2005 and is seeking technical and financial assistance from abroad to implement its plan.

In conclusion, meeting basic housing needs is essential for an individual’s physical and psychological well-being. Furthermore, housing is often an individual’s biggest asset and an important component of an efficiently functioning economy. Problems within the housing sector, therefore, need to be addressed in a comprehensive manner, involving different ministries, local governments, non-governmental, private and international organizations. This process has been initiated and led in *Serbia* by the Ministry of Capital Investments. The Ministry should continue to encourage the dialogue on housing policy. Similarly, in *Montenegro* the development of the *Housing Action Plan (2005)* demonstrates a commitment to an integrated approach to solving housing problems. The Ministry of Environmental Protection and Physical Planning needs to ensure effective support of other stakeholders, including international institutions, for its implementation.

In both republics, the development of housing policies needs to be accompanied by a number of changes in the legal and financial framework as well as by capacity building for a more efficient operation of housing sector institutions.