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The National Bank of Romania and
its issue of banknotes between
necessity and possibility,
1880-1914

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SEEMHN

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Editorial

The South-Eastern European Monetary History Network (SEEMHN) is a community of financial historians, economists and statisticians, established in April 2006 at the initiation of the Bulgarian National Bank and the Bank of Greece. Its objective is to spread knowledge on the economic history of the region in the context of European experience with a specific focus on financial, monetary and banking history. The First and the Second Annual Conferences were held in Sofia (BNB) in 2006 and in Vienna (OeNB) in 2007. Additionally, the SEEMHN Data Collection Task Force aims at establishing a historical data base with 19th and 20th century financial and monetary data for countries in the region. A set of data has already been published as an annex to the 2007 conference proceedings, released by the OeNB (2008, Workshops, no 13).

On 13-14 March 2008, the Third Annual Conference was held in Athens, hosted by the Bank of Greece. The conference was dedicated to *Banking and Finance in South-Eastern Europe: Lessons of Historical Experience*. It was attended by representatives of the Albanian, Austrian, Belgian, Bulgarian, German, Greek, Romanian, Russian, Serbian and Turkish central banks, as well as participants from a number of universities and research institutions. Professor Michael Bordo delivered the key note speech on *Growing up to Financial Stability*. The participants presented, reviewed and assessed the experience of SE Europe with financial development, banking and central banking from a comparative and historical perspective.

The 4th Annual SEEMHN Conference will be hosted by the National Serbian Bank on 27th March 2009 in Belgrade. The topic of the Conference will be *Economic and Financial Stability in SE Europe in a Historical and Comparative Perspective*.

The papers presented at the 2008 SEEMHN Conference are being made available to a wider audience in the Working Paper Series of the Bank of Greece. Here we present the fourteenth paper, by George Virgil Stoenescu, Elisabeta Blejan, Brîndușa Costache and Adriana Iarovici Aloman.

July, 2008

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THE NATIONAL BANK OF ROMANIA AND ITS ISSUE OF BANKNOTES BETWEEN NECESSITY AND POSSIBILITY, 1880-1914

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ABSTRACT

The paper looks at the National Bank of Romania's issue of banknotes from 1880 through 1914, highlighting the developments in the notes' cover, the channels whereby the central bank put its notes into circulation, as well as the behaviour of the issuing house during episodes of crisis. The narrative evidence reveals that the Bank had successfully managed its seignorage right and maintained a stable and trustworthy domestic currency that ensured the country's economic development in line with the other European economies of the time.

Keywords: Money circulation; Banknote issue; Cover stock; Mortgage notes; Gold standard

JEL classification: N13; N23; E42; E52; G21

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1. Introduction

“Any institution created before its time and which cannot be bolstered by the economic development of that country may subsequently put in some peril the development of the national economy. I do not believe that the time is right for the creation of so frail and challenging institution as the Bank”.¹ That was the argument produced by Theodor Rosetti², one of the opponents to the establishment of the issuing house in Bucharest, in favour of his standpoint in the debates held in the Senate of Romania on the draft law for the creation of the National Bank in 1880. Such assertions were not entirely reckless given the economic situation of the country which had won its independence only three years earlier in 1877. These assertions equally prompted us to draw up a study focusing mainly on the way in which the National Bank of Romania (NBR) turned to account the seignorage privilege that it had been vested with by the young Romanian State, with a view to supporting the country’s modernisation.

In an effort to give a true and fair view of the role played by the issuing house in Bucharest in providing impetus to the national economy, we looked into the issue of banknotes not only from the standpoint of the legal framework and the gold metal cover, but also in the way in which the NBR used those banknotes to fulfil its objectives: that was, to increase the lending sources for the national economy and to maintain exchange rate stability in order to encourage the expansion of the economic activity and to smooth money circulation.

The analysis covers the period from the establishment of the NBR in 1880 and the outbreak of World War I in 1914. During this period, Romania witnessed institutional building and economic growth. The analysis is based on the NBR balance-sheet data published in the form of a statistical database. As the issuing house in Bucharest actually started its banking operations on 1 December 1880³, we used data taken by the financial statements as at end-December 1881. Data in the half-yearly financial statements ended 30 June 1914 marked the end of the reviewed

¹ The Senate of Romania meeting of 21 March 1880 in C.I. Băicoianu, *Istoria politicei noastre monetare și a Băncii Naționale, Acte și documente*, vol. II, part II, first volume of annexes, Bucharest 1939, p. 250.

² Theodor Rosetti, politician with conservative views, Prime Minister of Romania (1888-1889), served as minister several times, NBR Governor (1890-1895).

³ Mihaela Tone, Cristian Păunescu, *Istoria Băncii Naționale a României în date*, vol. I 1880-1914, revised second edition, Oscar Print Publishing House, Bucharest, 2006, p. 22.

period. Thereafter, the outbreak of World War I delivered a heavy blow to the economic conditions in Romania and impaired the activity of the issuing house.

2. Legal Issues Regarding the Issue of Banknotes in Romania

The issue of banknotes was organised based on the NBR's law and statute, and on the "Law for establishing a new monetary system and issuing national banknotes and coins" of 14 April 1867.⁴ The latter piece of legislation "puts in place the decimal metric monetary system the same as in France, Italy, Belgium and Switzerland". The *leu*, Romania's currency unit, was equivalent to 5 g of silver with fineness 835‰ and to 0.3226 g of gold with fineness 900‰. The ratio between the two metals was 1/14.38. Thus, Romania joined the group of states that were on the gold-silver standard.

The option of bimetallism gained ground in 1867 after long lasting public and parliamentary debates. The reasons behind this decision were of both economic and political nature. The adoption of bimetallism by setting a 1:1 parity between the *leu* and the French *franc* pointed to the Romanian elites' propensity for the French monetary model and Romania's aim to become a member of the Latin Monetary Union, although, from a legal standpoint, this desideratum had never come true. Another equally important aim was to strengthen trade and credit relations between Romania and France, and to gain the latter's political support in its fight for being acknowledged the seignorage privilege⁵ by the suzerain power, i.e. the Ottoman Empire. However, this option was not assumed before knowing the possible danger of one of the two metals gaining a higher market value than the one set by law, which

⁴ Official Gazette No. 94 of 28 April 1867.

⁵ See, relative to the adoption of Romania's monetary system, the following papers: Victor Slăvescu, *Recunoaşterea dreptului de a bate moneta acţiunea diplomatică a României în 1866-1870*, Regele Carol I Foundation, Bucharest, 1941; Gheorghe Zane, *Economia de schimb în Principatele Române*, Casa Şcoalelor Publishing House, Bucharest, 1930; Gheorghe Zane, *Problema monetară în România şi reforma de la 1867* in *Studii*, Eminescu Publishing House, 1980, Bucharest; Costin C. Kirişescu, *Sistemul bănesc al leului şi precursorii lui*, Academiei Publishing House, Bucharest, vol. II, 1997; Costin C. Kirişescu, *Sistemul de la 1867 şi Uniunea Monetară Latină în Crearea sistemului monetar naţional la 1867*, Academiei Publishing House, Bucharest, 1968; George Virgil Stoenescu, *Aspecte de doctrină monetară în gândirea economică românească din a doua jumătate a secolului al XIX-lea în 130 de ani de la crearea sistemului monetar românesc modern*, Enciclopedica Publishing House, Bucharest, 1997.

could generate heavy losses due to the devaluation of the coin made by the cheaper metal.⁶

According to the monetary system law of 1867, only the circulation of the Romanian coins and the coins issued by the Latin Monetary Union member states was accepted. However, in 1877-78, in the context of the country's participation in the Russo-Turkish War with the aim to gain its independence, other currencies were also put into circulation.

In order to support the war effort and cover urgent government expenses, the government decided, in compliance with the law of 12 June 1877, to put in circulation, *via* the Savings House, mortgage notes worth *lei* 30,000,000. The issue had a binding exchange rate and was backed, contrary to modern banking rules, by government real estate. The withdrawal of mortgage notes from circulation, at an unspecified date, was to be achieved through a “discount and circulation” bank.⁷

Following stocktaking, the value of government real estate amounted to roughly *lei* 52,000,000, so that the value of mortgage notes equalled *lei* 26,260,000. These mortgage notes were put into circulation in May 1878 and were intended to cover army expenses and to finance public works. Thus, for the first time in Romania, paper money was issued by the government for covering its general needs and it was backed by state-owned property.⁸

Despite the fact that government guarantees, i.e. government estate, were very difficult to turn into funds, the issue of mortgage notes did not cause inflation. They enjoyed public confidence and replaced the gold coins in circulation that had been hoarded up as a result of the *agio* phenomenon. These mortgage notes had been seen as government debt securities and, for that reason, were amassed or preferred to silver coins.⁹ That indicated that the Romanian market was ready for paper money.

⁶ See, in this respect, *Expunerea de motive la lege și dezbaterile din Parlament* in Official Gazette No. 89 of 22 April 1867 and in C. I. Băicoianu, *Istoria politicei noastre monetare și a Băncii Naționale, Acte și documente*, vol. I, part II, Official Gazette and the State Printing Houses the National Printing House, Bucharest, 1932, Annex No. 30, *Dezbaterile Camerei României la Legea monetară din 1867*, p. 236.

⁷ *Legea pentru emisiunea de bilete ipotecare în sumă de 30 milioane lei*, published in Official Gazette No. 132 of 12 June 1877 in G. C. Marinescu, *Banca Națională a României Legi, statute, dispozițiuni monetare, convențiuni financiare*, Bucharest, 1939, pp. 303-307.

⁸ Victor Slăvescu, *Istoricul Băncii Naționale a României 1880-1924*, Bucharest, 1925, *Cultura Națională* Publishing House, p. 5.

⁹ Costin C. Kirițescu, *Sistemul bănesc al leului și precursorii lui*, *Academiei* Publishing House, Bucharest, vol. II, 1997, p. 232.

The war of independence in 1877-78 caused the domestic monetary system to allow the circulation of mortgage notes as well as foreign currencies, i.e. Russian roubles. The Protocol, signed on 4 April 1877 between the representative of the Government of Romania, Mihail Kogălniceanu, the minister of foreign affairs, and baron D. Stuart, the general consul of Russia, set the conditions for the imperial troops to cross the territory of Romania on their way to the theatre of the war on the territory of today's Bulgaria. Among other aspects, in this context, it was stipulated that all the expenses were to be covered by the government of Russia.¹⁰ At first, payments were made in gold but, thereafter, in order to avoid posing any threats to their own monetary system, the authorities in Petersburg suggested the government to agree to a new protocol which was signed on 10 May 1877 and stipulated that silver coins were accepted as means of payment at the exchange rate of *lei* 4 for rouble 1. Although the recommendation overvalued the Russian rouble, as the market exchange rate was *lei* 3.80 for rouble 1¹¹, the government accepted the Russian silver, albeit overvalued, rather than paying for the army's supplies with paper money, which remained a challenging solution given the unfolding military conflict at that time.

Thus, according to the records, the Romanian market was flooded by silver Russian roubles in total amount of *lei* 40,000,000, which caused the depreciation of silver compared to gold.¹² The Russian coins were gradually removed from circulation after the conclusion of the peace in Berlin in July 1878. The first step taken in this direction was the law of 10 April 1879, which authorised the government to issue a silver coin with face value of *lei* 5 and fineness 900‰; the total issue value amounted to *lei* 24,000,000. The silver resulting from the melting of the roubles in circulation or in public cash offices was to be used for this purpose. It was only after putting into circulation the new coin that silver coins other than those of the Latin Monetary Union¹³ were not allowed in governments' money transactions.

¹⁰ *Istoria Românilor, vol. VII, tom I Constituirea României moderne 1821-1878*, coordinator academician Dan Berindei, Enciclopedica Publishing House, Bucharest, 2003, p. 653.

¹¹ Victor Slăvescu, *op. cit.*, p. 8; see also C. I. Băicoianu, *Istoria politiceii noastre monetare și a Băncii Naționale Acte și documente*, vol. II, part I, Official Gazette and the State Printing Houses the National Printing House, Bucharest, 1932, p. 98, which reports an exchange rate of *leu* 3.70 for rouble 1.

¹² Victor Slăvescu, *op. cit.*, p. 8 and C. I. Băicoianu, *op. cit.*, vol. I, part I, Cartea Românească Publishing House, Bucharest, 1932, p. 305-306.

¹³ See the text of the law in C. I. Băicoianu, *op. cit.*, p. 101-107. The *leu* 5 coin issued in 1879 contained, according to the law, 25 g of silver with fineness 900‰, which was a breach of the law of 1867 that stipulated a cover of 5 g silver with fineness 835‰ for the *leu*.

Therefore, in 1880, with the establishment of the NBR, money circulation in Romania referred to the coins issued in compliance with the law of 1867; *lei* 5 silver coins were issued according to the regulations of 1879 and mortgage notes put into circulation in 1878. Despite the legal provisions that stipulated a gold and silver cover for the *leu*, the gold coins had almost vanished from circulation due to either hoarding or export, so that only paper money and silver coins circulated.

The law establishing the NBR as a “discount and circulation” bank stipulated the ensurance of smooth money circulation as one of its objectives. The Bank was vested with the right of issuing notes for two decades, ensuring a metallic cover of 33 per cent of the value of banknotes issued. This “brought a certain degree of automatism and fixity¹⁴ to the operation of the fiduciary system” as said one of the specialists who scrutinised the activity of this institution, 55 years after the foundation of the issuing house.

Despite the said assertion, the Romanian law-maker adopted one of the most flexible money cover systems, namely the model provided by the *Nationale Bank van België*. This model should secure money convertibility for enhancing public confidence in banknotes, and, at the same time, money supply flexibility essential for matching market needs.

The leaders in Bucharest did not opt for the model of the Bank of England which fully covered banknote issue, except for the amount set by the authorities according to the law. Moreover, neither the model of *Banque de France*, which had the right to issue notes to the limit set by law without stipulating a certain proportion for the metal stock, was agreed upon in Romania.¹⁵ The first model required ensuring a very high metal stock which was not easy for the Romanian economy to secure; the second model offered too few guarantees to the public relative to the convertibility of banknotes.

In compliance with the law, the notes issued by the NBR were convertible “in gold or silver at the head offices of the Bank located in Bucharest and in the

¹⁴ Lazăr Ionescu, *Relațiunile dintre Banca Națională a României și Stat 1880-1935*, Bucharest, 1935, p. 89.

¹⁵ Victor Bădulescu, *Curs de economie politică, vol I Monedă, schimb prețuri*, Cartea Românească, Bucharest, 1931, p. 78-79; Victor Slăvescu, *Tratat de bancă, vol. II Doctrina de bancă A. Băncile de emisiune*, Cartea Românească Publishing House, Bucharest, 1931, p. 118.

country”.¹⁶ The law did not provide for these banknotes to have unlimited purchasing power, as individuals could refuse them. However, the State indirectly backed the NBR’s notes by accepting them in its transactions with individuals and by holding a membership quota in the Bank’s capital.¹⁷ Furthermore, as already illustrated by the existence of mortgage notes, the market was ready to accept paper money.

The National Bank of Romania was vested with the right to issue notes with face value of *lei* 20, 100 and 1,000, as well as intermediate denominations (*lei* 50 and 500 notes). The ratio between them was set by the General Council according to the money circulation requirements.¹⁸ The privilege to issue notes granted to the NBR in 1880 was extended in 1885 until 1912. In January 1901, it was further extended until June 1920 and in June 1901 was extended once again until 1930.¹⁹

The stability of the domestic banking system and implicitly the confidence in the Bank’s note had been hard hit during the 1880s due to a crisis known in the economic literature as *agio*. As already stated, when the gold-silver standard was adopted, massive silver discoveries increased world production and caused the fall in silver’s price compared to gold. Whereas the ratio between the two metals on the world market was 1:18.05 in 1880, much higher than that established by the monetary law in Romania (1:14.38), it reached at 1:22.12 in 1889.²⁰

The monetary imbalance widened also as a result of other reasons specific to the national economy. At that time, the trade account was constantly on deficit, particularly during crises, when poor agricultural production or the impossibility to turn it to account entailed dramatic fall in exports. Concurrently, Romania was on the development track during that period, and appropriate economic equipment was needed to turn to profit the resources of the country. For the provision of sufficient domestic resources, the Romanian State was compelled to contract several loans which were obviously repaid in gold. Accordingly, financial account deficits added to

¹⁶ *Lege pentru înființarea unei bănci de scont și circulațiune* în Official Gazette No. 90 of 17 April 1880 and in G. C. Marinescu, *Banca Națională a României Legi, statute, dispozițiuni monetare, convențiuni financiare*, Bucharest, 1939, pp.101-108 and the NBR Statute in Official Gazette No. 117 of 25 May 1880 and in G. C. Marinescu, *Banca Națională a României Legi, statute, dispozițiuni monetare, convențiuni financiare*, Bucharest, 1939, pp. 109-131.

¹⁷ *Ibidem*

¹⁸ *Ibidem*

¹⁹ G. C. Marinescu, *op. cit.* pp. 3-4.

²⁰ Costin C. Kirițescu, *op. cit.* p. 330.

trade deficits. All these factors boosted the demand for gold on the domestic market, fuelling the depreciation of silver and implicitly of the domestic currency.²¹

Against this background, the balance between market conditions and legal regulations had to be restored by renouncing the gold-silver standard and adopting gold monometallism. A first step was the withdrawal of mortgage notes.²² In compliance with the law of 1880, the NBR had the obligation to replace mortgage notes with its own banknotes issued in excess of the metal stock. The cover of the banknotes was to be secured by keeping the mortgage notes in the Bank's Treasury until their repurchase by the State.²³ Although the Bank had respected its obligations (at the end of 1885 the mortgage notes in its Treasury amounted to *lei* 25,902,605, out of more than 26,000,000 that had been put into circulation), the State failed to find the means to repurchase the mortgage notes. It was no sooner than 22 December 1888 that, by law, an extraordinary loan worth *leu* 26,000,000 was extended with a view to repaying the mortgage notes within a 6-month period. The loan was covered by domestic borrowing and, by the end of 1889 the entire portfolio of mortgage notes held by the NBR was taken over by the State. The cover stock was mostly metallic.²⁴

The second stage consisted in the amendment of the law on the national monetary system in March 1890. The gold *leu* with weight 0.3226 g and fineness 900‰ became the country's currency unit. The purchasing power of silver coins was limited to *lei* 50.²⁵ Simultaneously, a new law was adopted stipulating the conversion of the silver coin into a gold coin up to the amount of *lei* 40,000,000 "starting with the NBR's metal stock".²⁶

²¹ Victor Slăvescu, *Istoricul...*, pp. 71-73 and C.I. Băicoianu, *op. cit.*, vol. II, part I, Official Gazette and the State Printing Houses the National Printing House, Bucharest, 1932, pp. 199-239.

²² Additional information on mortgage notes in the series: *Bancnotele României 125 de ani de la prima emisiune de bancnote a Băncii Naționale a României*, coordinator Mugur Isărescu, authors Surica Rosentuler, Sabina Marițiu, Romeo Cârjan, 2006; Dobrovici, Gh. M. *Istoricul dezvoltării economice și financiare a României și împrumuturile contractate 1823-1933*, Bucharest, Printing House of "Universul" Journal 1934; Petre-Kirson, Ștefan (ed.) *Casa de Depuneri și Consemnațiuni 1864-1880. Documente (Legislație; Procese-Verbale ale Comitetului Biletelor Ipotecare)*, Bucharest, CEC, 2005; Maievschi, M. *Biletele ipotecare – prima monedă hârtie din țara noastră*, in *Crearea sistemului monetar național la 1867*, Bucharest, Academia RSR Publishing House, 1968.

²³ *Lege pentru înființarea unei bănci de scompt și circulațiune*, Official Gazette No. 90 of 17 April 1880, see also G. C. Marinescu, *op. cit.*, pp. 101-108.

²⁴ Victor Slăvescu, *Istoricul...*, p. 78, 81.

²⁵ *Lege pentru modificarea legii din 14 aprilie 1867, relativă la înființarea unui nou sistem monetar și pentru fabricarea monetelor naționale*, Official Gazette No. 275 of 17 March 1890 and in G. C. Marinescu, *op. cit.*, pp. 312-316.

²⁶ *Lege pentru demonetizarea pieselor de argint și schimbarea lor cu monete de aur*, Official Gazette No. 275 of 17 March 1890 and in G. C. Marinescu, *op. cit.*, pp. 317-318.

The adoption of the gold standard finally required the amendment of the law and the Bank's statute, stipulating the replacement of the silver stock with gold, which was achieved by the law of June²⁷ and of November 1890.²⁸ These laws provided, among other, for ensuring a metal stock covering 40 per cent of the value of the banknotes issued and the elimination of the *lei* 20 note issue.

As the changes were made without the prior approval of the issuing house, they triggered the Bank's opposition which postponed their enforcement since "a forceful implementation – one of the NBR historians said – would have generated a too serious conflict with the issuing bank that would have proved damaging for both the State and the national bank".²⁹

Basically, the senior executives of the NBR believed that the imposition of such a big gold stock would not secure the appropriate elasticity of the Bank's operations so as to meet market liquidity requirements in times of crisis. To this end, it was necessary that the gold stock might be reduced in exceptional cases up to 33 per cent and that bills of exchange and remittances in foreign currencies should be included in the cover stock up to 30 per cent of its value.

The other problem under debate was the denomination structure of the Bank's issue. Senior executives argued in favour of maintaining the *lei* 20 banknote in circulation as it was particularly necessary for petty transactions in the rural community. Eugeniu Carada, one of the NBR senior executives at that time, considered that the *lei* 20 banknote was far from posing a threat to the metal stock. On the contrary, it protected the stock as "petty amounts lie in petty pockets, in notes, while their metal value will lie in the NBR Treasury and in times of trouble these notes of low denomination are the last to be exchanged³⁰ and that occurs very rarely".

After long negotiations, a Protocol on the implementation of gold monometallism was signed in February 1892 between the NBR and the government,

²⁷ *Legea pentru modificarea art. 8, 12, 13 și 14 din Legea pentru înființarea unei bănci de scont și circulațiune*, Official Gazette No. 64 of 21 June 1890 see in G. C. Marinescu, *op. cit.*, pp. 148-155.

²⁸ *Decret pentru modificarea art. 3, 44, 45, 55, 61 și 91 din statute*, Official Gazette No. 195 of 30 November 1890 see in G. C. Marinescu, *op. cit.* pp. 156-158.

²⁹ Victor Slăvescu, *Istoricul....*, p. 112.

³⁰ NBR Archives, Board Minutes, file no. 90/1888-1895, f. 140-158, see also Mihaela Tone, Cristian Păunescu, *Istoria Băncii Naționale a României în date, vol. I 1880-1914*, revised second edition, Oscar Print Publishing House, Bucharest, 2006, p. 165.

and enacted in May 1892.³¹ According to the new regulation, the Bank had to ensure a gold stock accounting for at least 40 per cent of the total amount of note issue, of which 30 per cent could consist of bills of exchange denominated in German marks or pounds sterling. The issue could also include *lei* 20 banknotes, but only up to 20 per cent of the total amount.³²

The new issue system had a special status. Pursuant to the monetary law, the *leu* had a gold equivalent and the NBR had to convert its banknotes into gold (gold specie standard). Nonetheless, according to the law on the organisation of the NBR, it could also cover its issue of banknotes with gold and bills of exchange denominated in foreign currency and readily convertible into gold (gold exchange standard). This feature allowed the Bank to pay in gold-convertible foreign currencies ensuring thus the preservation of the metal stock.³³

The introduction of bills of exchange denominated in convertible foreign currencies in the NBR's stock marked a major shift in the Romanian elite's opinion on the central bank's capacity to manage the issue of banknotes without putting their convertibility in peril. However, this change was also required by the economic conditions of that time, chiefly the need for openness to foreign trade and the connection to the European money markets *via* foreign exchange inflows arising from grain exports, and foreign currency outflows for paying imports and covering government debt. The flexible money cover reserve allowed the Bank to intervene promptly in the money market. By selling the bills of exchange, the issuing house could act efficiently preventing the decline in the exchange rate of the *leu* up to the exit gold point. Thus, the gold stock was protected against the export occurring in winter and spring, when the fall in exports caused an increase in demand for gold or foreign currency³⁴, as was the case of any other predominantly agrarian country.

³¹ *Lege pentru modificarea legii din 15 iunie 1892*, Official Gazette No. 46 of 31 May 1892, also in G. C. Marinescu, *op. cit.* pp. 162-164.

³² "The new amendments refer particularly to the metal stock of the NBR and the issue of *lei* 20 banknotes which, according to the previous laws, had to be entirely withdrawn from circulation in 1894. However, it was deemed necessary that *lei* 20 banknotes remained in circulation, as the attempts to gradually withdraw them from circulation met with little success, considering that they continued to be in high demand. Those banknotes could even be deemed quite necessary for petty grain transactions conducted in the Romanian ports, owing to the fact that buyers or intermediaries collected more or less of such banknotes when they purchased limited amounts of grains from numerous small sellers living in the country." Rationale for Law amending law of 15 June 1890 in G. C. Marinescu, *op. cit.*, p. 163.

³³ Lazăr Ionescu, *op. cit.*, p. 97.

³⁴ *Ibidem*, p. 98.

The resilience of the new cover system and its capacity to respond promptly to crisis were put to test during 1899-1900, when Romania's financial position was weak, due to poor crops and the international turmoil in the aftermath of the Anglo-Boer War. The lack of gold and foreign currency was caused by the decline in exports as well as by fewer possibilities to have access to gold and foreign currency by means of foreign loans. This resulted in a liquidity shortage and the depreciation of the *leu*. The government budget posted large deficits which exceeded *lei* 35,405,000 in 1899-1900 and *lei* 27,244,000³⁵ in 1900-1901. In this context, the NBR had to resort frequently to its portfolio of bills of exchange and remittances in order to meet the requests of both the government and people. This difficult situation might indicate the limits imposed by the law on the NBR's interventions in the money market and implicitly the need for a higher flexibility of the cover stock.

In order to achieve this objective, the senior executives of the Bank had no hesitation in turning to account the financial straits encountered by the government. Hence, after the government decided to withdraw, as of 1 January 1901, from the shareholders of the Bank, in exchange for *lei* 14,800,000³⁶, the issuing house was granted the right to include in its cover stock bills of exchange and remittances on the French and Belgian markets. Therefore, as C.I. Băicoianu³⁷ stated, "metallic stock became more resilient, which was necessary as shown by the Great Depression in 1899-1900."

In June 1901, the NBR made another step forward when it extended to the government an interest-free loan in amount of *lei* 15,000,000, which was earmarked for covering the budget deficit, severely affected by the crisis episodes in the previous years. In exchange for that loan and at the request of the General Council of the Bank, approved by the Council of Ministers³⁸, the government agreed on lowering to 33 from 40 per cent the level of money cover, only in view of exceptional circumstances and for a limited period of time.

³⁵ Tudorel Postolache, coordinator, *Economia României – secolul XX – noua tranziție la economia de piață: premise istorice și perspective*, Academia Română Publishing House, Bucharest, 1991 p. 362.

³⁶ *Convenție pentru retragerea statului din asociația băncii și prelungirea privilegiului de emisiune din 16 decembrie 1900*, Official Gazette No. 239 of 26 January 1901. See also G. C. Marinescu, *op. cit.*, pp. 167-168.

³⁷ C.I. Băicoianu *op. cit.*, vol. II, part I, the Official Gazette and the State Printing Houses, the National Printing House, Bucharest, 1932, p. 355.

³⁸ *Convenția pentru serviciul de trezorerie și acordarea unui împrumut statului, prelungirea privilegiului băncii, scăderea cotei de acoperire metalică și limitarea circulației biletului de 20 lei din 11 mai 1901*, Official Gazette No. 66 of 23 June 1901, G. C. Marinescu, *op. cit.*, pp. 175-182.

Thus, by conferring privileges to the government, the National Bank of Romania had access to those facilities allowing it to render the cover stock more flexible, a particularly useful feature in periods of crisis. Concomitantly, Bank's senior officials aimed at promoting their own interests, as the above-mentioned facilities that enhanced the possibilities to issue and implicitly to benefit from the privilege granted by the government.

3. The NBR's Issue of Banknotes – its Relation with the Metal Stock

With a view to revealing the most important characteristics of the Bank's development process regarding its note issue, it is useful to analyse the relationship between the cover stock, i.e., its structure and evolution, and the amount of banknotes in circulation. In terms of its structure, two regime periods might be identified: the gold-silver bimetallism (1880-1891) and the gold monometallism (1892-1914). Later, the bills of exchange denominated in foreign currency convertible into gold added to the metal stock.

As regards the gold-silver bimetallism (1880-1891), the reserve for covering the NBR's issue consisted of gold, silver and, until 1889, mortgage notes. Based on the metal stock "containing some gold and very much silver"³⁹, the NBR issued banknotes whose value could be three times higher than the metal reserve. Moreover, the stock also included "paper currency, i.e., mortgage notes, issued by the government..., and backed by real and valuable assets, i.e., real estate, the sale of which would provide the necessary means for their payment"⁴⁰. In correspondence, the issuing house put banknotes in circulation of the same amount. This additional issue of mortgage-backed banknotes was in fact a fixed-maturity loan extended to the government.

Overall, the cover stock followed an uptrend during 1881-1891, climbing to over *lei* 60,600,000 at end-1891, from *lei* 35,504,613⁴¹ at end-1881. However, the two components of the money cover displayed reverse trend developments. The amount of mortgage notes in the Bank's Treasury was relatively stable after 1883, as they were

³⁹ Victor Slăvescu, *Istoricul...*, p. 46.

⁴⁰ *Ibidem*

⁴¹ Table in Annex 1 shows data on the development and structure of the cover stock, as well as on the Bank's note issue.

largely withdrawn from circulation and replaced with banknotes. Thus, the amount of mortgage-backed banknotes in circulation did not undergo significant changes till late 1888, when the Romanian government started to redeem them. It is noteworthy that although the mortgage-backed banknotes made up between 24 per cent and 30 per cent of total money in circulation, their weight was declining insofar as the metal stock and implicitly the volume of banknotes were increasing.

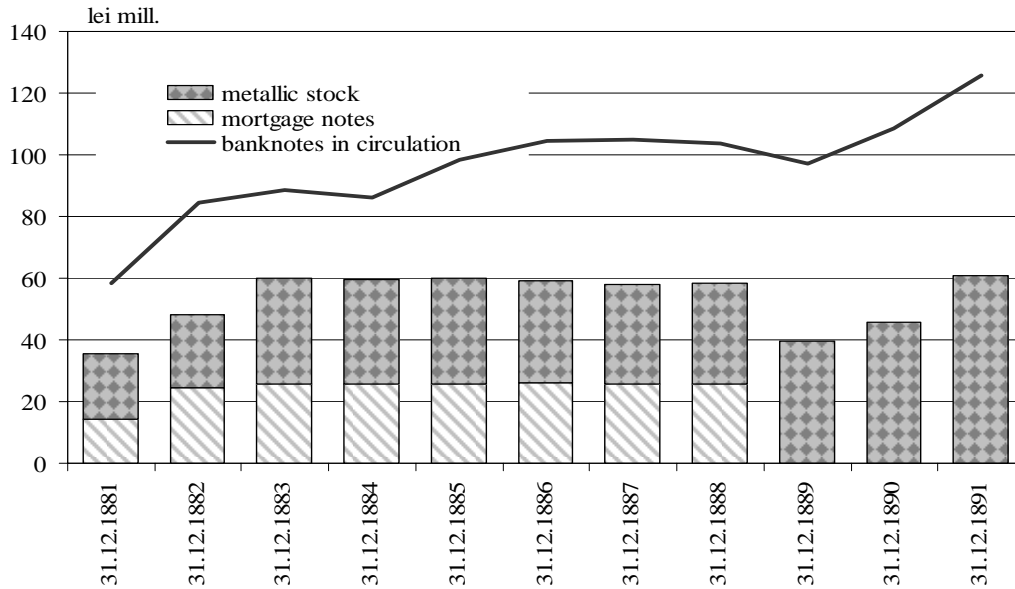
However, the rise in metal reserves was uneven during the first period. After picking up more than *lei* 13,000,000 in 1881-1883, metal reserves remained relatively flat until 1888. In the three years before the implementation of the new monetary standard, metal reserves posted an almost twofold increase, amounting to *lei* 60,652,262.39 in December 1891.

In the second half of 1889, a turning point was seen in cover stock developments, as it decreased from *lei* 58,175,206.38 at end-1888 to *lei* 39,523,865.05 at end-1889, following the withdrawal of mortgage notes. The cover percentage declined as well, from 56 to 40.7 per cent. Nevertheless, the convertibility of the *leu* was not affected, as the law set forth that 33 per cent of the issue had to be covered by the metal stock.

In the following years, the rise in the metal stock helped cover the lack generated by the withdrawal of mortgage notes and prevent the sharp decline in banknotes in circulation. This performance was the most significant in the context provided by the new monetary law, according to which silver could no longer be the cover base and should be replaced by gold.⁴²

⁴² C.I. Băicoianu *op. cit.*, p. 453.

**Metallic stock, mortgage notes and banknotes in circulation
1881-1891**



Source: NBR's annual balance sheets

The monetary regime switch and the introduction of the commercial portfolio in foreign currency marked a new stage in the development of the Bank's issue of banknotes (1892-1914). By introducing the commercial portfolio in the stock, only 28 per cent of the issued banknotes had to be covered with gold, while the remaining 12 out of the 40 per cent limit imposed by law could be covered with bills of exchange convertible, however, in gold.

According to the Bank's annual balance sheets of the period from 1892 to June 1914, both components of the cover stock followed an upward path. Metal reserves increased almost three times, from lei 53,160,703.72 to lei 154,223,015.8. The gold commercial portfolio grew as well, from lei 13,954,339.8 to lei 56,598,388.9. Overall, the Bank's cover stock rose from lei 67,115,043.52 in 1892 to lei 210,821,404.70 at mid-1914.

Throughout the 1881-1914 period, the Bank's reserves had expanded by almost six times. The right to issue increased almost 6.8 times, from lei 78,177,298.71 at end-1881 to lei 527,053,511.75 on 30 June 1914. The difference between the gains under the cover stock and the right to issue was ascribable to the reserve structure. During 1881-1888, almost 40-50 per cent of the cover stock comprised of mortgage notes; in this case, the issue was 1/1 and not 1/3, as was the case of the metal reserve.

The increase in the total volume of banknotes in circulation was closely correlated with the possibilities arising from the size of the metal stock. Even from the beginning, banknotes were easily put into circulation on the domestic market, as proved by the significant pick-up in money circulation from *lei* 58,536,470 at end 1881 to *lei* 104,513,020 at end 1886. The NBR achieved this aim by granting discount and Lombard credits. However, loans extended to the government in 1880 were also significant: *lei* 4,000,000 in government paper and *lei* 7,338,000 backed by a deposit in silver roubles. Hence, banknotes were put into circulation *via* „State Treasury offices”, and the government agreed once more on the new paper currency.⁴³ In 1880-1889, amid the rise of *agio* on the Romanian market, there were few requests for the exchange of the banknotes at the Bank, as paper money was ahead of silver coins, given that the latter prevailed in the Bank’s cover stock.⁴⁴

Banknote circulation increased considerably. It stood almost 7.2 times higher the last day of June 1914 as compared with end-1881. The average annual money circulation increased from *lei* 34,199,070 in 1881 to *lei* 423,650,056 in 1913.⁴⁵ The overall increase in the value of banknotes in circulation accelerated during favourable economic times, yet it was discontinued during crisis episodes.

A general feature of the monetary crises of 1884, 1894, 1899-1900, 1904 and 1907 which affected the volume of the issue and implicitly the banknotes in circulation, was the predominantly agrarian character of the Romanian economy. The scenario for such crises, albeit slightly different, was based on poor crops, as well as on the international economic and political surrounding that was unfavourable to exports. Such a situation caused a decrease in the available commercial portfolio denominated in foreign currency. Requests for gold and foreign currency submitted to the Bank led to a decline in the exchange rate of the *leu* and its cover stock. In this context, the Bank’s senior executives resorted quite frequently to raising the discount rate and the Lombard rate in order to contain credit requests and obtain from external sources the funds in foreign currency, necessary both for imports and the payment of the government obligations.

⁴³ Victor Slăvescu, *Istoricul...*, pp. 41-42.

⁴⁴ *Ibidem*, p. 55.

⁴⁵ C.I. Băicoianu, *op. cit.*, vol. II, Part I, the Official Gazette and the State Printing Houses, the National Printing House, Bucharest, 1932, p. 456.

Another factor behind the decrease in the amount of banknotes in circulation was the lowering of reserves by withdrawing the mortgage notes in 1889, as it was mentioned before. Unlike crisis episodes, this situation could be easily improved by increasing the metallic reserves allowing thus the money supply to accelerate.

The 1912-13 crisis was a special episode, as it was generated mainly by tensions in international relations, the outbreak of two military conflicts in the immediate vicinity of the Romanian borders⁴⁶, which caused a delay in maritime circulation and blocked grain exports. This tense period signalled, to a certain extent, the eve of World War I and radical changes in the world economic environment.

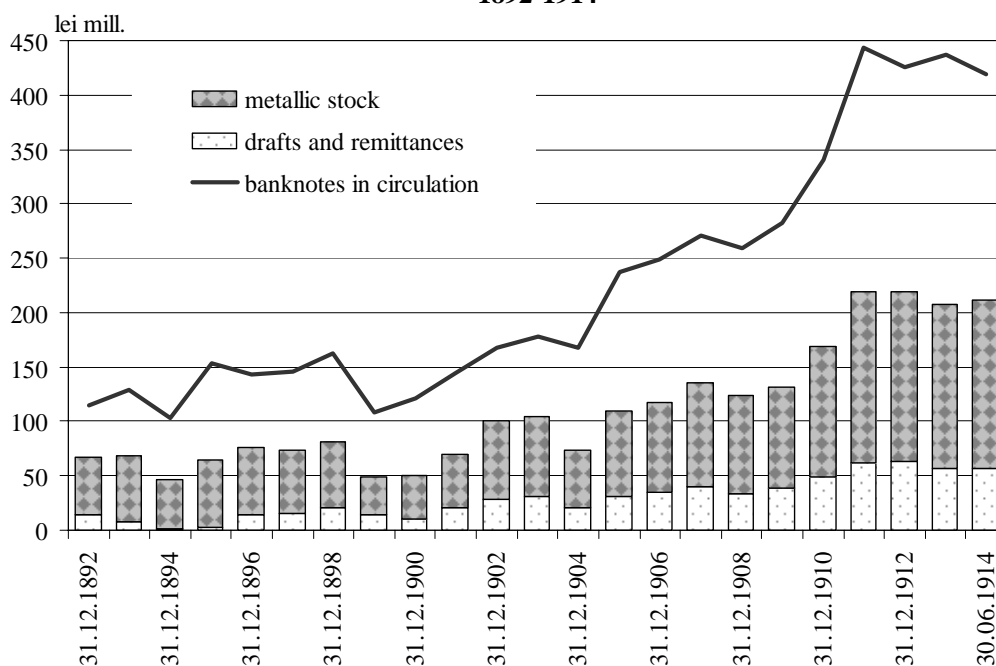
During the crisis episodes mentioned above, regardless of their key characteristics, the cover stock declined substantially, by 0.4 per cent in 1884 against 1883 and 38.9 per cent in 1899 *versus* 1898. Banknotes in circulation also decreased, by 2.9 per cent in 1884 and 33 per cent in 1899 over last year.

It deserves mention that during the years following the peaks of the crises, banknotes in circulation rose considerably. The highest annual increase was seen in 1895 (49 per cent), in 1900-1902 (up 11 per cent, 20.2 per cent and 15.4 per cent against the previous year), and in 1905 (42.2 per cent). This might be attributed to the fact that the Bank's senior executives were of the opinion that monetary tensions, even though they cause a slowdown in money circulation, should not be allowed to affect adversely domestic economic activity through a scarcity of funds. This was because it was necessary for the Bank to support those entrepreneurs which conducted their activity in a prudent and smooth manner.

As seen, the amount of notes that the Bank put in circulation was lower than that it was entitled to issue. According to the end-of-year data, the Bank had issued fewer banknotes (by at least 10 per cent) than it had the right to. However, crisis periods excepted; for instance, in 1900 money circulation held 96.3 per cent of the right of issue. Nevertheless, during 1899-1901, an extremely bleak period, the Bank's stock covered 41.5-47.9 per cent of the issue, which was 1.3-7.9 per cent higher than the level laid down by legal provisions.

⁴⁶ In 1911, a conflict was unfolding between the Ottoman Empire and Italy for Libya, and in 1912 the first Balkan war started.

**Metallic stock, drafts and remittances and banknotes in circulation
1892-1914**



Source: NBR's annual balance

The situation became more interesting as the loan amounted to *lei* 15,000,000 which was granted to the government in 1901, was backed by government paper, as the NBR had no obligation to provide 40 per cent coverage for this amount. According to the agreement concluded on 11 May 1901, the metal cover for total banknotes in circulation, including those amounts, could under no circumstances be lower than 33 per cent.⁴⁷ Despite the aforementioned lack of obligation, the data published on a regular basis by the NBR showed that the cover percentage was not lower than the limit established by law. The governments observed the commitments assumed by law as far as concerned the loan's repayment.

Another interesting aspect was the fact that the Bank could require, however only in view of a crisis, the lowering to 33 per cent of its cover banknotes. Although it was granted this facility for the first half of 1913, the Bank did not use it to increase banknote issue, as the coverage percentage exceeded the 40 per cent limit laid down by law.

⁴⁷ C.I. Băicoianu *op. cit.*, vol. II, Part I, the Official Gazette and the State Printing Houses, the National Printing House, Bucharest, 1932, p. 429.

In light of the above, it was obvious that the *leu* was supported by a monetary policy capable of ensuring its convertibility and stability necessary for gaining the trust of domestic and foreign owners of banknotes. Additionally, by prudently raising the amount of the banknotes in circulation, the Bank managed to size correctly the volume of money in circulation, thus fulfilling the requirements of the domestic economy and supporting its development.⁴⁸

4. The NBR's Issue of Banknotes – Reactions to the Requirements of the Romanian Economy

To effectively manage the issue of banknotes so as to foster the growth of the national economy, the Bank conducted certain operations. These include the discounting of commercial paper, Lombard credits, operations with bills of exchange and remittances, and the investment of share capital and reserve fund in government paper.

The analysis of the amounts in circulation based on the discount and Lombard credits in relation to the total volume of money in circulation shows that the Bank, as a credit institution, had to take into account the requirements of the domestic market supported by a central bank, particularly in crisis episodes. Changes in the volume of money circulation were often induced by changes in the volume of discount and Lombard credits, which highlight their relevance for the monetary policy pursued by the Bank.

It is worth mentioning the relationship established, during the crisis years, between the discount rate, the Lombard rate, the volume of the banknotes in circulation and the volume of discount and Lombard credits. Hence, considering the seriousness of the crisis, money circulation decreased in 1884, while the discount rate increased to 5 per cent and the Lombard rate to 6 per cent.⁴⁹ Moreover, the weight of the discount and Lombard credits in total money circulation narrowed to 41.2 per cent, as compared with 43.4 per cent⁵⁰ in the previous year. However, the percentage

⁴⁸ *Ibidem*, p. 457.

⁴⁹ *The Board's Report to the General Meeting of Shareholders of 17 February 1885*, Bucharest, The NBR Printing House, 1885.

⁵⁰ For data on the relationship between discount credit, Lombard credit and the banknotes in circulation, see table in Annex 2.

was still high, illustrating the fact that the Romanian market needed money, obtained from the Bank despite the high rates imposed.

The year 1894 witnessed roughly similar developments. Against the background of the crisis, money circulation diminished by more than *lei* 25,000,000 *versus* the previous year, while the discount rate and the Lombard rate came in at 6-7 per cent and 7-8 per cent respectively.⁵¹ Nevertheless, in the same context, the volume of the two operations in total money circulation stood at 32.05 per cent, a fairly high level, without however exceeding that in the preceding year.

The crisis during 1899-1900 caused a relatively different state-of-affairs. In spite of the decline by over *lei* 50,000,000 in circulation in 1899 *versus* 1898, and the increase in the discount rate and the Lombard rate to 9 per cent and 10 per cent respectively, the volume of the loans extended by the NBR reached 60 per cent of total circulation, i.e. the highest level for the entire period under review. This development was accounted for by the necessity to help the country's industry and trade, which were in full swing, to obtain the required resources and surmount the difficulties.⁵²

Overall, the crisis during 1912-13 featured the same characteristics. Starting 1912, the proportion of discount and Lombard credits in the amount of banknotes in circulation witnessed an increase reaching 59 per cent in 1913, the 6 per cent discount rate and the 7 per cent Lombard rate notwithstanding.⁵³

It might be very interesting to compare the position held by the amounts borrowed *via* discount loans and that held by the amounts borrowed *via* Lombard credits in total circulation. Mention should be made that at least in the first five years of the Bank's activity, Lombard credits outpaced by far discount loans. The overly large weight of government paper-based loans was severely criticised at the time, being considered as one of the reasons behind the rise in the gold premium in relation to silver (*agio*).

⁵¹ *The Board's Report to the General Meeting of Shareholders of 19 February 1895*, Bucharest, the NBR Printing House, 1895.

⁵² C.I. Băicoianu *op. cit.*, vol. II, part I, the Official Gazette and the State Printing Houses, the National Printing House, Bucharest, 1932, pp. 507-508.

⁵³ *The Board's Report to the General Meeting of Shareholders of 16 February 1914*, Bucharest, the NBR Printing House, 1914.

The low level of the Lombard rate constituted a profit source for speculators, who would buy gold with the banknotes received after discounting the government paper at the NBR, reaping thus substantial benefits following the rise in its value. At the same time, the low interest rates led many commercial banks in the country to give up taking foreign loans, which included also gold inflows.⁵⁴

However, many people thought that the low level of the Lombard rate could be explained by the state-of-affairs of the Romanian economy. The NBR wanted thus to consolidate the national government paper and place it more easily on the external market.

At the same time, given that the Romanian market was flooded with securities related to the loans taken by the government with a view to achieving its streamlining programmes (which mopped up a significant part of the extant liquidity), should the NBR have refused to turn the treasury bills and other government securities in circulation into liquidity needed for the economic progress. It would have thus seen itself forced to abandon one of its goals, namely supporting the development of industry and trade.⁵⁵ Moreover, the large weight of Lombard credits might also be explained by the weakness of the Romanian economy since capitalist relationships, calling for the existence and circulation of commercial paper, were in their infancy.

As late as in 1886, the discounting of commercial paper and the agricultural portfolio outpaced the Lombard credits of public securities. However, if one takes into account the commercial paper alone, the discounts were to prevail among the loans granted by the NBR ten years later, in 1895, being never exceeded by Lombard credits thereafter. This mirrored the national economy's coming to maturity in the context of developing capitalist relationships. Nevertheless, at times of crisis, the share of Lombard credits in total circulation increased, reaching the high 27.1 per cent in 1899 *versus* only 13.2 per cent in the previous year. This shows that during monetary tensions, when loans were hard to find, a solution frequently resorted to was to pledge transferable securities in order to obtain the liquid funds required for consumption.

⁵⁴ Victor Slăvescu, *Istoricul...* p. 57.

⁵⁵ C.I. Băicoianu *op. cit.*, vol. II, part I, the Official Gazette and the State Printing Houses, the National Printing House, Bucharest, 1932, p. 527.

Other important issues that concern the structure of the NBR's discounts are the presence of the agricultural portfolio and the share of the loans granted in banknote circulation.

The agricultural credit institutions were established in the county capitals by the law of 16 June 1881. Each credit institution owned a capital of *lei* 150,000 to *lei* 450,000 including nominative shares subscribed by the government and the counties. The institutions granted loans of *lei* 1,000 to *lei* 5,000 which were pledged by agricultural products, tools, seeds and cattle. The paper thus issued bore the signature of borrowers and could be endorsed. The NBR received this paper based on discount loans and, during the first decade of its operations, the agricultural portfolio was higher than the commercial one at the level of the issuing bank's discount.⁵⁶ Moreover, in 1885-1887, the loans thus granted exceeded 10 per cent of the amount of banknotes in circulation, nearing the proportion of Lombard credits.

Certainly, the presence of the agricultural discount portfolio was not fully in accordance with the provisions of the Bank's law and statute; however, considering the prevalence of agriculture within the Romanian economy at that time, it is easy to understand why the central bank could not put an end to supporting it.⁵⁷

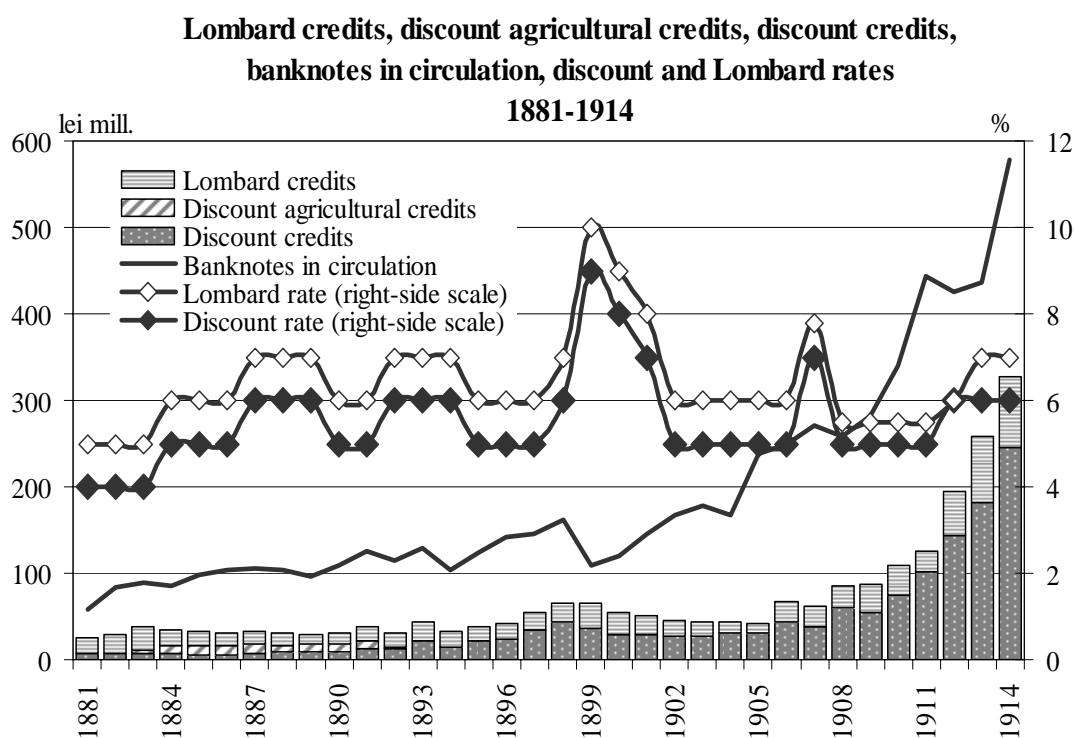
At the start of the second decade of the Bank's operations, the agricultural paper portfolio ceased to exist, following the winding-up of the 32 agricultural credit institutions across the country during 1892-93. These institutions were turned into branches of Banca Agricola, an agricultural credit institution established in 1894 with its headquarters in Bucharest.

The NBR contributed to the support of the Romanian agriculture also through rediscount loans extended to Casa Centrală a Băncilor Populare (Central House of Popular Banks), established in 1903. In 1905, the crops of cereals were very weak (the crop of corn, in particular). In order to prevent a crisis, the government intervened and supported the purchases of corn from abroad by means of popular banks. The people interested in buying corn concluded contracts with those banks and the government guaranteed up to the amount of *lei* 20,000,000. Subsequently, the contracts were sold by Casa Centrală a Băncilor Populare at the NBR in exchange for the amounts required to purchase corn. Given that the contracts in question were guaranteed by the

⁵⁶ V. Slăvescu, *Istoricul...*, pp. 52-53.

⁵⁷ *Ibidem*.

government, they were classified as dealings in government paper, benefiting by a 4 per cent interest per year.⁵⁸ Therefore, by means of discount and Lombard credits, the NBR succeeded in putting into circulation a significant part of its banknote issue, providing by this way the amounts needed for developing the national economy.



Source: NBR's annual balance sheets

The Bank would also put banknotes into circulation by trade in commercial paper denominated in foreign currency (i.e. bills of exchange and remittances), contributing thus to the maintenance of stability in the domestic economy. As in the case of discount and Lombard credits, this operation was used as an instrument of regulating money circulation, being able to support, whenever necessary, the value of the *leu* in relation to the other currencies either by selling bills of exchange and remittances in order to maintain a stable exchange rate, or by keeping them in the cover stock as a guarantee of the national currency's value. The significance of this type of activities was subject to a debate among the Bank's senior executives in

⁵⁸ C.I. Băicoianu, *op. cit.*, vol. II, part I, the Official Gazette and the State Printing Houses, the National Printing House, Bucharest, 1932, p. 495.

November 1891, when the introduction of a part of the commercial portfolio into the cover stock seemed to materialise. During the discussions, the Board members split into two groups.

On the one hand, Governor Theodor Rosetti, supported by some of the Board members, considered that „the external portfolio is typically used to facilitate the payments that a country must make abroad”.⁵⁹ By this statement, he referred not only to the government debt, but especially to trade needs. Those who shared the same point of view thought that, during winter months when exports were temporarily suspended, it was necessary to put into circulation the bills of exchange the Bank had bought prior to the cold season. They were of the opinion that this operation could fend off the drop in the *leu* exchange rate, facilitate foreign trade and rule out the possibility of exporting gold, and therefore protect the metal stock.

On the other hand, Anton Carp⁶⁰, who was to be elected Governor, thought that the role of the bills of exchange and remittances portfolio was to establish and protect the metal stock. The foreign exchange held by the NBR could be used only marginally to prevent the exchange rate from going up and facilitate commercial transactions.⁶¹

Ever since the discussions on the two points of view, the Board members were of the opinion that banks used the bills of exchange and the remittances equally as cover stock and for regulating money flows, a fact fully demonstrated after the introduction of a part of the foreign commercial portfolio into the cover stock in 1892.

According to the annual reports of the Board, the structure of the commercial portfolio encompassed particularly commercial paper denominated in French, German and British currencies, as they represented the safest guarantees. Whereas, remittances were bought only accidentally on the markets of Austro-Hungary, Italy and the Netherlands. The French commercial papers came first, followed by the German and the British ones. These three commercial papers were also kept in the Bank's portfolio in order to be included in the cover stock or to be used for the support of the *leu*

⁵⁹ NBR Archives, Board Minutes, file no. 89/1888-1892, p. 456.

⁶⁰ Anton Carp, jurist and economist of a liberal orientation, dedicated a significant part of his activity to the National Bank of Romania, being several times elected as deputy governor (1882-1889; 1895-1898) and governor of the institution (1905-1907; 1909-1914).

⁶¹ NBR Archives, Board Minutes, file no. 89/1888-1892, pp. 456-467.

exchange rate; the other commercial papers were most frequently fully liquidated at the end of the year.⁶²

The analysis of the role played by the issuing house during two of the crises in 1880-1914 can give us an image of the manner in which the Bank's senior executives succeeded in using the foreign commercial portfolio for keeping a balanced fiduciary currency.

The factors that triggered the first crisis episode in 1899-1900 were the poor crop and the tensions escalating on the international market. In this context, according to the Board's report for that year, „given that our imports of goods failed to generate export products, we witnessed an exceptional demand for gold and a completely abnormal rise in the exchange rate”.⁶³ In order to check the devaluation pressures in the *leu* - it had exceeded the rate of *leu* 105/*franc* 100 in December 1899 - and the expansion in the number of loan applications submitted to the NBR, in the second half of 1899 the senior executives raised the discount rate from 5 to 9 per cent and the Lombard rate from 6 to 10 per cent. Nevertheless, the number of applications for this type of loans did not decrease. The only possibility left to reduce money circulation and stop the devaluation of the national currency was to sell gold or gold based currencies. In this context, in 1900, the NBR put into circulation foreign exchange in amount of *lei* 113,000,000, of which over *lei* 46,000,000 were spent for the government's needs.⁶⁴ This operation led to a plunge in the portfolio of bills of exchange and remittances included in the cover stock, from *lei* 20,942,534.3 in December 1898 to *lei* 10,182,880.4 in December 1900.

The documents written at that time considered that: „even though the remittances and the gold that the Bank could obtain in 1900 were sufficient to cover the needs of the public and the government, they were not however enough to take the metal reserve up to the level registered before the crisis”.⁶⁵ Thus, the issue cover fell from almost 50 per cent at end-1898 to 41.5 per cent at end-1900, the concurrent drop in the number of banknotes in circulation by more than *lei* 40 million notwithstanding.

⁶² See the *Board's Reports to the General Meeting of Shareholders of 1881-1914* and C. I. Băicoianu, *op. cit.*, vol. II, part I, the Official Gazette and the State Printing Houses, the National Printing House, Bucharest, 1932, p. 563.

⁶³ *The Board's Report to the General Meeting of Shareholders of 20 February 1900*, Bucharest, the NBR Printing House, 1900, p. 3.

⁶⁴ *The Board's Report to the General Meeting of Shareholders of 18 February 1901*, Bucharest, the NBR Printing House, 1901, pp. 3-4.

⁶⁵ *Ibidem.*

This crisis highlighted the limits in terms of flexibility of the cover stock whose structure and level were provided by law. The changing realities caused the elite in Bucharest to change their point of view regarding this aspect. It was not by chance that in 1901 the government accepted to increase the resilience of the cover stock allowing thus the inclusion of the French and the Belgian bills of exchange, as well as a temporary compression in its level at difficult times.

During the 1912-13 crisis, the NBR again intervened in the foreign exchange market. The favourable economic conditions prevailed in 1911 gave it the opportunity to purchase a significant number of gold commercial bills. The outbreak of two military conflicts nearby the Romanian boundaries led to the obstruction of the sea circulation and implicitly of the exports of cereals, which diminished the number of bills of exchange and remittances inflows. The demand for foreign exchange excessively increased and in spite of the official average quotation of *leu* 100.60/*franc* 100 in the Danube harbours, the foreign currency was traded at *leu* 102.50/*franc* 100. The Bank's annual report specified that „given the large cover needs, those who needed remittances bought them in spite of the high rates”.⁶⁶

Ever since October 1912, the senior executives started worrying about the expansion of banknote circulation *via* the discount and Lombard credits, as the portfolio of both operations was *lei* 70,000,000, much higher than a year ago. At the same time, the bills of exchange and remittances witnessed a sharp contraction, namely by 20,000,000 in October and 50,000,000 since the year's start.⁶⁷

Nevertheless, the NBR continued to sell until mid-November 1912 at the rate of *leu* 101 to *leu* 101.25/*franc* 100, while the exchange rate outside the Stock Exchange went up to *leu* 105 or even *leu* 108/*franc* 100.⁶⁸ Such a policy allowing the existence of two exchange rates: one applied by the Stock Exchange and the other one applied within a non-regulated environment that would have led eventually to the depletion of the foreign currency stock, suspension of convertibility and a loss of confidence in the NBR and its banknotes. In order to prevent this situation, it pursued,

⁶⁶ C.I. Băicoianu, *op. cit.*, vol. II, part I, the Official Gazette and the State Printing Houses, the National Printing House, Bucharest, 1932, p. 605.

⁶⁷ NBR Archives, Board Minutes, file no. 145/1912-1915, p. 34.

⁶⁸ C.I. Băicoianu, *op. cit.*, vol. II, part I, the Official Gazette and the State Printing Houses, the National Printing House, Bucharest, 1932, pp. 609-610.

till the end of the year, a gradual equalisation of quotations *via* raising its rate. At end-1912, the Bank's official rate stood at *lei* 102.85 or 102.65⁶⁹/*French franc* 100.

In this context, the government approved the request to reduce the proportion of the cover stock in the banknote issue to 33 per cent until June 1913. Given the outbreak of the Second Balkan War, by mid-1913, the cover stock had fallen to *lei* 190,654,594.9 compared to *lei* 218,935,143 at end-1912, whereas the bills of exchange and remittances portfolio included in the stock went down to *lei* 46,769,414.5 compared to *lei* 63,430,277.5. However, the NBR did not resort to reducing the stock; on 30 June 1913 the issue cover percentage coming in at 43.9 per cent.⁷⁰ In early 1914, things seemed to fare better, yet the outbreak of World War I put an end to these developments.

The two crises under review allow us to conclude that the policy pursued by the NBR as concerns the trade of the bills of exchange and remittances was equally prudent and firm. The term "prudent" refers to the purchase and the maintenance in the Bank's portfolio, as well as in the cover stock, of the commercial paper denominated in foreign currency, which was safe from the viewpoint of both convertibility and stability. Both terms "prudent" and "firm" characterised the Bank's intervention at times marked by restrictions on the market. "Prudence" refers to ensuring the bills of exchange and remittances portfolio necessary for the cover stock. "Firmness" refers to the maintenance of the *lei* exchange rate against the pound sterling, the German mark and the French franc at levels close to the theoretical parity.

5. Concluding Remarks

In the course of the period under analysis, the NBR succeeded in adjusting the structure of its cover stock to the requirements of the day. The switch from bimetallism to gold monometallism was followed by a steady policy aimed at enhancing stock resilience by introducing foreign commercial paper into its structure and by allowing a decrease in the cover percentage at times of crisis. All these changes were but the response of the Romanian political and economic elite to, on the

⁶⁹ *Ibidem*.

⁷⁰ *The Board's Report to the General Meeting of Shareholders of 16 February 1914*), Bucharest, the NBR Printing House, 1914.

one hand, the changes in the world economy, such as the drop in the silver price, the step-up in commercial and monetary flows, and, on the other hand, the increasing consolidation of the relationships between the domestic economy and the European economy as a whole.

Giving second priority to legal issues, the NBR succeeded in ensuring over the entire period under review a higher amount of banknotes issued to meet the requirements of the domestic market, in line, however, with the metal stock. In spite of the inherent tensions caused by the agrarian crises and to ensure the convertibility of its banknotes, the NBR conferred an enhanced degree of stability to the market that was easily noticeable in the slight variations posted by retail prices of essential products in Bucharest. Moreover, by ensuring the resilience of the cover stock and the convertibility of its banknotes, the Bank in Bucharest laid the groundwork for an efficient intervention in supporting the national economy by means of cheap loans for financing the development process in trade, industry and agriculture.

The analysis of the main aspects pertaining to the development of banknote issue leads us to conclude that, in spite of Theodor Rosetti's doubts concerning the role and position of the issuing house within the Romanian economy, this institution ensured progress, stability and equilibrium.

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* * * National Bank of Romania Archives: Board Minutes

* * * Official Gazette 1880-1914

* * * Reports of the Board of Directors submitted to the Ordinary General Meeting of Shareholders of the National Bank of Romania, 1880 – 1914

Year	total stock of which:			banknotes in circulation			total stock/ banknotes in circulation (%)	
	mortgage notes	metallic stock	Gold bills of exchange		banchnote in circulatie for metallic stock	bancknotes in circulation for mortgage notes		
31.12.1881	35,504,612.7	14,168,270	21,336,342.7		58,536,470	44,368,200	14,168,270	60.7
31.12.1882	48,177,038.8	24,338,875	23,838,163.8		84,405,920	60,067,045	24,338,875	57.1
31.12.1883	60,051,185.7	25,531,240	34,519,945.7		88,546,170	63,014,930	25,531,240	67.8
31.12.1884	59,794,621.1	25,812,735	33,981,886.1		85,961,980	60,149,245	25,812,735	69.6
31.12.1885	60,022,855.7	25,902,605	34,120,250.7		98,318,620	72,416,015	25,902,605	61.0
31.12.1886	59,136,819.8	25,956,500	33,180,319.8		104,513,020	78,556,520	25,956,500	56.6
31.12.1887	57,767,986.1	25,877,420	31,890,566.1		105,029,620	79,152,200	25,877,420	55.0
31.12.1888	58,175,206.4	25,744,280	32,430,926.4		103,850,350	78,106,070	25,744,280	56.0
31.12.1889	39,523,865.1		39,523,865.1		97,187,200			40.7
31.12.1890	45,616,335.6		45,616,335.6		108,429,300			42.1
31.12.1891	60,652,262.4		60,652,262.4		125,872,670			48.2
31.12.1892	67,115,043.5		53,160,703.7	13,954,339.8	114,968,710			58.4
31.12.1893	67,799,992.7		59,614,560.7	8,185,432.0	128,461,040			52.8
31.12.1894	46,111,925.4		44,501,370.5	1,610,555.0	103,117,220			44.7
31.12.1895	64,204,490.9		60,996,199.5	3,208,291.4	124,348,310			51.6
31.12.1896	76,375,657.5		62,264,991.4	14,110,666.1	142,617,770			53.6
31.12.1897	72,896,931.7		57,781,344.9	15,115,586.8	145,633,190			50.1
31.12.1898	80,770,678.5		59,828,144.2	20,942,534.3	162,334,020			49.8
31.12.1899	49,325,156.1		34,737,588.0	14,587,568.1	108,718,900			45.4
31.12.1900	50,085,615.1		39,902,734.7	10,182,880.4	120,622,180			41.5
31.12.1901	69,382,582.6		49,107,433.6	20,275,149.0	144,965,400			47.9
31.12.1902	100,899,346.9		72,168,188.1	28,731,158.8	167,324,240			60.3
31.12.1903	104,334,323.5		73,462,380.4	30,871,943.1	177,635,670			58.7
31.12.1904	74,106,159.1		53,922,746.8	20,183,412.3	167,144,770			44.3
31.12.1905	109,188,773.4		77,780,868.3	31,407,905.2	237,614,160			46.0
31.12.1906	117,408,231.7		82,860,999.6	34,547,232.2	249,337,190			47.1
31.12.1907	135,607,503.5		96,222,822.9	39,384,680.6	271,005,760			50.0
31.12.1908	124,083,199.9		90,394,496.2	33,688,703.7	259,063,700			47.9
31.12.1909	131,887,854.6		93,841,631.5	38,046,223.1	282,630,150			46.7
31.12.1910	168,912,373.1		120,023,216.1	48,889,157.0	339,804,300			49.7
31.12.1911	219,166,497.1		157,799,779.3	61,366,717.8	443,357,890			49.4
31.12.1912	218,935,143.1		155,504,865.6	63,430,277.5	425,180,740			51.5
31.12.1913	208,044,945.2		151,510,764.2	56,534,181.0	437,182,410			47.6
30.06.1914	210,821,404.7		154,223,015.8	56,598,388.9	418,938,320			50.3

Source: NBR, Reports of Board of directors to the General Shareholders' Meeting 1882-1915

Year	total scont and lombard credits					Banknotes in circulation	total scont and lombard credits/Banknotes in circulation
		Lombard credits	total scont	Discount credits			
				Discount credits	Discount agricultural credits		
1881	25,906,778.6	19,092,569	6,814,209.6	6,814,209.6		58,536,470	44.26
1882	29,060,676.0	22,332,310	6,728,366.0	6,371,620.0	356,746	84,405,920	34.43
1883	38,444,618.8	27,836,528	10,608,090.8	7,267,769.8	3,340,321	88,546,170	43.42
1884	35,441,041.5	19,662,254	15,778,787.5	7,333,989.5	8,444,798	85,961,980	41.23
1885	32,214,880.1	16,402,118	15,812,762.1	5,519,233.1	10,293,529	98,318,620	32.77
1886	30,108,453.2	13,182,418	16,926,035.2	6,298,736.2	10,627,299	104,513,020	28.81
1887	31,980,600.0	13,604,750	18,375,850.0	7,152,957.0	11,222,893	105,029,620	30.45
1888	31,772,837.6	14,854,280	16,918,557.6	8,594,013.6	8,324,544	103,850,350	30.59
1889	29,612,437.7	11,643,920	17,968,517.7	8,539,766.7	9,428,751	97,187,200	30.47
1890	31,214,772.0	13,344,700	17,870,072.0	8,308,500.0	9,561,572	108,429,300	28.79
1891	37,916,742.2	15,271,800	22,644,942.2	12,580,383.2	10,064,559	125,872,670	30.12
1892	31,532,227.9	16,078,500	15,453,727.9	13,211,014.9	2,242,713	114,968,710	27.43
1893	44,025,026.1	21,416,700	22,608,326.1	22,608,326.1		128,461,040	34.27
1894	33,045,298.9	19,255,800	13,789,498.9	13,789,498.9		103,117,220	32.05
1895	38,918,247.8	17,997,800	20,920,447.8	20,920,447.8		124,348,310	31.30
1896	41,312,088.9	18,530,300	22,781,788.9	22,781,788.9		142,617,770	28.97
1897	54,148,854.4	20,279,650	33,869,204.4	33,869,204.4		145,623,190	37.18
1898	65,051,437.5	21,421,200	43,630,237.5	43,630,237.5		162,334,020	40.07
1899	65,218,614.3	29,476,700	35,741,914.3	35,741,914.3		108,718,900	59.99
1900	54,220,345.8	24,890,800	29,329,545.8	29,329,545.8		120,622,180	44.95
1901	50,578,749.9	21,709,400	28,869,349.9	28,869,349.9		144,965,400	34.89
1902	45,452,352.6	17,607,700	27,844,652.6	27,844,652.6		167,324,240	27.16
1903	42,889,521.7	15,801,300	27,088,221.7	27,088,221.7		177,635,670	24.14
1904	43,864,093.4	13,067,100	30,796,993.4	30,796,993.4		167,144,770	26.24
1905	41,033,427.2	10,863,300	30,170,127.2	30,170,127.2		237,614,160	17.27
1906	66,690,788.1	23,079,100	43,611,688.1	43,611,688.1		249,337,190	26.75
1907	62,411,060.7	23,690,300	38,720,760.7	38,720,760.7		271,005,760	23.03
1908	85,154,123.3	25,930,100	59,224,023.3	59,224,023.3		259,063,700	32.87
1909	87,392,468.5	32,389,100	55,003,368.5	55,003,368.5		282,630,150	30.92
1910	109,710,294.3	35,637,300	74,072,994.3	74,072,994.3		339,804,300	32.29
1911	126,307,196.7	24,889,600	101,417,596.7	101,417,596.7		443,357,890	28.49
1912	194,284,113.2	50,576,300	143,707,813.2	143,707,813.2		425,180,740	45.69
1913	259,060,190.3	77,216,800	181,843,390.3	181,843,390.3		437,182,410	59.26
1914	327,169,768.8	81,039,800	246,129,968.8	246,129,968.8		578,243,648	56.58

Source: NBR, Reports of Board of directors to the General Shareholders' Meeting 1882-1915

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