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DOLLARIZATION IN MONTENEGRO: EVIDENCE AFTER TWO DECADES OF EXPERIENCE

Abstract:

Montenegro has started transition process from centrally planned to market oriented economy in late nineties of the XX century. Being still part of the Federal Republic of Yugoslavia, official currency was dinar in that period.

Dinar, inherited currency from the Social Federal Republic of Yugoslavia, was not convertible currency (except for short period from 1990-1992), after which then actual monetary policy resulted in hyperinflation during 1992-1993. Afterward, although it was only legal tender until 1999, dinar was not used as currency in full capacity and in all transactions, but often replaced with Deutsche mark (DM), although unofficially. As result of such practice, in 1999, Montenegro introduced "double currency" regime, officially allowing use of both, dinar and DM as legal tenders. Market made a choice and by the end of 2000, dinar was "evicted" from financial markets. In November 2000, the new Law on Central bank in Montenegro was adopted, introducing DM and later EURO (since January 2002) as only legal tender in Montenegro. That is when dollarization regime has officially become implemented in Montenegro.

Two decades later, we may summarize effects of such choice, and see whether decision to implement dollarization instead to issue national currency (perper was the one which was proposed) or remain using dinar was appropriate. We will make comparisons of selected indicators with Serbia, as it has decided to use dinar as national currency. Although there are many differences between Montenegrin and Serbian economy, both have many elements in common, which make reasonable to make comparisons. Although monetary stability is just one of determinants of economic perspectives, we will be able to see pros and cons of using convertible currency in dollarized regime.

Keywords:

Dollarization; EURO, National currency

JEL Classification: E50, E00