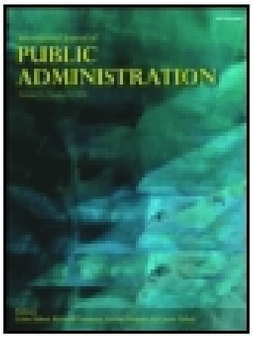

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Dependent Monetary Regimes in the Balkans: Enlarging the "Varieties of Capitalism" Hypothesis

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ABSTRACT
Among the recent or revisited assumptions in the literature, the "dependent capitalism" hypothesis has met growing interest and relevance in the context of the 2008 economic and financial crisis. The purpose of the present article is first to expand the scope of the dependence analysis to the Balkan countries, both members and non-members of the EU, and second, to demonstrate that dependence also appears in these countries in a differentiated way through another institutional form, not included in the initial theoretical framework of Hall and Soskice, monetary regimes. A monetary regime can be considered as a structuring institutional form, expressing the power relations between national and foreign actors. In the dependent capitalism case, where foreign capital prevails and the trade balance dynamics is determined by the capital account, one could expect that monetary regimes would be implemented in a way to protect the capital and interests of foreign investors in the long term, hence to delegate monetary sovereignty to the investor's country of origin. In the first part of the paper, some theoretical and methodological aspects of the dependent capitalism in post-socialist countries and of the specific monetary regime on which it is based, are discussed. Then, in the second part, the dependence analysis is illustrated by the case studies of monetary regimes in the Balkans during the period from 1990 to 2015.

KEYWORDS
Varieties of capitalism; dependent capitalism; monetary regimes; Balkan economies; currency boards

Introduction

Central and Eastern European (CEE) countries experienced two successive waves of systemic institutional changes during the 1990s and 2000s, first the post-socialist transformation and then the integration process into the European Union (EU). These systemic changes have led social science researchers to raise questions about economic models emerging as an outcome of these processes (Bohle & Greskovits, 2012; Chavance & Magnin, 2002; Lane & Myant, 2007). Among the recent or revisited assumptions in the literature, the "dependent capitalism" hypothesis has met growing interest and relevance in the context of the 2008 economic and financial crisis (Drahokoupil & Myant, 2011; King, 2007; Nolke & Vliegenthart, 2009). The crisis brought to light the weaknesses of East-European economies, with their strong exposure to foreign market risks and their structural dependence on foreign direct investments. The purpose of the present article is first to expand the scope of the dependence analysis to the Balkan countries, both members and non-members of the EU, and second, to demonstrate that dependence also appeared in those countries in a differentiated way through another institutional form, not included in the initial theoretical framework of Hall and Soskice (2001), i.e. monetary regimes.

A monetary regime can be considered as a structuring institutional form, a set of rules expressing the power relations between national and foreign actors. The monetary regime includes rules related to the external dimension (exchange rate policy) and the domestic dimension (money supply or interest rates policy). In the dependent capitalism case, where foreign capital prevails and the trade balance dynamics is determined by the capital account, one could expect that monetary regimes would be implemented in a way to protect the capital and interests of foreign investors in the long term, hence to delegate monetary sovereignty to the investor's country of origin (Cohen, 1998, 2015). Pereira and Vuolo have recently analyzed in detail the monetary sovereignty and the direct relation of monetary sovereignty with political sovereignty after the example of Argentina and Greece (Le Vuolo & Pereira, 2017).[1]

Actually, this monetary dependence is evident in all CEE countries but to varying degrees. Since the beginning of the transition, East-Central European and Baltic countries have decided to adopt a fixed exchange rate

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or to restrict monetary policy, as Currency boards demonstrate. Some of the most advanced countries of the Visegrád group (The Czech Republic, Hungary, Poland) have gradually restored a relative independence of their monetary policies, by adopting a policy of inflation targeting or in joining the euro zone (Estonia, Lithuania, Slovenia, Slovakia), which means sharing their monetary sovereignty with other members of the euro zone.

As a separate group, the Balkan countries are characterised by a stronger dependence, regarding both foreign capital and monetary regimes. The penetration of foreign capital is consistent with foreign banks domination, a favourable tax regime and a flexible labour market with a cheap and skilled workforce. Monetary regimes in the Balkan countries both strengthen and protect this institutional configuration. Actually, the Balkan countries have achieved relatively rigid monetary regimes, based on the external value stability of the national currency. According to mainstream economics, when one price, namely exchange rate is fixed or controlled, other basic prices, such as wages and interest rates, should float. This rule, which is generally followed by the Balkans countries, explains how complementarity relations between monetary regime and labour market are likely to emerge.

Conventionally, the loss of monetary policy means the loss of monetary sovereignty. Currency boards in Bulgaria and Bosnia-Herzegovina, unilateral euroisation in Montenegro and Kosovo, and *de facto* fixed but adjustable exchange rate regimes in Albania, Croatia, Macedonia, Romania, Serbia (even if some of these countries are officially promoting a policy of inflation targeting), are all examples of monetary dependence. Hence, monetary dependence can be considered as one of the founding institutional elements of dependent capitalism. The rejection of dependency in countries that have recently regained their sovereignty can lead to a nationalist revival and a return to state intervention in the economy (in Poland and Hungary, for example) and could encourage these countries to gradually evolve towards a form of state capitalism, which is the focus of this special issue.

In the first part of the paper, some theoretical and methodological aspects of the dependent capitalism in post-socialist countries and of the typical monetary regime on which it is based, are discussed. Then, in the second part, the dependence analysis is illustrated by case studies of monetary regimes in the Balkans during the period 1990–2015. Two extreme cases are emphasized, the introduction of the currency board in Bulgaria and in Bosnia and Herzegovina and the unilateral adoption of the Euro in Montenegro and Kosovo.

Dependent capitalism and monetary regime: methodological aspects

Dependent capitalism in the Visegrád countries

Nolke and Vliegenthart (2009) assess that a new variety of capitalism has been emerging in East Central Europe (the Czech Republic, Hungary, Poland, Slovakia) since the 2000s: the "dependent market economies" (DMEs). Their theoretical framework directly derives from the varieties of capitalism approach (VoC) by Hall and Soskice (2001). The DMEs broaden the initial binary typology separating the "coordinated market economies" (CMEs), with Germany as a case in point, from the "liberal market economies" (LMEs) exemplified by the United States.

Nölke and Vliegenthart believe that DMEs can be considered as a genuine variety of capitalism, different from both other models, because its founding institutions, as Hall and Soskice define them (industrial relations, education system, corporate governance, interfirm relations and employment relations), exhibit strong complementarity and coherence.

The salient feature of the DME variety is a strong dependence on foreign capital, while the main source of investment is foreign direct investment (FDI). Corporate governance is then dominated by the hierarchical control of transnational companies' headquarters, which becomes the central coordination mechanism in DMEs, in contrast to markets and contractual relations in LMEs or networks and associations in CMEs.

The position of employees appears to be weaker than in the coordinated market economy, because transnational corporations look for cheap but skilled labour force and may rely on the competition among post-socialist countries to attract foreign direct investments, but the labour legislation is less flexible than in the liberal market economy in order to avoid social troubles that could impede production. Therefore, a decentralized, wage bargaining organization at firm-level should become widespread in DMEs.

Tax competition and low taxation to attract FDIs results in limited government spending on education. Moreover, transnational corporations do not seem eager to invest more so as to upgrade workers' skills given the industrial specialization of the DMEs. Similarly, major investments in research and development are not necessary, while most of it is carried out within transnational companies' headquarters and then

integrated into the subsidiaries production processes, innovation remaining under the control of the corporate hierarchy. The DME countries in East Central Europe demonstrate a comparative advantage in the assembly and production of relatively complex and durable consumer goods, which are then reexported. This comparative advantage rests on the availability of cheap but skilled labour force, technological transfers within transnational corporations and capital inflows through foreign direct investments.

Dependent market economy should not be considered as a flawed model. On the contrary, Nolke and Vliegenthart (2009) believe that the post-socialist dependent capitalism in East Central Europe is a rather "stable and fairly successful" economic model – "particularly when compared with most of the other transition countries" (p. 693). Institutional complementarity is the major reason explaining the coherence and stability of the model and the comparative advantage of these economies. Until the 2008 crisis (and even during the crisis), the Visegrád countries were among the best performing countries in terms of sustained economic growth and per capita GDP. The modernization of industries, technology and know-how transfer and catching-up with Western Europe can be mentioned among the positive results.

Still, the authors acknowledge the vulnerabilities and risks of this dependent type of capitalism. They underline the dependence on imported industrial goods, investment decisions of foreign-owned firms and banks, and exports to Western markets. They also point out the risk of production relocation further East by foreign investors to benefit from even cheaper labour force. They also observe the growing dualism, with rising income disparities, between workers participating in the export-oriented sectors and those who are excluded from them. Finally, they warn on the probability of Central European DMEs not being able to upgrade their economic models from their semi peripheral position, unlike Ireland which has succeeded in catching-up with the most advanced European economies.

Monetary regime as a structuring element of the VoC typology

Surprisingly, most attempts made so far for classifying types of capitalism in post-communist countries have disregarded an important institutional element: the structuring role of the monetary regime.[2] The "dependent capitalism" hypothesis also ignores the importance of the monetary regime and the monetary system. The point of this paper is to address this deficiency. Below are set out the main methodological elements that could help the analysis.

Firstly, it is a well-known fact that money is a pivotal institution not only for the economic, but also for the social system as a whole (Dodd, 1994; Simmel, 1900/2004; Théret, 2008, to mention but a few). The monetary regime and the monetary system of each country indicate, both statically and dynamically, the power relations between the major economic and social actors (Siklos, 1994). These actors could be grouped into different combinations, internal and external, debtors and creditors, savers and investors, importers and exporters, producers and consumers, real and financial sectors, etc. The enforcement and evolution of monetary regimes is the result of various coalitions of interest groups, either economic, political or geopolitical ones.[3] At the same time, monetary regimes convey a definite system of values. It is of major importance to pay particular attention to the "domestic (national)/external (international)" dividing line. This dividing line determines the degree of "dependence/independence" of individual countries' monetary regimes as regards external actors (be they countries, corporates, individuals, etc.). It can lead to the existence or absence of monetary sovereignty, to sovereign and independent, or to dependent and subordinate monetary policy. Not surprisingly, the classical monetary sovereignty is becoming increasingly difficult to be implemented in today's global and interdependent world. It becomes necessary for the monetary sovereignty to become cooperative and shared. The subsidiarity principle becomes even more frequently applied in the monetary sphere (Zimmermann, 2013).

Secondly, as a working definition, "monetary regime" is here considered as a system of formal monetary institutions and rules of monetary behaviour. In a broader sense, a monetary system comprises not only formal rules (monetary regime) but also informal monetary rules, informal monetary practices and country-specific or region-specific monetary behaviours (North, 1990). When defining the core elements of a monetary regime, it seems appropriate to differentiate between two components, namely the rules of conducting a monetary policy (rules regarding the domestic value of money, i.e. the relation towards the value of goods and services) and the type of exchange-rate regime (rules regarding the external value of national currencies, i.e. the relation to other currencies). „The exchange-rate regime" is but part of the broader notion of "monetary regime" in the working definitions above.

Thirdly, the "dependence/independence" of the national monetary regime may emerge in different forms and different degrees. "Independence" means the following core elements: i) the ability of an independent performance of the main functions of money (unit of account, means of

payment, medium of exchange, store of value) and ii) the capacity to raise seignorage, i.e. monetary revenue (Fischer, 1982). It also refers to: iii) the ability to pursue an independent monetary policy, i.e. to influence money markets, either through quantities or through money prices (interest rates); iv) the ability to perform the function of Lender of Last Resort (LLR) and the functions related to financial stability. And finally, independence means: v) the ability to symbolize a given national community, its political independence, its cultural identity (all these noted by one of the classical theoreticians of sovereignty, i.e. Jean Bodin). The monetary sovereignty however can be regarded also as a continuously developing system of values as regards money and the monetary system, marked by the historical context and national specificities (Zimmermann, 2013). To this effect the stability of the currency and of the financial system, the reliability of the payment system, etc., become of key importance at a certain time in the decision-making process of the final sovereign – the people, or alternatively – the consumer.

However, history shows that a country can never have complete monetary independence. This fact comes as a result of the interwoven monetary spaces and of the hierarchical nature of monetary systems. In this context, it is also interesting to note "the geography of money" approach by Cohen (1998), and the pioneering, though remaining underrated, article on the "role of the economic and monetary space" by Francois Perroux (1950).[4] The monetary dependence can be both formal, through certain legal rules, and informal or spontaneous, such as "currency substitution" for example.

In line with the above train of thought, the type, or technically speaking, the design of the monetary regime indicates the degree of "dependence/independence" of a monetary regime with regard to its external side (exchange rate regime). For example, fixed exchange rates point to stronger dependence of a country on external monetary policy, on the value of the monetary anchor to which a national currency is pegged. Next in line come currency boards in which, in addition to a fixed exchange rate, monetary policy is almost completely eliminated. There follows the unilateral adoption of a foreign currency as a legal tender, in which case monetary revenue is brought to zero. In the above ranking of monetary regimes, monetary sovereignty gradually decreases to be entirely eliminated in the last case. The above classification includes "monetary unions", where monetary sovereignty, at least formally, is pooled, shared with other countries within a common currency area, which also means a common monetary policy (e.g., the euro zone or the African CFA area). Nevertheless, it is self-evident that hiding behind the formally shared sovereignty, looms the real dominance of a particular country – a leading economic, political force within the framework of the monetary union.[5]

As a whole, the (formal or informal) monetary hierarchy cannot be eradicated. Strong and weak currencies have always existed in history (Asselain & Plessis, 2003). From a historical perspective, this hierarchical nature has always been, either within the colonial monetary systems, or the international monetary system – i.e. between individual colonial monetary systems and other areas. The historical dependence and hierarchical subordination of monetary regimes in the Balkan countries have also been a well-documented fact since the time of the Latin Monetary Union, when Balkan governments gaining their independence from the Ottoman Empire, unilaterally adopted Latin Monetary Union rules (Nenovsky & Vaslin, 2020).

Fourthly, going back to the issue of "dependent capitalism", monetary regime could be considered as one of its major analytical elements, because of its structuring role as a central institutional anchor as regards the other leading institutional components defining the existence of "dependent capitalism". The concept of institutional complementarity is most relevant here (Amable, 2000, 2003; Aoki, 1994). The type of monetary regime is indeed tied up with the balance of payments structure (FDIs, trade flows), with the nature of public finance and tax regime, with labour market conditions and welfare system, as well as education, etc. It may be contended that core institutional forms have been created or evolved in a manner, which makes them mutually complementary and supportive in time. More specifically, the dependent monetary regime is servicing foreign capital, which is a leading element in the system. Foreign capital and monetary regime, on their part, determine the presence of foreign banks, the need of security in "profit recycling", etc. This requires a stringent budget policy (primarily expenditure restriction) and in general a minimum government interference on a national level. Low and predictable taxes (often a flat tax), light social burden, and certainly a flexible labour market, where labour is cheap and is easily hired and made redundant, are all elements of the same basic institutional set, which allows us to refer to a model of "dependent capitalism" (Figure 1 below and Table 1 to 5).[6]

Dependent capitalism and dependent monetary regime: the case of the Balkans from 1990 to 2015

Evolution of monetary regimes in the Balkans after 1990

At the beginning of the nineties, two groups of countries, following different transition trajectories, including the

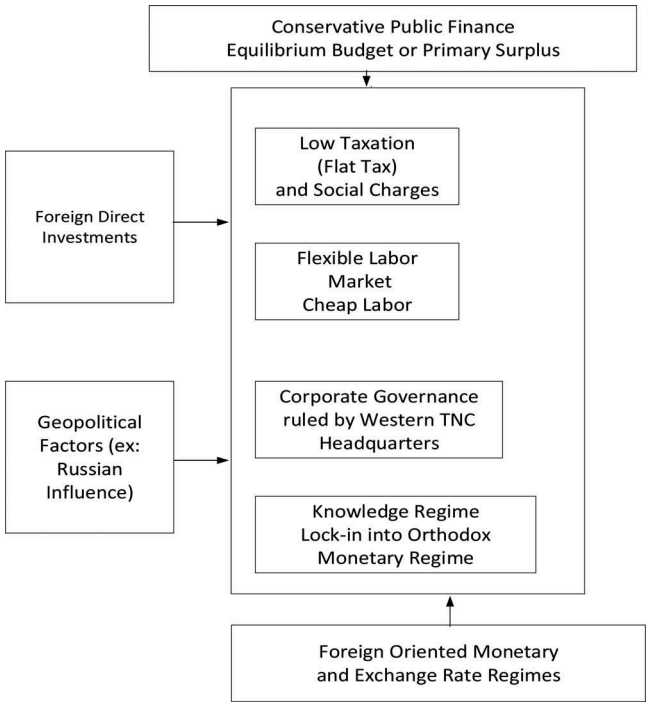

Figure 1. Dependent capitalism: institutional matrix and interconnections.

Table 1. Monthly minimum wages, EUR.

	2010	2011	2012	2013	2014	2015
Albania	:	:	:	:	157	157
Bulgaria	123	123	148	159	174	194
Montenegro	:	:	:	288	288	288
Serbia	:	:	235	236	233	236
Macedonia	:	:	:	199	213	:
Romania	137	158	157	179	205	235
Croatia	391	380	374	401	398	399
Czech Republic	311	329	312	308	310	338
Estonia	278	278	290	320	355	390
France	1344	1365	1426	1430	1445	1458

Source: Eurostat.

Table 2. Profit tax (% of commercial profits).

	2013	2014	2015
Albania	8.6	9.5	14.1
Bosna and Herzegovina	7.2	7.2	7.2
Bulgaria	4.8	5	5
Montenegro	7.1	7.1	8.1
Serbia	11.6	16.2	16
Germany	18.9	23.3	23.2
France	8.2	7.4	0.5

Profit tax is the amount of taxes on profits paid by the business.
Source: World Bank. – http://data.worldbank.org/indicator/IC.TAX.PRFT.CP.ZS

adoption of various monetary regimes, came to the fore. Within certain conventions, two types of development were discerned, *type 1* for Central European countries (Poland, Czech Republic, Hungary) and the Baltic region, which were later joined by Slovenia, and *type 2* for Balkan economies (Romania, Bulgaria, Albania and the former Yugoslav Republic countries). A number of theoretical

Table 3. Total tax rate (% of commercial profits).

	2011	2012	2013	2014	2015
Albania	38.3	38.5	31.5	31.4	36.5
Bosnia and Herzegovina	23.6	23.6	22.2	23.3	23.3
Bulgaria	27.8	27.8	27	27	27
Montenegro	24.4	21.6	21.6	21.6	21.6
Serbia	33.3	33.3	33.2	38.6	39.7
Germany	45.6	45.9	49.1	48.8	48.8
France	65.7	67.4	67.4	68.9	62.7

Total tax rate measures the amount of taxes and mandatory contributions payable by businesses after accounting for allowable deductions and exemptions as a share of commercial profits. Taxes withheld (such as personal income tax) or collected and remitted to tax authorities (such as value added taxes, sales taxes or goods and service taxes) are excluded.
Source: World Bank. http://data.worldbank.org/indicator/IC.TAX.TOTL.CP.ZS

Table 4. Education expenditure (% of GNI).

	2009	2010	2011	2012	2013
Albania	2.84	2.84	2.84	2.84	2.84
Bulgaria	4.4	4.1	3.66	3.66	3.66
Serbia	5	4.9	4.8	4.47	4.47
Romania	3.8	3.2	2.9	2.9	2.9
Germany	4.8	4.8	4.26	4.26	4.26
France	5.3	5.3	5.1	5.1	5.1

Source: World Bank.

Table 5. Asset share of foreign-owned banks, %.

	1999	2000	2001	2002	2003	2004
Albania	18.9	35.2	40.8	45.9	47.1	
Bosna and Herzegovina	3.8	21.6	65.3	76.7	79.7	80.9
Bulgaria	42.8	75.3	72.7	75.2	82.7	81.6
Serbia	0.4	0.05	13.2	27	38.4	37.7
Macedonia	11.5	53.4	51	44	47	47.3
Croatia	40.3	84.1	89.3	90.2	91	91.2
Romania	43.6	46.7	51.4	52.9	54.8	58.5

Source: EBRD Transition reports.

attempts were made in the literature at comprehending this evolution, its forms, causes, etc. (Nenovsky, 2009; Winiecki, 2004).[7]

Generally speaking, *type 1* was more successful and was characterized by an orientation to Western models of development, institutions, etc. (Chavance & Magnin, 2006). Economic policy, institutional reforms and overall behaviour of economic operators were directed to Western Europe to attract capital and expertise. In this sense, the countries of this group voluntarily delegated part of their economic sovereignty and sacrificed their independence in favour of Western European countries and economic actors. That corresponded to their desire for quick emancipation and for breaking away from the influence of Russia/the USSR (best illustrated by the behaviour of the Baltic States), while meeting the economic and political goals of Western European countries (Abdelal, 2005; Blanc, 2007; Feldmann, 2013). Within that configuration, FDI and external participation in privatization became leading forces. The role of the national state was reduced to the minimum,

dictated by foreign actors' interests. Values of a free market economy and a liberal shock therapy became pivotal. Logically, this brought about the choice of a monetary regime servicing the selected development model, namely a stable external value of national currencies within the framework of a fixed or almost fixed exchange rate regime, a strong presence of foreign banks, etc. It meant for those countries „to climb in the hierarchies of currencies" and in the case in point to peg to the German mark, Europe's central currency. The fixed exchange rate had the advantage of limiting the crony transition and the opportunities for speculation, as well as state and central bank captures. As reforms were unfolding and privatisation completed, and mid-nineties crises left behind, the countries of group 1 started to emancipate and regain part of their independence and sovereignty. This process also transpired in the monetary regime evolution: most countries transited to one degree or another to a floating exchange rate or inflation targeting.

Countries of *type 2*, roughly speaking from the Balkan region, embarked on an opposite path. The mutual attraction between these countries and Western Europe was weak, due to a number of historical, geographical and other factors. In the Balkan countries, national elites and the socialist ruling top succeeded in preserving their positions and became a major factor in the post-communist transformation (Magnin, 2002). External factors, Western Europe influence in particular, held a secondary role. In this context, the state had a significant impact on the economy, and having been captured by the above-mentioned elites, became a major factor in the redistribution of ownership and wealth. The state was overburdened with discretionary policy tools, including control over the country's monetary system and the central bank's policy. The monetary regime and the central bank were so constructed as to serve the colossal redistribution process in favour of the communist upper crust. The floating exchange rate and the "unprincipled" discretionary monetary policy became the leading transmission mechanisms of that redistribution. The public sector was drained of resources, which were privatised, while losses were passed on to the budget and into state-owned banks. The whole process found its logical end in printing money.

Once privatization was completed and internal sources of capital formation depleted, and after the 1990s crises, external influences (mainly from Western Europe) started to gain momentum in most of those countries (from group 2). The result was a new type of external "Europe-oriented development". The monetary regimes also changed in nature and became externally dependent and controlled. The Currency board in Bulgaria (of mid-1997) is an evidence of this. Yugoslavia put up long resistance but geopolitical and economic factors led to its disintegration. The separation of Slovenia (1991), Macedonia (1991), Croatia (1991), Bosnia and Herzegovina (1992), subsequently of Montenegro (2003) and Kosovo (2008), logically brought about the adoption of external monetary regimes oriented towards Western Europe. In some cases, monetary regimes became the tool for gaining political independence. The adoption of the Deutsche Mark, subsequently of the Euro as the official currency in Montenegro and Kosovo was ultimately aimed at their breakaway from Serbia.[8]

During the period under study (1990–2015), monetary regimes are highly dependent in Bulgaria, Bosnia and Herzegovina, Montenegro, and Kosovo. These countries are known for a strong inflow of capital and a particularly visible dependence on official and mostly "political" financing (by the European Union and other organizations). In the other Balkan countries, such as Albania, Macedonia, Serbia, the redistribution of wealth was completed later. That is one of the reasons why the state kept more functions and a relatively free exchange rate. By all means, during the years 1990–2015, the Balkan countries are not only characterized by formal monetary dependence and loss of monetary sovereignty but also by informal monetary dependences, manifested in a large-scale and strongly expressed monetary substitution.[9]

As a whole, where external factors (geopolitics, foreign direct investment, banks, trade, etc.) predominate, the monetary regime is based on simple rules and on a fixed exchange rate, public finances are more restrictive and the state's role is reduced to a minimum. Under such a model, the room for making national decisions is rather limited, while domestic economic policy parameters are externally determined, and the welfare system is relatively underdeveloped. Wage adjustment and a flexible labour market appear to be extremely necessary when monetary policy is constrained. Similarly, limited possibility of devaluing currency in order to remain competitive may result in the adoption of a liberal tax regime with low tax rates. Broadly speaking, this is the situation in a number of Balkan countries today, a configuration of complementary institutions that fully corresponds to the above mentioned salient features of "dependent capitalism" (Figure 2 and Tables 1–4).

Monetary regimes with limited sovereignty: currency board and Unilateral Euroization

This section will provide two examples of dependent monetary regimes, namely Currency boards (in Bosnia and Herzegovina (1994/1998) and in Bulgaria (1997)),

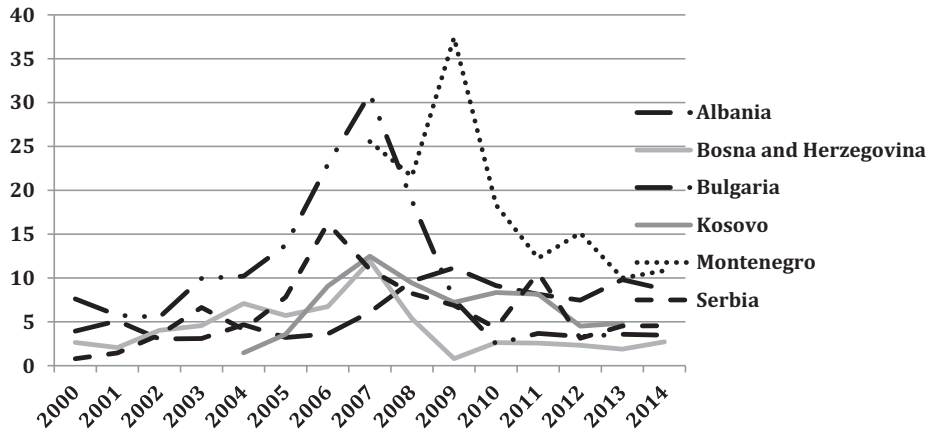

Figure 2. Foreign direct investment, net inflows (% of GDP).
Source: World Bank.

as well as unilateral euroization in Montenegro (1999) and Kosovo (1999). It will also briefly consider the conditions of monetary regimes in other Balkan countries, again from the point of view of the degree of their monetary sovereignty.[10] The dependence of monetary regimes is generally a function of economic dependences of the Balkans on Central European countries, or of geopolitical dependences on Western Europe and the US.[11]

Currency boards (1992-2015)

Immediately after the collapse of the communist system, in the very early 1990s, the Currency Board (CB) was not among the instruments used by the International Financial Institutions (IFIs); it failed to fit into the models used by the IMF (Hanke, 2012). Very quickly, however, after certain resistance and hesitation as regards the introduction of the CB in Estonia (June 1992), the IMF and international experts started treating this monetary regime with higher regard. This emerged at the time of implementing this system in Lithuania in April 1994,[12] and in devising the *de facto* CB in Latvia.[13] After the CBs in the Baltic states proved efficient not just in geopolitical terms, but also by providing monetary and economic stability, IFIs and, among them the IMF, included them more actively in their programmes. The extremely negative attitude to this type of regimes was overcome at least partially and they were no longer treated as an aberration from normal monetary policy, as a legacy from the colonial system or as specific solutions for highly unstable and underdeveloped countries.[14] The IMF started talking of "effectiveness of the bipolar choice of exchange rate regimes – a hard peg or a pure float", of the instability of the intermediate regimes, etc. Logically, CBs began to be treated as a system worth of attention.[15]

A lot has been written on this issue but, in a nutshell, CB is a regime under which the monetary sector is closely related to the dynamics of the balance of payments, monetary policy is totally or almost totally eliminated, the exchange rate is fixed, in most cases by law, and the monetary base is covered with highly liquid foreign assets. In this case, money supply cannot be influenced by the central bank: domestic sources of monetary base are non-existent, the independent monetary policy is eliminated, as is the function of the LLR, while seignorage (monetary income) is limited. Considerable foreign currency reserves are maintained, which should ensure the credibility of and confidence in the national currency, but at the expense of investing these reserves abroad and not domestically. To maintain such a regime, disciplined public finances, presence of foreign banks to be refinanced by their parent banks in case of a crisis, and a considerable inflow of foreign capital (portfolio and FDI) are deemed to be required.

Thus, very quickly, the CBs found their foothold on the Balkans. This happened owing to two main reasons – economic and financial in the case of the CB introduced in Bulgaria in June 1997, and geopolitical and financial in implementing the regime in Bosnia and Herzegovina in 1994/1998.[16]

The unification of the monetary space in *Bosnia and Herzegovina* was completed in legal terms on 1 July 1998 with the introduction of the CB and of the common currency for the three ethnic zones (Bosnian, Croatian and Serbian), known as Convertible Mark (KM). This was implemented in practice in the end of 1998. Since then, the CB has existed under the initial conditions, and there is no criticism voiced against the regime (Coats, 2007a, 2007b; Gedeon, 2013; Kovačević, 2003; Kozarić, 2007; Tesche, 2000). However, the background of the CB is both interesting and edifying. Without getting into

details, we would note that the major factors here are geopolitical – the interests of Western Europe, the US and IFIs.

After the independence of Bosnia and Herzegovina was announced in March 1992, the payment community/space started to disintegrate and several currencies were put into circulation, depending on the actors' ethnic and trade preferences[17] (various types of emergent currencies, alongside with officially accepted *Novcani Bons*, Deutsche Mark, Serbian Dinar, Croatian Dinar and *Kuna*, etc.). During the same year the first independent banknotes were issued, which were in circulation together with the Deutsche Mark. In general, the situation was quite chaotic. During the war, which started in May 1992, the country was in the whirl of hyperinflation, similar to that in Serbia (Mladenovic & Petrovic, 2000). In August 1994, the first CB was introduced in the Bosnian territory, after the Bosnian Dinar was redenominated and subsequently pegged to the Deutsche Mark at an exchange rate of 100 new Dinars = 1 DM, and the new currency was backed 100% with Marks.[18]

Subsequently, events developed in the following way. After the Dayton Peace Agreement for the establishment of a federation put an end to the war in December 1995, there were actually three monetary zones – a CB on the territory of Bosnia, the Kuna in the Croatian zone, and the Serbian Dinar in the Serbian area. These three zones shared in common a peg to the Deutsche Mark, which acted as an anchor for the three systems. Under the pressure of the IMF, the US Treasury and a number of Western European countries, a decision was made to establish a common CB, integrating the three zones. The other options were introducing the Deutsche Mark as an official currency or creating three mutually interrelated CBs (Coats, 2007a). After some discussions a new central bank was established, operating under a CB regime, and a new currency, called Convertible Mark (KM), was put into circulation. Thus, from June 1998 1DM = 1KM, and since 2002 1 EUR = 1.95583KM.

The CB in Bosnia and Herzegovina is extremely conservative and was initially designed to be governed by a foreigner appointed by the IMF. The first Governor was Peter Nicholl, from New Zealand (who held the position for 7 years and was replaced in 2005 by Kemal Kozaric from Bosnia). The cover of the monetary base is always above 100% (not exceeding 100–110% by law) and at least 50% of the reserves should be in the reserve currency. According to Steve Hanke, the CB in Bosnia and Herzegovina is the closest to the orthodox form: the value of its sterilization rate, which shows the monetary authorities' capacity to influence the monetary base is next to zero (Hanke, 2002). It is stipulated by law that the CB should grant no loans, whatsoever, to the government in the first 6 years, and thereafter this may be allowed by Parliament (Tesche, 2000). Today, the official exit of the CB is considered to be joining the euro area; no mention is made of an independent monetary policy.

While the limitation of Bosnia and Herzegovina's monetary sovereignty may be contemplated as a resolution of the war and of ethnic conflicts, the CB in *Bulgaria* is a different story, principally initiated for financial and economic reasons. A CB was introduced in Bulgaria after the colossal collapse of the banking and economic systems in 1996 and the default of foreign debt servicing. The CB was officially introduced in June 1997 (again under IMF pressure and external factors). The story has been frequently analysed and presented (Berlemann & Nenovsky, 2004; Dobrinsky, 2000).[19] A few points are outlined here.

As has already been mentioned, in the early nineties, the transition was dominated by the former communist elites, which converted their power resources into ownership and assets within a few years (Bundjulov & Tchalakov, 2009). They became the new capitalists and rentiers. The state was the main transmission mechanism through which plundering and redistribution took place, and the monetary regime was so structured as to serve those processes. The external actors were in an extremely unfavourable position. They did not participate directly in the privatization processes. They mostly used to grant loans to the Bulgarian state, i.e. to the same domestic communist elites. It is worthwhile noting the rejection of the early ideas of implementing a CB, known as the Rahn-Utt Programme (a project funded by the American Chamber of Commerce in 1990), that *de facto* aimed at introducing a CB and giving room to market forces in order to strengthen the positions of external actors.

Subsequently, the accumulated foreign debt proved difficult to service very quickly and the crisis hit as a logical consequence. At that point, a radical overhaul of the monetary regime took place, as the IMF (whose role at the time of the crisis was extremely questionable) and Bulgaria's foreign creditors imposed the CB system. The new regime aimed at establishing an institutional monetary framework, which should ensure the future foreign debt servicing and the security of foreign capital. Monetary policy was completely eliminated and the LLR functions were highly limited (Nenovsky & Hristov, 2002). The pegged exchange rate, the monetary base coverage rate as well as the publication of CB's balance sheets were enforced by law. Initially pegged to the Deutsche Mark at a 1:1 rate, the Bulgarian Lev is still fixed to the Euro at the same rate as in Bosnia and

Herzegovina, 1 EUR = 1.95583 BGN. Both in Bosnia and Herzegovina and Bulgaria, the national monetary policy is directly tied up with that of the ECB, both in terms of stability and confidence in the system (as observed to date). And national interest rates follow – ceteris paribus – the dynamics of European interest rates (Figures 3 and 4). The prevailing portion of foreign exchange reserves (excluding gold) are invested in European or US securities, or in deposits in Western foreign banks.

In the CB case, it is worthwhile noting that a monetary income or seignorage is generated, though at a lower rate (which is allocated between the monetary authorities and the budget). National currency is also printed and remains a national symbol (e.g., in Bosnia and Herzegovina, the design of the banknotes contains common and specific elements for each of the three communities).

The determining role of external factors and the subordinate importance of national elites in the choice of a CB in Bulgaria and Bosnia and Herzegovina are indirectly confirmed by one of the recent surveys on CB's credibility in both countries (Begovic et al., 2015). According to the authors of the survey (based on the regular surveys carried out by the Austrian central bank in the period 2007–2011):

> According to the results, the lower the trust in the government and the worse the expectations about the future economic situation in a country, the larger is the positive effect of CBA on expectations about the local currency's future stability. […] The survey evidence reported earlier suggests that respondents from countries with currency boards are systematically less optimistic/more pessimistic about their country's medium-term economic prospects

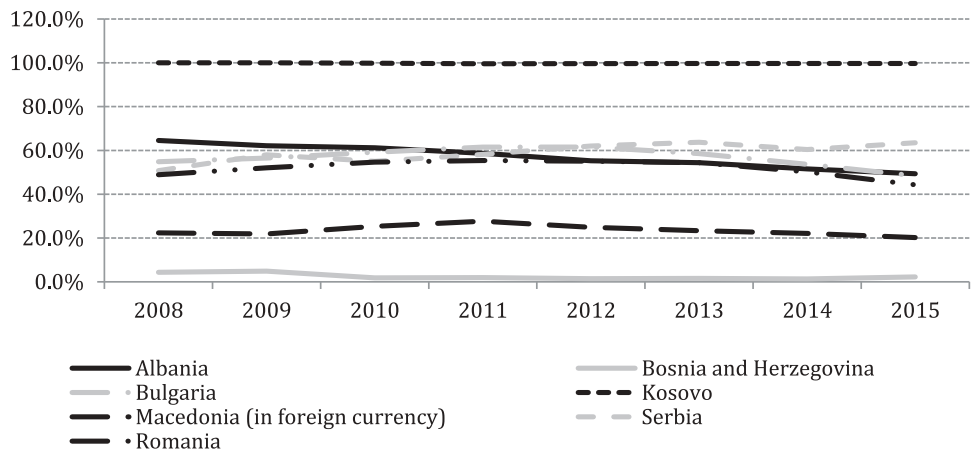

Figure 3. Loans in EUR (% of the total loans).

Source: Central banks of Bulgaria, Bosnia and Herzegovina, Albania, Kosovo, Macedonia, Serbia, Romania. Data are collected from different sources, central banks mainly, and verified carefully for consistency and comparability. The only country with problematic data on euroization and interest rates is Montenegro, because there is no precise ventilation of the currency denomination of loans and deposits, all monetary items are actually converted and expressed in euro.

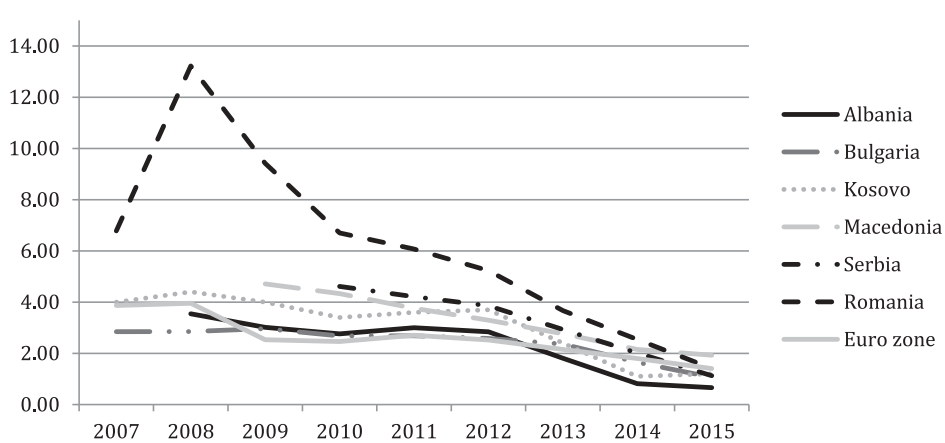

Figure 4. Interest rates on deposits, %.

Source: Central banks of Bulgaria, Albania, Kosovo, Macedonia, Serbia, Romania, ECB.

and as trusting/distrusting in government as are respondents from transition economies with other monetary regimes. (Begovic et al., 2015, pp. 15–17)

Unilateral Euroization (1998-2015)

A still more radical restriction of monetary sovereignty was the unilateral adoption of the Deutsche Mark, and subsequently of the Euro as an official currency (and "uncoordinated") in the case of Montenegro and Kosovo, called euroization (Figures 5 and 6). In this configuration, no domestic currency was issued but a foreign currency was used (Rostowski, 2002).

Taking a look at *Kosovo*, we can immediately observe that the change of the monetary regime has been directly devised by external forces (United Nations Interim Administration Mission in Kosovo, the US Treasury, IMF, NATO, etc.). The start was given after recognition by Western powers of the self-proclaimed Republic of Kosovo in May 1992 in violation of UN norms. After the cease-fire in 1998, the Deutsche Mark was declared a legal tender, initially alongside with the Serbian Dinar, and subsequently on its own (this happened on 2 September 1999). The Central Bank of the Republic of Kosovo was established in 2008 and decided to undertake the changeover from the Deutsche Mark to the Euro (about 1 million Marks were exchanged in cash). It takes care mainly of banking regulations and the payment system, and of the management of government finances (Coats, 2007a; CBRK, 2015; NBK, 2015).

As regards the causes of introducing the Euro in *Montenegro*, it resembles the imposition of a CB in Bosnia and Herzegovina. In the first place, it was a geopolitical decision, imposed from outside (Germany in particular). The facts and technical details are also well

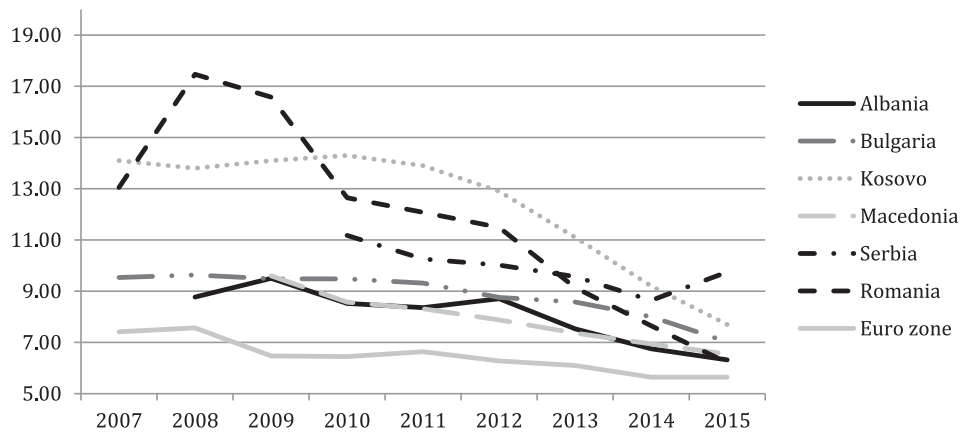

Figure 5. Interest rates on loans, %.

Source: Central banks of Bulgaria, Albania, Kosovo, Macedonia, Serbia, Romania, ECB.

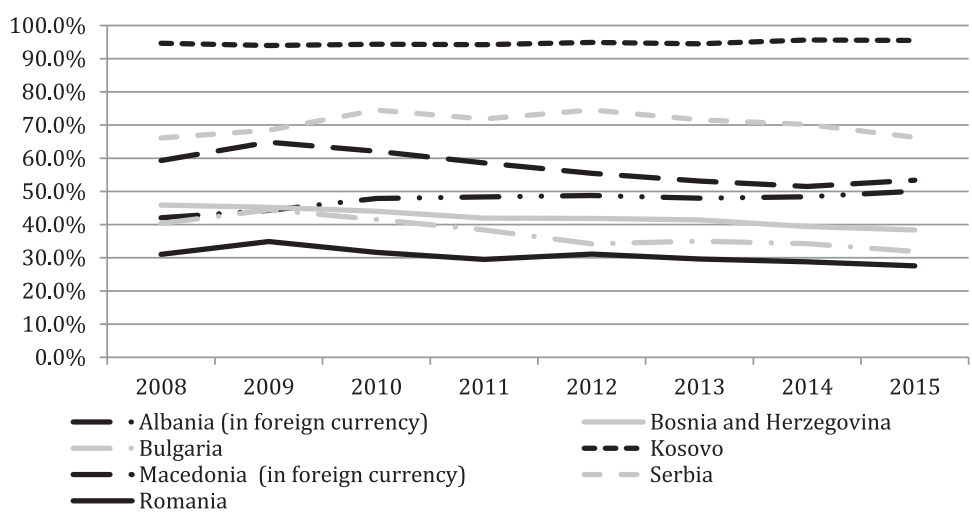

Figure 6. Deposits in EUR (% of the total deposits).

Source: Central banks of Bulgaria, Bosnia and Herzegovina, Albania, Kosovo, Macedonia, Serbia, Romania.

known (Fabris, 2015; Fabris & Galic, 2016; Fabris et al., 2004; Schobert, 2003). The decision for the separation of Montenegro from Yugoslavia, the last republic remaining in the Federation, was not only accompanied but also implemented mainly by leaving the Yugoslavian Dinar zone.

In early November 1999 a decision was made that the Deutsche Mark should be in circulation in parallel with the Dinar, at a floating exchange rate – it is not sure whether it was coordinated or directly imposed by Germany and the Bundesbank. The US authorities kept in step with that development; they might have been among the initiators, e.g.:

> The American emissary Mr Robert Gelbard, in his testimony before the United States Senate Foreign Relations Committee in 2000, described such a regime and the policy of that time as the guiding light for the rest of the region. (Fabris, 2015, p. 15)

From January 2001, the Deutsche Mark became the only legal tender and, since June 2002, it was replaced by the Euro. Paradoxically, euroization seems at first sight to enable monetary policy. Montenegro's system, unlike that of Kosovo, allowed, at the end of the period under review, some attempts to regulate monetary policy (open market operations, reserve requirements, etc.). The case in point of course, is a monetary policy in euro (i.e. the money supply cannot be increased, but its structure may be changed within certain boundaries) (CBGC, 2015). In both cases of euroization, however, the money supply is a direct result of the balance of payments dynamics. It mostly relies on foreign capital, remittances and the official aid from IFIs. The trade flows, though important (such as tourism receipts for Montenegro), are not a determining factor.

The two extremely static and externally dependent currency regimes presented here, the CB and euroization, could be considered as exceptions, rather than being indicative of the overall developments in the Balkans. Still, the peculiar currency regimes in these four countries are not an exception; they are rather a manifestation of a general dynamics, which can be observed, in a milder form, in other Balkan countries, which are at different phases and forms of the same dynamics of monetary dependence. In a nutshell, the first post-communist years in the Balkan region followed the logic of total plundering and redistribution in favour of the local elites and some foreign interests, a "crony transition", in which the state and monetary policy played a leading role.

With certain differences, though it started the transition without a foreign debt and despite numerous successes, Romania as a whole followed the developments in Bulgaria (Nenovsky et al., 2012). As regards the other former Yugoslav countries things are not fundamentally different. The situation in Serbia was specific but even to 2015 the privatization has not been fully completed. The war and hyperinflation (one of the harshest of all time) were brought to an end by several attempts at an externally oriented monetary regime: the famous reform of Dragoslav Abramovic, a former IMF employee and US citizen, who brought in a new currency pegged to the Deutsche Mark and circulating in parallel with the old devaluated Dinar (Mladenovic & Petrovic, 2000; Rostovsky, 1995). Croatia, which for the most part of its recent history adhered to the rules of the fixed exchange rate, even to an informal CB, took a similar course of development. In the beginning of 2015, the dependence of the Croatian monetary policy has come to the point where the government fixes the exchange rate of the Kuna to the Swiss Franc for a year and interventions in the foreign exchange market are the main source of change in the monetary base (CNB, 2015; Vujčić, 2004). The currency regime in Macedonia followed a similar dependent path, namely a fixed exchange rate regime since January 2002 (Fabris & Galic, 2016; Petrevski et al., 2015; Petrovska & Georgievska, 2015). For its part Albania went through an unparalleled crisis of Ponzy schemes, in which leading politicians, including the President, were involved, a crisis that led to a total anarchy in 1997 and to many victims (Bank of Albania, 2012, 2013; Calmès, 1922; Jarvis, 2000).

In 2006, M. Frömmel and F. Schobert published their empiric study „*Exchange Rate Regimes in Central and East European Countries: Deeds vs. Words*", in which they founded that, despite the advertised floating of the exchange rates and the transition to inflation targeting, the countries in Eastern Europe, including Romania, oriented their policy on the basis of the exchange rate, and endeavoured to maintain it stable (Frömmel & F. Schobert, 2006). In 2015, this was still the case in Croatia, Macedonia, Albania and Serbia, where the fluctuations of the exchange rate were weak, not to say insignificant. Moreover, the desire of those countries to integrate the euro zone would inevitably require maintaining the exchange rate within certain boundaries (ERM II). Even in Serbia, where an official inflation targeting was declared as a monetary strategy, the "*Dinarization*" was put as an official target for the Central bank, which considered that a strong monetary substitution and low confidence in the national currency were the main problems (the Serbian dinar was the most volatile of all Balkan currencies).[20]

Concluding remarks

This article has tried to demonstrate that taking the monetary regime into account makes the assumption of the

emergence of a dependent model of capitalism in post-socialist Europe more relevant. Dependent capitalism is marked by the structuring role of foreign capital in national economic dynamics. The monetary regime was not included in Nölke and Vliegenthart initial contribution, nor was it in Hall and Soskice theoretical framework, but it appears to be complementary with other institutional forms, some of which have been mentioned by the four authors (tax regime, social welfare, education system, labour market …). First focused on the Visegrád group, the extension of the dependent capitalism analysis to Balkan countries, to EU new members or non-members, appears particularly relevant and allows us to generalize this assumption to the whole region. This hypothesis raises the problem of tensions between the centre and the periphery of the EU in the context of Brexit, tensions likely to prompt some countries to move in response closer to a form of state capitalism and nationalist economic policy.

Balkan countries' experiences provide almost perfect examples of dependent, orthodox and limited monetary regimes, such as currency boards and euroization. This was the case of Bulgaria, Kosovo, Montenegro, and Bosnia and Herzegovina. In other Balkan countries, where such rigid monetary rules were not adopted, the *de facto* monetary regime and policy similarly followed external anchors and targets. This article shows that these monetary regimes could be analysed as institutional compromises, resulting from interactions between economic, political and global interests in the Balkans and core Western countries' players. It also demonstrates that the dependent monetary regime is a key element of the whole structure of DMEs, that presupposes market liberalisation, i.e. free labour market, low wages, conservative public finances and dominant level of foreign capital and foreign banks.

Several lines of future research lie ahead. One of them is to analyse in depth the interlinkage between the main components of the institutional matrix behind the DME model. The complex relations between monetary sovereignty and political sovereignty can also be the subject of a profound analysis in the context of the Balkan countries. Another direction is to explore continuous historical trends in monetary evolution and monetary geography in the Balkan region. Indeed, the history of the Balkans undeniably shows that monetary regimes have always been dependent and served external markets. That dependence could be traced back to the gaining of political independence during the 19th century from the Ottoman Empire, to the pegging to the Latin Monetary Union and consequently to the 1920s monetary stabilization, the initial joining the German currency zone and later the Soviet ruble zone, up to now when the Balkan countries follow in one form or another the monetary policy of the ECB.

Notes

1. The monetary sovereignty is actually an intricate category which has evolved over time, includes both positive and normative aspects and has rarely been in the focus of scholars' attention in principle (Zimmermann, 2013).
2. It is notably the case of the VoC approach but not of the *Régulation* theory (Amable, 2003).
3. Such are the transitions from a bimetallism to a gold standard, subsequently to a gold-exchange and gold-dollar standards, as well as the floating rates in the 1970s, the European initiative of the European Currency Unit (ECU), the Euro, or the establishment of a CFA common currency in Africa, etc.
4. Cohen's approach is applied to African monetary regimes in Masson and Pattillo (2005).
5. For instance, within the euro area, Germany has a nominally equal, but *de facto* significantly stronger monetary power than Estonia, Slovakia, or even Spain and Italy.
6. The analyses of the monetary regime by Le Vuolo and Pereira (2017) and Chena (2015) follow a similar theoretical direction emphasizing the institutional complementarities in the functioning of the Currency Board in Argentina.
7. See also Pejović (2003), Petrovic (2008), Kornai (2000), Aslund (2007), Csaba (2007, 2011), Innes (2014), Roaf et al. (2014), and Nenovsky and Mihaylova Borisova (2015).
8. In conflict with all EU directives.
9. About preference for foreign currencies in the Balkan region, see OeN (2015) and Scheiber & Stix (2009); about "dinarization" in Serbia, see National Bank of Serbia [NBS] (2015).
10. A review of the monetary regimes in Southeastern Europe is made in the collection of articles in Sevic (2002); also Nenovsky (2009).
11. According to Steve Hanke (2012), the IMF had insufficient expertise of the operation of a currency board and used it generally for political pressure and purposes (Indonesia and Russia refused to introduce a currency board).
12. For more details about the CB introduction, refer to Blanc (2007).
13. An in-depth comparative analysis of the three Baltic CBs is provided in Nenovsky et al. (2001).
14. Historical review of the CBs is made by Schuler (1992) and an exhaustive bibliography by Cross, Heft and Rodgers (2012). See also the example of an African currency board, in Djibouti, and subsequently currency boards in Hong Kong, etc. in Balino and Enoch (1997).
15. See Balino and Enoch (1997) and CBs experiences, summarized by Wolf et al. (2008).
16. The first IMF survey on Currency Boards and its effectiveness appeared at that time.
17. There are three ethnic communities: Bosnians (Muslim), Croatians (Catholics) and Serbians (Orthodox) and respectively three monetary zones (the Bosnian zone, the Croatian zone and the Republika Srpska's zone).
18. A reason to believe that the first practical attempt at a CB dates back to 1994.

19. See also Ignatiev (2005), Nenovsky et al. (2001), and Nenovsky and Rizopoulos (2003).
20. See the *Report on the Dinarization [Sic] of the Serbian Financial System* from the National Bank of Serbia [NBS] (2015). The Dinar is the official Serbian currency.

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