

APPLICATION OF LATIN MONETARY UNION STANDARDS AND PRACTICE IN SERBIA (1868–1918)

Sonja Jerković, PhD, research associate, National Bank of Serbia
Saša Ilić, PhD, research associate, National Bank of Serbia

ABSTRACT: Having acquired autonomy within the Ottoman Empire in 1830 and 1833, Serbia embarked on the process of economic emancipation, reflected, *inter alia*, in the efforts to restore national coin minting after more than four centuries. Following European trends which sought to standardize the money in order to upgrade international exchange, Serbia adopted the standards of the Latin Monetary Union and applied them first in minting small copper coins put in circulation in early 1869, and then also in minting silver coins (1875) and 20-dinar gold coins (1879). Though Serbia's three attempts to formally become a member of the Union proved futile, it adhered to the Union rules concerning coin fineness, weight and size.

KEY WORDS: Serbia, money, dinar, Latin Monetary Union, National Bank of Serbia, minting

JEL Classification: E42, E58, N13, N14, N23, N24, N43, N44.

INTRODUCTION

After the Ottoman conquests, the Serbian medieval state ceased to exist in the second half of the 15th century. With the loss of state independence, the minting of domestic money stopped, and the conquered territories entered the Ottoman government system and new economic relations, including monetary relations. When the expansive period of the Ottoman Empire, during which taxes and other levies were tolerable, was replaced by a decline and crisis, dissatisfaction of the conquered people grew. Early 19th-century Serbia was in a state of unrest amid interfaith differences and the disparity between the conquerors and the conquered, difficulties caused by war failures (primarily with Austria and Venice), weakening of the central government and anarchy in the border areas of the Empire, but also due to the influences that flowed through Europe after the French Revolution. The repression by local Muslim leaders caused a revolt of Serbs, which manifested itself in the uprisings of 1804 and 1815, during which the Serbian Revolution was carried out (Ranke 1991), i.e. the process by which changes in socio-economic relations were made through national liberation, including a change in the ownership structure. In negotiations that replaced the armed struggle, the leader of the Second

Uprising, Miloš Obrenović, provided Serbia with the autonomy and the status of a principality (1830 and 1833), and the process of modernisation began.

Despite the internal turmoil embodied in dynastic conflicts and the efforts of local leaders to limit the Prince's autocracy, Serbia sought to develop a civil society by affirming the process of building state institutions and the army, achieving church autonomy, creating an environment for free trade, ensuring equal property and civil rights of its subjects before the law (the Civil Code of 1844 introduced legal security and inviolability of private property), encouraging the development of culture and supporting education by opening schools and providing foreign scholarships for students. Further impetus to social progress followed during the second government of Prince Mihailo Obrenović (1860–1868), an educated ruler, determined to change relations in foreign and domestic politics in the spirit of enlightened absolutism. He managed to send off the last Turkish military garrisons in Serbia and keep the annual tax and flag on the Belgrade fortress as the only symbols of vassalage. He concluded agreements with Montenegro, Greece, and Romania in order to create a Balkan alliance. Internally, he passed laws on the National Assembly and the army. Although the economy was of a natural type (over 90% of the population were peasants), there was an economic boom in Serbia, and part of the trading class, which became rich by selling agricultural products to the neighbouring Austria, actively participated in the political life in order to bring examples of European progress to Serbia. (Stojančević et al. 1981: 135–142).

MONETARY ISSUE

Money is one of the characteristics of a state with an economy based on the division of labour, especially of a nation state. Its function of a general asset or unit of account in the exchange of goods and calculation of debts and loans, however, is mostly conditioned by the definition (in terms of value) which reflects, among other things, state policy (Milić 1975, 821; Davies 2002, 29). The first Serbian insurgent government during the armistice (1807–1809) began interventions in the field of monetary relations. The money circulation in the rebellious Pashalik of Belgrade needed to be normalised in conditions of constant decline in the value of Turkish money and increase in trade in European gold and silver money. The insurgents banned the entry of paper money into the country, due to mistrust, and limited the amount of silver and gold that could be taken out because they needed to make special purchases. Also, in 1808, the value of "various money" was regulated. This would have been the first Serbian tariff (exchange rate list), but it was not preserved (Kunibert 1901, 27; Vučo 1955, 166).

After the Second Serbian Uprising (1815), Serbia gradually acquired the status of a vassal principality, but without its own money. However, it tried very early to implement its own monetary policy, first by setting monetary tariffs (exchange rates). Namely, in early 19th century, as many as 43 gold, silver or copper currencies were circulating in Serbia, which were denominated in grosh.¹ They were roughly divided into imperial (European) and Turkish money. Imperial, especially Austrian money was considered better, so the Turkish government tried to suppress it, and *vice versa*. That is why money tariffs in Constantinople and Vienna changed frequently, limiting economic activity and the circulation of money. The Serbian Prince Miloš was persistent in his attempts to suppress the increasingly worthless Turkish money, also seeing this to weaken the Ottoman government's influence. Objective circumstances also helped, because according to the Sultan's firmans, Turkish money was constantly sliding against the Austrian ducat, losing slightly more than half of its value in the 1812–1831 period, i.e. dropping from the exchange rate of 11 grosh and 20 paras to 24 grosh for one ducat (M. Petrović 1897: 496–497).

According to some authors, Serbian monetary tariffs were determined immediately after the Second Uprising, and the earliest one recorded is from 1819 (V. Petrović, N. Petrović 1882, 290; Milić 1974: 365). However, in all probability, they fully adhered to the rate prescribed by the Sultan. As early as 1821, and especially since 1822, Prince Miloš did not agree to fully adhere to the tariff imposed by Constantinople, which sought to artificially strengthen the value of the deteriorating Turkish money (V. Petrović, N. Petrović 1884: 464–465, 478–479, 489, 497, 501; M. Petrović 1897: 489–490). Although a compromise solution was found in the negotiations with the Sultan's vizier (different tariffs for calculating taxes intended for the Turkish authorities and for internal trade), this essentially established the first partially independent monetary tariff, thus introducing a double exchange rate into Serbian economy through the back door (Gavrilović 1909: 403–405; Kosier 1924: 266–267; Milić 1975: 826).²

Opposing aspirations of the Serbian and Ottoman authorities led to Serbia officially introducing a double exchange rate – tax and market grosh in 1833. In daily trade or when collecting taxes with imperial money, the grosh's value stayed unchanged (40 paras), while in

¹ Grosh was not a type of money or means in circulation, but a unit of account. It was introduced during the Austrian rule in the northern part of Serbia (1717–1739) and served to calculate all payments, regardless of which circulating currency was used. One grosh was worth 40 paras. (Dugalić 1999: 15).

² Miloš tried to suppress the weakened Turkish money in favour of the imperial money, so he recommended collecting taxes in that money only. Although he agreed to pay taxes to the Sultan at the prescribed rate, after pressures of the Ottoman government, he managed to ensure trade at the real exchange rate (M. Petrović 1897: 488–490; Gavrilović 1909: 403).

the case of paying taxes with Turkish money, its value was halved. Serbian subjects and the state treasury benefited from that because revenues increased without a real increase in the tax burden, but so did the Prince who manipulated with tariffs (M. Petrović 1897: 492–494; Milić 1975: 826).

DOMESTIC MONEY MINTING AND THE STANDARDISATION ISSUE

Over the next decades, Serbia continued to build institutions and strengthen statehood, including elements of monetary policy, but in the conditions of heightened internal tensions. The arbitrariness of the Serbian Prince and the resistance to absolutist ruling methods, combined with the conflict between two Serbian dynasties (Karadžević and Obrenović), led to the expulsion of Prince Miloš (1839), the coming of his sons Milan (1839) and Mihailo (1839–1842) to power, the overthrow of the Obrenović dynasty and bringing to power of Prince Aleksandar Karadžević (1842–1858), then the return of Miloš (1858–1860) and again Mihailo (1860–1868). However, political tensions, although aggravating, did not stop social and economic development.

During the second reign of Prince Mihailo, there were even more currencies in circulation than before. Not counting the copper coins which were used only to return change, as many as 47 different currencies (8 gold and 39 silver) were circulating in Serbia. As so many currencies and the double exchange rate of grosh did not affect the stability of the money market, the government tried to strengthen the money tariff by strengthening its legal framework. Hence, instead of previous public acts in the rank of tariffs and decisions (from 1855, 1858, 1859, 1861 and 1865), on 13 April 1866³ the Act on Monetary Tariff was passed. The act did not abolish the double exchange rate, but only confirmed it. In fact, the law determined the tariffs of currencies in tax grosh, while the exchange rate of market grosh was left to the market, i.e. to “free agreement” between natural persons. However, for the needs of the part of public trade carried out at the market exchange rate, the Minister of Finance was to determine the exchange rate of currencies in the market grosh as well. This was done on 14 April 1866, when the Minister of Finance Kosta Cukić determined the monetary tariff in the

³ *Srbske novine*, [*Serbian Gazette*], No 38, 5 April 1866.

The Julian calendar was used in Serbia until the end of World War I. In the 19th century, it deviated from the Gregorian calendar by 12 days, and as of the 20th century by 13 days. The dates in this paper are written in the current calendar, while the dates in the sources are written in the original (Julian) calendar.

“market exchange rate”. The difference between the two exchange rates was somewhat more than double (1 imperial ducat was worth 28 tax or 60 market grosh).⁴

Apart from the difficulties in payment operations due to the presence of many currencies, the fact that the grosh was divided into 40 paras posed a special difficulty in calculating money. Therefore, already in late 1850s, the idea of introducing a decimal system appeared in the National Assembly.⁵ At the same time, the question of minting domestic money and establishing an issuing bank was constantly raised among the Serbian trade and political elite.⁶ This was viewed not only as an economic issue, but as a national one as well. The introduction of domestic money was supposed to be a step further from the Ottoman government and closer to Europe. Therefore, the National Assembly, held in October 1867, concluded that it was necessary to mint Serbian currency and consolidate measures as soon as possible (introduce a metric system), and it was assured by the Minister of Finance that serious work was being done in that respect (*Protocols*, 1868: 293-294).

The minting of domestic copper coins in small denominations was supposed to simplify daily trade, limited due to the multitude of currencies and the impossibility to return change. In February 1868, the Prince sent Minister Cukić to Vienna to obtain the consent of the authorities to mint Serbian money in the Vienna minting house. The Minister obtained support, and the minting, which had not only economic but also political implications, was assessed as a “monument of Serbian freedom and progress”.⁷ On that occasion, another important economic effect was achieved, aimed at encouraging foreign trade relations, and that was the adoption of French minting standards from 1865.

Although it was long believed that Serbia accepted the French minting standard in the Act on Minting of Serbian Silver Coins of 1873, recent archival research has confirmed that this was done in 1868 after the Deputy Minister of Finance, Milan Petronijević, submitted the draft project on solving the monetary issue to the State Council⁸ on 23 March 1868. Based on that project, on 26 March, the Council recommended that the French minting standard be

⁴ *Zbornik zakona i uredaba Kneževine Srbije* [Collection of acts and decrees of the Principality of Serbia], No 20, Belgrade, 1867: 43–47.

⁵ MP Kosta Antula made a remark about the inadequacy of the then system (*Protocols*, 1859: 34–35).

⁶ Ugričić wrote about ideas in the press, projects discussed in the Assembly and foreign offers (1967: 54–56).

⁷ *Srbske novine*, No 14, 1 February 1868; No 41, 6 April 1868; No 20, 15 February 1869.

⁸ The State Council changed its powers several times in the 19th century, including the period when it was the highest authority in the country. At this time, it still had an important legislative and administrative function, especially in the administrative-judicial and financial areas.

adopted in its entirety, based on decimal metrics, free minting and melting of gold and silver coins of 900/1000 fineness, and a fixed ratio of monetary gold and silver, i.e. bimetallism, which the Prince accepted and confirmed in a decision of 27 March 1868. This decision also determined the types and appearance of the denominations whose minting began in Vienna. The adopted standard would be applied not only to the minting of copper, but also to future minting of first small silver, and later large silver or gold coins.⁹

The standard accepted by Serbia was the backbone of the convention on uniform standards of minting, which was accepted by Italy, Belgium, and Switzerland at the initiative of France in December 1865. The press soon renamed the convention as the Latin Monetary Union (LMU). The aim was to solve the problem of silver money circulation in the former empire of Napoleon I, which bequeathed homogeneous standards for silver and gold coins. In France, Belgium and Switzerland they were denominated in francs, and in Italy in liras. These countries had the same bimetallic money, which moved freely across the borders and was informally exchanged at the rate of 1:1. The standardisation was based on the French gold franc from 1803, which was minted in denominations of 5, 10, 20, 40, 50 and 100 francs, with 20-franc money weighing 6.45161 grams of fine gold and being 21 millimetres in diameter. The gold franc could be exchanged for silver at the rate of 1:15.5, which was an approximate ratio of the value of the two metals in 1803 (Bordeaux, Jonung 1999: 14–16; Gnjatović 2015: 14; Einaudi 2018: 17).

In a sense, the initiators of the LMU considered the unification of money minting to be the first step towards future common money and Europe as a single monetary space based on the gold standard. Therefore, other countries were expected to join the union. Less developed countries could expect economic benefits from accession, as the decimal system and the restriction of small circulating silver money had a positive effect on exchange rate stability and money circulation within the country, while leading to an anticipated improvement in trade and financial ties with foreign countries. At the same time, the accession to the LMU did not affect monetary sovereignty too much, because in addition to offering the possibility of preserving the name and features of the national currency, the convention did not restrict the issuance of small copper coins or banknotes by the issuing bank. Hence, several neighbouring countries and those closest to Serbia adopted the LMU standards, including Greece, Bulgaria, Romania and Austria-Hungary (Gnjatović 2015: 18–21; Mangin, Nenovsky 2021: 5–9).

⁹D. Gnjatović derived the conclusion on the adoption of the French standards based on the sources of the State Archives of Serbia (2015: 14).

Apart from following the lead of Greece and Romania, Serbia's decision to accept the standards was also influenced by the decision of its most important trade partner, Austria-Hungary, to partially adopt the rules of the LMU without joining it.¹⁰ In Serbia, it was believed that the domestic issue of money and the implementation of standards would not cause social or economic turmoil, because it had not previously had its own money, and that the value of the accounting tax *grosh* was almost equal to the value of one French franc (Gnjatović 2015). Another factor to be taken into account is that of modernisation and getting closer to Europe, a commitment insisted upon by the educated ruler of Serbia. However, Prince Mihailo was assassinated on 10 June 1868 and did not live to see the first modern Serbian money minted in denominations of 1, 5, and 10 paras that started circulating in February 1869.¹¹ Serbia's position on full acceptance of the LMU standard was explicitly set out in the Act on Minting of Serbian Silver Coins of 1873, which set the dinar as the unit of currency, divided into 100 paras, and its fineness, mass and size corresponded fully to those of the franc.¹² Despite several attempts that followed Serbia did not become a full member of the LMU. However, reliance on LMU standards and practices applied by member states remained an important issue in Serbian monetary policy.

After gaining independence at the Berlin Congress in 1878, in order to suppress foreign currencies from circulation, Serbia introduced the minting of gold coins by the Act on the Serbian National Currency.¹³ This act determined the weight and fineness of gold, silver and copper coins. Although the law repeatedly referred to LMU standards, it introduced a kind of *incomplete bimetallism*, as it did not provide for freedom of minting, nor did it give silver money unlimited capacity of legal tender, whereas it only indirectly determined the relation between gold and silver money (Ugričić 1967, 65). This was a consequence of broader European developments regarding the currency backing. Since the production of silver had been growing since 1873, the higher volume of silver coins in circulation led increased storing and safe-keeping of gold coins. Hence, the LMU members stopped minting 5-franc silver coins (suspension period) in late 1878, introducing the so-called floating or limping bimetallic standard (Willis 1901: 181–192; Nenovsky, Vaslin 2020: 75; Bae, Bailey 2011: 133–134).

¹⁰ Austria-Hungary did not join the LMU because it did not accept bimetallism, but on 24 December 1867, it signed a special monetary agreement with France, mutually accepting gold money at a certain rate. After that, Austria-Hungary minted some of its gold coins according to the LMU standard (Willis 1901: 83).

¹¹ *Srbske novine*, No 20, 15 February 1869. Previously, the law prohibited future entry of old Austro-Hungarian copper coins. *Srbske novine*, No 19, 13 February 1869.

¹² *Srpske novine*, No 267, 7 December 1873.

¹³ *Srpske novine*, No 279, 19 December 1878.

PRIVILEGED NATIONAL BANK OF THE KINGDOM OF SERBIA

The idea of founding a Serbian issuing and central bank gradually took shape during the second half of the 19th century. The lack of capital in Serbia affected traders but, given the agrarian character of the country, also the peasantry who borrowed from the loan sharks, at huge interest rates (Ilić, Jerković, Bulajić 2015: 39–40). However, it was not entirely clear to the state and economic elite what kind of banking system Serbia needed, nor exactly what role the central bank should play. Its credit function was highlighted, while the issuing function was not discussed that much. The question of the origin of capital was raised, with King Milan Obrenović (1868–1889) and representatives of the Liberal and Progressive Parties being closer to the idea of establishing the national bank with foreign capital. However, corruption scandals that accompanied the construction of railways and other concessions in Serbia and the collapse of the largest foreign concessionaire, the French General Union (1882), strengthened the position of Belgrade businessmen, as agents of trade with the neighbouring Austria-Hungary, that the central bank must be established with domestic capital. Since this attitude prevailed, it would be established as a joint stock company of domestic businessmen and other shareholders, Serbian subjects, under the appropriate control of the state (Jerković 2018: 9–30).

In January 1883 the Act on the National Bank was adopted and confirmed. The basic task was lending to corporates. The National Bank also was given the privilege of issuing banknotes. The Act provided for the printing of paper money in denominations of 50, 100, 500 and 1000 dinars, with a gold backing. This was an attempt to gradually introduce the gold standard and monometallism, because no other (silver) backing was envisaged for paper money.¹⁴

The establishment of the National Bank was a step forward in the Europeanization of Serbia. However, the very beginning was associated with many problems that posed a challenge to the administration and the Ministry of the National Economy. In mid-July 1884, after the first issue of money was prepared and printed in Belgium, the operational work of the National Bank began (Hadži-Pešić 1995: 96). The 100-dinar banknote was put into circulation. However, two problems quickly emerged. First, 100 dinars represented a great value,¹⁵ which limited the

¹⁴ *Srpske novine*, No 13, 19 January 1883.

¹⁵ In the early 1880s, 100 dinars was a significant amount of money for which you could buy around 625 kilograms of wheat, 400 kilograms of flour or bread, 400 liters of milk, 360 liters of plum brandy or 130 kilograms of pork. Calculation according to: *Državopis Srbije [Serbian State Records]*, XXII, Belgrade: Ministry of the National Economy, 1883; *Srpske novine*, 1883.

use of that banknote in everyday trade. Secondly, the part of the population that engaged in traditional trade had more confidence in coins, especially the Austrian ducats. The memory of the past times also contributed to their attitude of distrust. As noted by Charles Boschmans, an expert from Belgium who came to help in the organisation of the National Bank, distrust is “quite understandable in a nation that has seen many wars and revolutions in fifty years and where it has become commonplace to hide money”.¹⁶ Foreign diplomats, however, ascribed the slow acceptance of paper money to an insufficiently civilized population (Lampe 1971: 123).

The time before and after the beginning of the work of the central bank in Serbia is marked by complex economic and political circumstances. Internal disputes between the increasingly authoritarian king and the opposition, led by a growing radical movement, extravagance of the Court, disrespect for the constitution and the law, arbitrary dissolutions of the Assembly and government crises, riots and repressive measures that followed, were intertwined with external failures, such as the attack on Bulgaria and an increasing economic and political dependence on Austria-Hungary. Only a few years earlier, the struggles for national liberation, successful but unfinished, left serious financial consequences. Under such circumstances, the authorities proved unable to properly manage public finances, so expenditures increased due to obligations imposed by the independence, while the growing deficit was offset by the introduction of new taxes. As this was not enough, the state increasingly resorted to foreign and internal borrowing and began to fall into the vicious circle of taking new loans to repay due debts (Jovanović 1990b: 204–206; Gnjatović 1991: 15–65).

10-DINAR BANKNOTE

The National Bank promptly addressed the issue of poor money circulation. Already in October 1884, this matter was discussed in Managing Board meetings. Vice-governor Georg Weifert¹⁷ and the Belgian expert Boschmans reported orally to Prime Minister Milutin Garašanin that it is the lack of smaller-denomination banknotes that poses a problem and that they therefore need to be printed. Though the National Bank’s management agreed it was necessary to issue the 10-dinar banknote, open issues remained with regard to amending the

¹⁶ At the request of Serbia, Charles Boschmans, chief accountant at the National Bank of Belgium, was sent from Belgium in February 1884 to provide professional assistance. Archives of the National Bank (ANB), Zbirka reprodukovanih materijala [Collection of reproduced materials] (25), National Bank of Belgium 1883–1886 (2), Dossier “Mission de Mr Boschmans á Belgrade”.

¹⁷ Georg Weifert (Serb. Đorđe Vajfert, 1850–1937), Serbian industrialist of German descent. He headed the National Bank for almost three decades, serving several terms in office (Ilić, Jerković, Bulajić 2010).

Act (which did not envisage this denomination) and the backing.¹⁸ As the 100-dinar banknote did not stay long in circulation in the coming months either, the National Bank's management discussed the same matter in December 1884. Long debates ensued, but the conclusion was nothing new – coins had even previously been dominant in circulation and the 100-dinar banknote is too large. The compromise was to issue a 50-dinar banknote (envisaged by the Act) in early March 1885, but its value was too high for everyday circulation as well and did not achieve the anticipated effect (Hadži-Pešić 1995: 122).

The National Bank and businesspeople agreed that it was necessary to amend the Act on the National Bank and introduce the 10-dinar banknote, but they had different views on its backing. Originally, already in December 1884, the National Bank's Managing Board took the position that 10-dinar banknotes should be denominated in gold. This position was to be endorsed by the Shareholders' Assembly convened for March 1885.¹⁹ In the meantime, this issue caused much discussion, even on the pages of the Serbian official gazette.²⁰

Though aware of the gold's popularity among the population because it was easy to transport and store, some advocated silver because neighbouring countries, Austria-Hungary in particular, had silver money in circulation and it would have been difficult to keep gold-backed banknotes in circulation, while their outflow would threaten lending to corporates as the National Bank would have to raise its interest rate. Opponents pointed to the risk of a rising *agio* and held that the silver banknote would not suppress foreign coins. As opinions in the National Bank were divided as well, the Managing Board report submitted to the Shareholders' Assembly did not even mention the silver backing, whereas the Supervisory Board report spoke of it as necessary (*Privileged*, 1885: 25–27).

Because the number of shareholders who confirmed their attendance was insufficient, the meeting was postponed for April. After a two-day discussion attended by the representatives of the corporate sector and the government, it was decided, by a majority of votes, that the 10-dinar banknote should be issued with a gold backing. The government representatives did not express their opinion on this matter, but only promised to submit the proposed amendments to the law at the first National Assembly (*Privileged* 1886: 42–44; *National Bank* 1909: 44). That,

¹⁸ ANB, Privileged National Bank of the Kingdom of Serbia, Management (1/I, UPR), Minutes from the Managing Board meeting, 9 October 1884, v. 1.

¹⁹ ANB1/I, UPR, Minutes from the Main Board meeting, 30 December 1884, v. 16; *Srpske novine* No 51 and 52, 6 and 7 March 1885.

²⁰ State Archives of Serbia (AS), Ministry of National Economy, Trade (MNP-T), PF III, Rno 93/1897; *Srpske novine* No 51–58, 6–14 March 1885.

however, did not happen and the National Bank was forced to reduce the number of its staff, because its income barely sufficed to cover its expenses. When, in May 1885, the Government did have its say after resolving a long-standing cabinet crisis (Jovanović 1990b: 218–219), it surprised the National Bank by voting for a silver backing. Governor Filip Hristić's efforts to bring the government to change its mind were to no avail.²¹

It was only several years later that the reasons for such government's position became clear. Namely, the government intended to issue its banknote backed by the Lottery Loan of 1881, whereby currency circumstances would be aggravated further.²² The government placed pressure on the National Bank repeatedly and revived the idea of banknote issuance by the government several times in the coming years, without clearly defining the backing or whether this would be genuine currency in circulation, or it will only serve to settle government liabilities (*National Bank* 1909: 149).

In order to preserve its position of an independent institution as much as possible, the National Bank's management convened an extraordinary Shareholders' Assembly. Though aware that they had been blackmailed, the Governor, the management and the Assembly chose a lesser evil. The use of the 100-dinar denomination alone would have seriously jeopardised further functioning of the National Bank. For this reason, in early October 1885, the Assembly issued an acclamation endorsing the proposal about the 10-dinar silver banknote, and only several days later the National Assembly adopted draft amendments to the Act on the National Bank. After the adoption of the Act and the unsuccessful war with Bulgaria which not only ended in a defeat but also shed light on the King's rashness, the lack of money intensified further and the Government invested efforts to make sure that this banknote entered every home in the country and be accepted as legal tender. Until the end of World War I, this banknote accounted for 95% of money supply.²³

In this way, albeit under pressure, bimetallism was confirmed in Serbia as a principle which was increasingly abandoned by the LMU after 1878 in its effort to extend the gold

²¹ ANB1/I, UPR, Minutes from the Main Board meeting, 27 June 1885, v. 16.

²² A large part of these 100-dinar bonds in gold remained uninvested, and the government planned to use them as backing for issuing 10-dinar securities in gold in 1887 (*Stenografske beleške [Stenographic Notes]* 1888, 912–915).

²³ ANB1/I, UPR, Minutes from the Managing Board meeting, 31 October 1885, v. 1; *Privileged* 1886: 49; *Srpske novine* No 213, 27 September 1885 and No 45, 26 February 1886.

The National Bank designated the 10-dinar banknote as *temporary*, both because of the government's pressure and because of its leaning towards a gold backing. The banknote, however, was more successful than anticipated. The population accepted it so well that it came to be known as the "bank", a term used colloquially to denote all future 10-dinar banknotes. AS, MNP-T, F VII, r 38/1891.

standard (Gnjatović 2015: 18). In the future, gold- and silver-backed banknotes would co-exist side by side in Serbia, changing some of the trading practices. The *currency clause* began to be applied in international agreements, safeguarding the backing from a possible decline in the value of domestic currency relative to the gold used for settling international obligations.

AGIO AND THE NATIONAL BANK

In domestic trade, the relation between gold and silver and banknotes payable in gold and silver was determined by calculating the agio or the disagio.²⁴ This relation became particularly important when the banknote payable in silver was introduced along with the gold-backed one, especially since the circulation of the 10-dinar banknote was on a continuous rise.²⁵ It soon came to be thought that such powerful growth in circulation pushes up the agio on gold, which sowed disquiet among not only traders, but common individuals as well. In its discussions with the government, the National Bank pointed out that the agio was rising because of a lack of gold which was only available during the export season, as well as poor economic circumstances, low export capacities and an unfavourable structure of exports (raw materials) and imports (finished products), disordered public finances and the government's borrowing against a commitment to settle its debts in gold-backed money. Since 1890, the National Bank tried to prevent large seasonal fluctuations by intervening in the market, though it was clear that this measure was not enough to suppress the agio.²⁶

The silver banknote, issued increasingly by the National Bank, almost put gold banknotes out of circulation. This hindered some economic activities and resulted in a several years' dispute with the government.²⁷ Repeated attempts to come to an agreement regarding the

²⁴ An agio is the amount by which a currency exceeds its nominal value, or the surcharge that needed to be paid when using poorer-quality money (paper-gold). Conversely, a disagio is the amount deducted from the nominal value, or the deduction when making payments in better-quality money. The agio and the disagio were expressed in percentage terms (e.g. a gold agio of 35% means that 100 dinars in gold is 135 dinars in paper money, and a 25% disagio means that 100 dinars in paper is 75 dinars in gold) (Kohn 1937: 13).

²⁵ According to the National Bank, it was only the silver banknote that was in circulation, while the circulation of the gold banknote was so negligible that it cannot even be spoken of as a means of circulation (*National Bank 1909*: 48).

²⁶ The agio had been a strain on Serbian finances even before the National Bank was established, and it was typical for all economically undeveloped countries with foreign loans. It gained momentum in Serbia once the silver banknote was introduced. The amount of the agio varied and depended on many factors: yield, volume of export and import, budget deficit, etc. The National Bank first tried to influence the agio exchange rate by buying or selling gold, but this measure proved to be inadequate and conducive to speculation. The problem of the agio was greatly diminished once the budget became more balanced (*National Bank 1909*: 155–161).

²⁷ Article 11 of the Act set out that there may be two and a half times more banknotes in circulation relative to the metal backing. No more than one quarter of gold could be substituted by silver. *Srpske novine*, No 213, 27 September 1885.

excessive volume of silver money were futile. The government thought that, by issuing gold-backed silver banknotes, the National Bank was acting in breach of the law and failing to achieve the primary goal for which it was established (cheap lending to the corporate sector), even harming the interests of the people and the government.²⁸ The public also accused the National Bank of using a part of silver banknotes for buying and selling gold, storing it and distributing it through dividend payments, instead of lending to the corporate sector (Jelić 1904; Blagojević 1980, 356–357). Finally, notes of dissonance emerged in the National Bank itself. In shareholders' meetings in 1891 and 1892, opinions contrary to the management's position were voiced, claiming that the large issue of the silver banknote not only breached the law but also harmed trade. If truth be told, this was the position of shareholders belonging to the opposition Liberal Party or the export lobby in the Belgrade Chamber of Trade. The National Bank responded to these objections by saying that it was doing this in order to contain fluctuations in the agio and rein in speculation, though it did own up that this transaction produced "certain benefits" (*National Bank* 1909: 159–160; *National Bank* 1934: 34).

In the 1890–1893 period, the National Bank tried to rein in the agio through market interventions, but with limited success. Political circumstances were not conducive to bringing order into finances, which was a precondition to consolidation. The Radical Party's government was not successful in narrowing the fiscal deficit, and even the renewed agreement with Austria-Hungary from 1892 failed to improve the unfavourable terms of trade (Rajić, Leovac 2018, 246–251). In such circumstances, the government tried to resolve the problem of agio and silver money issuance without the consent of the National Bank. In November 1893, King Aleksandar Obrenović (1889–1903) highlighted in the National Assembly that it was of paramount importance to regulate financial circumstances, and amendments to the Act on the National Bank were soon adopted.²⁹ In the discussion, the National Bank was designated as the key culprit for the rise in the agio. It was criticised for introducing the silver banknote, which was seen as the fruit of the previous, Progressive Party regime, during which record high foreign borrowing had also taken place (Jovanović 1990a, 205; Pešić, Mladenović 2017). The amendment to the Act meant that the envisaged gold backing would only be used for gold-

²⁸ AS, MNP-T, f V, 72/96, Reports of commission members and other materials.

²⁹ *Srpske novine* No 283, 18 December 1893.

denominated banknotes, while the silver backing was reserved for banknotes denominated in silver.³⁰

Governor Weifert notified the Ministry of the National Economy that he disagreed with the amendments because they were adopted unilaterally and spawned legal uncertainty.³¹ Notwithstanding its disagreement, the National Bank sought instruction as to how to implement the amendments, as the quantity of silver banknotes in circulation well exceeded the amount of silver in the treasury. There were two options: to sell gold in order to procure silver for backing the circulation or to downsize circulation to match the balance in the treasury. As the government of moderate radicals supported a kind of deflationary policy, it was decided to reduce gradually, over a period of five years, the number of silver banknotes in circulation.³² This intention was, however, not realised due to political differences embodied in the crisis of parliamentarism, suspension of the democratic constitution (of 1889) and restoration of the old constitution (from 1869).

When financial and economic difficulties lost their primary importance, the National Bank used the well-tested tool of pressurising the government and adopted the position that circulation can only be reduced by downsizing credits. In October 1894, when the economic situation was further aggravated by lower-than-expected agricultural yields (*Privileged* 1895: X), it notified all money institutes that the volume of credits would be reduced by 20 percent. These institutes soon swamped the Ministries of Finance and the National Economy with requests that such decision of the National Bank should not be implemented. At the same time, since the National Bank did not intervene by buying and selling gold in order to soothe the market, the agio climbed to as much as 19% (*National Bank* 1934: 34). For this reason, already in November 1894, the Minister of the National Economy requested that the National Bank should recall its decision to downsize credits, highlighting poor economic circumstances in the country. Next year, this request was reiterated, and it was decided to temporarily abandon the withdrawal of silver banknotes (*Privileged* 1896: XII).

The contention surrounding this issue and the irregular state of things lasted until the Act was amended in 1896, restoring the practice according to which backing for silver banknotes

³⁰ In an effort to further reinforce the gold standard, these amendments also came to include the provision that the National Bank may, in the future, issue 20-dinar banknotes in gold as well.

³¹ AS, MNP-T, f V, 72/96, Letter No 14711, 21 December 1893.

³² AS, MNP-T, f V, 72/96, The Government's plan was that circulation should measure 10 million at the end of the fifth year, which corresponds to a backing of 4 million (40%).

could be in either of the two precious metals, but limiting its volume to 25 million dinars.³³ By making these amendments, the government made it easier for the National Bank to operationally implement the provisions of the Karlsbad arrangement, agreement on the conversion of state loans with abroad large creditors of the Serbian government (Mijatović 2012; Gnjatović 1991).

The Act on the National Bank was amended three times without the National Bank's consent in the 1898 through 1900 period, because it turned out that any attempt to restrict the circulation of silver banknotes meant a reduction in lending to corporates. The agio at the same time posted record-high growth. The key to this problem lay in borrowing by the government which, because of King Aleksandar Obrenović's personal regime and frequent political crises, resorted to emergency loans with the National Bank.³⁴ Poor public finances continued and the government used new borrowing to try and postpone bankruptcy (Rajić 2011). The conclusion of the Monopoly Loan in 1902 was a step towards bringing order into Serbian finances by resolving a part of domestic debt (Gnjatović 1991: 87), while a more noticeable improvement took place from 1904 onwards. The Ministry of Finance took the position that the National Bank should not be a "source for reinforcing government revenue" (*National Bank* 1934: 38), and the loan concluded in France was also used for repaying government debt to the National Bank. However, the question of restricting the circulation of silver banknotes remained the bone of contention for the central bank and the new Radical Party majority which saw in it the bulwark of the exporting lobby, connected with the recently overthrown Obrenović dynasty and the ideology of the rival Progressive Party (Lampe 1971: 173–210).

Negotiations surrounding the extension of the National Bank's privilege, which was to expire in 1908, provided an opportunity to place pressure on the Bank and show the government's dissatisfaction because of its failure to subscribe the full amount of initial capital and open branch offices, as well as because of the quantity of silver banknotes (Pavlović 1908). After long negotiations, a joint committee,³⁵ set up in 1906, managed to come to a compromise solution, just before the privilege expired. At the government's insistence, the silver banknote contingent was limited to maximum fivefold value of the subscribed initial capital.³⁶ The Act

³³ *Srpske novine* No 36, 16 February 1896.

³⁴ In late 1898, government debt measured around 15.9 million and was two times higher than the entire earlier borrowing (*National Bank* 1934: 36, 38). ANB 1/I, UPR, Minutes from Managing Board meetings, March/April 1898, v. 13.

³⁵ ANB1/I, UPR, Minutes from Managing Board meetings, 1905–1906, v. 8.

³⁶ *Srpske novine* No 69, 25 March 1908.

on Extending the Privilege did not resolve the currency issue, however. Its resolution awaited more propitious circumstances when the National Bank would “be required to convert all silver-denominated banknotes into gold-denominated banknotes” (*National Bank* 1909: 199). Though the National Bank was designated as the culprit for the agio, the government was aware that this matter could only be discussed when a higher surplus was recorded, the foreign trade balance turned positive and “there are no longer fears that the bank’s gold backing could be exhausted due to a shortage of gold in the country”. When such perspectives materialised to a great extent in 1912, Serbia entered a seven-year period of wars which would defer the final resolution of the currency issue for a longer time (*National Bank* 1934, 68).³⁷

CONCLUSION

In renewing its monetary system, the Principality of Serbia originally intended to adopt all principles of the Latin Monetary Union. This is confirmed by the Project on Resolving the Monetary Issue from 1868. The provision referring to the fixed, precisely determined relation between silver and gold was, however, not applied since 1878, resulting in a sort of *incomplete* bimetallism in the country. Though, subject to the 1883 Act on the National Bank, Serbia intended to issue gold-backed banknotes only, the attempt to make the domestic 100-dinar gold banknote generally accepted in trade ended in a failure. It is not only the high denomination which posed an obstacle, but also the belief that gold, as the more precious metal, needed to be stored. Already in 1885, the Act on the National Bank was amended, putting the 10-dinar silver-backed banknote into circulation. This banknote was infrequently exchanged for metal and as such was fit for circulation (it will make up 95% of money supply until World War I). It had, on the one hand, a positive effect on the National Bank’s core function – lending to corporates and the government.

In addition to many advantages, such as increased circulation and corporate lending, the introduction of silver banknotes in Serbia also had its downside. Namely, as the economically more developed part of the Western European bimetallist bloc (France, Belgium, Switzerland and Italy) tried to standardise the value of silver money and limit its supply, Serbia and its National Bank put into circulation before World War I not only the 10-dinar banknote but also the 100-dinar banknote payable in silver. The Government was forced to settle its annual liabilities under international loans in gold, incapable of maintaining the dinar’s convertibility.

³⁷ During the World War One, the National Bank was even threatened with the loss of all movable assets, i.e. the entire treasury. This did not happen only because of the resourcefulness of some members of the board of directors and a few officials (Ilić 2014).

However, though the issuing institution was criticised as being the only one responsible for the growing agio, which was on a constant rise between 1893 and 1903, it turned out that the regulation of political circumstances after the change of dynasty and the settling of government debt with the National Bank and abroad also influenced currency circumstances. In the vicious circle of mutual accusations regarding who was guilty for the rise in the agio, the answer was that both sides were responsible: through an excessive issue of silver banknotes, the National Bank suppressed the gold currency and manipulated with data on the quantity of money in circulation, while the government, because of a balance of payments deficit, foreign borrowing and political turmoil, frequently resorted to loans with the National Bank, serviced precisely by banknotes without an adequate backing.

SOURCES AND LITERATURE

Archives of the National Bank: Privileged National Bank of the Kingdom of Serbia] (ANB 1/I); Zbirka reprodukovanih materijala, Narodna banka Belgije [Collection of Reproduced Materials, National Bank of Belgium] 1883–1886 (ANB 25-2)

State Archives of Serbia: Ministry of National Economy, Trade (MNP-T)

Srbske novine (Srpske novine) [Serbian Gazette]

Bae, Kee-Hong, Warren Bailey, “The Latin Monetary Union: Some evidence on Europe’s failed common currency”, *Review of Development Finance*, 1/2011 (131–149)

Blagojević, Obren, *Ekonomska misao u Srbiji do Drugog svetskog rata [Economic Thought in Serbia until World War II]*, Beograd: SANU, 1980

Bordo, Michael D., Lars Jonung, “The Future of Emu: What Does the History of Monetary Unions Tell Us?”, *National Bureau of Economic Research, Working Paper Series (Working Paper 7365, September 1999)*, (1–40)

Davies, Glyn, *A History of Money: From Ancient Times to the Present Day*, Cardiff: University of Wales Press, 2002

Državopis Srbije [Serbian State Records], XXII, Beograd: Ministarstvo narodne privrede, 1883.

Dugalić, Veroljub, *Narodna banka 1884–1941 [National Bank 1884–1941]*, Beograd: Jugoslovenski pregled, 1999

Einaudi, Luca, “A Historical Perspective on the Euro: The Latin Monetary Union (1865–1926)”, *Info DICE Report*, ifo Institut – Leibniz-Institut für Wirtschaftsforschung an der Universität München, 16, 3/2018

Gavrilović, Mihailo, *Miloš Obrenović, II (1821–1826)*, Beograd: Nova štamparija “Davidović”, 1909

Gnjatović, Dragana, “Principality of Serbia on the Road towards European Monetary Standards”, *Bankarstvo* 2/2015 (12–33)

Gnjatović, Dragana, *Stari državni dugovi: Prilog ekonomskoj i političkoj istoriji Srbije i Jugoslavije 1862–1941 [Old Government Debts: A Contribution to the Economic and Political History of Serbia and Yugoslavia 1862–1941]*, Beograd: Ekonomski institut, Jugoslovenski pregled, 1991

- Hadži-Pešić**, Jovan, *Novac Srbije 1868–1918 [Serbian Money 1868–1918]*, Beograd: NBJ, **1995**
- Ilić**, Saša, „Spasavanje trezora Narodne banke u Prvom svetskom ratu“ [“Saving the treasury of the National Bank in the World War One”], *Arhiv*, 1–2/**2014** (62–78)
- Ilić**, Saša, Sonja **Jerković**, Vladimir **Bulajić**, *Georg Weifert, visionary and enthusiast: The illustrated personal and professional biography (1850–1937)*, Belgrade: NBS, **2010**
- Ilić**, Saša, Sonja **Jerković**, Vladimir **Bulajić**, „Weifert in Serbien (1873–1937)“, in: *Serben und Deutsche im 20. Jahrhundert – im Schatten offizieller Politik*, Hrsg. Gabriella Schubert, Wiesbaden: Harrassowitz Verlag, **2015** (27–54)
- Jerković**, Sonja R., *Narodna banka Kraljevine Srba, Hrvata i Slovenaca/Jugoslavije [National Bank of the Kingdom of Serbs, Croats and Slovenes/Yugoslavia] 1918–1931*, (doctoral dissertation), Beograd: Filozofski fakultet, **2018**
- Jerković**, Sonja, “Razvoj valutnih prilika u Kraljevini Srbiji [“Development of Currency Circumstances in the Kingdom of Serbia”] (1884–1914)”, *Zbornik Matice srpske za istoriju*, 104, 2/2021 (141–155)
- Jovanović**, Slobodan, *Vlada Aleksandra Obrenovića [Aleksandar Obrenović’s Government]*, I, Beograd: BIGZ, Jugoslavija publik, SKZ, **1990(a)**
- Jovanović**, Slobodan, *Vlada Milana Obrenovića [Milan Obrenović’s Government]*, II, Beograd: BIGZ, Jugoslavija publik, SKZ, **1990(b)**
- Kohn**, Feliks, *Trgovački i pravni leksikon, [Trade and Legal Lexicon]*, Osijek: Građanska tiskara, **1937**
- Kosier**, Ljubomir St., *Narodna banka Kraljevine Srba, Hrvata i Slovenaca [National Bank of the Kingdom of Serbs, Croats and Slovenes] 1884–1924*, Zagreb: Hrvatski štamparski zavod, **1924**
- Kunibert**, Bartolomeo, *Srpski ustanak i prva vladavina Miloša Obrenovića: istorijski ogled o ustancima i samostalnosti Srbije [Serbian Uprising and the First Government of Miloš Obrenović: Historical Essay on Uprisings and the Serbian Independence] 1804–1850*, Beograd: Zadužbina Ilije M. Kolarca, **1901**
- Lampe**, John Robert, *Financial Structure and the Economic Development of Serbia, 1878–1912* (dissertation), University of Wisconsin, **1971**
- Magnin**, Eric, Nikolay **Nenovsky**, “Balkan Monetary Dependence during the XIX and XX centuries”, *MRC Working Papers*, No 23/**2021** (1–28)
- Mijatović**, Boško, “Konverzija srpskih dugova: Karlsbadski aranžman 1895. godine” [“Conversion of Serbian Debts: The Karlsbad Arrangement of 1895”], *Godišnjak za društvenu istoriju* 3/**2012**, (43–63)
- Milić**, Danica, “Novac, mere i cene” [“Money, Measures and Prices”], in: *Istorija Beograda*, II, Beograd, **1974**
- Milić**, Danica, “Novac” [“Money”], in: *Ekonomski leksikon*, Ksente Bogoev et al (ed.), Beograd: Savremena administracija, **1975**
- Narodna banka [National Bank] 1884–1909*, Beograd: Štamparija Davidović, **1909**
- Narodna banka [National Bank] 1884–1934*, Beograd: Zavod za izradu novčanica, **1934**
- Nenovsky**, Nikolay, Jacques-Marie **Vaslin**, “Shadowing the Latin Monetary Union: Monetary Regimes and Interest Rates in the Balkan Periphery (1867–1912)”, *The Journal of European Economic History*, 2/**2020** (71–114)
- Pavlović**, Dušan M., *Naše valutno pitanje i politika naše Narodne banke [Our Currency Issue and Our National Bank’s Policy]*, Beograd, **1908**

- Petrović**, Mita, *Finansije i ustanove obnovljene Srbije do 1842 [Finances and Institutions of the Renewed Serbia until 1842]*, 1, Beograd: Ministarstvo finansija, **1897**
- Petrović**, Vukašin, Nikola **Petrović**, *Građa za istoriju Kraljevine Srbije: Vreme prve vlade kneza Miloša Obrenovića [Materials for the History of the Kingdom of Serbia: Time of the First Government of Prince Miloš Obrenović] 1815–1821*, 1, Beograd: Kraljevsko-srpska štamparija, **1882**
- Petrović**, Vukašin, Nikola **Petrović**, *Građa za istoriju Kraljevine Srbije: Vreme prve vlade kneza Miloša Obrenovića [Materials for the History of the Kingdom of Serbia: Time of the First Government of Prince Miloš Obrenović] 1821–1833*, 2, Beograd: Kraljevsko-srpska štamparija, **1884**
- Pešić**, Miroslav D., Božica B. Mladenović, “Krizna parlamentarnog sistema u Kraljevini Srbiji od 1892. do 1894. godine” [“Parliamentary System Crisis in the Kingdom of Serbia from 1892 until 1894”], *Istorijski časopis*, LXVI/2017 (401–435)
- Privilegovana Narodna banka Kraljevine Srbije, Izveštaj za 1884 [Privileged National Bank of the Kingdom of Serbia, Report for 1884], Beograd, **1885****
- Privilegovana Narodna banka Kraljevine Srbije, Izveštaj za 1885 [Privileged National Bank of the Kingdom of Serbia, Report for 1885], Beograd, **1886****
- Privilegovana Narodna banka Kraljevine Srbije, Izveštaj za 1894 [Privileged National Bank of the Kingdom of Serbia, Report for 1894], Beograd, **1895****
- Privilegovana Narodna banka Kraljevine Srbije, Izveštaj za 1895 [Privileged National Bank of the Kingdom of Serbia, Report for 1895], Beograd, **1896****
- Protokoli redovne Narodne skupštine držane o Mioljdanu 1867. godine u Kragujevcu [Protocols of the Regular National Assembly Held on St. Michael’s Day in 1867 in Kragujevac], Beograd: Državna štamparija, **1868****
- Protokoli Srpske narodne skupštine držane u mesecu septembru 1859. godine u Kragujevcu [Protocols of the Serbian National Assembly Held in September 1859 in Kragujevac], [1859]**
- Rajić**, Suzana, “Nova politička zajednica i vlade Mihaila Vujića 1901/1902. godine” [“New Political Community and Governments of Mihailo Vujić in 1901/1902”], *Istorijski časopis*, LX/2011 (505–539)
- Rajić**, Suzana, Danko **Leovac**, *Istorija srpskog naroda u 19. i početkom 20. veka [History of the Serbian People in the 19th and Early 20th Century]*, Beograd: Zavod za udžbenike, **2018**
- Ranke**, Leopold, *Srpska revolucija [Serbian Revolution]*, Beograd: SKZ, Zavod za udžbenike i nastavna sredstva, **1991**
- Stenografske beleške o radu Narodne skupštine za 1887. godinu [Stenographic Notes on the Workings of the National Assembly for 1887], Beograd, **1888****
- Stojančević**, Vladimir, Jovan Milićević, Čedomir Popov, Radoman Jovanović, Milorad Ekmečić, *Istorija srpskog naroda [History of the Serbian People]*, V-1, Beograd: SKZ, **1981**
- Ugričić**, Miodrag, *Novčani sistem Jugoslavije [Yugoslavia’s Monetary System]*, Zavod za izdavanje udžbenika SR Srbije, Beograd **1967**
- Vučo**, Nikola, *Privredna istorija Srbije do Prvog svetskog rata [Economic History of Serbia until World War I]*, Beograd: Naučna knjiga, **1955**
- Willis**, Henry Parker, *A History of the Latin Monetary Union: A Study in International Monetary Action*, Chicago: University of Chicago Press, **1901**
- Zbornik zakona i uredaba Kneževine Srbije [Collection of Acts and Decrees of the Principality of Serbia], 20, Beograd, **1867****