

Serbia: Dinkic Survives Bid to Oust Him

Author: [Zeljko Cvijanovic](#)

Government backs down in battle with high-flying Serbian bank governor.

Mladen Dinkic, the reformist governor of Serbia's central bank and champion of a stable currency, has managed to hold on to his job in the face of a concerted attempt by the government to push him out.

At first sight Dinkic, 39, has everything going for him – a great reputation as the country's first really independent central banker, a proven track record of pulling back from rampant inflation to a stable currency, and a healthy build-up of currency reserves.

So why has the avowedly reformist government of Serbian prime minister Zoran Zivkovic been gunning for him? Analysts say there are two reasons. First, the government is keen to inject some money into the economy to boost industrial production, especially since it is under pressure to show the electorate it is delivering results. To do that it needs funds, and the easiest way to get them is by raiding the central bank.

And second, Dinkic and the G17-Plus group of which he is a member are getting just too popular, and the governing Democratic Opposition of Serbia, DOS, coalition is running scared.

After more than a year of pressure from ministers, Dinkic has emerged unscathed. The showdown ended on June 14 when Serbian finance minister Bozidar Djelic announced he would draft a new version of a law delineating the powers of the National Bank of Serbia, NBS. He said that the new draft would be developed in consultation with NBS officials as well as his own ministry, which has been trying to steer a middle line in the ongoing conflict.

With that, it became crystal clear that the first version of the law, which had input from neither, was dead.

As the finance minister told the Belgrade daily Blic, he re-started the drafting process only after he obtained a guarantee from the government that the new law would be different from the old one, whose main purpose, he said, was to get rid of Dinkic.

If that earlier version had gone through parliament, it would have meant the end for the present bank governor. Sources close to Dinkic told IWPR that the draft document stipulated that the central bank governor must not be associated with a political party and must have at least ten years' experience of banking. Dinkic would have been ruled out on both counts.

The latest attempt to push through the government draft began earlier this month. On June 9, DOS leaders passed a motion of no confidence in the present central banker, and decided to ask parliament to debate the banking law as early as June 16. According to a leak from that confidential meeting, which found its way into most of the Serbian media, the DOS leadership accused Dinkic of running monetary policy against the government's wishes, and of holding foreign loan tranches in the central bank reserves rather than allowing ministers to spend the money on stimulating production and exports.

Dinkic's response was robust – he challenged his opponents to seek a vote of no confidence in him in parliament. In a Blic interview published the day after the DOS meeting, he accused the radical wing of the Democratic Party, DS, the strongest party in the DOS grouping, of running the campaign to remove him – and of using the coalition's smaller partners as a front.

"They don't have the guts to say it publicly, so they use the small parties instead... telling them what to say," he said.

This was only the latest bout - possibly, but not definitely, the last one - in a fight that has been going on for a year or more.

Before he was assassinated on March 12, prime minister Zoran Djindjic led the opposition to Dinkic's governorship. Beginning in 2002, the late premier grew uncomfortable with the free market, non-interventionist policies espoused by the chairman of what was then the National Bank of Yugoslavia, NBY. Under pressure from domestic producers, Djindjic demanded a devaluation of the dinar as a way of making export goods more competitive abroad. He was unsuccessful. It was around this time that the government began drafting a law designed to remove its uncooperative chief banker, according to sources close to Dinkic.

An opportunity to re-start the campaign presented itself when the NBY was redesignated as Serbia's national bank as part of the constitutional changes accompanying the new state union of Serbia and Montenegro earlier this year. New legislation was in any case needed to cover the bank's new role, and Djindjic reportedly wanted to impose the draft his officials had already prepared - and which has only now been shot down.

The government may have felt it was time to go in for the kill this June because it is losing popularity fast due to the failing economy. Industrial output continues to fall, a drought could cut agricultural yields in half over the summer, and both the budget and trade accounts have been increasingly in deficit since the start of the year.

The government hardly wants to see these problems spilling over into popular unrest, as that could put it under increasing pressure to call an early parliamentary election. It is keen to hold off until its mandate runs out in December 2004, but given the political rifts already apparent within the DOS coalition it could be forced into an earlier ballot.

So ministers have plenty of reasons to want to take some of the foreign reserve money held by the central bank, and to invest it in growth. They have won some allies of various sorts - politicians who advocate state intervention in the economy, others who are just populists, and businessmen who built their empires under former Serbian president Slobodan Milosevic.

Serbia and Montenegro parliament speaker Dragoljub Micunovic has accused Dinkic of boasting of large currency reserves at a time when soup kitchens are being shut down around Serbia for lack of funding. Meanwhile, business tycoon Bogoljub Karic has claimed that the "government has been taken hostage by Dinkic".

"Unless at least half a billion dollars are injected into the ailing economy, there won't be a continuation of the reforms envisioned by prime minister Djindjic," he said.

Foreign currency reserves held by the NBS have grown steadily under Dinkic's management, and currently stand at 3.3 billion US dollars. That is equivalent to 125 per cent of the dinars in circulation, and means Dinkic will have no trouble keeping a firm grip on the exchange rate to stop it spiralling out of control, as it did before he took control of monetary policy.

Dinkic's policies appear to be well in line with the lending arrangement the government has agreed with the International Monetary Fund, IMF, which envisages a substantial growth in money reserves over the

course of this year. According to a review of progress on implementing the agreement published in June, the government is also committed to lowering the inflation rate – and to spending less, not more from its budget.

To date, Dinkic has refused to let anyone touch his reserves, warning that to do so would lead to an inflationary shock.

“Such use of foreign exchange reserves is tantamount to printing unbacked money,” he said recently.

Many Serbian economists think he is right. “Unlike the NBS, the government has abandoned its commitment to reform, and it has many problems as a result,” IWPR was told by Dana Popovic, a professor at Belgrade's school of economics.

“The key problem is that the government is not restructuring large state companies, and it does not even know when it will start doing so. Someone will have to subsidise this, and the government believes the NBS can do this.”

What Serbia needs is a firm monetary policy, even if it means crisis for the government, she said.

Economists like Popovic suspect that the government really wants to buy public support by pouring money into socialist-era industrial giants which employ hundreds of thousands of people but which have not functioned properly for years. She sees parallels with Milosevic's last prime minister Mirko Marjanovic, who pumped cash taken from foreign reserves into these companies – with the result that they were kept on life-support and never had to restructure.

Economic policy aside, ministers and DOS members – especially the DS – have been irked by Dinkic's habit of using his position to criticise the government and promote his political party G17-Plus.

He is in a good position to build up his profile as he is so closely identified with two and a half years of monetary stability.

With the central bank chief as deputy head, G17-Plus has grown in popularity at the expense of DOS, presenting itself as a real alternative. A public opinion poll which the Strategic Marketing group ran in early June showed that in the course of four weeks the popularity rating of DS dropped from 27 to 22 per cent, while that of G17-Plus jumped from eight to 11 per cent, after existing as a political party for only six months. Dinkic himself has the highest ratings of any political figure in Serbia.

Analysts say this surge in popularity has come because voters regard G17-Plus politicians as highly skilled and uncorrupt.

In launching its attack the government may have seriously misjudged the level of support Dinkic enjoys abroad. Analysts say that officials believed Dinkic and his party, G17-Plus, were losing support because they oppose the union between Serbia and Montenegro, viewing it as dysfunctional despite the European Union's backing for it.

In the end it was the international financial institutions' worries about monetary stability that counted. Without Dinkic at the helm, there was concern that the Serbian government might not stop at delving into reserves but could start printing money, with catastrophic results.

Although DOS has shelved its plans to replace Dinkic for now, the war may not yet be over. The next step, say Belgrade analysts, may be to blame him for the deteriorating economic situation. But the government will have a tough job doing this at a time when it is losing voter confidence, and has an opponent who has so far resisted all attacks successfully.

Zeljko Cvijanovic is a regular IWPR contributor from Belgrade.

Location: [Serbia](#)

Source URL: <https://iwpr.net/global-voices/serbia-dinkic-survives-bid-oust-him>