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## *The Experience of Exchange Rate Regimes in Southeastern Europe in a Historical and Comparative Perspective*

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# Serbia

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## Introduction

The Law on Minting Silver Coins of 1873 set out the dinar as the Serbian national monetary unit. In conformity with the rules of the Latin Monetary Union, this legislation also established a ratio of 1:1 with the French franc. The dinar should be minted of silver with a fineness of 835/1000 and weigh 10, 5 and 2.5 grams (in the denominations of 2, 1 and 0.50 dinars) respectively. The government had the exclusive right to mint money.

The law on minting Serbian gold coins was passed after Serbia proclaimed its independence in 1878. The law prescribed the minting of 20- and 10-dinar gold coins, a clear indication that Serbia intended to adopt the gold standard. As opposed to the Latin Monetary Union, it was planned that the government alone should have the right to mint not only silver and copper coins, but gold coin as well.

Bank notes issued by the Privileged National Bank of the Kingdom Serbia were either backed by gold or by silver. The first gold-backed 100-dinar banknotes were issued immediately after the establishment of the National Bank in 1884. However, as these banknotes could not be retained in circulation, silver-backed 10-dinar banknotes were issued as early as in 1885. The 1885 Law on the National Bank of Serbia stipulated that “the National Bank shall exchange each of its 10-dinar banknotes against silver, and its 50, 100, 500 and 1,000-dinar banknotes against gold, at full nominal value without any deductions, as soon as the banknote is presented for redemption at its main cash vault. The bank shall never place more banknotes into circulation than 2.5 times the amount of gold it holds in its vaults. Not more than one quarter of gold can be replaced with silver”. Parallel circulation of banknotes redeemable in either gold or silver remained the basis of Serbia’s monetary system all the way through to World War I.

The dinar remained a relatively stable currency during the period from 1884 to 1914. Its exchange rate against the French franc, the Austro-Hungarian currency and other Balkan currencies shows little volatility. The legally prescribed minimum backing for banknotes in circulation of 40% was observed without exception. The obligation to convert paper money into gold or silver was continually complied with, except in two instances – at the outbreak of the Balkan Wars (1912) and on the eve of World War I.

*Note:* Serbia switched to the Gregorian calendar on 23 January 1919. Therefore, all dates are according to the Julian calendar.

*Table 1: Exchange Rates in Belgrade – Price (in Dinar) for a 20-Dinar Gold Coin and for 100 Austro-Hungarian Forints*

	<i>20-dinar gold coins</i>	<i>Austrian forints (100 forints)</i>
1892	21.35	x
1893	22.15	x
1894	23.10	x
1895	22.89	236.30
1896	22.19	232.51
1897	21.28	223.13
1898	22.18	232.35
1899	21.79	227.93
1900	22.21	230.59
1901	22.38	236.56
1902	21.90	230.79
1903	20.80	215.84
1904	20.40	212.92
1905	20.24	211.64
1906	20.09	209.95
1907	20.03	209.24
1908	20.26	211.92
1909	20.43	x
1910	20.11	x
1911	20.03	x
1912	20.24	x
1913	21.24	x

*Source: Based on daily data published in “Serbian Newspapers” – for the period before 1899 and after 1908; Statistical Yearbook of the Kingdom of Serbia (1913) – for the period 1899–1908.*

Table 2: Reserves: Gold, Silver and Foreign Exchange Reserves

*End-of-year values in million dinar*

	<b>Gold</b>	<b>Silver</b>	<b>Foreign Exchange Reserves</b>	<b>Sum</b>
1884	0.87	0.00	0.36	1.23
1885	1.21	0.04	0.31	1.55
1886	1.22	1.45	0.36	3.04
1887	1.82	2.78	0.30	4.90
1888	3.41	4.03	0.51	7.95
1889	5.80	4.43	0.78	11.01
1890	7.92	4.45	0.36	12.72
1891	8.69	4.19	0.22	13.10
1892	9.19	4.11	0.16	13.46
1893	9.02	4.01	0.46	13.49
1894	6.44	4.29	0.64	11.37
1895	6.24	4.67	0.97	11.88
1896	7.16	4.91	0.74	12.80
1897	5.98	7.34	0.92	14.23
1898	4.68	9.23	0.85	14.76
1899	7.17	8.98	1.53	17.68
1900	6.81	8.97	0.87	16.65
1901	6.62	8.97	1.54	17.13
1902	10.97	8.80	1.70	21.47
1903	15.85	8.67	1.79	26.31
1904	11.63	6.78	5.23	23.65
1905	12.41	8.67	4.88	25.96
1906	11.10	8.25	3.01	22.36
1907	14.10	7.43	3.38	24.92
1908	18.07	6.92	4.50	29.48
1909	13.38	6.64	9.23	29.25
1910	24.39	6.73	5.84	36.96
1911	33.66	6.52	10.60	50.78
1912	50.44	3.54	26.09	80.06
1913	57.84	4.27	3.64	65.75
1914	57.17	2.20	134.03	193.40

Source: National Bank 1884–1934 Institute for Manufacturing Banknotes and Coins Topcider, Belgrade, 1935.

*Table 3: Banknotes in Circulation – Gold- and Silver-Backed Banknotes**End-of-year values in million dinar*

	<b>Gold backed banknotes</b>	<b>Silver backed banknotes</b>	<b>Total circulation</b>
1884	0.781800	0.000000	0.781800
1885	1.568700	1.931340	3.500040
1886	0.437550	5.301320	5.738870
1887	0.182230	9.855570	10.037800
1888	0.141350	13.937010	14.078360
1889	0.101950	17.233520	17.335470
1890	0.082300	23.393140	23.475440
1891	0.122600	27.148930	27.271530
1892	0.160450	28.714000	28.874450
1893	0.195550	26.570850	26.766400
1894	0.548000	24.515580	25.063580
1895	0.421950	24.167990	24.589940
1896	0.659150	23.802010	24.461160
1897	0.974800	22.865880	23.840680
1898	0.364150	32.780440	33.144590
1899	0.839900	33.167230	34.007130
1900	0.849150	35.029470	35.878620
1901	1.117000	33.941690	35.058690
1902	2.123750	34.689700	36.813450
1903	3.684950	35.166200	38.851150
1904	3.142200	34.874990	38.017190
1905	3.104050	33.981150	37.085200
1906	2.278650	27.952140	30.230790
1907	7.556570	29.807050	37.363620
1908	3.373840	47.038010	50.411850
1909	3.464480	46.383620	49.848100
1910	7.037260	42.617370	49.654630
1911	13.981340	51.841880	65.823220
1912	5.336440	88.288860	93.625300
1913	4.285280	99.153290	103.438570
1914	3.665120	163.595970	167.261090

*Source: National Bank 1884–1934 Institute for Manufacturing Banknotes and Coins Topcider, Belgrade, 1935.*

*Table 4: Serbian Discount Rates*

<b>Year</b>	<b>Day</b>	<b>Month</b>	<b>%</b>
1884	1	1	5.50
	16	10	7.00
1885	1	1	6.00
	12	2	6.00
	18	4	6.00
	19	8	7.00
	7	9	8.00
1886	1	1	7.50
	1	11	7.00
1891	6	3	6.50
1892	9	3	7.50
	18	3	8.50
1893	11	1	7.50
1905	2	3	5.00
1908	24	9	8.00
1910	24	6	6.00
1911	5	8	5.00
1912	27	6	6.00

*Source: National Bank 1884–1934, Institute for Manufacturing Banknotes, Belgrade, 1935.*