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# I South-Eastern European Monetary History in a pan-European Perspective, 1841–1939

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## I INTRODUCTION

South-Eastern European monetary history is no longer *terra incognita*. The South-Eastern European Monetary History Network (SEEMHN), which brings together the central banks of the seven SEE countries which were independent already before World War II, has worked laboriously to illuminate their monetary histories since the network was launched in 2006. Next to the organisation of annual conferences bringing together central bankers, academics and policy-makers, the main objective of the network has been to collect, systematise and publish the pre-1950 monetary data in a publication jointly edited by the Austrian National Bank, the Bulgarian National Bank, the Bank of Greece and the National Bank of Romania. Such publication – to which I am honoured and pleased to contribute this introductory chapter – is meant to overcome the ‘statistical dark ages’, which all too often have prevented economists and economic historians from including the Balkan countries into their samples.

The international literature on the history of central banks and central banking has paid little attention to the South-Eastern European experience (with the possible exception of Austria)<sup>2</sup>; the same is true of the literature on the economic history of Central, East and South-East Europe, which has tended to downplay the role of central banks and money for economic development (Berend and Ranki 1982, Lampe and Jackson 1982, Kaser 1985, Schoenfeld 1989, Batou and David 1998). There is a not insignificant literature in the native languages (cf. the bibliography to the country reports), but before the (so far) eight annual SEEMHN conferences, held between 2006 and 2013, and the subsequent publication of their conference proceedings<sup>3</sup>, little of this literature had made any meaningful impact on academic research in Western Europe and North America.

### *Geographical and chronological scope: South-East Europe (the Balkans) from 1841 to 1939*

In order to appreciate the exact choice of countries included in this volume and the time period for which they report data, a proper definition of ‘South-East Europe’ and ‘the Balkans’ seems in place. Both words are used interchangeably in the following, though we note that South-East Europe

<sup>1</sup> *Department of Economics*. I would like to thank all participants of the South-East 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 introductory chapter. Some of the interpretations advanced for the period before WWI can also be found in Morys (2008, 2009), which constitute introduction to earlier preliminary and partial SEEMHN data releases (OeNB 2008, *Workshops 13* and Bank of Greece 2009, *Working Paper 94*). The views expressed in this paper are those of the author alone and do not necessarily reflect the views of the central banks forming the South-East European Monetary History Network (SEEMHN). I would also like to thank Forrest Capie, Olga Christodoulaki, Ivo Maes, Larry Neal, Stefan Nikolic and Tobias Straumann for helpful comments on an earlier draft of this paper. I alone am responsible for any remaining errors.  
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<sup>2</sup> See, for example, Feiertag and Margairaz (2003), Capie (1999) and Goodhart (1988).

<sup>3</sup> For full details on the SEEMHN meetings and conference proceedings, see <http://www.bankofgreece.gr/Pages/en/Publications/Studies/seemhn.aspx>

is occasionally seen as a geographically slightly wider area (Todorova 2009). The Balkans are conventionally defined as the South-Eastern part of continental Europe demarcated by the Danube, Sava and Kupa rivers to the North and the West. The Ottoman legacy (or presence), the predominance of the Orthodox faith and the high levels of multi-ethnicity all created a sense in the 19th century that the Balkan Peninsula was a region different not only from Western Europe but also from Central and Eastern Europe. According to this geographic definition, Albania, Bulgaria and Greece are certainly Balkan countries, but some clarifications are appropriate for Romania, Serbia/Yugoslavia, Austria-Hungary and Turkey. While most of the Romanian territory lies north of the Danube (in particular following the territorial gains at the end of World War I), the country is conventionally considered part of the Balkans, partly because of the Dobrudja region south of the Danube, but mainly because of the Ottoman legacy which it shares with the other Balkan countries but does not have in common with its neighbours to the West and to the North. As for Serbia, the country was fully located on the Balkan Peninsula before World War I. By contrast, the Kingdom of Serbs, Croats and Slovenes – renamed as Yugoslavia in 1929 – involved parts that are not considered part of the Balkans (Slovenia, Vojvodina) or at least not in their entirety (Croatia north of the Sava river), but in its main emphasis Yugoslavia was a South-East European country.

Greater concern relates to Austria-Hungary, the Ottoman Empire and Turkey. Austria-Hungary had a considerable footprint in the Balkan Peninsula through Dalmatia (Austria), the Balkan parts of Croatia (Hungary) and Bosnia and Herzegovina (jointly administered since 1878); it also shared land borders with Serbia, Romania and the Ottoman Empire. By contrast, interwar Austria, i.e. the German-speaking lands of Austria-Hungary after the disintegration of the Habsburg Empire at the end of World War I, was no South-East European country; which also explains the decision of the Austrian National Bank to confine its data presentation to the period before World War I.

Including the Ottoman Empire in a monetary history of South-East Europe is warranted due to its remaining three European provinces in the period between 1878 (when Bosnia and Herzegovina were occupied by Austria-Hungary) and the Balkan Wars of 1912–13 (when the Empire's European lands were reduced to Eastern Thrace – centred on Edirne/Adrianople – and the capital city Istanbul/Constantinople). Yet for this period, institutional discontinuity posed a challenge: the Imperial Ottoman Bank, dating back to 1863, was not succeeded (neither legally nor in practical terms) by the Central Bank of the Republic of Turkey which was founded only in 1931. The solution of this volume is separate contributions by Şevket Pamuk and Coşkun Tunçer for the Imperial Ottoman Bank and by Yüksel Görmez and Serkan Yiğit for the Central Bank of the Republic of Turkey.

The chronological scope of this chapter is largely determined by political history. The main development of the 19th century Balkan peninsula was the move of the Balkan peoples towards political independence from the Ottoman Empire, usually in a slow and often 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. By the outbreak of World War I, five Balkan countries had achieved independence<sup>4</sup>: Serbia (1815/1878), Greece (1830), Romania (1859/1878), Bulgaria (1878/1908) and Albania (1912). From those five countries, Greece was the first country to establish a bank of note issue, that is, the National Bank of Greece in 1841. We take this year as a natural beginning for this introductory chapter.<sup>5</sup> The end point of our analysis is the outbreak of World War II

<sup>4</sup> Where two years are given, the first one refers to some level of autonomy achieved prior to internationally recognised independence.

<sup>5</sup> The Austro-Hungarian bank was founded (under a different name) in 1816 and hence earlier than the National Bank of Greece. We have refrained from extending our analysis to the earlier period, as the Austrian National Bank begins reporting their data series only in 1863.

in 1939. While some central banks also report data for the war period (in some cases even for the early post-war period), country-specific idiosyncrasies abound and the data do not lend themselves for a cross-country comparison to the same degree as for the 1841–1939 period.

### *Structure of this chapter*

The remainder of this chapter will first provide some background information on the history of the Balkan countries and we will point to some parallels between past and present challenges facing South-East Europe (Section 2). Subsequently, we will put the South-Eastern European experience in historical comparison with other parts of Europe, as far as minting legislation (Section 3), the banks of note issue (Section 4) and the exchange-rate experience (Section 5) are concerned. These three sections draw largely on the data and the qualitative information provided by the central banks in their country reports; where this is not the case, we provide references to sources and literature. This is followed by some concluding remarks (Section 6).

## **2 POLITICAL AND ECONOMIC ASPECTS OF THE BALKAN PENINSULA IN THE 19th AND EARLY 20th CENTURIES; PARALLELS TO TODAY'S CHALLENGES IN SOUTH-EASTERN EUROPE**

Two features, in particular, differentiated the Balkan Peninsula from Western Europe in the 19th century: economic backwardness and a belated process of 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.<sup>6</sup> Even if we doubt the accuracy of 19th century GDP figures, virtually all economic indicators available suggest that Western Europe was substantially richer than South-Eastern Europe throughout the 19th century.<sup>7</sup> Equally important, income per head was also lower than in any other European periphery country of the 1870–1913 period, namely lower than in the four Nordic countries, Italy, Spain, Portugal and even Tsarist Russia.

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 (relative) economic decline of the Ottoman Empire and the rise of Balkan nationalism in the 19th century allowed the Balkan peoples to seek their own destiny and to form nation states along West European models. As already indicated above, this often came 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 World War I, five Balkan countries had achieved independence<sup>8</sup>: Serbia (1815/1878), Greece (1830), 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 politically from the Balkans over the course of the 19th and early 20th centuries.

This very distinct process of state formation is important in our context for three reasons. First, the late state formation gives a natural beginning to the banks of note issue. As Table 3 shows, most of the banks of note issue were founded in the 1870s and 1880s, when moves towards political independence of the Balkan peoples gained momentum following the Russian-Turkish war

<sup>6</sup> Morys (2006b), p. 39.

<sup>7</sup> Mazower (2001), pp. 17–44.

<sup>8</sup> Where two years are given, the first one refers to some level of autonomy achieved prior to internationally recognised independence.

(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 full-fledged independence (1873 versus 1878) and was seen as part of achieving exactly that.<sup>9</sup> 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.<sup>10</sup>

While the contribution of this volume is primarily in the realm of economic and monetary history, it is worth briefly pausing and asking what, if anything, of all this is still relevant to today's challenges facing South-Eastern Europe. In several respects, the late 19th century and the early 21st century bear a certain resemblance. In both cases, the South-Eastern European countries (or, at least, Albania, Bulgaria, Romania and Serbia) obtained room for political manoeuvre only recently, be it from the Ottoman Empire back then or as result of the fundamental changes in CESEE, epitomised by the fall of the Berlin Wall in 1989, a quarter century ago.

The economic situation is not altogether different either. Comparing per capita income for Balkan provinces and regions in 1870 with their successor states' economic position in 2001, Morys (2006b) found that all Balkan countries, with the exception of Greece, had fallen back (albeit some only slightly) in their relative income position vis-à-vis England, France and Germany over this period. The above average economic performance of many SEE economies during the 2001–2008 global growth cycle might soften these results somewhat. On the other hand, the current Greek debt crisis has called into question the idea that the economic woes of SEE can be blamed on the post-WWII communist experience alone, and has led to soul-searching in the SEE countries and beyond on the deeper reasons for persistent economic backwardness.

In their desire to overcome economic backwardness, SEE countries have often emulated West European models and relied on outside help by means of capital inflows. There again, the inclined reader of this volume will find parallels between the past and the present. Just as SEE countries have either joined the euro<sup>11</sup> or are eager to introduce the euro these days, they were keen on adopting French minting legislation and the gold standard in the late 19th and early 20th centuries. Such a far-reaching step was often preceded by prolonged periods of parallel currencies. The gold-silver parallel currencies encountered in Bulgaria and Serbia before the early 20th century currency stabilisation are not very different from current attempts at currency stabilisation, where the policy goal often is to make the domestic currency as stable as possible to the euro (Bulgaria since 1998, Albania since 1999 and Serbia since 2004).

Parallels also exist with respect to capital imports which have been a mixed blessing in the past and in the present. Readily forthcoming in the period before World War I, they quickly resulted in unsustainable debt levels. Greece and Serbia defaulted in 1893 and 1895, respectively, and accepted foreign financial supervision and control in response to bondholders' demands. Bulgaria accepted financial supervision in 1902 in exchange for securing another loan (but without defaulting). From the newly independent countries, then, only Romania<sup>12</sup> was able to avoid financial supervision before WWI. A similar cycle occurred in the interwar period, when re-joining the gold stan-

<sup>9</sup> See Gnjatovic (2006).

<sup>10</sup> With the exception of Greece, cf. Table 3.

<sup>11</sup> From the seven countries covered in this volume, Austria and Greece joined the euro in 1999 and 2001, respectively. Slovenia joined the euro in 2007.

<sup>12</sup> Albania became independent only in 1912 and did not take out loans before WWI.

dard required Bulgaria, Greece, Romania and Yugoslavia to take out foreign loans which all ended up in (partial or complete) default or debt restructuring in the 1930s (Gnjatovic 2008, Tooze and Ivanov 2011, Flores and Decorzant 2012). This is somewhat similar to today, where all countries covered in this volume (with the exception of Austria) had to turn to some form of outside financial help at some point in the past ten years. The experiences of the different SEE countries might well exhibit more variation in the present than in the past, partly as a result of more divergent income levels today, partly as a consequence of more diverse levels of political, economic and financial integration with the main European lending countries. But beneath period- and country-specific idiosyncrasies, there might well be a regional pattern of excessive reliance on foreign capital (Kopsidis 2012).

Historical parallels are never exact, and only future research on the economic and monetary history of South-Eastern Europe will be able to establish the lessons from history for the challenges facing this part of Europe today. The purpose of this data publication is more modest, that is, to provide (some of) the factual basis to conduct such research. With this in mind, we shall now proceed to compare monetary legislation, the banks of note issue and the exchange-rate performance.

### 3 COINAGE LEGISLATION AND MONETARY STANDARD

#### 3.1 GOLD STANDARD, BIMETALLIC STANDARD AND FIAT MONEY STANDARD

The following definitions of the different types of monetary standard will be applied in this chapter. The gold standard is characterised by three requirements (Bordo and Kydland 1995, Martín Acuña 2000, Sprenger 2002). First, gold coins are given exclusive unlimited legal tender status. Second, the government and private individuals alike have mintage rights, i.e. they are allowed to bring any amount of bullion they wish to the mint and turn them into coin (often against a small fee). Third, there are no impediments to the export and import of either gold coin or gold bullion. If all three conditions are met, arbitrage operations aimed at increasing or decreasing coins in circulation will ensure the approximate identity of the face value (nominal value) and the intrinsic value (physical value, metallic value) of gold coins; which is the very essence of the gold standard.

The ‘exclusive unlimited legal tender status’ granted to gold warrants some explanation. ‘Legal tender’ is any payment means by which a debtor can redeem himself of a debt (that is, an obligation to pay a specific amount of money) vis-à-vis his creditor. ‘Unlimited’ means that redemption is possible for any amount of debt incurred. This criterion is important, as any gold standard legislation also stipulated which payment means were given the status of limited legal tender: given the high value-to-volume ratio of gold, payments of small amounts of money could only be effected in silver or, more common still, in copper (and copper alloys such as bronze). ‘Exclusive’ means that designating unlimited legal tender status to gold also involved denying such status to any other means of payment, notably coins of other metals and banknotes. This exclusivity was instrumental in avoiding Gresham’s Law, according to which debtors redeem their payment obligations with the cheapest option available to them (which explains the imprecise but expressive formulation ‘bad money drives good money out of circulation’).

Crucially, this definition of a gold standard applies to a gold coin standard (i.e., the standard that 18th century economists such as David Hume (1711–1776) described in their famous works on the functioning of the gold standard) as well as to the 19th century gold standard, in which banks of note issue gained an increasingly important role in managing the money supply. A banknote

is a commitment of the issuing bank to pay a specific amount of money to the bearer of the banknote; from which convertibility of banknotes into gold follows directly. It also follows from this that any suspension of convertibility amounts to a change in the monetary standard. We will return to this issue when describing the monetary standard which the different South-East European countries followed before World War II.

Under bimetallic standard we understand a monetary system in which unlimited legal tender status and free coinage relate to gold and silver. In such a system neither metal enjoys exclusive legal tender status: the creditor can no longer insist on payment in the metal of his choice but has to accept the metal his counterparty prefers. This is also the case for the bearer of a banknote who has to accept convertibility in either gold or silver at the issuing bank's discretion (Friedman 1990, p. 86).

Consequently, any bimetallic standard is prone to Gresham's Law. To make bimetallism work and retain both metals in circulation, governments and banks of note issue abrogated certain features of the 'pure' bimetallic system more often than not. In the post-1870 international monetary system we are mostly interested in given the time-line of the South-East European countries, the key deviation from the 'pure' bimetallic standard related to the coinage of silver. When the price of silver in bullion markets began to fall sizably below the 1:15.5 legal ratio of France, Belgium, Italy and Switzerland (the so-called Latin Monetary Union countries, cf. below), bimetallic countries started to limit silver coinage in an attempt to avoid a 'silver inflation'. While limiting and, eventually, completely suspending silver coinage between 1873 and 1878 prevented depreciation vis-à-vis the gold standard currencies such as the pound sterling and the German mark, the other characteristic of bimetallism – granting legal tender status to gold and silver – remained (Morys 2012).

How should such a hybrid monetary standard be labelled? Contemporaries referred to it either as 'limping bimetallism', 'limping gold standard' or simply 'limping standard' (Rollins 1907, Mertens 1944, Flandreau 1996, Sprenger 2002). 'Limping bimetallism' makes sense on the grounds that all ingredients of bimetallism except for one (no unlimited silver coinage) are in place; 'limping gold standard' also seems justified on the grounds that the impeccable exchange rate record of countries such as France and Belgium in the period 1873–1914 (Morys 2013) meant that economic agents could obtain physical gold 'externally' (that is, by exchanging domestic currency into the currency of gold standard countries and then requesting conversion into gold at the bank of note issue in such a country). Whatever the merits of this terminology, it is important to bear in mind that the label 'limping bimetallism'/'limping gold standard'/'limping standard' only applies to countries which were able to maintain fixed exchange rates to gold standard countries. In the case of the SEE countries, by contrast, such exchange-rate stability to England and Germany remained elusive until the turn of the century (Section 3.3). Based on our definition above, we therefore refrain from attaching the label 'bimetallism' to such cases. In so doing, we reject a much wider notion of 'limping' bimetallism which some authors wish to apply to any deficient form of bimetallism (Gnjatovic 2006). While we recognise the rationale behind such a wide notion of 'limping bimetallism' – namely, to find appropriate terminology for the South-East European standard case in which policy-makers enacted bimetallic coinage legislation but failed to translate this into a bimetallic standard of the sort France and Belgium had between 1873 and 1914 – it remains imprecise and, in our view, does not add to a better understanding of the South-East European experience.

A fiat money standard is a monetary standard in which the government creates money by assigning unlimited legal tender status to either banknotes and/or coin without simultaneously establishing a fixed relationship between these payment means and a precious metal such as gold and

silver. In a metallic standard (gold, silver, bimetallic), a government draws on a pre-existing payment means and declares it to be legal tender; in a fiat money standard, the government creates the payment means in the first place (fiat money literally means ‘it may become money’, from Latin *fieri* to become). The terminology fiat money and paper money are used interchangeably in the literature, though we note that fiat money is the wider notion in that it also captures cases in which the unlimited legal tender status is assigned to coins only.

This definition captures a wide range of late 19th century historical experiences of which two are particularly important in our context. First, a situation in which a country operated a silver standard but the government was able to keep banknotes in circulation only by suspending convertibility and declaring them legal tender (so-called *cours forcé*); which was typically the result of a particular exigency such as banking panic, political revolution, war or threat of war. The suspension of silver convertibility in Austria in 1858 is a paradigmatic case, with the country switching from a silver standard to a fiat standard at that point. In these situations, banknotes depreciated vis-à-vis the metal which used to form the basis of the monetary standard. This depreciation became known as *agio*. If the previous monetary standard had been bimetallic, there was a gold *agio* and a silver *agio* which indicated the level of depreciation of banknotes vis-à-vis gold and silver, respectively.

The other typical case of a fiat standard in the late 19th century is a situation in which banknotes were considered by the public of higher value than circulating silver coin but of lower value than circulating gold coin. As we will see below, this was the standard case of the South-East European countries until they were able to successfully stabilise their currencies vis-à-vis gold currencies at the beginning of the 20th century. Two features characterise this scenario. First, coinage of silver (and, in turn, the issuance of banknotes) was limited to avoid a silver inflation; as a result, it did not matter whether banks of note issue converted banknotes into silver or not, as banknote holders had little incentive to ask for conversion in the first place. Similarly, it did not matter whether banknotes were legal tender in addition to (or in lieu of) silver or not, as creditors were happy to accept them. Second, domestically coined gold coin (if it existed at all) circulated at a premium compared to banknotes and silver coin (so-called *agio*). Such premium reflected the fact that while currency in circulation was limited to avoid a silver inflation, it was not sufficiently limited to be of equal value to circulating gold coin.

When confronting the historical experience with the three definitions above, it becomes clear that only a very limited number of countries (and often only for short periods of time) followed the gold standard *à la lettre*. Germany, for instance, deviated from the gold standard ideal in that it continued to grant unlimited legal tender status to specific ‘old’ silver coins from before the 1871/73 currency reform; starting in 1910, it even granted unlimited legal tender status to banknotes (Sprenger 2002, p. 187 and p. 192). In other cases, countries deviated from the gold standard ideal by not granting the legal right of banknote convertibility, or at least by making convertibility more difficult and often effectively impossible (Morys 2013).

The fact that few countries lived up to all three requirements of the gold standard definition outlined above while simultaneously maintaining fixed exchange-rates to countries fulfilling them all (such as the UK) has given rise to a distinction between *de jure* adherence to gold and *de facto* adherence to gold. A country following the gold standard *de jure* needs to fulfil all three requirements. By contrast, a country following the gold standard *de facto* – also said to be shadowing the gold standard – is defined by successfully stabilising its exchange-rate vis-à-vis *de jure* gold standard countries.

A benchmark often encountered in the literature for successful exchange-rate stabilisation is to remain within a band of  $\pm 2.0\%$  vis-à-vis *de jure* gold standard countries (Obstfeld et al. 2005); a benchmark which we will follow for the purpose of this introduction. In other words, the *de facto* classification draws on the economic outcome of the *de jure* classification – that is, that following all three requirements will result in quasi-fixed exchange-rates – for the purpose of its own definition.

While such a wider definition of the gold standard is required to make sense of the late 19th century exchange-rate experience, it also raises the question of how to distinguish between fiat money and *de facto* adherence to gold: if fiat money exhibits stable exchange-rates to the gold standard countries, it can also be classified as shadowing the gold standard. In the following, we will refer only to *de facto* adherence to gold in cases in which both definitions are met.

### 3.2 CHALLENGES FACING THE NEWLY INDEPENDENT BALKAN COUNTRIES

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 more widespread in the Balkans than anywhere else in Europe (Einaudi 2008). One of the few good sources to gauge the extent of foreign coin circulation are the so-called exchange-rate lists of the Principality of Serbia (i.e., the nascent Serbian state after gaining autonomy in 1815 and before recognition of full independence in 1878). In an attempt to regulate (and limit) foreign coin circulation, Serbia

**TABLE I Main coinage acts, monetary commissions and monetary conventions in South-Eastern Europe, 1867–1892**

Country	Date	Coinage act, monetary commission, or monetary convention	Envisaged monetary standard	Accordance with 1865 LMU principles?	Name of currency unit	Mint parity to French franc
Austria-Hungary	14.4.1867	monetary commission	gold	as far as gold coinage concerned	gulden	1 : 2.5 <sup>2</sup>
	31.7.1867	monetary convention (with France)				1 : 2.5 <sup>2</sup>
	2.8.1892	coinage act				no
Bulgaria	27.5.1880 <sup>1</sup>	coinage act	gold	yes	lev	1 : 1
Greece	10.4.1867 <sup>1</sup>	coinage act	bimetallism	yes	drachma	1 : 1
	26.9.1868 <sup>1</sup>	monetary convention (with LMU)	bimetallism	yes		
Romania	22.4.1867 <sup>1</sup>	coinage act	gold	as far as gold coinage concerned	leu	1 : 1
	15.6.1890 <sup>1</sup>	coinage act	gold			yes
Serbia	20.11.1873 <sup>1</sup>	coinage act	bimetallism	yes	dinar	1 : 1

Note: 1. All dates given refer to the Julian calendar with the exception of Austria-Hungary which followed the Gregorian calendar. The difference between the two calendars amounted to 12 days in the 19th century (e.g., 1 January 1850 acc. to Julian calendar = 13 January 1850 acc. to Gregorian calendar). 2. Mint parity of 1:2.5 means that 1 guilder (Gulden) equalled 2.5 French franc. 3. Mint parity of 1:1.05 means that 1 crown (Krone) equalled 1.05 French franc.

Sources: Country chapters, Avramov (2006), Gnjatovic (2006), Ministère des Finances (1869), Morys (2006).

issued lists of Austrian, English, French, German, Greek and Ottoman coins in which taxes could be paid. While Turkish coins became less important over time, the coin circulation of Western provenance increased. But even as late as 1866 the Serbian authorities gave the choice between no less than 47 different types of coin, suggesting that many more were circulating at the time (Gnjatovic 2006, p. 47). Trade was one reason for foreign coin circulation, and war was another. The Turkish-Russian War (1877–78), for instance, flooded Romania and Bulgaria with vast amounts of silver roubles, withdrawal of which kept both countries busy for considerable time (Dimitrova et al. 2010, Stoenescu et al. 2011).

This *macédoine* of coins explains why one of the first steps taken after gaining political independence (often even before that, cf. Table 1) was to establish a system of national coinage, combined with attempts at withdrawing all foreign coinage; a standard practice followed by countries obtaining political independence in their efforts to establish authority over the new territory (Helleiner 2003). As Table 1 shows, in this endeavour of establishing a national coinage system all countries turned to the Latin Monetary Union. Even Austria-Hungary, which had a coinage system of its own and had no intention of minting abroad (a practical consideration which partly explains the appeal of the Latin Monetary Union to so many countries), tried to align its currency system with France in 1867. Four issues need to be addressed in this context: First, what exactly does it mean to align the national coinage system with the standards of the LMU? Second, why was the LMU system of coinage so attractive to SEE? Third, did the SEE countries adopt the coinage system completely or only partially? Last but not least, did the SEE countries actually join the LMU?

### 3.3 LATIN MONETARY UNION COINAGE IN SOUTH-EAST EUROPE: FROM ADORATION TO INCOMPLETE ADOPTION

#### *The Latin Monetary Union of 1865*

The origins of the LMU coinage are in the French coinage act of 1803 which established 1 French franc as equal to 5 grams of mint 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 (50 and 20 centimes, respectively); gold coins – in a gold-silver ratio of 15.5:1 and also with fineness of 900/1000 – were minted as 20, 10 and 5 francs. Until 1848, bimetallic coinage legislation translated into an effective silver standard: as gold traded in bullion markets at more than 15.5:1, little gold coinage took place and what was coined quickly left monetary circulation (or traded above par and was mainly used for external trade) (Redish 1995). The situation only changed with 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 had all followed a very similar system since the French occupation during the Napoleonic Wars – was to reduce the silver content of the silver coins from 900/1000 to a lower level of fineness: full-bodied coins were turned into divisional coins (token coins) in order to retain them in circulation to serve for the transactions of daily life involving small sums.

Solving one problem only created another one. As coins circulated freely among the four countries, the creation of divisional coins meant that countries were flooded with foreign coins whose intrinsic value was lower than their face value (Einaudi 2000, pp. 37–40). 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 reg-

ulated (fineness of 835/1000) and limited (to 6 francs per inhabitant) so as to eliminate excessive seigniorage (which would have accrued at the expense of the government required to accept the foreign divisional coins).

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 (Ministère des Affaires Etrangères 1865). Put differently, 1865 LMU bimetallism rested on a single silver coin; all silver coins of lower denominations had been reduced to token coins.

#### *Why was the French coinage system so attractive to the South-Eastern European countries?*

What explains the particular appeal of the French coinage system to South-East Europe? No region of the world welcomed LMU coinage principles as enthusiastically as South-East Europe (Einaudi 2008), even though the 1865 LMU agreement explicitly invited all countries to adopt its rules (article 12).

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 which was based on the 1824 Imperial System of Weights and Measures, its only serious rival), but it was also the most widely used one in Europe. The omnipresence of French coins in mid-19th century Europe is well-documented (Helfferich 1898), and their wide diffusion compared to English coins is easily explained. 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 40% higher than British GDP.<sup>13</sup> The German coinage system was not yet a rival, as the German states, at the time, were themselves engaged in serious discussions on how to unify coinage within the German confederation. 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 be universally adopted.<sup>14</sup>

Yet, there were other reasons that made the LMU coinage system attractive to SEE in particular. First, it offered universal appeal but allowed for country-specific idiosyncrasies. The newly independent Balkan countries were allowed to label their currency as they wished (Bulgaria: lev; Greece: drachma; Romania: leu; Serbia: dinar) and to have the royal effigy on the front of the coin. While this was theoretically possible under any coinage system, this option had already been pursued by Belgium, Italy and Switzerland in the case of the Latin Monetary Union, making it tempting for the SEE countries to follow suit. Second, Bulgaria, Greece, Romania and Serbia all envisaged minting abroad as a cost-saving measure, creating an additional incentive to adopt the highly standardised and reputable LMU coinage system. Third, as France at the time was the most important creditor for European destinations, better access to the French capital market hence also militated in favour of adopting the French coinage system.

Yet the most intriguing aspect of the choice in favour of the LMU coinage system is its timing. Serbia (December<sup>15</sup> 1873) and Bulgaria (1880) passed bimetallic legislation at a time when the LMU countries themselves – beginning with France and Belgium in September 1873 (Flandreau 1996, Morys 2012) – had already started moving from ‘pure’ bimetallism to ‘limping’ bimetallism;

<sup>13</sup> Maddison (2003).

<sup>14</sup> Reti (1998).

<sup>15</sup> The month of December according to the Gregorian calendar, cf. Table 1.

a monetary standard which we also described as ‘limping gold standard’ or *de facto* adherence to gold in our typology of monetary standards under 3.1. What was the appeal of bimetallism when the countries sponsoring the system were simultaneously turning away from it and embracing the gold standard instead?

In the case of Serbia, it is plausible to argue that the country adopted a wait-and-see approach given that the LMU countries themselves moved at different speed (and with different conviction) to the gold standard in the period from 1873 to 1878. In the case of Bulgaria, however, the situation was different. The emergence of the Classical Gold Standard was completed by early 1879 (Eichengreen and Flandreau 1997), as evidenced by the unsuccessful 1878 International Monetary Conference (which had aimed at restoring bimetallism through an internationally binding agreement), the subsequent decision of the LMU countries to suspend free coinage on private account (November 1878) and the US return to specie convertibility in gold alone (January 1879). When Bulgaria passed its coinage act in May 1880, the gold-silver ratio on bullion markets stood at 18.09:1 (Warren and Pearson 1933), making bimetallism unviable. What then explains passing legislation that, on the face of it, is ostensibly bimetallic?

While the LMU countries and the SEE countries shared the same analysis of the post-1873 monetary system – that is, it was no longer possible to maintain gold and silver in circulation under ‘pure’ bimetallism – they came to a different conclusion. The LMU countries switched to limping bimetallism, effectively joining the gold standard. Given their economic maturity and sound finances, this was a sensible decision.

By contrast, the SEE countries faced an altogether different situation. They were economically backward and had poor public finances, rendering immediate gold standard adherence (*de facto* or *de jure*) almost impossible. Yet, they had high aspirations for their economic development, including the long-term vision of exchange-rate stabilisation. In this dilemma between what was feasible in the short-run and what was desirable in the long-run, bimetallic coinage legislation offered to have it both ways. It allowed minting silver coin; some of which could be used as backing for future banknotes, thereby laying the foundation for a modern monetary system. At the same time, bimetallic coinage legislation also allowed for gold coinage, opening the door for a future transition to the gold standard.

The fact that silver and gold coinage followed legislation in all cases with several years’ delay supports this interpretation. In Romania, for instance, the first substantial silver coinage took place in 1873 – that is six years after the coinage act – and the first substantial gold coinage took place only in 1883. The Bulgarian case was similar, where the first silver coinage came three years after the coinage act (in 1883) and the first gold coinage a full 14 years later (1894) (Bulgarian National Bank 2009).

#### *Incomplete adoption of the LMU principles*

The quite substantial delay between national coinage legislation and the first (substantial) silver mintage raises the question of how the newly independent Balkan countries satisfied their needs for currency in the meantime. Answering this question will reveal that the adoption of LMU coinage remained incomplete and point to some weaknesses of the monetary standards of the SEE countries. Immediately after passing coinage legislation, the Balkan countries satisfied their need for currency through the mintage of low-denomination copper coins (and copper alloys such as bronze). Low denomination copper coins were common practice in the 19th century; in LMU countries,

such coins were even a necessity, as the smallest silver coin (0.20 franc = 20 centimes) only weighted 1 gram. Yet, what was unusual about SEE was the extent to which such copper coins were used, and that copper was even used for denominations reserved for silver under LMU rules. The Balkan countries (or at least Bulgaria and Romania for which we have the relevant information) expanded their potential for seigniorage considerably by minting the 20 centimes coin in copper (or as copper alloy) rather than silver. In practice, this was one of the most widely used coins at the time, as its value amounted to approx. 10% of a day labourer's wage for a full working day.<sup>16</sup> As a result, actual coinage relied on copper rather than silver. Bulgarian coinage data suggest that 71.5% of all coinage before World War I was in copper, while silver and gold accounted only for 25.4% and 3.1%, respectively.<sup>17</sup> We will discuss the implication of this unusual coin composition later when analysing currency in circulation (that is, coins and banknotes).

There was another modification to the LMU rules in South-East Europe: none of the countries (with the exception of Austria-Hungary) knew coinage on private account, abrogating a crucial pillar of every commodity standard (section 3.1). This might partly reflect practical considerations as mintage was carried out abroad<sup>18</sup>, but the main motivation was different. Similar to the contemporaneous LMU legislation on limiting and, eventually, suspending silver coinage on private account, it aimed at avoiding a silver inflation. Yet, while the Balkan countries knew that the time was not yet ripe to stabilise exchange-rates vis-à-vis gold standard countries, they also sensed that they would not need to content themselves with a monetary standard depreciating as rapidly as silver vis-à-vis gold had done since 1873. In other words, the absence of free coinage in SEE supports our interpretation that the SEE countries never intended to implement a pure bimetallic standard, and that their bimetallic coinage legislation should rather be seen as a perfect medium between what was achievable in the short-run and what was desirable in the long-run.

#### *Only Greece ever joined the LMU formally*

Basing the national coinage system on LMU standards did not necessarily imply joining the LMU; only Greece ever joined the LMU (in 1867). The intentions of the other four countries to join the LMU were all frustrated sooner or later (Einaudi 2006, Morys 2006). It is worth pointing out that most of the desired advantages of the LMU coinage system were also available without formal membership, and acceptance of gold coins at public tills in LMU countries was widespread.

Crucially, by not joining the LMU formally, Bulgaria, Serbia and Romania were not bound by the strict ceilings on silver coinage which the LMU had to impose as a result of their reciprocal obligation to accept each other's coins at public tills. This allowed the three Balkan countries in question to coin more than 6 francs per head, boosting their seigniorage revenue. Only Greece coined less than 6 francs per head, conforming to its LMU contractual obligations.<sup>19</sup>

In closing this section, it is worth pointing out that the LMU principles lost some of their appeal over time, as evidenced by the Romanian and the Austro-Hungarian coinage acts of 1890 and 1892, respectively. Romania removed the unlimited legal tender status from the 5 lei silver coin and, in a separate but related development, only allowed foreign assets in English and German but not

<sup>16</sup> The data relates to wages in the Bulgarian town of Ruse on the Danube, as reported by Morys and Ivanov (2013). As sizeable wage differences emerged in SEE only after WW II (Lampe and Jackson 1982), the data can be used as a proxy for wages in Greece, Serbia/Yugoslavia and Romania.

<sup>17</sup> Own calculations based on Bulgarian National Bank (2009).

<sup>18</sup> Exception to this rule is Romania which coined partly in Bucharest. Austria-Hungary mainly coined domestically but knew coinage on private account, cf. main text.

<sup>19</sup> Own calculations based on silver coinage data by Einaudi (2006) and population data by Maddison (2003).

French currency to be included in the international reserves. Both measures symbolise the break with bimetallism in that creditors were given access exclusively to gold. Similarly, the Austro-Hungarian coinage act of 1892 envisaged a pure gold standard; it also created its own coinage system, moving away from the alignment sought with the French coinage system 25 years earlier.<sup>20</sup>

### 3.4 MONETARY LEGISLATION OF THE INTERWAR PERIOD

#### *International developments: gold exchange standard and gold bullion standard*

The interwar period saw the transition to the so-called gold exchange standard. This means that central bank reserves could – besides physical gold – also include foreign exchange holdings, or other foreign assets for that matter, as long as they were denominated in the currency of gold standard countries such as the US, the UK and France, whose adherence to gold was beyond doubt. Moving from a ‘pure’ gold standard to a gold-exchange standard had already begun in the late 19th century (a well-established finding in the literature, Lindert 1969, for which the present volume delivers ample supportive evidence), but the shift acquired a new sense of urgency in the 1920s for reasons related to World War I. The post-war settlement had resulted in numerous independent states most of which wanted to operate the gold standard. Global demand for gold was further increased by the fact that the monetary base in most countries had expanded considerably during and immediately after World War I and hence needed to be backed up by central bank reserves.<sup>21</sup> At the same time, world gold supplies remained largely stagnant. If the interwar gold standard was not to become deflationary as a result of gold demand exceeding supply, it needed to rely more strongly on foreign exchange reserves than what had been the case before 1914. Hence, policy-makers actively encouraged the transition to the gold-exchange standard, most notably at the 1922 Genoa conference (Eichengreen 1996).

Another pillar of this policy was to concentrate the gold holdings in the central bank’s vaults. This was achieved by reducing the amount of gold coins in circulation (in most countries to the point where gold coins did not circulate at all) and by actively discouraging the convertibility of bank notes into gold; which was achieved by allowing convertibility only for very large sums of money and then, partly as a consequence, only into bullion (or foreign exchange); hence the terminology gold bullion standard.

Gold-exchange standard and gold-bullion standard are terminology specifically related to the interwar period. They are also testimony to a gradual shift in terms of whom convertibility was promised to (a shift which would find its logical conclusion in the 1944 Bretton Woods agreement). Namely, under the pre-WWI gold standard, banks of note issue promised convertibility to bearers of bank notes, that is private economic agents. In the interwar period, convertibility for private economic agents became more restrictive (or even impossible); simultaneously, central banks accumulated ever more claims against each other as they moved towards the gold-exchange standard.

#### *de jure stabilisation of exchange-rates in South-Eastern Europe*

Developments in South-Eastern Europe between 1928 and 1931 reflect these global developments. We will discuss the actual exchange-rate performance in Section 5.3 and confine ourselves here

<sup>20</sup> This largely reflected practical considerations. In the 1892 legislation, Austria-Hungary established mint parity at roughly the exchange-rate level of that year, thereby accepting a devaluation of 19% compared to the 1867 legislation. Consequently, the new mint parity no longer lent itself to following the LMU coinage system.

<sup>21</sup> This statement is true even when taking into account that, as a result of many countries returning at devalued parities, one unit of gold covered more units of currency than it had done before 1914.

to the *de jure* stabilisation undertaken by Greece, Bulgaria, Romania and Yugoslavia. None of the four countries knew any gold coin circulation, hence shifting to the gold bullion standard *à la lettre*. As a result, the terminology ‘coinage act’ used in Table 1 to describe the pre-WW I experience no longer makes sense and we prefer the more abstract word ‘monetary act’ in Table 2.

**TABLE 2 Gold parity and standard exchange-rates vis-a-vis major currencies under the interwar gold standard**

Country	Gold parity: one currency unit equals  in grams of pure gold	Mint parity under prewar gold standard  in grams of pure gold <sup>1</sup>	Factor of depreciation vis-a-vis prewar mint parity	Standard exchange rate versus major currencies		
				Amount of domestic currency units equal to one unit of		
				US dollar	Pound sterling	French franc
<i>Bulgaria</i>	0.010870	0.290323	26.71	138.20	673.63	5.34
<i>Greece</i>	0.019526	0.290323	14.87	77.00	375.00	2.97
<i>Romania</i>	0.009000	0.290323	32.26	167.01	813.35	6.45
<i>Yugoslavia</i>	0.026500	0.290323	10.96	56.76	276.41	2.19

Note: 1. Mint gold was of purity 900/1000 under the coinage principles of the Latin Monetary Union.  
Sources: Country chapters and own calculations based on country chapters.

Table 2 gives the gold parity of lev, drachma, leu and dinar as enshrined in the monetary acts, but it is worth emphasizing their specific genesis. As *de facto* stabilisation proceeded *de jure* stabilisation in all four cases (Section 5.2 and Table 5), countries began their stabilisation policies by stabilising vis-à-vis the currency of a specific country which had already re-established the gold link (or had never suspended convertibility, as in the case of the US). In the cases of Bulgaria, Greece and Yugoslavia, these currency were the US dollar, pound sterling and the Swiss franc, respectively. Once this particular bilateral exchange-rate was deemed at a sustainable level and the country proceeded to *de jure* stabilisation, the gold parity of the monetary act was chosen accordingly.

South-Eastern Europe also shared in the international experience by including foreign exchange into the central bank reserves. While such rules had already existed before World War I, the financial incentive to rely on foreign exchange was arguably bigger in the interwar period. As Bulgaria, Greece, Romania and Yugoslavia all had to take out foreign loans to replenish their reserves, a particular appeal of foreign exchange was their interest bearing character as opposed to ‘idle’ gold bullion.

Last but not least, all four countries also followed the logic of the interwar gold standard by making convertibility difficult or even impossible. Particular instructive cases in this context are Romania and Serbia, where convertibility into gold bullion or foreign exchange (at the bank’s discretion) was allowed only for sums above 100,000 lei and 250,000 dinar, respectively. To put the sum of 100.000 lei into perspective (the sum of 250,000 dinar was higher still): as a Romanian day labourer would earn approximately 75 lei per day<sup>22</sup>, taking advantage of the convertibility option would require saving the wage of about five years (1350 working days); this contrasts strongly with the pre-WW I experience, where a day labourer earned approximately 2 lei per day and the smallest gold coin available was 5 lei.

<sup>22</sup> See footnote 16 for sources.

## 4 THE BANKS OF NOTE ISSUE

### 4.1 FOUNDATION AND OWNERSHIP STRUCTURE

This section is deliberately titled ‘banks of note issue’ rather than ‘central banks’. While the SEEMHN is an initiative sponsored by the SEE central banks, the banks of note issue out of which they emerged were not central banks in the modern sense of the term. They morphed into central banks only in the interwar period. The desired return to exchange-rate stability and sound fiscal policies in the 1920s required more independent banks of note issue. The financial crisis of the early 1930s underlined the need to supervise and regulate the commercial banking system, turning the bank of note issue into full-fledged central banks in the process. This transition reflected a global trend for banks of note issue to become more independent (1920s) and to acquire supervisory and regulatory capacity (1930s), which was supported and often coordinated by the Financial Committee of the League of Nations (de Cecco 1997).

In the case of Albania, Bulgaria, Greece, Romania and Serbia, the bank of note issue was founded not immediately but within approximately a decade after achieving political independence. On the one extreme, the Bulgarian National Bank was founded within a year from obtaining (semi-)independence at the Congress of Berlin (1878); on the other extreme, the National Bank of Albania was founded only in 1925, that is 13 years after Albania became independent. Such delay reveals that establishing a bank of note issue was a difficult task and the process was not straightforward. This is supported by the fact that in every single case of the five countries, there was one or even several failed attempts to launch such an institution (Lampe and Jackson 1982, pp. 203–206). Only in the Bulgarian case such a second attempt was not necessary, though the fundamental reorganisation of 1885 effectively amounted to a second foundation (Avramov 2006).

**TABLE 3 Banks of note issue in South-Eastern Europe**

Countries	Year of foundation <sup>1</sup>	Name upon foundation	Exclusive right of note issue	Today's name of the country's central bank <sup>2</sup>
<i>Albania</i>	1925	National Bank of Albania	yes	Bank of Albania
<i>Austria-Hungary</i>	1816 /1878 <sup>3</sup>	Austro-Hungarian Bank <sup>3</sup>	yes	Austrian National Bank
<i>Bulgaria</i>	1879 <sup>1</sup>	Bulgarian National Bank	yes	Bulgarian National Bank
<i>Greece</i>	1841	National Bank of Greece	yes <sup>4</sup>	Bank of Greece
<i>Ottoman Empire</i>	1863	Imperial Ottoman Bank	yes	n.a.
<i>Romania</i>	1880	National Bank of Romania	yes	National Bank of Romania
<i>Serbia</i>	1884	Privileged National Bank of the Kingdom of Serbia	yes	National Bank of Serbia
<i>Turkey</i>	1925	Central Bank of the Republic of Turkey	yes	Central Bank of the Republic of Turkey

Notes: 1. The year refers to the foundation of the institution and not to when the institution was granted the right to issue notes. This distinction is relevant in the Bulgarian case, where the Bulgarian National Bank was granted this right only in 1885. 2. Institutional continuity is not implied which is absent in the case of Greece. The Bank of Greece was founded in 1928 as a central bank with the exclusive right of note issuance. The National Bank of Greece was simultaneously stripped of its note issuing right and has continued since then as a ‘pure’ commercial bank. 3. Austria-Hungary: The Privileged Austrian National Bank (Privilegierte österreichische Nationalbank), founded in 1816, changed its name in 1878 to reflect the nature of the dual monarchy after the Ausgleich of 1866. 4. Greece: The NBG’s exclusive note issuing right covered almost the entire territory with the exception of the Ionian islands, Epirus and Thessaly and the island of Crete. Three other (and much smaller) banks with both commercial and issuing activities enjoyed the exclusive privilege of note issue in their specific parts of the country, namely the Ionian Bank (1839–1920), the Bank of Epirus and Thessaly (1882–1899) and the Bank of Crete (1899–1919). All three banks gradually waived their privilege in favour of the National Bank of Greece. Sources: Country chapters.

The process was lengthy and arduous, as three questions needed to be settled first. First, who would provide the capital for the bank? Second, what level of influence would be granted in return? And third, how would seigniorage be split between the Treasury and the bank of note issue? Seigniorage from coinage would accrue to the Treasury and from banknotes to the bank. As this in practice often led to clashes between the two institutions over the lowest possible denomination of banknotes, it is more conveniently discussed below when describing how successful the banks were in circulating banknotes.

We shall therefore begin by analysing the ownership structure which shows considerable variety among the seven banks. The Bulgarian National Bank was completely state-owned, whereas the Austro-Hungarian Bank and the National Bank of Serbia were completely in private hands, with the National Bank of Greece and the National Bank of Romania falling in the middle. Ownership structure could also change over time. The National Bank of Greece and the National Bank of Romania, for instance, were initially partly state-owned, but this share was later reduced to zero. The Imperial Ottoman Bank and the National Bank of Albania constitute special cases: they were owned by foreign shareholders, an approach which the other countries deliberately rejected. In the Ottoman case, this was the result of the power which English and French merchants had acquired over the Ottoman Empire; as a result of their governments' support to the Porte during the Crimean War (1854–56), they were able to push for a bank of note issue shortly after the end of the war.<sup>23</sup> In the Albanian case, it seems to reflect the almost complete lack of domestic capital which propelled the young Albanian state to look for outside options.

While foreign ownership was avoided wherever possible, foreign intellectual inspiration was most welcome. The Bulgarian National Bank, the National Bank of Romania and the National Bank of Serbia were all modelled along the lines of the National Bank of Belgium, which acted as a role model not only because of its impeccable exchange-rate record (Morys 2013), but also because it presided over what the SEE countries aspired to become, namely industrialised, small open economies. The National Bank of Belgium even provided substantial technical assistance to the newly founded National Bank of Serbia (Baikitch 1927). The National Bank of Greece, for its part, copied the Bank of England's separation into two different departments, that is, a note issuing department and a commercial department.

Crucially, the ownership structure does not necessarily reveal a great deal about the level of influence the government has; it is well-known that 19th century governments had their own ways of asserting influence over privately-owned banks of note issue, either formally (government representatives on the board and, in particular, the right to appoint the governor) or informally in a myriad of ways. Most importantly in this context, the note issue privilege was granted by the government only on a temporary basis, which meant that the renewal of the charter (or even threatening with non-renewal years ahead) provided considerable opportunities for government influence over banks. Arguably, the best way of evaluating the level of influence is by assessing the amount of government debt held by the bank of note issue. The banks were generally hostile to such debt monetisation, and they only accepted it if they had to. We will return to this issue later, but shall ask first what kind of tasks the banks of note issue actually had in the late 19th and early 20th centuries, that is before the emergence of modern central banks in the 1930s.

<sup>23</sup> The Ottoman Bank was founded in 1856 solely by British capital. In 1863, French shareholders joined and the name was changed to Imperial Ottoman Bank.

#### 4.2 TASKS AND CHALLENGES IN MASTERING THESE TASKS

The banks of note issue were given three tasks: to issue bank notes; to act as a government banker; and to provide credit to agricultural, commercial and industrial enterprises. The first task was always explicit, the second task was always implicit but well understood and the third task depended on the specific circumstances of each country. In the Serbian case, for instance, the provision of credit was listed as the most important task of the National Bank of Serbia in the charter, and practice seems to have been in line with this (Sojic et al. 2006). A fourth task relates to ensuring exchange-rate stability. Given its importance at the time, we devote section 5 entirely to the exchange-rate performance and confine ourselves here to the other three tasks.

The three functions were not mutually exclusive, but the inherent tension is obvious. Monetised government debt means higher note issue without increasing reserves, threatening convertibility. Similar, the provision of long-term credit could result in a potentially dangerous maturity mismatch on the bank balance sheet.

##### *(i) Provision of credit to agricultural, commercial and industrial enterprises*

Contemporary accounts suggest that credit provision never became so important that it undermined the note issuance business, arguably with the exception of Bulgaria. Levy (1911), for instance, was concerned that mortgage loans with a maturity of up to 30 years accounted for a sixth of total assets of the Bulgarian National Bank, almost reaching the level of reserves. Combined with a similarly high amount of government debt on the balance sheet, Levy concluded that not enough assets could readily be called upon, and convertibility might be threatened in turn.

Such observations by contemporaries, however, remained the exception. Rather, it seems that while long-term lending remained important, there was a clear shift towards short-term lending before World War I (Lampe and Jackson 1982, p. 220). This might reflect a growing awareness that banks of note issue ought to hold predominantly short-term positions, but it could also be the result of increasing specialisation over time. The National Bank of Greece, for instance, was the only commercial bank in Greece when it was founded in 1841. As a result of this monopoly position, it would naturally embark on short-term and long-term lending operations. Only as a meaningful commercial banking sector developed over time in the various SEE countries, separating short-term and long-term lending institutionally became feasible.

##### *(ii) Issuance of banknotes*

How successfully did the banks fulfil their main task of issuing bank notes to the public, retaining them in circulation and making them convertible into specie upon request? Under the Classical Gold standard, the convertibility rule was seen as the best way to achieve price stability (Bordo and Kydland, 1995), seen to this day as one of the two main functions of a central bank (the other one being financial market stability). As explained in Section 3.4, convertibility was deliberately restricted under the interwar gold standard, both globally and in South-East Europe in particular. The following remarks therefore relate to the period 1870–1914 only.

We see considerable differences between banks, ranging from complete inconvertibility in the case of Austria-Hungary to well-established but imperfect gold convertibility in the Romanian case. In Austria-Hungary, banknotes remained inconvertible for the entire period. Born out of

necessity, the Austro-Hungarian bank pioneered exchange-rate stabilisation (around mint parity) without convertibility and was widely admired for successfully doing so for the 1896–1914 period, especially after successfully weathering the financial crisis of 1907 (Jobst 2009). We will return to this issue in the next section when describing the exchange-rate performance of the South-East European countries. In all other cases, some form of convertibility existed, but this practice did not amount to unconditional convertibility into gold for prolonged periods of time as was the case in England and Germany between the 1870s and World War I. From the available evidence, it seems that Romania came closest to this ideal: convertibility was in place until 1890, but given the bimetallic legislation, the National Bank of Romania could convert into gold or silver at its discretion. Compulsory gold convertibility came only with the 1890 gold standard legislation, but contemporary accounts suggest that the National Bank of Romania would exchange small amounts of currency for gold but become reluctant if large sums were involved (Sonndorfer 1905, p. 292, Lampe and Jackson 1982, p. 216, Stoenescu et al. 2008). Greece enjoyed only short spells of convertibility (1870–77, 1885, 1910–14), but reserved the right to convert either into gold or silver as a result of its 1867 bimetallic legislation. Only in the 1910–1914 period, under an explicit gold standard legislation, did the National Bank of Greece convert routinely into gold.

Special – and intriguing – cases are Bulgaria and Serbia. They demonstrate well the interplay between banks of note issue and the government; they also are testimony to the problems in issuing banknotes and subsequently retaining them in circulation. During the first six years of its operation, the Bulgarian National Bank did not possess the right to issue banknotes, presumably because the government did not want to share its seigniorage revenues from bringing currency into circulation. In 1885, the government eventually granted the right to issue bank notes, but the first issue (1885) consisted of so large denominations (20 leva and 50 leva, which is approx. 10 and 25 daily wages, respectively), that the bank notes quickly flowed back to the bank. Circulation was not helped either by still vivid memories of depreciated Ottoman paper currency in pre-independence Bulgaria and by the fact that convertibility did not take place into gold (despite a clear stipulation to this effect on the banknotes) but into silver plus agio (Levy 1911, p. 502 and p. 506). Banknote circulation increased somewhat after 1890, when banknotes of 5 and 10 leva were issued, but the basic problem remained. Supposedly gold-backed banknotes were converted only into silver plus agio and were hence not as good as gold. Realising this dilemma, the Bulgarian National Bank pushed for the introduction of silver banknotes (where the paper was of higher value than the underlying silver) but was repeatedly thwarted in its attempts by the government which did not want to see the bank of note issue emerge as a competitor in its quest for seigniorage revenue. The opportunity to overcome the government's reluctance to the issuance of silver-backed banknotes arose only in 1899, when the government forced the Bulgarian National Bank to take some government debt on its balance sheet. As a *quid pro quo*, the bank henceforth was allowed to issue both silver and gold banknotes. Silver-backed banknotes quickly overtook the (supposedly) gold-backed banknotes; only when the lev started to stabilise vis-à-vis gold currencies in 1906, did gold banknotes become more widely used and overtook their silver counterparts.

Serbia also knew silver- and gold-backed banknotes. The first banknotes, issued in 1884, were gold-backed but could not be kept in circulation. As in the Bulgarian case, the high denomination was apparently a problem, but unsatisfactory convertibility might well have contributed to this failure. Only one year later, the government, despite initial reluctance, authorised the issuance of 10 dinar banknotes convertible into silver, which henceforth formed the bulk of bank circulation until 1914. As in the Bulgarian case, it is not difficult to see why the silver-backed banknote

succeeded whereas the gold-backed notes failed: the paper was of higher value than the underlying silver.<sup>24</sup>

How successful were the banks in their efforts to issue banknotes and increase their share relative to coins? The Romanian contribution allows tracking changes over time, while the Austro-Hungarian and the Bulgarian chapters provide spot estimates. In the Romanian case, the share of banknotes increased from 48.0% (1881) over 62.9% (1892) to 79.5% in 1910, but even the value for 1910 remains below the 89% achieved by Austria-Hungary in 1892 already (contemporary spot estimate). The comparison with Bulgaria is also instructive: As late as 1910, the share of banknotes remained below 20% (17.8%). This comparison shows various aspects of the SEE experience before WWI. First, some banks of note issue were more successful in bringing notes in circulation than others, potentially reflecting a stronger bargaining position with the treasury regarding seigniorage rights. The numbers might also be an indication of how weak the monetary standards were in this part of Europe: they relied either to a large degree on banknotes (Austria-Hungary, Romania) or on copper coins (Bulgaria, cf. Section 3). It is instructive to compare our data with the figure for Germany (Sprenger 2002): Germany's share of coins was 63% and 64% in 1870 and 1913, respectively, of which more than 50% were gold coin (Sprenger 2002, p. 170 and p. 180). In other words, the gold standard in countries such as Germany was much more of a lived experience than in SEE.

*(iii) The bank of note issue as banker to the government*

Last but not least, the extent to which the bank of note issue acted as a government banker deserves some attention. The Bulgarian and the Greek contribution offer particular insight, as they both report a series of government debt held by the bank of note issue. Greece also reports a series which reports government debt as percentage of the bank's total assets. Both banks did not hold any government debt for prolonged periods (Bulgaria: until 1898) or only of insignificant amount (Greece: until 1860). This was followed by a period in which bank-held government debt increased strongly and was monetised through increased banknote issue which approximately rose in tandem (Bulgaria: until 1903; Greece: until 1898). This was followed by a period of stabilisation in which both government debt and banknotes in circulation were reduced (until 1911, that is until the outbreak of the First Balkan War in 1912). In the Greek case, government debt as percentage of total assets peaked in 1897 at 55% but was reduced to 26% in 1911. Similar debt dynamics were apparently underway in the case of Serbia, where government debt peaked at 33% but was much reduced by 1909 (Levy 1911, Lampe and Jackson 1982). In all three cases, reducing the banks' role as a government banker was a crucial objective of the international financial supervision arrangements which Serbia, Greece, and Bulgaria entered into in 1895, 1898 and 1902, respectively.

Romania and Austria-Hungary were more benign cases. Initially, the National Bank of Romania acted as government banker, but was able to free itself from further government borrowing in 1900; an achievement which coincided with the government's decision to withdraw its capital from the bank. In the following decade, government debt as a share of the bank's assets was very small. In the Austro-Hungarian case, there was some government debt until 1886 which was subsequently reduced step-by-step.

On the eve of the First Balkan War (1912), then, all South-East European banks of note issue had achieved remarkable progress in reducing lending to the government and, in turn, dependence on

<sup>24</sup> In 1896, the National Bank of Serbia introduced a 20-dinar gold-backed banknote, but it remains unclear if it was convertible and, if so, in what exactly.

the government. The Balkan Wars, followed by World War I, however, reversed this process. With international capital markets drying up, governments were left with no other option than to use the ‘printing press’ to satisfy their financial needs. The Bulgarian data are particularly instructive in this context, reflecting the general pattern in the region. Banknotes in circulation increased by factor 40 between 1911 and 1924. This increase is almost exclusively explained by the corresponding increase in government debt. Debt monetisation on this scale had implications both for the exchange-rate developments of South-East European currencies and for the relationship between government and bank of note issue (Sections 3.4 and 5.2).

## 5 EXCHANGE-RATE PERFORMANCE

### 5.1 THE EXCHANGE-RATE PERFORMANCE BEFORE WORLD WAR I

One of the main objectives of 19th century economic policy was stabilising the exchange rate to its main trading partners. In order to put the South-Eastern European experience in historical perspective, it is necessary to sketch the European and global regime shift towards gold monometallism occurring in the early 1870s. The 1850s and the 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, i.e. 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 economic advantage of such a tripolar 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 bloc 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 the price of silver came under increasing pressure, partly as a result of increased silver production, partly as a result of countries switching to the gold standard. By late 1873, both Germany and France had switched to the gold standard (the latter in its ‘limping’ form described in Section 3.1) 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.

While the objective was then clear, joining the gold standard *de jure* (through convertibility of banknotes into gold) or, at least, stabilising the exchange-rate to the gold standard countries such as England and Germany (*de facto* adherence, also referred to as shadowing the gold standard) never was an easy operation. All country contributions in this volume demonstrate the chasm between what peripheral countries wanted to achieve in the late 19th century and how long it took to actually do so. We saw in Section 3.2 that most South-East European countries passed bimetallic coinage legislation between 1867 and 1880, which we interpreted as an attempt of establishing a paper standard (backed ‘loosely’ by silver in the sense that the paper was actually of higher value), coupled with the long-term perspective of joining the gold standard. We also saw that only Romania (1890–1914) and Greece 1910–1914) ever introduced exclusive<sup>25</sup> convertibility into gold.

Figure 1 allows gauging how quickly the South-East European countries achieved their objective, showing the exchange-rate of all five countries compared to their mint parity. In measuring the deviation from mint parity (which set the ‘standard’ exchange-rate to gold standard countries), Figure 1

<sup>25</sup> Exclusive in the sense of removing the bank of note issue’s option to convert either into gold or silver, cf. Section 3.1.

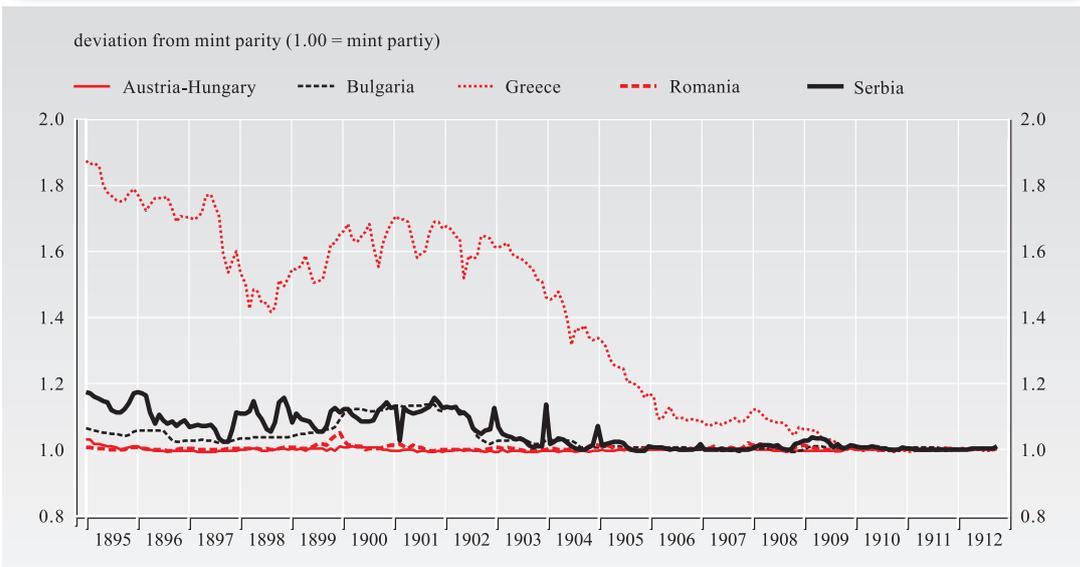
effectively shows the degree of depreciation vis-à-vis gold standard countries. In line with their convertibility regime, Romania and Greece enjoyed fixed exchange-rates for the period 1890–1914 and 1910-1914, respectively. But for most of the early period, the South-East European countries were not able to stabilise their exchange-rate. The exchange-rate development of the Greek drachma exhibits the most extreme case of devaluation. By the mid-1890s, Greek paper money was barely worth more than half of the gold drachma envisaged in the 1867 coinage legislation. Serbia is another extreme case where the depreciation lingered between 10% and 20% throughout the 1890s. Austria-Hungary, Bulgaria and Romania also had depreciated exchange-rates for a long time, although the level of depreciation of paper versus gold – the so-called agio – remained lower than in the other two cases.

**TABLE 4 Gold standard adherence in South-Eastern Europe before World War I based on exchange-rate performance**

Countries		Deviation from mint parity		
		Stand.	Max.	Avg.
<i>Austria-Hungary</i>	1/96-7/14	0.36%	1.13%	+ 0.05%
<i>Bulgaria</i>	1/06- 9/12	0.43%	1.60%	+ 0.51%
<i>Greece</i>	1/10-6/14	0.16%	0.30%	- 0.05%
<i>Serbia</i>	7/09-9/12	0.41%	1.80%	+ 0.47%
<i>Romania</i>	1/90-11/12	0.63%	5.27%	+ 0.48%

Source: Own calculations based on data described in Figure 1.  
 Note: Classification based on remaining within +/- 2.0% deviation from mint parity. Only Romania deviated more than 2.0% during two short periods which coincide with the Boor War (10/1899–01/1900) and the American Banking Crisis (11/1907).

**FIGURE 1 Deviation from Mint Parity for Five South-East European Countries, January 1895–September 1912**



Source: Author's calculations based on country chapters.  
 Note: Calculations are based on the exchange-rate vis-à-vis pound sterling with the following exceptions: agio data for Bulgaria (until December 1906) and Romania (until December 1890), exchange-rate vis-à-vis France for Greece and the price of the 20 dinar gold coin for Serbia.

Only at the turn of the century were the South-Eastern European countries able to stabilise their exchange-rates. Romania was the first country to do so in 1890 (by means of full-fledged convertibility as part of the gold standard legislation of that year), followed by Austria-Hungary in 1896. While the dual monarchy never introduced specie convertibility, it developed an impeccable exchange-rate record with a standard deviation from mint parity of only 0.36% and a maximum deviation of 1.13% (Table 4). The superior exchange-rate record of Austria-Hungary compared to Romania shows that exchange-rate stabilisation without convertibility was not necessarily inferior to exchange-rate stabilisation by formal gold adherence. Bulgaria, Serbia and Greece were able to stabilise their exchange-rates in 1906, 1909 and 1910, respectively. Table 4 provides the dates for which the South-East European countries shadowed the gold standard according to our definition under Section 3.1, that is remaining within a  $\pm 2.0\%$  band vis-à-vis other gold standard countries.

In international comparison, exchange-rate stabilisation of peripheral countries at around the turn of the century is not unusual and is often attributed to an upswing in global macroeconomic conditions starting in around the mid-1890s (Eichengreen and Flandreau 1997, Flandreau et al. 1998). Increased integration into the European economy, as evidenced by higher levels of business cycle synchronisation with England, France and Germany (Morys and Ivanov 2013), might have helped as well. The exchange-rate experience of the South-Eastern European countries, then, appears to follow a pattern encountered in other parts of the world as far afield as Japan and Argentina, perhaps with one notable exception. The end to the Belle Époque came two years earlier with the outbreak of the Balkan Wars in September-October 1912. All South-East European countries regained exchange-rate stability between late 1913 and July 1914, albeit with a higher level of variation around mint parity.

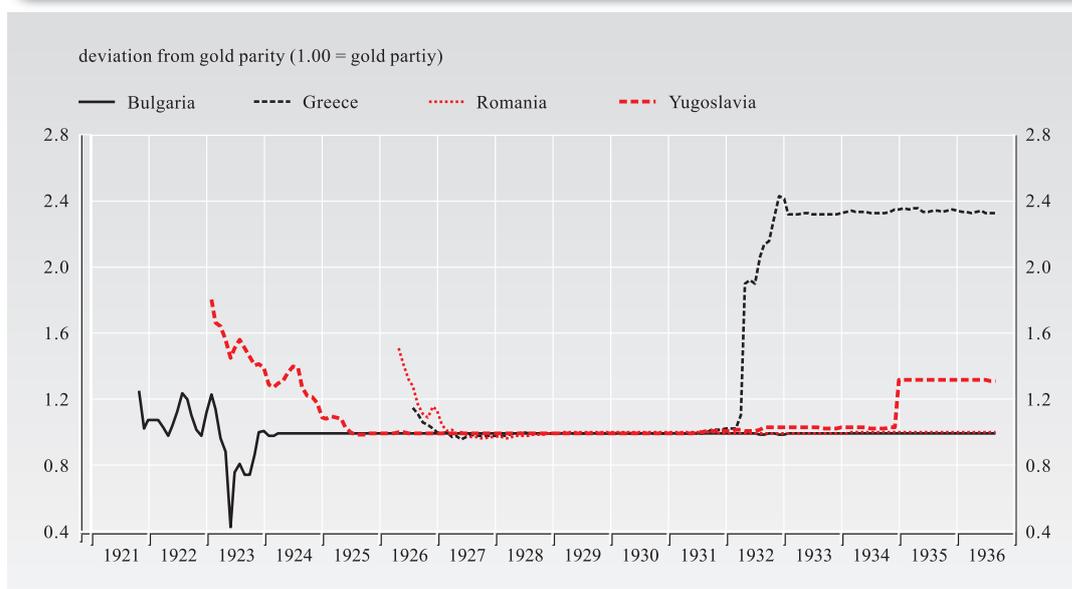
## 5.2 EXCHANGE-RATE PERFORMANCE IN THE INTERWAR PERIOD

We mentioned in Section 3.3 that the 10- to 15-year process of currency stabilisation and making the banks of note issue more independent vis-à-vis the government came to an end with the Balkan Wars (1912–13) and World War I. With international capital markets closed, governments were left with no other option than to lean on their bank of note issue. By the early 1920s, public finances were in disarray in all countries, and government debt was monetised through the bank of note issue. We also pointed out that this heavy government intervention from 1912 to the early 1920s paved the way for renewing the earlier efforts, resulting in the more independent banks of note issue – and indeed full-fledged central banks – of the interwar period. As in the earlier stabilisation period, the impulse came from outside. In exchange for outside financial help – which in the 1920s often came through loans mediated by the League of Nations – creditor countries insisted on sound public finances and independent central banks. The SEE countries were required to pursue disinflationary policies in order to re-establish the gold link, policies which often lasted for 3 to 4 years and required short-term interest rates of 10% and more.

These developments are well reflected in the exchange-rate movements of the 1920s: a first period of fluctuating – and occasionally strongly depreciating – exchange-rates, to be followed by a stabilisation period which allowed all SEE countries to join the gold-exchange standard. While this was the standard pattern of re-establishing the gold link in the interwar period (Eichengreen 1996), two pieces of evidence suggest that the financial disarray following World War I was particularly large in South-East Europe; and hence the challenge of joining the gold standard particularly big. Most SEE countries were able to stabilise their currencies only in the late 1920s, that is, several years after the first wave of countries in 1925 (Wandschneider 2008, pp. 154–155); and achieving this required devaluations of extraordinary proportions. All SEE countries devalued by more

than factor 10 compared to their pre-war parity (in ascending order: Yugoslavia: 10.96; Greece: 14.87; Bulgaria: 26.71; Romania: 32.26). To put this into international perspective, it is worth pointing out that when France stabilised in 1926 at 20% of the pre-war parity, this was widely perceived as late and weak, given that the UK, another belligerent country, had stabilised earlier and at the old parity (Eichengreen 1996).

**FIGURE 2 Deviation from Gold Exchange Standard Parity for Four South-East European Countries, November 1921–September 1936**



Source: Author's calculations based on country chapters.

Note: Each time series begins at the point of maximum depreciation and ends in September 1936 (devaluation of French franc).

Calculations are based on the exchange-rate vis-à-vis pound sterling until August 1931 (with the exceptions of Bulgaria and Yugoslavia where the US dollar and the Swiss franc, respectively, were chosen due to early currency stabilisation) and vis-à-vis the French franc from September 1931 (UK devaluation) until September 1936 (gold bloc devaluation).

Yet, while the overall pattern is remarkably similar in the SEE countries, some country-specific idiosyncrasies throw an interesting light on the policies of financial stabilisation in the 1920s and how they interacted with interwar politics at large. Somewhat counterintuitively, the only country vanquished in World War I in our sample – Bulgaria was the first to stabilise its exchange-rate (in May 1924). This is explained by the fact that the winners of WWI – of whom France was a major creditor to Bulgaria – effectively forced the country to stabilise its currency, in an attempt to secure repayment of outstanding debt (Nenovsky and Dimitrova 2006). The early Bulgarian stabilisation was followed by Yugoslavia, Greece and Romania in July 1925, January 1927 and March 1927, respectively. *de jure* stabilisation followed in 1928 and 1929, respectively. Only in the case of Yugoslavia did the formal introduction of convertibility come as late as May 1931.<sup>26</sup>

While the façade of the gold standard had been re-established by the late 1920s, it remained weaker than in other parts of Europe. We argued above that the weakness of the gold standard in South-

<sup>26</sup> The very late introduction of convertibility in May 1931 raises an interesting question which Gnjatovic (2008) fails to address. In the same month, neighbouring Austria experienced a currency and banking crisis, being the first such event of the European financial crisis of 1931. It appears that the Yugoslav introduction of convertibility in the same month aimed at preventing contagion from Austria by strengthening (legalising) the gold link.

East Europe before World War I was reflected in the almost complete absence of gold coin circulation. As the interwar gold standard knew little gold coin circulation even in the economically advanced countries (gold bullion standard, cf. 3.4), such weakness would manifest itself in the composition of reserves. As indicated above, the interwar period saw the transition to the gold-exchange standard, but as early as 1926 a tendency started to exchange foreign reserves into gold. The SEE countries bucked this trend and maintained very low shares of metallic reserves as part of overall reserves. Metallic holdings as part of total reserves accounted for only 22.1% and 39.9% in the cases of Greece and Bulgaria immediately after *de jure* stabilisation in May 1928 and December 1928, respectively; only Romania was more prudent when it joined the gold exchange-standard with a ratio of 82.0%.

Only after the onset of the Great Depression did the SEE countries realise the balance sheet risks involved in foreign exchange, given that convertibility could no longer be taken for granted. They all began converting foreign exchange into (physical) gold, and by the end-of-year 1931, the proportion of gold as part of overall reserves had risen to 45.4%, 92.9% and 93.7% for Greece, Bulgaria and Romania, respectively. The particularly high share of foreign exchange as part of overall reserves in the Greek case also explains the increased vulnerability to the European financial crisis of 1931 (epitomised by Britain leaving gold in September 1931), an event which hit Greece severely given that most of its foreign exchange was held in pound sterling and has often been seen as one of the contributing factors to the Greek currency crisis of April 1932 (Christodoulakis 2013).

None of the SEE countries was able to escape the 1931 financial crisis. Within months of the Austrian (May) and the German (July) crisis, all SEE economies could maintain the value of their currencies only by the introduction of stringent foreign exchange controls in the months of September and October 1931. Capital controls, principally, involved concentrating all foreign exchange transactions at the central bank. Access to foreign exchange was henceforth not regulated by price (fluctuating exchange-rates within the gold points) but by quantity, that is, importers had to apply at the central bank for foreign exchange needed to pay their transactions (and exporters relinquishing their foreign exchange earnings there). The change from price to quantity restriction also explains why the exchange-rate reported in this volume for this period often shows exactly the same entry for months or even years (at least vis-à-vis one country which acted as numéraire, cf. below).

But capital controls were no panacea. In the Greek case, they quickly proved insufficient and Greece was forced to let the drachma float in April 1932. The Greek currency then devalued by more than 60% until June 1933 (measured against 1928 mint parity), before the currency was pegged to the Gold Bloc (led initially by the US and France, and after the 1933/34 US devaluation by France only). When France, the Netherlands and Switzerland devalued in September 1936 (as the last members of the Gold Bloc to do so), Greece saw no need for further devaluation for itself and instead preferred to switch to the Sterling Area; an orientation which it maintained until the outbreak of World War II.

The cases of Bulgaria and Romania were different. Capital controls sufficiently cordoned off their currencies and they were reluctant to devalue, as substantial parts of their debt were in French franc (see Tooze and Ivanov 2011 for the Bulgarian case). Identical exchange rates<sup>27</sup> between their

<sup>27</sup> In the Bulgarian case, entries for 5/1933 to 9/1936 show consistently 5.490 leva = 1 FF. Before 5/1933, there is minor fluctuation of the franc, and the US dollar appears to be the numéraire (139 leva = 1 dollar); on this issue, cf. Nedelchev (1940, p. 90). The orientation at the US dollar in Bulgaria until the 1933/34 devaluation is largely explained by the fact that Bulgaria stabilised its exchange-rate at a time when neither the UK nor France had stabilised their currencies. In the Romanian case, exchange-rate entries to France are identical for 12/1931–2/1934 and again for 4/1934–9/1936. The difference between the two periods is so small (6.590 lei = 1 FF versus 6.638 lei = 1 FF) that it is unlikely to affect our interpretation.

currencies and the French franc from the imposition of capital controls until September 1936 (when France devalued) suggest that both countries saw the French currency as their numéraire. As both countries maintained the value of their currencies only by means of stringent capital controls, they are not considered members of the Gold Bloc which was characterised precisely by maintaining fixed exchange-rates without resorting to such practices.

The Yugoslav experience falls somewhere in the middle. It initially followed Bulgaria and Romania in maintaining the value of their currencies through the imposition of (increasingly stringent) capital controls, but then devalued the dinar by 28.2% at the end of 1934. When the gold bloc countries devalued in September 1936, Yugoslavia saw no need for further devaluation for itself. After the devaluation of the gold bloc, Bulgaria, Romania and Yugoslavia all exhibited highly stable exchange-rates to the US dollar, suggesting that the dollar became their numéraire.

## 6 CONCLUDING REMARKS

The purpose of this chapter was to introduce the reader to the monetary history of the seven SEE countries from the 19th century to the outbreak of World War II (Albania, Austria-Hungary, Bulgaria, Greece, Ottoman Empire/Turkey, Romania, Serbia/Yugoslavia). The historiographical tradition in the region has tended to portray each country's political, economic and financial development as unique; we have aimed to overcome this approach by emphasising common patterns over country-specific idiosyncrasies. The picture which has emerged is of a group of countries which often faced similar monetary and financial challenges and, more often than not, opted for similar solutions. This finding vindicates the approach taken since 2006 by the seven SEEMHN central banks to study their respective monetary histories as part of a common effort. The chapters following this introduction are testimony to what the initiative has achieved so far, and they provide researchers in central banks and in academia with a solid platform to build their own research on.

We pointed to several aspects which are likely to dominate future research on the monetary history of South-Eastern Europe. First, assessing the relative importance of regional factors versus country-specific factors in the economic, financial and monetary development of the Balkan countries. In this introductory chapter we have highlighted common patterns, but a careful reading of the following eight chapters might well lead some readers to a different conclusion. Second, future research is likely to study in more detail the economic interactions between South-Eastern Europe, on the one hand, and England, France and Germany, on the other. At any point in time between political independence and World War II, the economic relationship of Balkan countries – for instance as measured by trade patterns (Morys and Ivanov 2013) – to one or several of the three European core economies was more important than to its regional neighbours. In other words, while treating South-Eastern Europe as a region is warranted, understanding the economic development of this region as a whole requires an understanding of its economic relations with Western Europe. Third, future research is likely to study patterns of path-dependency. In Section 2 we pointed out that some challenges facing the Balkan countries before World War I and in the interwar period were not altogether different from today's situation; it will be important to establish whether there is a systematic pattern or only a superficial similarity.

The external conditions for such historical research are uniquely good, as South-Eastern Europe will remain high on the agenda of European politics for the foreseeable future. From the six EU candidate countries, five are located in the Balkans: Albania, Montenegro, Serbia, the Former

Yugoslav Republic of Macedonia and Turkey.<sup>28</sup> Put differently, South-East Europe is, at present, the ‘frontier’ of the European project; a status which is likely to translate into increased ‘demand’ for historical research on this part of Europe. If the present volume can be a first step towards this direction, it will make a contribution to historical research as well as to the political project of European integration.

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<sup>28</sup> The sixth European Union candidate country is Iceland.

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