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Introducing the Monetary Time Series of Southeastern Europe, 1870s–1914¹

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1. Introduction

Southeastern European monetary history is no longer *terra incognita*. The South-Eastern European Monetary History Network (SEEMHN), which brings together all the central banks from Austria in the west to Turkey in the east, has worked hard to illuminate their monetary histories since the network was launched in 2005. Next to the organisation of annual conferences, the network set up a task force with the purpose of collecting historical monetary time series. The long-term goal is to publish all the pre-1950 monetary data in a publication jointly edited by the Oesterreichische Nationalbank, the Balgarska Narodna Banka and the Bank of Greece. Such a publication would help overcome the “statistical dark ages”, which all too often have prevented monetary economists and economic historians from Western Europe and North America from including Balkan countries into their samples. As a quick glance at some literature on the history of central banks and central banking shows, virtually no attention has been paid to the Southeastern European experience (with the possible exception of Austria).²

Esse est percipi (Berkeley) – in this sense, the Southeastern European central banks and academics united in this network hope that academic interest in this part

¹ I would like to thank all participants of the South-Eastern European Monetary History Network (SEEMHN) for their very substantial efforts in collecting and describing the monetary data of their countries and for asking me to write this introduction to the monetary time series of South-Eastern Europe, 1870s–1914.

² O. Feiertag and M. Margairaz, eds., *Politiques et pratiques des banques d'émission en Europe (XVII^e – XX^e siècle). Le bicentenaire de la Banque de France dans la perspective de l'identité monétaire européenne* (Paris: Albin Michel, 2003). F. Capie, Banking in Europe in the Nineteenth and Twentieth Centuries: The Role of the Central Bank, in: *The State, the Financial System and Economic Modernization*, eds. R. Sylla, R. Tilly, and G. Tortella (Cambridge: Cambridge University Press, 1999). C. Goodhart, *The Evolution of Central Banks*, 2nd eds. (Cambridge, Mass.: MIT Press, 1988).

of Europe will be stimulated by making the historical data available for the first time ever.

While such a publication is the medium-term aim, the task force set itself as a first goal to provide four key monetary time series for the period until the First World War: exchange-rates to the European core countries of England, France, and Germany; the discount rate of the bank of note issue; gold reserves; and bank notes in circulation (which constitute, under pre-1914 conditions, the main component of the monetary base). In what follows, each central bank will describe and report its own data, accompanied by some remarks on coinage legislation, the bank of note issue, gold cover ratios and rules of convertibility (of bank notes into species).

In this introductory chapter, we will first provide some political and economic background information to the history of the Balkan countries before the First World War, and we will point to some parallels between the pre-1914 situation and the challenges Southeastern Europe is facing today (section 2). Subsequently, we will, based on the data and the information provided by the individual central banks, attempt to put the Southeastern European experience in historical comparison with the rest of Europe, as far as minting legislation (section 3), the structure of the banks of note issue (section 4), and the exchange-rate experience (section 5) are concerned. While our results are necessarily preliminary, they might point to some interesting questions for further research.

2. Political and Economic Aspects of the Balkan Peninsula, 1870s–1914; Parallels to Today’s Challenges in Southeastern Europe

Two features, in particular, differentiated the Balkan peninsula from Western Europe in the 19th century: economic backwardness and retarded nation building and state formation. In 1870, GDP per capita levels were at roughly one third of the level of the European core economies of England, France and Germany.³ Even if we doubt the accuracy of 19th century GDP figures, virtually all economic indicators available suggest that Western Europe was substantially richer than Southeastern Europe throughout the 19th century.⁴ The other feature was the legacy of living over centuries in the competing sphere of influence of Austria, the Ottoman Empire, and Russia. Only the economic decline of the Ottoman Empire and the rise of Balkan nationalism in the 19th century allowed the peoples of

³ M. Morys, South-Eastern European Growth Experience in European Perspective, 19th and 20th centuries, in: *Monetary and Fiscal Policies in South-Eastern Europe: Historical and Comparative Perspectives (Conference Proceedings of the 1st meeting of the South-Eastern European Monetary History Network)*, eds. R. Avramov and S. Pamuk (Sofia: Bulgarian National Bank, 2006), p. 39.

⁴ M. Mazower, *The Balkans* (New York: Phoenix Press, 2001), pp. 17–44.

Southeastern Europe to seek their own destiny and to form nation states along West European models. All this came late, and often in a slow and confusing process of transition from being part of the Ottoman Empire to some form of autonomy within it, to be followed by full-fledged independence. Serbia, the first Balkan country to achieve some form of autonomy in 1815, for instance, had to wait another 63 years to achieve independence at the Congress of Berlin (1878). By the outbreak of the First World War, five Balkan countries had achieved independence⁵: Serbia (1815/1878), Greece (1832), Romania (1859/1878), Bulgaria (1878/1908) and Albania (1912). To this we add Austria-Hungary and the Ottoman Empire, the two countries that were slowly but surely receding from the Balkans over the course of the 19th and early 20th centuries.⁶

This very distinct process of state formation is important in our context for three reasons. First, the late state formation gives a natural beginning for the monetary history of Southeastern Europe and their banks of note issue. As table 2 shows, most of the banks of note issue were founded in the 1870s and 1880s, when Balkan independence gained momentum following the Russian-Turkish war (1877–1878) and the congress of Berlin (1878). Second, more so than in other countries, there always was a noticeable nationalistic component to minting legislation and the establishment of a bank of note issue. In the Serbian case, for instance, minting legislation was passed shortly before achieving full-fledged independence and was seen by contemporaries as part of achieving exactly that.⁷ Third, as all institutions had to be newly created, the need to live with compromises of the past was absent. Whereas post-unification Italy, for instance, had six banks of note issue as a legacy of its multi-state past, all Balkan countries granted exclusive rights of note issue to a single bank.⁸

Before putting the minting legislation, the structure of the banks of note issue and the exchange-rate experience of the Southeastern European countries in a

⁵ Where two years are given, the first one refers to some sort of autonomy that was achieved prior to internationally-recognised independence.

⁶ The Ottoman Empire poses a specific problem in our context, as the Imperial Ottoman Bank, founded in 1856 and granted the exclusive right of note issue, was not succeeded by the current Turkish central bank (i.e., the Türkiye Cumhuriyet Merkez Bankası). This sets the Turkish case apart from the other South-Eastern European countries where the legal identity of the current central bank is identical to the original bank of note issue. SEEMHN gratefully acknowledges that Sevket Pamuk and Edhem Eldem, two leading Turkish economic historians, have accepted the invitation to contribute to this network by providing similar data about the Imperial Ottoman Bank.

⁷ Gnjatovic, *The Introduction of the Limping Gold Standard in the Principality of Serbia*, in: *Monetary and Fiscal Policies in South-Eastern Europe: Historical and Comparative Perspectives (Conference proceedings of the 1st meeting of the South-Eastern European Monetary History Network)*, eds. R. Avramov and S. Pamuk (Sofia: Bulgarian National Bank, 2006).

⁸ With the exception of Greece, cf. table 2.

European perspective, we shall briefly pause and ask ourselves what, if anything, of all this is still relevant to today's challenges facing Southeastern Europe. In some respects, the late 19th century and the early 21st century bear a striking resemblance. In both cases, the Southeastern European countries obtained room for political manoeuvre only recently, be it from the Ottoman Empire back then and from the Soviet Union after 1989. The economic situation is not altogether different either. With the exception of Austria, Slovenia, and Greece, all Southeastern European countries have actually fallen back (albeit some only slightly) compared to England, France, and German GDP per capita levels in the time period 1870–2001.⁹ In other words, rapid growth is needed as much today as it was back then. But not only the diagnosis but also the therapy appears somewhat similar. Just as Southeastern European countries are eager to introduce the Euro these days, they were keen on adopting French minting legislation and the gold standard in the late 19th century. With this current perspective in mind, we shall now proceed to some remarks on the minting legislation in Southeastern Europe before the First World War.

3. Coinage Legislation

The 19th century Balkan peninsula was not only a most colourful mixture of peoples but also of coins. Circulation of foreign coins was not unusual in the 19th century, but it was much more widespread in the Balkans than anywhere else in Europe. The principality of Serbia (i.e., the nascent Serbian state after gaining autonomy in 1815 and before recognition of full independence in 1878), for instance, accepted some dozens of different coins from the Ottoman Empire, England, France, Germany, Austria-Hungary and other Balkan countries for the purpose of tax collection.¹⁰ This *macédoine* of coins explains why one of the first steps taken after gaining independence (often even before that, cf. table 1) was to establish a system of national coinage, combined with attempts at withdrawing all foreign coinage.

As table 1 shows, in this endeavour of establishing a national coinage system all countries turned to the Latin Monetary Union (LMU), in which France was by far the most important player.¹¹ Even Austria-Hungary, politically and economically by far the most potent country in Southeastern Europe, tried to align its currency system with France in 1867. Two questions are interesting in this

⁹ Morys, South-Eastern European Growth Experience in European Perspective, 19th and 20th centuries.

¹⁰ Gnjatovic, The Introduction of the Limping Gold Standard in the Principality of Serbia, p. 48.

¹¹ For the following we largely draw on L. L. Einaudi, *European Monetary Unification and the International Gold Standard* (Oxford: Oxford University Press, 2000).

context: First, what exactly does it mean to align the national coinage system with the standards of the LMU? Second, is adopting the LMU principles necessarily equivalent to adopting bimetallism (which was at the heart of the original 1865 agreement between France, Italy, Belgium and Switzerland)?

Table 1: Coinage Acts, Monetary Commissions and Monetary Conventions in Southeastern Europe 1867–1892

<i>Country</i>	<i>Date</i>	<i>Coinage act, monetary commission, or monetary convention</i>	<i>Monetary standard (as intended)</i>	<i>Accordance with 1865 LMU principles ?</i>	<i>Name of currency unit</i>
Austria-Hungary	14.4.1867	monetary commission	gold	as far as gold coinage concerned	Gulden (guilder)
	31.7.1867	monetary convention (with France)	gold	as far as gold coinage concerned	
	2.8.1892	coinage act	gold	no	krone
Bulgaria	27.5.1880	coinage act	gold	yes	lev
Greece	10.4.1867	coinage act	bimetallism	yes	drachma
	26.9.1868	monetary convention (with LMU)	bimetallism	yes	
Romania	4.5.1867	coinage act	gold	as far as gold coinage concerned	leu
	15.6.1890	coinage act	gold	yes	
Serbia	20.11.1873	coinage act	bimetallism	yes	dinar

Note: With the exception of Austria-Hungary, all dates given refer to the Julian calendar.

Sources: Avramov (1999), Avramov (2006), Einaudi (2000), Gnjatovic (2006), Lazaretou (2006), Morys (2006), Ministère des Finances (1869), Radovanovic (1999).

The origins of the LMU standards are to be seen in the French coinage act of 1803 which established 1 French franc as equal to 5 grams of silver (with a fineness of 900/1000, i.e. the 1 French franc coin contained 4.5 grams of pure silver). Silver coins were minted as 5, 2, 1, 0.5 and 0.2 francs; gold coins – in a gold-silver ratio of 15.5 : 1 and with fineness of 900/1000 – were minted as 20 and 10 francs. This system, conventionally referred to as bimetallism, came under substantial pressure

after the immense gold findings in California (1848) and Australia (1851): “cheap” gold came to drive “expensive” silver out of circulation. The only solution left to France – as well as to Italy, Belgium, and Switzerland which all had a very similar system – was to reduce the silver content of the silver coins from 900/1000 to 835/1000; in other words, full-bodied coins were turned into token coins in order to retain them in circulation. But solving one problem only created another one. As coins circulated freely among these four countries, the creation of token coins meant that countries were flooded with foreign coins whose intrinsic value was lower than their face value; something which was in evident contradiction to the concept of a commodity standard. The only solution to this problem was the creation of the LMU in 1865: on the one hand, foreign coins, including token coins, were accepted at public tills; on the other hand, the minting of token coins was strictly limited (to 6 franc per inhabitant) so as to eliminate excessive seigniorage (which would have accrued at the expense of the government required to accept the token coins).

It is important to keep in mind that reducing the fineness of silver coins had not altered the gold-silver ratio of 15.5 : 1. This is because one coin – the 5 franc coin – had deliberately been left unchanged at the original fineness of 900/1000 in the 1865 LMU agreement. To put it another way, in 1865 already LMU bimetallism rested on a single silver coin only; all other silver coins (i.e., all denominations below 5 francs) had been reduced to token coins. This helps explain why LMU countries could switch so easily to the gold standard in the early 1870s, when increased global silver production, combined with demonetizations of silver in large parts of Europe made silver rather than gold the “cheap” metal again. If a government wished to transit to gold, no costly measures such as re-minting were required. The government only needed to restrict the unlimited coinage of silver on private account; which is exactly what France and Belgium, the first two LMU countries to switch to gold in September 1873, did.

We had to elaborate on these subtleties of the LMU, because it is often erroneously argued that following the LMU principles is equivalent to adopting bimetallism. After September 1873, the LMU coinage principles were perfectly compatible with adherence to the gold standard (as the French and the Belgian cases demonstrate), provided the unlimited coinage of silver on private account was restricted.

But even before 1873, adopting the LMU coinage standards did not necessarily imply bimetallism. The cases of Austria-Hungary and Romania may help demonstrate this. Starting in the late 1860s, people felt that the pressure on the price of silver was mounting in international bullion markets. Hence came the idea to adopt the LMU coinage system only as far as the gold coins were concerned; all silver coins – including the 5 franc piece – were to be minted at the reduced fineness of 835/1000. Austria-Hungary even negotiated accession to the LMU in 1867 on the basis that such agreement would only hold for the gold coins (i.e., the

mutual obligation to accept LMU gold coins – but not silver coins – at public tills).¹² The Romanian coinage act of 1867 tells a similar story. Worried over the sustainability of bimetallism, Romania adopted the LMU standards, but minted all silver coins at the reduced fineness of 835/1000.¹³ The Austro-Hungarian and the Romanian decisions of 1867 were hence not only important events for the two countries themselves, but they also reveal some more insight into how the world was slowly converging on the gold standard.¹⁴

Why was the French coinage system so attractive to the Southeastern European countries? The French coinage system was not only “rational” and “modern” in the sense that it was based on the metric system (as opposed to the English coinage system, its only serious rival), but it was also the most widely used one in Europe. In the 1860s, the four LMU countries combined had a population more than twice as large as the UK and a combined GDP that was some 40% higher than British GDP.¹⁵ Both factors combined explain why in 1867, at the First International Monetary Conference, held in Paris, countries from all over the world agreed that the French coinage system should be universally adopted.¹⁶ While such a global unification of coinage never materialized, the main obstacle to such a scheme was absent in Southeastern Europe: following political independence, there was no national coinage system in place whose very existence would have generated switching costs. Not only was there nothing to lose, but Southeastern European countries had everything to gain from a world class product made in France: reducing transactions costs (cf. Serbian exchange-rate as reported), potentially better access to West European capital markets, and overall reputational considerations all militated in favor of adopting the French coinage system.¹⁷

We shall conclude this section with some caveats. First, basing the national coinage system on LMU standards did not necessarily imply joining the LMU. As

¹² Morys, *The Classical Gold Standard in the European Periphery: A Case Study of Austria-Hungary and Italy, 1870–1913* (Ph.D. thesis London School of Economics and Political Science, 2006), pp. 67–87.

¹³ Ministère des Finances, *Procès-verbaux et rapport de la commission monétaire, suivis d'annexes relatifs à la question monétaire* (Paris: Imprimerie impériale, 1869), p. 157.

¹⁴ On the other hand, Greece, adopting its legislation at around the same time, was apparently less concerned over the future of bimetallism and followed the LMU legislation *à la lettre*.

¹⁵ A. Maddison, *The World Economy. Historical Statistics* (Paris: OECD Development Centre Studies, 2003).

¹⁶ Reti, *Silver and Gold: The Political Economy of International Monetary Conferences, 1867–1892* (Westport (CT), London: Greenwood, 1998).

¹⁷ It is worth noting that all the South-Eastern European coinage legislation was based on the LMU standards with the exception of the Austro-Hungarian 1892 coinage act (cf. table 1). By this time, the French coinage system had lost some of its appeal for reasons that are explained in Morys, *The Classical Gold Standard in the European Periphery: A Case Study of Austria-Hungary and Italy, 1870–1913*, pp. 67–113.

a matter of fact, only Greece ever joined the LMU. The intentions of the other four countries to join the LMU were all frustrated sooner or later for reasons that are explained by Luca Einaudi in these conference proceedings. Still, it is worth pointing out that most of the desired advantages of the LMU coinage system were also available without formal membership, and even acceptance of coins at public tills abroad was widespread (but obviously not enforceable).

Second, coinage acts often say little about the actual monetary standard. Lax monetary and fiscal policies often resulted in inconvertibility and *cours forcé* (i.e., bank notes are given legal tender status), which implied a paper standard rather than a commodity standard. We will return to this issue later when discussing the exchange-rate experience of the Southeastern European countries before the First World War and show that most of them followed the gold standard only for a very short period of time after the turn of the century.

Last but not least, we want to point to two idiosyncrasies of coinage in Southeastern Europe. First, all minting took place abroad (with the exception of Austria-Hungary). While this is a purely technical matter, it is testimony to how complicated and costly coinage was under 19th century conditions. Second, none of the Southeastern European countries knew free coinage on private account (again with the exception of Austria-Hungary). In theory, free coinage on private (i.e., coinage on private account) is a crucial pillar of every commodity standard, for it allows the intrinsic value of a coin to decline to its face value if necessary. That such a scenario was not even contemplated shows that the Southeastern European governments anticipated that their currencies would remain rather weak.

4. The Banks of Note Issue: When Did Central Banking Emerge in Southeastern Europe and Who Owned the Banks of Note Issue?

This section is deliberately titled “banks of note issue” rather than “central banks”. While SEEMHN is an initiative sponsored by the Southeastern European central banks, it is far less clear what these banks were alike in the decades following their foundation in the 19th century. This section shall be devoted to asking (rather than answering) one of the key questions that is likely to play a central role in future research: When did the banks under consideration actually become central banks?

Table 2: Banks of Note Issue in Southeastern Europe 1870s–1914

		<i>Name in the 19th century</i>	<i>Exclusive right of note issue</i>	<i>Today's name</i>
Austria-Hungary	1817 /1878 ¹	Austro-Hungarian Bank	yes	Oesterreichische Nationalbank
Bulgaria	1879	Balgarska Narodna Banka	yes	Balgarska Narodna Banka
Greece		National Bank of Greece	no ²	Bank of Greece
Romania	1880	Banka Națională a României	yes	Banka Națională a României
Serbia	1884	Privileged National Bank of the Kingdom of Serbia	yes	National Bank of Serbia

¹ *Austria-Hungary: The Privileged Austrian National Bank (Privilegierte österreichische Nationalbank), founded in 1817, changed its name in 1878 to reflect the nature of the dual monarchy after the Ausgleich of 1866.*

² *Greece: Initially, the National Bank of Greece was the sole issuer of bank notes, but the later accessions of the Ionian Islands (1864), Thessaly (1881) and Crete (1897/1913) meant that the note-issuing banks established prior in these territories – the Ionian Bank, the Bank of Epirus and Thessaly and the Bank of Crete, respectively – maintained their note issuing rights. When the Bank of Greece became the successor of the National Bank of Greece in 1928, the other three banks lost their right of note issue and became pure commercial banks*

Sources: Avramov (1999), Lazaretou (2006), Morys (2006), Radovanovic (1999).

Forrest Capie, who has written extensively on the emergence of central banks in 19th and 20th centuries Europe, attributes two main functions to a central bank: “One is macro, the preservation of price stability; the other is micro, the preservation of financial market stability. It is the latter though that really defines central banking. It is the peculiar position of the monopoly note issuer and holder and provider of the ultimate means of payment that allows, almost obliges, the institution to behave as the lender of last resort.”¹⁸ Let us start with the first function: Under 19th century conditions, achieving price stability meant that bank notes were readily convertible into gold (and/or silver) at the bank of note issue. The requirement of gold cover prevented the over-issuance of notes, thereby guaranteeing price stability. The five banks we are studying all conformed to this

¹⁸ Capie, “Banking in Europe in the Nineteenth and Twentieth Centuries: The Role of the Central Bank,” p. 118.

pattern: They were granted from their respective governments the exclusive¹⁹ right to issue bank notes.

Turning to the second of Capie’s criteria, it appears as though none of the five banks we study had – at least not initially – any kind of supervisory role towards other banks. Most likely, the opposite was true in most cases. The bank of note issue and other commercial banks were competing with each other. But as Charles Goodhart, another economist interested in the historical origins of central banking, put it: “It was the metamorphosis from their involvement [the central banks’ involvement] in commercial banking, as a competitive, profit-maximising bank among many, to a non-competitive non-profit-maximising role that marked the true emergence, and development of proper central banking.”²⁰ When did this transformation take place in the Balkan countries?

Some clues to this question are already available at this stage. As the development of the Nationale Bank van België/Banque Nationale de Belgique has demonstrated (cf. the paper of Erik Buyst and Ivo Maes in these conference proceedings), a key issue in the emergence of a genuine central bank was to limit the bank’s activities to short-term lending. Here, in fact, we see substantial differences among the Southeastern European banks of note issue. The Balgarska Narodna Banka, for instance, was heavily involved in long-term lending, with Avramov observing a “general bias towards the long-term end” in its activities.²¹ By contrast, the Privileged National Bank of the Kingdom of Serbia excluded long-term lending from very early on.²² Future research will need to show whether words (i.e., the bank charter) were followed by deeds. If this had been the case, it seems likely that proper central banking emerged earlier in Serbia than in Bulgaria. It is interesting to note in this context that the Serbian Bank was actually modelled partly along the lines of the Belgian Bank.²³

Who owned and controlled the banks of note issue? The standard 19th century solution was that the bank of note issue was privately owned – often as a joint-stock company – but the government retained a substantial amount of control. One of the channels to retain control was the governments’ right to appoint the governor

¹⁹ The only exception was Greece. Cf. table 2.

²⁰ Goodhart, *The Evolution of Central Banks*, p. 9.

²¹ Avramov, The Bulgarian National Bank in a Historical Perspective: Shaping an Institution, Searching for a Monetary Standard, in: *Monetary and Fiscal Policies in South-Eastern Europe: Historical and Comparative Perspectives (Conference proceedings of the 1st meeting of the South-Eastern European Monetary History Network)*, eds. R. Avramov and S. Pamuk (Sofia: Balgarska Narodna Banka, 2006), p. 73.

²² Radovanovic, *110 Years of the National Bank, 1884–1994. Establishment and Beginning of Operation of the Privileged National Bank of the Kingdom of Serbia* (Belgrade: National Bank of Yugoslavia, 1998), p. 38.

²³ *Ibid.*, p. 43.

of the bank, as was the case with the Reichsbank. But even if formal control of the bank of note issue was relatively weak, there normally was the need to renegotiate the bank charter after a number of years which gave the government some leeway.

The only bank to be directly state-owned in our sample was the *Balgarska Narodna Banka* (BNB). Several proposals to privatise the BNB were systematically rejected.²⁴ In all other cases, the banks of note issue were privately owned, even if – as was the case for Romania – one third of the share capital was subscribed immediately by the government. In the cases of Austria-Hungary, Greece, and Serbia, all stocks were in private hands (from what we know), but the government found other ways to make its influence felt if needed. For Austria-Hungary, for instance, we know that renegotiating the charter always involved lengthy and complicated negotiations.²⁵ What seems to be special about Southeastern Europe is that ownership could also be exclusively in foreign hands. In Serbia, such proposals were discussed at length. In fact, a French bank offered to issue bank notes before even proper discussions had started in Serbia itself.²⁶ Even if the French proposals were finally rejected, similar plans succeeded in the Ottoman Empire after the Crimean War. The Imperial Ottoman Bank, founded in 1856 following the Crimean War, only had English and French shareholders.²⁷

5. Exchange-Rate Regimes before 1914

5.1 What Kind of Exchange-Rate Is Reported?

While this section is devoted to a description of the exchange-rate experience of the Southeastern European countries before the First World War in a European perspective, it seems appropriate to begin with some more technical comments on the exact kind of exchange-rates collected by the individual central banks. In the period from the 1870s to 1914, foreign currency could be obtained in three different ways: (1) bills of exchange drawn on foreign places, (2) foreign bank notes, and (3) foreign coins and trade coins. There is abundant historical evidence that settling cross-border payments was usually achieved through bills of exchange drawn on foreign places rather than any of the other two options.²⁸ Exceptions to

²⁴ Avramov, *The Bulgarian National Bank in a Historical Perspective: Shaping an Institution, Searching for a Monetary Standard*, p. 61.

²⁵ G. Kővér and A. Pogány, *Die binationale Bank einer multinationalen Monarchie* (Stuttgart: 2002).

²⁶ Radovanovic, *110 Years of the National Bank, 1884–1994. Establishment and Beginning of Operation of the Privileged National Bank of the Kingdom of Serbia*

²⁷ S. Pamuk, *A Monetary History of the Ottoman Empire* (Cambridge: Cambridge University Press, 2000), p. 212.

²⁸ While the English word „exchange rate“ is rather neutral, the German word for exchange rate – “Wechselkurs” – captures well that international transactions were settled by bills

this rule can be found, and if contemporary records show first and foremost prices for foreign coins, then this is strong evidence that settling cross-border payments was usually carried out this way. In our sample, Serbia is the only country reporting the price for coins – in this case the price for the 20-dinar gold coin (expressed in domestic paper currency), the Serbian equivalent of the 20-French franc gold coin. The 20-French franc gold coin, better known as the Napoleon d’Or, was by far the most widely used trade coin in 19th century Europe, and the widespread use of this coin partly explains the Europe-wide appeal of the French coinage system. All other countries report the domestic price for bills of exchange drawn on foreign places.

As with most other assets, a distinction needs to be made between the “selling price” and the “buying price”. The “selling price” reports the price for which a potential seller of the asset in question can be found. The “buying price”, by contrast, reports the price for which someone buying the asset can be found with certainty. It follows from this that the “selling price” is necessarily higher than the “buying price”. For instance, the Vienna stock exchange reports on 30th September 1907 a “selling price” of 117.55 crowns for 100 marks and a “buying price” of 117.35.²⁹ This means that someone interested in buying a bill of exchange over 100 marks would certainly find a seller for the price of 117.55 crowns. Conversely, someone in possession of a bill of exchange over 100 marks would find a purchaser who would, at least, pay 117.35 crowns to buy the bill. While 19th century terminology for “selling price” and “buying price” often differed slightly from one stock exchange to the next, reference to some contemporary book similar to today’s “The Financial Times Guide to Using the Financial Pages” usually eliminates any doubt.³⁰

of exchange rather than banknotes and coins. Literally, “Wechselkurs” means the price of the bill of exchange.

²⁹ The Vienna stock exchange equivalents are “Warencurs” (“selling price”) and “Geldkurs” (“buying price”), cf. Kautsch, *Allgemeines Börsenbuch nebst Usancen der Berliner, Frankfurter und Wiener Börse* (Stuttgart: 1874), p. 52.

³⁰ For Austria-Hungary reliable information is provided by *ibid.*

Table 3: Exchange Rates in Southeastern Europe, 1877–1914

	Monthly data available	Type of exchange rate reported	Selling or buying	Periods of exchange rate stabilisation	Deviation from mint parity		
					Standard	Max.	Average
Austria-Hungary	1/78-6/14	bill of ex.	selling	1/96-6/14	0.28%	0.97%	- 0.01%
Bulgaria ¹	1/91-6/14	bill of ex.	selling	1/06-9/12	0.36%	1.28%	+ 0.18%
Greece	1/77-6/14	bill of ex.	unclear	1/10-6/14	0.16%	0.25%	- 0.05%
Serbia	11/91-2/13	agio data	unclear	7/05-9/12	0.91%	3.90%	+ 0.72%
Romania	1/92-6/14	bill of ex.	unclear	1/92-5/99	0.32%	0.98%	+ 0.38%
				2/00-6/14	0.66%	2.75%	+ 0.78%

¹ The data reported in the Bulgarian country report suggests quasi-fixed exchange-rates going back to 1891. This finding is in contradiction with substantial qualitative research which suggests that Bulgaria enjoyed quasi-fixed exchange-rates starting only in 1906 (cf. Avramov (1999) and Avramov (2006)). Following Avramov, our calculations are therefore based only on the data provided for the period starting in 1906.

Sources: Exchange-rate data as collected by the central banks, cf. the individual country reports.

5.2 The Exchange-rate Experience of Southeastern European Countries before World War I

One of the main goals of 19th century economic policy was stabilising the exchange-rate to its main trading partners. In a world dominated by commodity standards – i.e. (full-bodied) coins were made either of gold or silver and bank notes could be readily converted in either one or both of these metals –, stabilising the exchange-rate usually implied choosing the same metallic standard as the main trading partners. In order to put the Southeastern European experience in historical perspective, it is necessary to briefly sketch the European and global regime shift towards gold monometallism occurring in the early 1870s.

The 1850s and 1860s European monetary system can be seen as a tripolar. Some countries – namely the German states, the Netherlands and the Scandinavian countries – followed the silver standard; others – the UK (since 1717/1821) and Portugal (since 1854) – followed the gold standard, while a third group of

countries, comprising of France, Italy, Belgium and Switzerland, had adopted a bimetallic standard. The beauty of such a setup was that silver standard countries enjoyed exchange-rate stability not only to other silver standard countries, but also to gold standard countries, as the bimetallic countries kept the value of gold to silver close to the bimetallic gold-silver parity of 15.5 : 1. This system broke down in the early 1870s, when an ever increasing number of countries switched to gold monometallism. By late 1873, both Germany and France had switched to the gold standard which had been pioneered by England since the early 18th century. This meant that the three politically and economically most powerful European countries followed henceforth one and the same monetary standard. For all other European countries this could only mean that the goal of economic policy was the adoption of the gold standard sooner rather than later.³¹

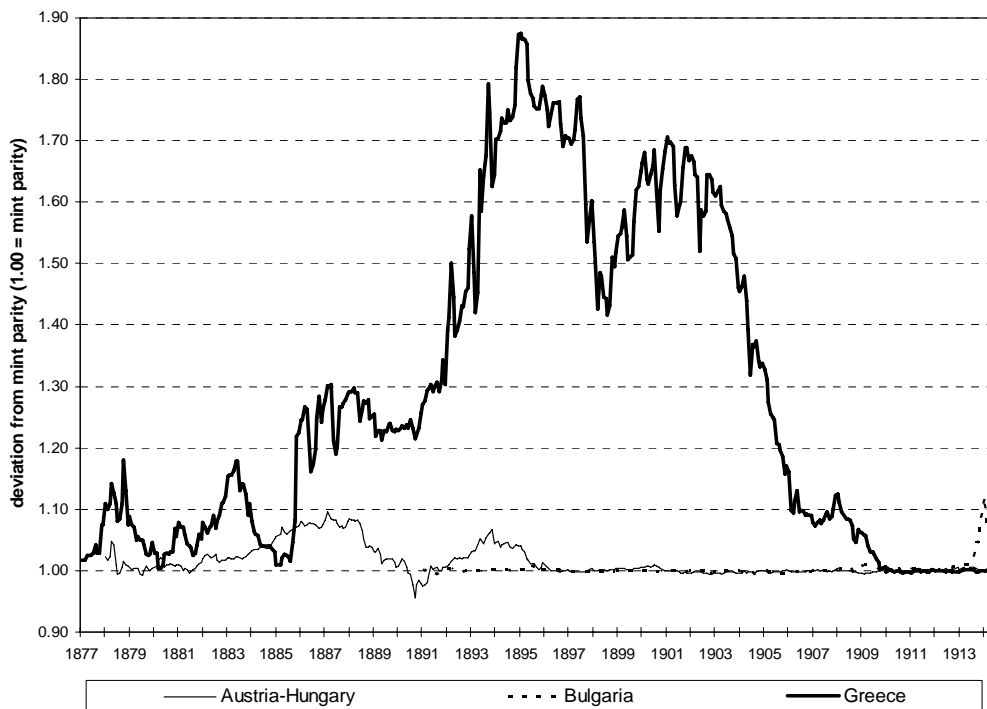
While the goal was then clear for European countries, such a switch to gold was never an easy operation. This was especially true when a country did not follow any metallic standard at all, i.e. when bank note convertibility had to be suspended following periods of lax fiscal and monetary policies. The Southeastern European countries clearly demonstrate this gap between what European countries wanted to achieve in the late 19th century and what they were actually able to achieve. As we have seen in table 1, all countries passed either gold or bimetallic legislation between 1867 and 1880. But in reality, few of the countries were able to live up to this challenge. Charts 1 and 2 show the exchange-rates of all five countries compared to their mint parity. The exchange-rate development of the Greek drachma exhibits the most extreme case of devaluation. By the mid-1890s, Greek paper money had depreciated almost 100% with respect to the gold drachma envisaged in the 1867/1868 legislation. Serbia is another extreme case where the depreciation lingered between 10% and 20% throughout the 1890s. But even Austria-Hungary had a substantially depreciated exchange-rate throughout the 1870s and 1880s, something which contemporary observers always saw as incompatible with the dual monarchy's claim to be one of Europe's five leading powers.³² On the upside, Romania was apparently able to maintain relatively fixed exchange-rates since the foundation of the Banca Națională a României in 1880.³³

³¹ For the cases of Austria-Hungary and Italy cf. Morys, *The Classical Gold Standard in the European Periphery: A Case Study of Austria-Hungary and Italy, 1870–1913*, p. 90–113.

³² *Stenographische Protokolle über die vom 8. bis 17. März abgehaltenen Sitzungen der nach Wien einberufenen Währungs-Enquête-Commission*, (Vienna: Kaiserlich-königliche Hof- und Staatsdruckerei, 1892).

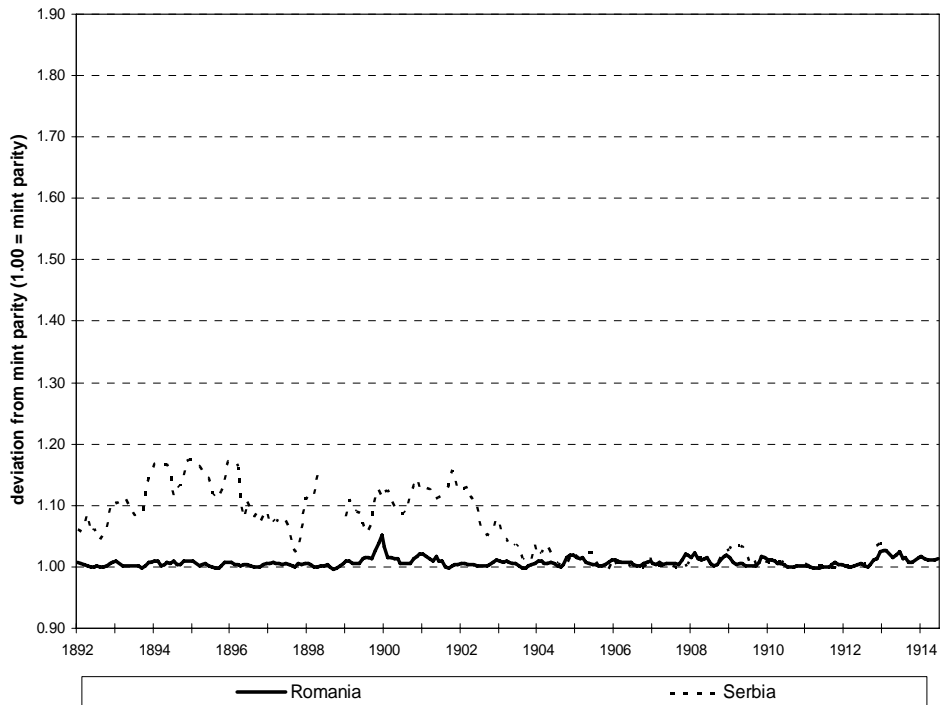
³³ For the Bulgarian case cf. footnote to table 3.

Chart 1: Exchange-Rates of Austria-Hungary, Bulgaria and Greece, 1877–1914.



Source: Exchange-rate data as collected by the central banks, cf. the individual country reports.

Chart 2: Exchange-rates of Romania and Serbia, 1892–1914



Source: Exchange-rate data as collected by the central banks, cf. the individual country reports.

It is certainly beyond the scope of this chapter to fully explain the differences in exchange-rate performance among the Southeastern European countries, but two crucial factors should be kept in mind. First, unbalanced budgets that need to be accommodated by lax monetary policy cannot only be the result of genuine overspending, but also of poor tax collection. Tax collection agencies in Bulgaria, Greece, Serbia and Romania were not only new and hence relatively inexperienced following independence. The Balkan countries inherited a long tradition of tax evasion which had once been meant to “snub” the Ottoman authorities. This tradition then hit the newly established countries with equal force.³⁴ Last but not least, it is most interesting to note that Greece experienced the most dramatic depreciation of all Southeastern European countries in the late 19th century. This might well reflect, more than anything else, the fact that Greece was the Balkan

³⁴ Mazower, *The Balkans*.

country more often than others belligerently involved in the creeping dissolution of the Ottoman Empire due its geographic position.³⁵

While the late 19th century was thus a period of exchange-rate instability for most Southeastern European countries, things improved substantially at around the turn of the century. Austria-Hungary was the first country to follow Romania on the path of exchange-rate stabilisation in 1896. Especially after some trouble in late 1899 and 1900 – which also affected Romania – , the dual monarchy developed an impeccable record with a standard deviation of mint parity from only 0.20% and a maximum deviation of 0.39% (cf. table 4). Equally, Serbia and Greece were able to stabilise their exchange-rates in 1905 and 1910, respectively.

In international comparison, such a stabilisation of the exchangerate at around the turn of the century is by no means unusual and is conventionally attributed to an upswing in global macroeconomic conditions. In fact, it has been argued that the 1870–1913 period is better divided into two separate sub-periods, an earlier, more cumbersome one until the 1890s, and a later, more benign one from the mid-1890s to the onset of World War I.³⁶ The exchange-rate experience of the Southeastern European countries appears to bear out a similar story, perhaps with one notable exception. The end to the *Belle Époque* came two years earlier with the outbreak of the Balkan Wars in October 1912. As we can see from table 4, a very high degree of exchange-rate stability is limited in all cases to the period until 1912. With the exception of Bulgaria, all countries regained exchange-rate stability after the Balkan Wars, albeit with a slightly lower degree.

5.3 Did the Southeastern European Countries Follow the Classical Gold Standard?

To what extent did the Southeastern European countries follow the gold standard before World War I? We have so far carefully avoided this question, as there is not one, but (at least) two competing definitions of what it means to be on gold. The 19th century gold standard was characterised by two features: (1) the free coinage of gold on private account at the national mint, and (2) specie payment, i.e. the unconditional redemption of bank notes by the issuing bank against gold coins or gold bullion (i.e., convertibility). Both measures combined guarantee the approximate identity of face value (nominal value) and metallic value (intrinsic

³⁵ Clearly reflected in chart 1 is the Greek attempt in 1885/86 to take advantage of Serb-Bulgarian hostilities and the 1897 Greek-Turkish war arising from revolt in Crete. The latter event, combined with an earlier default on external loans only four years earlier, lead to the establishment of an international financial commission to oversee the Greek state finances.

³⁶ M. Flandreau, J. Le Cacheux, and F. Zumer, *Stability without a Pact? Lessons from the European Gold Standard, 1880–1914*, CEPR Discussion Paper 1872 (1998).

value) of the gold coins in circulation. If both conditions are fulfilled, a country is considered to be *de jure* on gold. This was true for the core countries of the Classical Gold Standard such as England, France, and Germany.³⁷

Most of the peripheral countries, however, did not introduce specie convertibility. Provided the exchange rate of countries follows mint parity closely enough, countries are often considered to be *de facto* on gold. The terminology “to shadow gold” is used interchangeably. This terminology seems justified on the following grounds. In the case of an exchange rate closely following mint parity, one might argue that specie payment *did* exist after all. Specie payment did not exist *domestically* in the sense that the issuing bank would redeem bank notes against gold coins or gold bullion. Economic agents could, however, buy bills of exchange drawn on gold standard countries, thereby getting hold of gold currency. Thus, it could be argued that specie payment did exist *externally*. The case of an exchange rate closely following mint parity is equivalent to specie payment abroad. For many economic considerations it is of prime importance that there are fixed or, at least, quasi fixed exchange rates, while it is of secondary importance whether specie payment takes place at home or abroad.

Let us ask the same question again, now in a more precise form: Did the Southeastern European economies follow the gold standard? If they did, for what periods and did they follow the gold standard *de jure* or *de facto*? For Austria-Hungary we know for certain that the country never followed the gold standard *de jure*.³⁸ Following the exchange-rate stabilisation of 1896, Austria-Hungary had a long-lasting discussion on whether convertibility should be introduced or not and eventually decided against specie payment.³⁹ For the other four countries, the central banks report in their individual country reports that convertibility existed for most of the time. While such convertibility might have existed into silver, we take a more cautious approach. In the 19th century, words of a central bank (i.e., proclamation of convertibility) were often not followed by deeds, and until further research has established for sure that convertibility of bank notes into gold coin and bullion existed in a meaningful way in Southeastern Europe, it seems premature to classify the countries under consideration as following the gold standard *de jure*.

³⁷ M. D. Bordo and F. E. Kydland, The Gold Standard as a Rule: An Essay in Exploration, *Explorations in Economic History* 32 (1995).

³⁸ Morys, The Classical Gold Standard in the European Periphery: A Case Study of Austria-Hungary and Italy, 1870–1913, pp. 23–27.

³⁹ H. Hemetsberger-Koller, Die suspendierte Goldkonvertibilität. Barzahlungskrise in Österreich-Ungarn zu Beginn des 20. Jahrhunderts, in: *Auf Heller und Cent. Beiträge zur Finanz- und Währungsgeschichte*, eds. K. Bachinger and D. Stiefel (Frankfurt, Vienna: Überreuter, 2001).

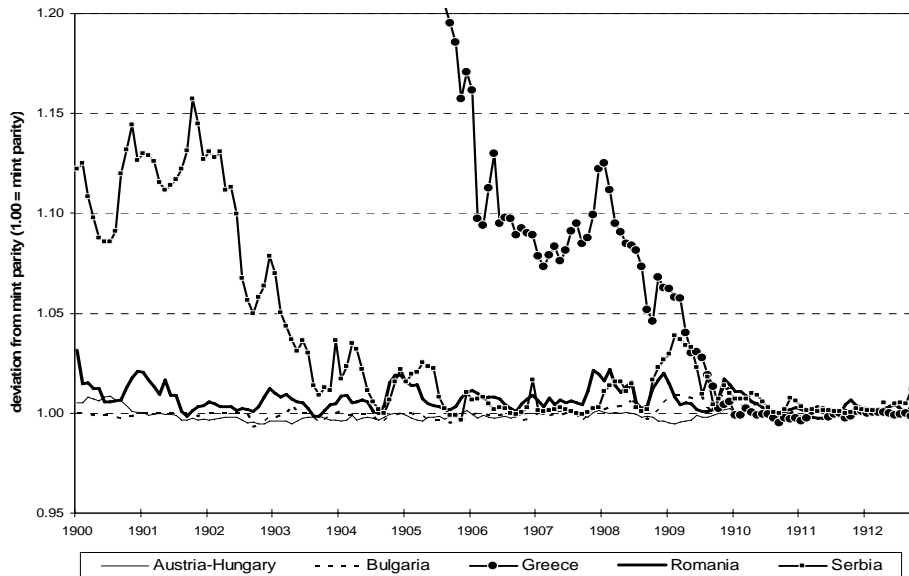
Table 4: Periods of Increased Exchange-rate Stabilisation in Southeastern Europe

	Periods of increased exchange rate stabilisation	Deviation from mint parity		
		Stand.	Max.	Avg.
		Austria-Hungary	3/96-10/99	0.19%
	11/00-11/12	0.20%	0.39%	- 0.13%
Bulgaria ¹	01/06- 9/12	0.36%	1.28%	+ 0.18%
Greece	1/10-6/14	0.16%	0.25%	- 0.05%
Serbia	9/09-9/12	0.36%	1.40%	+ 0.43%
Romania	1/92-5/99	0.32%	0.98%	+ 0.38%
	2/00-11/12	0.58%	2.20%	+ 0.68%

¹ The data reported in the Bulgarian country report suggests quasi-fixed exchange-rates going back to 1891. This finding is in contradiction with substantial qualitative research which suggests that Bulgaria enjoyed quasi-fixed exchange-rates starting only in 1906 (cf. Avramov (1999) and Avramov (2006)). Following Avramov, our calculations are therefore based only on the data provided for the period starting in 1906.

Sources: Exchange-rate data as collected by the central banks, cf. the individual country reports.

Chart 3: Exchange-rates in Southeastern Europe, January 1900 to September 1912.



Source: Exchange-rate data as collected by the central banks, cf. the individual country reports.

By contrast, from the exchange-rates reported we do think that all five countries shadowed the gold standard for some period of time. In order to show different degrees of exchange-rate stabilisation, we have distinguished in tables 3 and 4 between periods of “normal” exchange-rate stabilisation and periods of “increased” exchange-rate stabilisation. While this distinction is only one of degree, it might still be a useful one for our purposes. As the deviations from mint parity in table 4 show, certainly the periods of “increased” exchange-rate stabilisation can be viewed as shadowing the gold standard, with standard deviations in all cases below 0.40% (only Romania enjoyed a higher standard deviation of 0.58%). While the time periods naturally differ from country to country, there was a relatively short period – from 1910 to the outbreak of the Balkan Wars in late 1912 – in which all Southeastern European countries had stabilised their exchange-rates with respect to other gold standard countries. Therefore, the years from 1910 to 1912 might be seen as the “heyday” of the gold standard in Southeastern Europe.⁴⁰

⁴⁰ Avramov, eds., *120 Years Bulgarian National Bank* (Sofia: Balgarska Narodna Banka, 1999). S. Lazaretou, Greek Monetary Economics in Retrospect: History and Data, in: *Monetary and Fiscal Policies in South-Eastern Europe: Historical and Comparative Perspectives (Conference proceedings of the 1st meeting of the South-Eastern European Monetary History Network)*, eds. R. Avramov and S. Pamuk (Sofia: Balgarska Narodna

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