

SAE./No.135/May 2019

Studies in Applied Economics

REMEMBRANCES FROM
MONTENEGRO'S MOMENTOUS
CURRENCY REFORM:
THE 1999 ADOPTION OF THE
GERMAN MARK

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Global Health, and Study of Business Enterprise



*Subsequently published
in KSP Books,
December 2020*



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About the Series

The *Studies in Applied Economics* series is under the general direction of Prof. Steve H. Hanke, Co-Director of The Johns Hopkins Institute for Applied Economics, Global Health, and the Study of Business Enterprise (hanke@jhu.edu).

About the Author

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In the past, Prof. Hanke taught economics at the Colorado School of Mines and at the University of California, Berkeley. He served as a Member of the Governor's Council of Economic Advisers in Maryland in 1976-77, as a Senior Economist on President Reagan's Council of Economic Advisers in 1981-82, and as a Senior Advisor to the Joint Economic Committee of the U.S. Congress in 1984-88. Prof. Hanke served as a State Counselor to both the Republic of Lithuania in 1994-96 and the Republic of Montenegro in 1999-2003. He was also an Advisor to the Presidents of Bulgaria in 1997-2002, Venezuela in 1995-96, and Indonesia in 1998. He played an important role in establishing new currency regimes in Argentina, Estonia, Bulgaria, Bosnia-Herzegovina, Ecuador, Lithuania, and Montenegro. Prof. Hanke has also held senior appointments in the governments of many other countries, including Albania, Kazakhstan, the United Arab Emirates, and Yugoslavia.

Prof. Hanke has been awarded honorary doctorate degrees by the Universidad San Francisco de Quito (2003), the Free University of Tbilisi (2010), Istanbul Kültür University (2012), the Bulgarian Academy of Sciences (2013), Varna Free University (2015), the Universität Liechtenstein (2017), and the D.A. Tsenov Academy of Economics (2018) in recognition of his scholarship on exchange-rate regimes. He is a Distinguished Associate of the International Atlantic Economic Society, a Distinguished Professor at the Universitas Pelita Harapan in Jakarta, Indonesia, a Professor Asociado (the highest honor awarded to international experts of acknowledged competence) at the Universidad del Azuay in Cuenca, Ecuador, a Profesor Visitante at the Universidad Peruana de Ciencias Aplicadas (the UPC's highest academic honor), and the ECAEF Gottfried von Haberler Professor at the European Center of Austrian Economics Foundation in Liechtenstein. In 1998, he was named one of the twenty-five most influential people in the world by *World Trade Magazine*.

Prof. Hanke is a well-known currency and commodity trader. Currently, he serves as Chairman of the Supervisory Board of Advanced Metallurgical Group N.V. in Amsterdam and Chairman Emeritus of the Friedberg Mercantile Group, Inc. in Toronto. During the 1990s, he served as President of Toronto Trust Argentina in Buenos Aires, the world's best-performing emerging market mutual fund in 1995.

Prof. Hanke's most recent books are *Zimbabwe: Hyperinflation to Growth* (2008) and *A Blueprint for a Safe, Sound Georgian Lari* (2010), *Juntas Monetarias para Paises en Desarrollo* (2015), *Currency Boards for Developing Countries: A Handbook* (2015), and ادبیات بر مروری
پولی هیئت‌های پولی غیر اصلی جریانهای تاریخی
(2018).

Prof. Hanke and his wife, Liliane, reside in Baltimore and Paris.

**Remembrances from Montenegro's Momentous Currency Reform:
*The 1999 Adoption of the German Mark***

By Steve H. Hanke
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While still part of the rump Yugoslavia, Montenegro dumped the hapless Yugoslav dinar and replaced it with the mighty German mark in late 1999. This dramatic, daring, and dangerous move was engineered by then-President Milo Djukanovic. It will go down as one of the 20th century's most momentous currency reforms—one that set Montenegro on a path towards independence, NATO membership, and what might one day be entry into the European Union.

This is not the first time that tiny Montenegro has been at the center of momentous events and strategic tug-of-wars. Indeed, no less than “The Sage of Baltimore,” H.L. Mencken, writing in the June 1934 issue of *The Seven Seas*, after a visit to Montenegro, reminds his readers of just how strategic Montenegro has been over the centuries. “It has been, in its time, Roman, Venetian, Turkish, Spanish, Serbian, Hungarian, Bulgarian, Russian, French, English, and Austria, and all the while it was really Montenegrin.”

Since I played a role in Montenegro's currency reform and dash for freedom, Ernest Welteke—who was President of the Deutsche Bundesbank at the time of Montenegro's adoption of the German mark—invited me to write my remembrances on the 20th anniversary of the currency reform. For me, the Montenegrin currency reform came in three phases. The first was centered in Belgrade; the second occurred in Sarajevo; and the third momentous phase was in Podgorica, or as I first knew it: Titograd.

Let's begin at the beginning in Belgrade. I served as the Personal Economic Advisor to the Deputy Prime Minister of the Socialist Federal Republic of Yugoslavia from 1990 until June 1991, when the civil war broke out. I first met Deputy Prime Minister Zivko Pregl in late 1989 at a dinner in Vienna, Austria. The dinner, which Mrs. Hanke and I attended, was arranged by our good friend, the late-great Daniel Swarovski from Wattens, Tyrol. The day following our most pleasurable dinner, Pregl—the person responsible for developing economic reforms for the Yugoslav government led the by the late Ante Marković—requested a meeting. We discussed his reform ideas and he invited me to become his advisor. I indicated that I had reservations because I was a classical liberal, free-market economist and he was a leader of the Communist League of Yugoslavia. Pregl then surprised me when he said my qualifications were exactly why he invited me to be his advisor. He asserted that he wanted to implement free-market reforms and didn't want watered-down advice. Pregl persisted and after I learned that he had a hand in the dissolution of the Communist League of Yugoslavia in January 1990, and was committed to real free-market reforms, I agreed to become his advisor.

I concluded that my first task should be the development of policies to stamp out Yugoslavia's inflation. After all, stability might not be everything, but everything is nothing without stability. I set out to design a currency board system (CBS) that would rid Yugoslavia

of its endemic inflation problems. From 1971-91, Yugoslavia's annualized rate of inflation was 76 percent; only Zaire and Brazil recorded higher inflation rates during that period.

The Ekonomski Institute Beograd, a research institute that was headed by our good friend, Danko Djunic, published my blueprint as an attractive book in the Serbo-Croatian language (Hanke and Schuler 1991a). The book was also published in an English edition by the Centre for Research into Communist Economies, a London-based think tank that was headed by a Yugoslav (Slovenian) expatriate, and another good friend, Prof. Ljubo Sirc (Hanke and Schuler 1991b).

Mrs. Hanke and I spent a great deal of our time in 1990-91 in Belgrade, where we were in residence at the Intercontinental Hotel. We traveled extensively throughout Yugoslavia, including trips to Titograd, to educate the public about the virtues of sound money and benefits of adopting a CBS. We attracted many supporters, but in June 1991, Yugoslavia's civil war began, and currency reform was pushed to the sidelines.

My next stop was in Sarajevo. I served as a special advisor to the U.S. Government in December 1996. The Dayton/Paris Peace Agreement (November 21, 1995) mandated that Bosnia and Herzegovina employ a CBS for at least six years. My assignment was to make certain that the new CBS law, which was being written by local government officials and International Monetary Fund staff member was as orthodox as possible (Hanke, 1996/97).

The most memorable part of the CBS episode was the flight Mrs. Hanke and I had from Zagreb to Sarajevo on December 11, 1996. We were packed with NATO-IFOR Troops into a very noisy Dutch military transport. At that time, this was the only safe means of passage into the war-torn city of Sarajevo.

During our stay in Bosnia and Herzegovina, we had heavy security, particularly when we traveled to Pale for meetings with officials from the Serb Republic. Those meetings with the Serbs struck me because the Serbs were quite fluent with my CBS ideas. The Serbs indicated that they had studied the book I co-authored with Dr. Kurt Schuler (Hanke and Schuler, 1991a)

I discovered another surprising connection to that book during a lunch with Mrs. Hanke and other notables at the Grand Hyatt hotel in Hong Kong on March 27, 1998. In discussing the Dayton/Paris Peace Agreement with the late Ambassador Richard Holbrooke, he recounted how easy it was to deal with the late Slobodan Milosevic (head of the delegation representing the Federal Republic of Yugoslavia in Dayton) when it came to the issue of a new monetary system for Bosnia and Herzegovina. It turns out that Milosevic was familiar with my book in Serbo-Croatian and my CBS ideas because of my work with Deputy Prime Minister Pregl.

My work during both the Belgrade and Sarajevo phases proved to be vital for the momentous currency climax that would occur in Montenegro. Indeed, that work had put my currency reform ideas in wide circulation in the Balkans. In Montenegro, I served as State

Counselor, a position that carried Cabinet rank, and Advisor to the President Djukanovic(1999-2003). In that capacity, I determined that the replacement of the Yugoslav dinar with the German mark was both feasible and desirable, and assisted in developing the architecture for the official introduction of the German mark as legal tender in Montenegro (where the euro is now the coin of the realm).

During the summer and fall of 1999, I assisted President Djukanovic in formulating an economic strategy designed to create the conditions for Montenegro to become a fully independent republic (Hanke 1999a, Hanke 1999b, Hanke 1999c). Much of the basis for my early work with President Djukanovic was laid out in a book that I co-authored with Dr. Zeljko Bogetic, a Montenegrin, who at the time was an economist at the International Monetary Fund in Washington, D.C. Bogetic and I wrote the book in record time—days, not months or years. It was published in Serbo-Croatian in Podgorica and was widely circulated (Bogetic and Hanke, 1999).

In 1999, Montenegro was still part of the Federal Republic of Yugoslavia, along with Serbia. Strongman Slobodan Milosevic was the President of Yugoslavia and had control of the Yugoslav army. On November 2, 1999, President Djukanovic made a daring and decisive move that would set Montenegro on a course towards independence: Montenegro granted the mighty German mark legal tender status. This all but eliminated the hapless Yugoslav dinar from circulation in Montenegro. It also infuriated President Milosevic. Although he refrained from unleashing the Yugoslav army on Montenegro, he was reported to have given serious consideration to that idea.

President Milosevic's operatives did engage in a great deal of mischief, however. For one thing, I became a marked man. The Yugoslav Information Minister, Goran Matic, produced a steady stream of bizarre stories about my alleged activities. These were disseminated via the Yugoslav state news agency, Tanjug. Among other allegations, I was accused of being the leader of a smuggling ring that was destabilizing the Serbian economy by flooding it with counterfeit Yugoslav dinars. The most spectacular accusation, however, was that I was a French secret agent who controlled a hit-team code-named "Pauk" ("Spider"), and that this five-man team's mission was to assassinate President Milosevic. In addition to this comedy of the absurd, there was a serious side. I knew this was the case because, although we were kept in the dark about the specific nature of the threats, Mrs. Hanke and I were always supplied with proper security from the President's office when we traveled to Podgorica—a difficult destination that often required a flight from Zagreb to Dubrovnik, Croatia and then a long, but beautiful, trip through the mountains of Montenegro.

In any case, the adoption of the German mark was Montenegro's first secession step – a step that was eventually supported by the United States and its allies. On November 4, 1999, I, with the help of Senators Steve Symms and Trent Lott, arranged a meeting at the U.S. Capitol in which Djukanovic and I made a case for Montenegro's currency reform. The members of Congress in attendance – Trent Lott, Steve Symms, Richard Lugar, John Warner, Harry Reid, Larry Craig, Kay Bailey Hutchison, among others – warmly received our message. As a result, the United States ended up supporting Montenegro's currency reform.

Even after twenty years, the scene remains, in many ways, the same. For one thing, Milo Djukanovic is still the President of Montenegro. And an independent Montenegro remains

at the center of geopolitical tug-of-wars, as the Sage of Baltimore H.L. Mencken reminded us in 1934. Indeed, as recently as April 30, 2019, the *Financial Times* carried a headline: “Balkan Hopefuls Told Joining Bloc Unlikely Soon.” The *FT*’s reportage featured Montenegro. Then, on May 10, 2019, the *New York Times* reported that two Russians, who were believed to be Russian agents, had been (along with 12 locals) convicted by a court in Montenegro for their part in a failed 2016 coup d’état.

As I look back on the Montenegrin currency reform, I can confidently say that it was momentous.

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