

Montenegro Embraces Euro

Author: [IWPR](#)

Podgorica hopes euro will help resolve its chronic financial crisis

Montenegro is about to become the first country in Eastern Europe to make the euro its official currency.

This move, expected to start in January 1, will create revenue for the government, hopefully resolving a chronic budget crisis that erupted when the small Yugoslav republic was left without substantial international financial support after the fall of Slobodan Milosevic last year.

Money generated from black market profits and savings stashed away in mattresses will have to find its way to the banks for conversion by a March deadline.

Ljubisa Krgovic, president of the Central Bank Council, said preparations for euro conversion were in place, while economists say the first euro denominations have already arrived.

Enormous sums have been deposited in commercial bank accounts since early December. Montenegro's banks are all solvent.

This move should help the government overcome the current economic crisis. Next year's projected budget of 670 million German marks is one-third larger than last year's. Economists say this shows the government expects a substantial increase in revenue from euro conversion.

When Milosevic was in power, Milo Djukanovic, a staunch opponent of the former Yugoslav president, received substantial Western aid. After Milosevic fell from power, the aid evaporated, owing to international disapproval of his drive for Montenegrin independence.

The deteriorating economic situation was widely seen as a threat to the campaign for a break with Serbia. Now, the ruling pro-independence coalition seems to have alleviated the situation before the referendum on secession is held next spring.

The central bank says it expects to exchange the equivalent of 150 to 200 million euros. However, this figure is only a projection. Local people traditionally hoard an unknown quantity of savings in their homes - and there's also the question of how much money will come from contraband trade.

Experts believe 40 to 60 per cent of economic activity in Montenegro is linked to the black economy, involving 70,000 to 100,000 Montenegrins, a sixth of the overall population.

In spite of criticism, the government refuses to query the origins of money to be converted into euro. Nebojsa Medojevic, director at Centre for Transition in Podgorica, complained that the transfer was "an opportunity any mafia could only dream of. Instead of an elaborate and expensive money laundering operation, they can simply walk into the Montenegrin banks, empty their bags full of cash and transfer the money into bank accounts".

But the central bank says the government fears money from illegal trade might simply be exported if its origins were scrutinised. Dragana Ostojic, a member of the central bank council, pointed out that there is no limit on the amount of funds that can be brought in and taken out of the country.

No one can tell whether Russian mafia "dirty money", for example, will now be legitimised through the Montenegrin banking system. But unofficially, the central bank has revealed it will prevent an influx of foreign money, most probably by limiting the right to transfer money into euros to Montenegrin citizens who will have to complete special forms for such transactions.

Krgovic told IWPR that from January 1 to March 31, 2002, Montenegrins will be allowed to exchange up to 5,000 German marks for euros without charge. For sums up to 10,000 marks the banks will levy a rate of 0.5 percent, while larger sums will require the opening of a bank account.

This means many Montenegrin companies, which used to deal in cash to avoid tax, will have to keep their money in banks, giving the state greater control over the country's cash flow.

There are worries that the introduction of the new currency will have a destabilising effect. Mihailo Banjevic, director of Aluminium Complex, in Podgorica, said he feared a retail price hike, "which will obviously cause workers to ask for a pay rise".

But trade minister Ivan Raicevic insisted such fears are groundless and Ivan Karadzic, co-owner of the supermarket chain Mex, backed the minister's prediction. "Prices will not rise, as the transfer to the euro will incur no additional cost, so we have no reasons to increase prices," he said.

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