

The Price Of The Mark For Serbia

Author: [Dimitrije Boarov](#)

The introduction of the German mark as a parallel currency in Montenegro could have a substantial impact on the economy in Serbia.

Dusan Vlatkovic, governor of the National Bank of Yugoslavia, recently predicted that Montenegro would not declare financial sovereignty. He added that even if it did, it would not have a major impact on the Serbian economy. He may be wrong twice.

By introducing the German mark as a parallel currency, Montenegro hopes to protect itself from the inflationary pressures of Belgrade's uncontrolled printing of money. According to the Montenegrin Financial Council, created to set the exchange rate, the starting parity is one German mark to 17 Yugoslav dinars. The official exchange rate in Yugoslavia is one to six.

The Montenegrin government has ordered that all prices in shops be expressed in both currencies. It announced that the price of petrol will rise by 21 per cent; crude oil by 10 per cent; and electricity, by 9.5 per cent. Pensions and salaries of government clerks in Montenegro will be paid in German marks.

The move has been supported by all of the parties in Djukanovic's ruling coalition, but some wished he had gone further. According to Montenegrin sources, Podgorica's reserves are short of the 130 million German marks deemed necessary if it wished to abandon the dinar altogether and create a completely separate currency. This is the policy advocated by Steve Hanke, the US economist who serves as advisor to Montenegrin President Milo Djukanovic.

Montenegrin official figures indicate that the supply of money in the republic now stands at around 2.2 billion dinars. This assessment contradicts last week's claim by Vlatkovic, the Yugoslav National Bank governor, that the figure is only 160 million dinars.

On first glance, Vlatkovic's prediction that the move will not greatly impact Serbia seems reasonable. Montenegro contributes less than 5 per cent to the Federal Republic of Yugoslavia's GDP.

Gresham's law of economics states that bad money pushes good money out of the market. Senior Belgrade economist Ljubomir Madzar believes the reverse will occur: that dinars will completely disappear from trade within Montenegro, because no one will want to sell scarce goods in the discredited currency.

But Belgrade bankers have said there will be no major changes in business practices with Montenegro, except for the setting of daily currency rates to be applied in dealings with the republic.

Such statements offer hope that Belgrade will not react towards Montenegro as it did when the administration of Milorad Dodik in Republika Srpska effectively took the same decision. At that time, the National Bank of Yugoslavia stopped state payments to the Bosnian entity.

Indeed, the move by Podgorica could bring benefits for Serbia by introducing a fluctuating hard currency rate for transactions within Serbia itself. A fluctuating rate is already applied in practice on the black market.

The Central Bank in Belgrade could also be forced to carry out a one-time devaluation of the dinar. The official Yugoslav rate for dinars to marks is one-third that of the initial rate set by Montenegro. This disparity will cause disorder in state finances and increase public uncertainty.

Yet if the political leadership in Belgrade reacts negatively, the new currency regime in Montenegro could have a damaging impact on the economies in both Montenegro and Serbia. With the immediate announcement in Belgrade of a ban on all dinar payments between Montenegrin banks and companies and Serbia, the gloomier scenario may be taking shape.

For its part, Montenegro stands to lose out as a result of the severance of economic traffic with its larger federal partner. Since even before the break-up of Yugoslavia, Serbia accounted for 65 percent of Montenegrin trade within the country, while Montenegro took only 4.7 per cent of Serbian trade.

Since Djukanovic's election two-and-a-half years ago, Serbian trade with Montenegro has fallen, and the two economies have increasingly gone their separate ways. A key factor will be the amount of aid the West will provide: so far the US has committed \$55 million to Montenegro this year.

As Montenegro begins to operate in German marks, Serbian companies are likely to open bank accounts in the smaller republic for foreign trade purposes. This will surely hit Belgrade, since at present Serbian companies are obliged to sell their foreign currency to the Central Bank at the official rate of six dinars to the mark and the Central Bank holds a monopoly on foreign currency transactions.

At the same time, Montenegro will effectively be in a position to dictate the exchange rate between the dinar and the German mark, since it will be able to respond immediately if and when it suspects Belgrade of printing money. This could conceivably induce panic in Serbia and exacerbate a fall in the dinar.

Dimitrije Boarov is an economist and journalist in Novi Sad.

Location: [Serbia](#)

Focus: [Balkans: Regional Reporting & Sustainable Training](#)

Source URL: <https://iwpr.net/global-voices/price-mark-serbia>