Serbia: Top Banker's Days Numbered

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Moves to replace successful governor threaten ties with international financial institutions.

Mladjan Dinkic's days as head of the National Bank of Serbia, NBS, appear numbered if parliament goes ahead with plans to adopt a new central bank bill that allows for his dismissal.

The bill, expected to be passed today (July 15), places the NBS under government control.

After clashing repeatedly with the authorities over monetary policy, Dinkic's successor is likely to be a parliamentary appointee.

The move will, however, annoy international monetary institutions, which have supported Dinkic's monetary policy and his opposition to political interference in the economy.

The bank governor has been on collision course with the government for over a year. The conflict has whittled away his political power base and alienated finance minister Bozidar Djelic, until recently a key Dinkic supporter.

Until his untimely death in March, Serbia's prime minister Zoran Djindjic led the opposition to Dinkic as governor.

From the start of last year, Djindjic appeared uncomfortable with the free-market, non-interventionist policies of the then National Bank of Yugoslavia, NBY, head.

Under pressure from domestic producers hit by high exchange rates, Djindjic demanded currency devaluation to make exports more competitively priced.

Faced with Dinkic's resistance, the government began drafting a law to remove its uncooperative chief banker.

An opportunity presented itself earlier this year, when the NBY was re-designated Serbia's national bank as part of constitutional changes accompanying the dissolution of the Yugoslav federation and the formation of a new, looser, union between Serbia and Montenegro.

As fresh legislation was needed to deal with the new bank, Djindjic reportedly wanted to impose a draft that his own officials had prepared, though it has since been shot down in June.

Dinkic has made clear his unhappiness with the proposed changes. He told Belgrade's Radio B-92 that the new bank bill failed to take into account the recommendations of the IMF or the World Bank.

"Parliament should not both nominate and appoint the central bank governor," Dinkic complained, "as he would be reduced to a mere political representative of the ruling coalition."

On July 11, he repeated his criticism, describing the pending legislation as anti-reformist. Dinkic said the draft law would make the central bank entirely dependent on the government and parliament, as the governor would not choose his deputies. Instead, the NBS council, consisting of five politicians, would select them.

The authorities have denied these claims, saying they have no foundation.

Dinkic and nine members of his team sent a letter to the Prime Minister Zoran Zivkovic on July 11, claiming the new law will disrupt the foreign currency market, reduce overseas currency reserves and stimulate the black market.

They objected that the new bank bill had not incorporated the IMF and World Bank recommendations, warning that this might lead to "serious problems in further co-operation with international financial institutions".

Dinkic's monetary and banking reforms won warm praise in the West, which is why the IMF, the World Bank and many western political circles oppose his sacking.

"If Dinkic leaves, this will be interpreted as a bad signal in terms of the government's willingness to push on with reforms," one western diplomat told IWPR.

Though they did not wish to take sides in the ongoing conflict, foreign envoys and members of the international monetary circles are alarmed by the government’s intention to use the new legislation to get rid of Dinkic.

“I believe that the bill on its own would not be so controversial if it did not represent a short cut for Dinkic’s political elimination,” a western diplomat told IWPR.

According to the source, the real motive behind Dinkic’s dismissal is his seeming attempt to make political capital out of the relatively good results of his monetary policy. “He used these results not to impose himself as government’s partner but as its rival and one of the political leaders of the G17 Plus party,” the source said.

Since G17 Plus transformed into the political party last December with Dinkic as its deputy president, the NBS governor has been under constant pressure to step down.

Members of the ruling Democratic Opposition of Serbia, DOS, have complained that Dinkic cannot be the governor of the National Bank of Serbia, since no one who is a member of any party can hold that position.

In addition, DOS is annoyed that Dinkic has stubbornly persisted in amassing foreign currency reserves, part of which the government would like to invest in social security.

The financial oligarchs in Serbia are also unhappy with the governor's strict monetary policy.

The IWPR diplomatic source said "a small group of the nouveaux riches who amassed their wealth in the

Milosevic era, and increased it in the ongoing transition period" wanted the dinar devalued to stimulate their exports.

Dinkic opposed such a move. Alongside his confrontational stance against corruption, this earned him powerful enemies.

While most analysts agree that the oligarchs' influence on the Serbian government is detrimental, other economic experts suggest Dinkic's monetary policy suited the IMF's needs, more than Serbia's.

Mladjen Kovacevic, a professor at the Belgrade University School of Economics, has argued that Dinkic's defence of the high exchange rate discouraged exporters and boosted imports. "While imports have increased to enormous proportions, there are virtually no exports, which is why production is stagnating," he said.

Kovacevic says Serbia would continue to suffer from a trade deficit as long as the dinar remained so expensive, and while foreign currencies were relatively undervalued.

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