Currency Wars

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Podgorica's stark offer to Serbia on Thursday to abandon the federal structure or accept the results of a Montenegrin referendum on independence, came just days after it signalled its intention to launch its own currency.
When Slovenia began planning secession from Yugoslavia, one of its first measures was to print its own currency.

The Slovene decision, taken many months before the June 1991 independence declaration which helped trigger the wars of Yugoslav dissolution, was a response to Belgrade printing money and thus exporting inflation throughout the then six-republic Yugoslav Federation.

It also followed a protracted economic war, in which Serbia imposed duties on selected Slovene goods and seized the assets of many Slovene companies.

Now it appears that history is repeating itself and Montenegro is about to follow the Slovene example. President Milo Djukanovic has told reporters that if Belgrade continues to print money, Montenegro will introduce its own currency.

To this end, Djukanovic has hired US economist Steve Hanke, the man behind the currency board which has successfully steadied the money in Bulgaria.

Hanke has drawn up plans to introduce the convertible dinar by mid-autumn which will be both pegged to the German Mark and backed by a currency board.

As with Slovenia and Serbia a decade earlier, long-standing economic grievances have contributed to a souring of relations between the two remaining Yugoslav republics. Djukanovic fell out with Yugoslav President Slobodan Milosevic more than two years ago over economic policy.

Whenever Djukanovic, then Montenegro's Prime Minister, demanded economic liberalisation and more economic independence, Milosevic would close the border and block trade between Serbia and Montenegro. In retaliation, Djukanovic opened Montenegro's borders with Italy, to cigarette smuggling, and with Albania, for oil imports.

Djukanovic also liberalised the import of foreign, second-hand cars-many of them stolen vehicles from Western Europe that Montenegrins bought from the Bosnian-Croat mafia, in border towns in Bosnia.

Taxes from imported cars, the smuggling of cigarettes and oil, provided Djukanovic with the hard currency to replenish the republic's coffers and begin to chart an independent course away from Belgrade. In economic terms, this tiny republic was becoming less and less dependent on its partner in the Yugoslav federation.

Djukanovic was even able to draw tax revenue away from Serbia. Last year, after Montenegro wrested control of the border crossings on its territory from Belgrade, he cut duties on consumer goods, many of which were later sold in Serbia.

But, as the political conflict with Serbia escalated, so the internal border between Serbia and Montenegro became less porous. On the eve of the conflict with NATO, Montenegrins had lost the Serbian market and the economic war escalated.

As NATO launched its bombing campaign, the Yugoslav Army took over control of the Montenegrin border crossings and custom posts, banning even the entrance of humanitarian aid; speed boats smuggling cigarettes between Montenegro and Italy could no longer break the blockade; and the border with Albania was also closed.

Djukanovic was facing economic disaster and was only saved by the end of the war, since when Montenegro has resumed its dubious trade with its neighbours.

The principal remnants of the federal state are the military and the currency. Other institutions envisaged in the 1992 constitution, when Serbia and Montenegro created the new Federal Republic of Yugoslavia, have effectively disappeared in the political squabbling between Belgrade and Podgorica.

Now the prospect of importing inflation from Serbia appears the greatest economic threat to Montenegro.

Angry reservists in Serbia are demanding payment for the time they spent in Kosovo during the NATO bombing campaign, and this is forcing Belgrade to print money. Although the federal government had not made an official announcement on the devaluation of the dinar, the value of the dinar is heading for a nosedive on the hard currency markets.

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