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The Introduction of a Limping Gold Standard in the Principality of Serbia*

Introduction

In the late 1860s, after more than four centuries of foreign currencies in circulation, the autonomous Principality of Serbia started a monetary reform the ultimate goal of which was to re-establish monetary sovereignty. The monetary reform – which lasted from 1868, when domestic small copper coins began to be minted, until 1879, when Serbia issued her first gold coin – was part of a comprehensive institutional and economic reform process significantly contributing to the economic Europeanization of the Balkans in the second half of the nineteenth century.

The first part of the paper takes a brief look at distinctive features of monetary circumstances in the Principality of Serbia prior to the monetary reform. The exchange rate lists for foreign currencies in circulation in the Principality have been preserved, and they have been remarkably useful in analyzing these distinctive characteristics. The second part of the paper looks at the reasons behind the decision of the Principality of Serbia to opt for the Latin Monetary Union minting standards. The decision resulted from a realistic understanding of the monetary problems shaking Europe at the beginning of the second half of the nineteenth century. The third part of the paper explains how the standards of the Latin Monetary Union were translated into legal regulations and accepted in practice. Monetary laws of the 1870s were preserved where it was explicitly stated that Serbia accepted the standards of the Latin Monetary Union. The conclusion takes a look at why Serbia did not become a member of the Latin Monetary Union even though she accepted its minting standards.

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1. Foreign currencies in circulation in the Principality of Serbia

Serbia, from 1830 an autonomous principality under Ottoman suzerainty, formed part of the central monetary zone of the Ottoman Empire where until the end of the seventeenth century the basic monetary unit was the silver *akçe*, and from the beginning of the eighteenth century the silver *kuruş*.[1] The provinces belonging to the central monetary zone were under full monetary sovereignty of the Ottoman central authorities in Constantinople. Accordingly, Serbia did not have the right to mint her own coins. Even when the Sultan's *hatti-sherif*s of 1830 and 1833 gave Serbia a relatively broad internal autonomy and she formally became a hereditary vassal principality, she continued to be under the jurisdiction of Constantinople in monetary terms. As a result, the monetary situation in Serbia largely depended on the financial situation of the Ottoman central authorities. In the middle of the nineteenth century, the main feature of the Ottoman monetary finances was that in addition to Ottoman debased silver coins there was also an abundance of various foreign coins in circulation. *Kuruş*, known in Serbia under the name *groš* (Lat. *grossus*) and divided into 40 *para*s, was primarily used as a unit of account, while Austrian silver coins were mostly used in transactions.[2]

1.1. Currency exchange rate lists

Although the monetary system of the Ottoman Empire was in use in the Principality of Serbia, the Principality's monetary circumstances had their own distinctive characteristics. One of them was the kind, quantity and price of the foreign currencies that could be found in circulation in addition to the Ottoman ones. Foreign currencies came to Serbia with trading caravans from Austria-Hungary and the Mediterranean bringing industrial products and carting away agricultural goods. The exchange rate lists issued by the Principality's authorities prior to tax collection show the kinds of foreign currencies in circulation in Serbia and their exchange rates. The lists were issued as often as the relations of value and the content of currencies in circulation at the local market changed. The legal basis for issuing these lists was sultanic firmans or decrees; they determined the prices of those kinds of Ottoman and foreign currencies expressed in accounting *groš* that the Porte was willing to accept from Serbia on account of taxes. From 1815

[1] S. Pamuk, *Monetary History of the Ottoman Empire* (Cambridge: Cambridge University Press, 2000), 59–76.

[2] V. Dugalić, *Narodna banka 1884–1941* [National Bank 1884–1941] (Belgrade: Jugoslovenski pregled, 1999), 19–22.

taxes in Serbia were collected exclusively by the Serbian Prince and local elders. The independence in tax collection made it possible for the Serbian authorities to decide on the kind of foreign currency they would accept on account of taxes.

Between 1815, when Serbia was granted independence in tax collection by the Porte, until 1868, when foreign currencies began to be withdrawn from circulation, several currency exchange rate lists were issued. In studying the first expressions of Serbia's monetary autonomy, particularly important are those issued on 12 October 1819; 16 December 1822;[3] 13 December 1836; 30 November 1841;[4] 30 September 1855;[5] and 1 April 1866.[6] The kinds of currencies recorded in these lists provide evidence for a steady decrease of Ottoman coins and an increase of a variety of foreign currencies in circulation in the Principality. This reflected the increase of foreign trade exchange and the weakening monetary authority of the Ottoman Empire. Twelve kinds of foreign currency that the Principality authorities were willing to accept on account of tax collection were quoted in the currency exchange rate list issued in 1819, in the one issued in 1836 there were thirty-one kinds, and finally, in 1866 as many as forty-seven.[7] The exchange rate lists show that in addition to Ottoman coins, Austrian, French, English, German and Greek were also in circulation.

Until the autumn of 1819, all kinds of foreign coins that happened to be in circulation were accepted in Serbia on account of tax collection. Then it was observed, however, that in addition to Ottoman orders concerning foreign currency prices, factors such as the abundance of certain kinds of currency at the moment, their quality and their exchange rates at the local market, should also be taken into account when determining exchange rates for various currencies. This led Serbian Prince Miloš Obrenović (r. 1815–1839; 1858–1860) to issue, on 12 October 1819, a decree whereby the kinds of currency acceptable for tax payment and their exchange rates expressed in accounting *groš* were ratified for the first time by a currency exchange rate

[3] *Gradja za istoriju Kraljevine Srbije* [Documents for the history of the Kingdom of Serbia], eds. V. Petrović and N. Petrović (Belgrade: Državna štamparija Kraljevine Srbije, 1884), 282–292.

[4] *Zbornik zakona i uredaba izdanih u Knjaževstvu Srbiji* [Collection of Laws and Regulations Issued in the Principality of Serbia] for the years 1835–1882 (Belgrade: Državna štamparija, 1877), 153, 297.

[5] *Zbornik zakona*, 1865, 73, 89.

[6] *Zbornik zakona*, 1866, 43.

[7] Under the 1856 Treaty of Paris the Principality was under the joint protection of five major European powers.

list.[8] Thus, out of thirty-three currencies in circulation in Serbia at the time, only twelve were included in the currency exchange rate list of 1819: four gold, six silver and two copper coins. As for the Ottoman currency, the list included a single Ottoman gold coin, known as *mahmudia* in Serbia.

When the time came for tax collecting in the autumn of 1822, the Porte prescribed new, and lower, prices for European currencies expressed in accounting *groš*. Prince Miloš Obrenović was expected to act accordingly and prescribe new currency exchange rate lists with the lower prices of European currencies. However, from the currency exchange rate list of 1819 the currency exchange rates for European currencies had not changed at the local market in Serbia. Prince Miloš ordered the Serbian elders to postpone tax collection, and on 23 November 1822 submitted an appeal to the Porte to permit him to keep applying the currency exchange rate list that was then in effect.[9] After a lengthy correspondence with the deputies in Constantinople, the Porte agreed to take into account the distinctive local features of Serbia's monetary situation. Prince Miloš was instructed to resolve the issues concerning the European currencies exchange rates directly with the Vizier of Belgrade, since it would be inconvenient for Constantinople if the jurisdictional territory of one Ottoman pasha were put in a more favourable position than those of the other pashas. In April 1823, the Belgrade Vizier gave his approval to retain the currently effective exchange rate list, after which tax collection was resumed.

1.2. Dual accounting monetary unit

A second distinctive feature of the monetary situation in the Principality of Serbia was the introduction of a dual accounting monetary unit. When Serbia officially became a vassal state of the Ottoman Empire by the Sultan's *hatti-sherif*s of 1830 and 1833, various kinds of taxes paid until then were integrated into a single monetary tribute. From the autumn of 1833 the Sublime Porte regularly issued firmans determining the amount of Serbia's annual tribute. The amount of vassal financial obligations and the price of foreign gold coins that the Porte was willing to accept on account of the tribute were expressed in the accounting *groš*. At that time, the real exchange rate for Ottoman silver coins at the local market in Serbia was twice as low as the nominal one determined in Constantinople, because such

[8] M. Petrović, *Finansije i ustanove obnovljene Srbije* [Finances and institutions of the restored Serbia] (Belgrade: Državna štamparija Kraljevine Srbije, 1901), 523–531.

[9] M. Gavrilović, *Miloš Obrenović* (Belgrade: Nova štamparija Davidović, 1909), vol. II, 403–406.

coins were systematically debased by the Ottoman authorities.[10] In order to protect his fiscal interests from inflation, Prince Miloš introduced a dual exchange rate for the accounting monetary unit *groš*. At the time the double accounting monetary unit was introduced in Serbia, the market value of the Austrian gold coin was 48 piasters, whereas the sultanic firman valued it at 24 piasters.

On 6 September 1833, Prince Miloš ordered the Serbian elders to accept taxes in European currencies and, if that was not possible, to accept the Ottoman currency at the rate of "two *Turkish groš* for one *tax groš*".[11] From that time on there were actually two accounting monetary units in use in Serbia: *market groš* and *tax groš,* the ratio between them being 2:1. The *market groš* was divided into 20 *tax para*s, and the *tax groš* into 40 *tax para*s. The currency exchange rate list issued in 1836 states that the prices of the currencies to be accepted on account of tax are expressed in *tax groš.*

The use, from 1833, of a dual accounting monetary unit in Serbia was often the cause of disputes in situations when the kind of foreign currency in which payment in commercial transactions should be made had not been agreed upon in advance.[12] In order to make it possible for the local authorities to settle such disputes, and thus to protect economic interests, it was necessary to set down official currency exchange rate lists for market transactions as well. This is why, beginning with the currency exchange rate lists issued in 1855, it is possible to find parallel foreign currency exchange rates expressed in both *tax groš* and *market groš*.

1.3. The minting of domestic copper coins

A third distinctive feature of monetary circumstances in the Principality of Serbia was the minting of domestic small copper coins at the time Serbia formally was still under the monetary sovereignty of the Ottoman Empire. Currency exchange rate lists and a double accounting monetary unit were the only expressions of the monetary autonomy of the Principality of Serbia until 1868, when the minting of domestic coins was re-established after more than four centuries. It was then that the domestic small copper coin began to be minted[13] and the withdrawal of all other kinds of copper coins

[10] Pamuk, *Monetary History*, 193–200.

[11] Petrović, *Finansije*, 530.

[12] *Živeti u Beogradu 1842–1850. Dokumenti Uprave grada Beograda* [Living in Belgrade 1842–1850: Historical Archive of Belgrade Documents] (Belgrade: Istorijski arhiv Beograda, 2004), vol. 2, 360–362.

[13] *Zbornik zakona*, 1868, 2.

ordered.[14] With the exception of the first currency exchange rate list, exchange rate was not prescribed for foreign small copper coins in circulation in the Principality in Serbia until 1868. It was left to the market to form the exchange rates for foreign small copper coins, primarily Austrian, in relation to the exchange rates of foreign silver and gold coins. The reason why it was left to the market to form the price of foreign copper coins was that these coins were not accepted for tax payment either by the Serbian authorities or the Porte. The Serbian Minister of Finance, Kosta Cukić, found room for re-establishing the minting of national coins by striking domestic small copper coins.

The monetary reform in the Principality of Serbia started with currency measures limiting the obligation to accept Austrian copper coins up to two *market groš*, and eventually their import into the country was completely terminated.[15] These currency measures were published in the Code of Laws and Regulations of the Principality of Serbia within usual occasional appendices to the then effective Law on Currency Exchange Rate Lists of 1 April 1866. They could have been interpreted in Constantinople as any other decision on any other kind of foreign currency that Serbia was no longer willing to use as a payment instrument. However, the most important decision of the National Assembly – to begin minting domestic small copper coins – was not published in the Code of Laws and Regulations of the Principality of Serbia, since the Serbian authorities feared the Porte's disapproval.[16] But no disapproval came, either when the decision to mint small copper coins was made or when these coins were put into circulation.

On 15 March 1868, Prince Mihailo Obrenović (r. 1839–1842; 1860–1868) signed the decision to mint, in a Viennese mint, copper coins featuring his portrait in ten-, five- and one-*para* denominations weighing ten, five and one gram, and from an alloy of 95 percent copper, four percent tin and one percent zinc. During 1869 and 1870, domestic copper coins to the total amount of 74.5 million *para*s with 1868 as the year of issue were put into circulation. The value of the copper *para* in circulation was coordinated with the value of the *tax para*.[17] The replacement of Austrian copper coins was

[14] *Zbornik zakona*, 1869, 18.

[15] *Zbornik zakona*, 1870, 124.

[16] The decision to mint small copper coins was based on one deputy's suggestion brought out at XII session of the National Assembly of 11 October 1867, cf. M. Ugričić, *Novčani sistem Jugoslavije* [The monetary system of Yugoslavia] (Belgrade: Savremena administracija, 1968), 57.

[17] Archive of Serbia, Belgrade, 1868, *Savet*, no. 119.

carried out within only two weeks and did not provoke any reaction from the Ottoman authorities.

2. Deciding in favour of the monetary standards of the Latin Monetary Union

Having succeeded in minting and putting into circulation domestic small copper coins, the Minister of Finance Kosta Cukić initiated the re-establishment of the national currency. The first problem to be solved was the choice of a monetary standard. Due to frequent fluctuations and drops in the price of silver on the world market, the late 1860s and early 1870s in Europe were marked by radical monetary reforms. One after another, the developed and already industrialized countries switched from bimetallism to the gold standard on the model of Britain, while the less developed agricultural countries switched from silver monometallism to bimetallism.[18]

The idea of reinstituting the minting of domestic currency had been contemplated in Serbia ever since the beginning of the nineteenth century.[19] In choosing a monetary standard, however, the realities of the time had to be taken into account. The reality was that there was no room for introducing the gold standard since Serbia of the time was an underdeveloped agricultural country. It was therefore realistic to consider either bimetallism or silver monometallism. The closest models, from the formal and legal point of view, that could serve the purpose were the bimetallic monetary system of the Ottoman Empire and the monometallic monetary system of the Habsburg Monarchy, which played a predominant part in Serbia's foreign trade and whose currency was predominant in Serbian circulation. Serbia, however, followed neither model in creating her monetary system, but instead turned to the monetary standards of France.

2.1. Why not the monetary standard of the Ottoman Empire?

In the late 1860s, while preparations were being made in the Principality of Serbia for introducing the national currency, the Ottoman authorities were facing difficulties in switching from silver monometallism to bimetallism. By the end of the 1830s, the Empire's monetary problems had reached the proportions of a crisis. Frequent debasements and plenty of various kinds of silver coins in circulation caused inflation and general economic and political instability. In the course of 1843 and 1844 the Ottoman central authorities

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[18] The Ottoman Empire introduced bimetallism in 1843, cf. Pamuk, *Monetary History*, 208.

[19] S. Novaković, *Vaskrs države srpske* [The restoration of the Serbian state] (Belgrade: Knjižarnica S. B. Cvijanovića, 1914), 108.

carried out a monetary reform to introduce a bimetallic standard. The use of debasement as a means of obtaining fiscal revenue was publicly abandoned. These measures were expected to create conditions for monetary stability. The gold lira and the silver *kuruş*, one gold lira being worth 100 *kuruş*, were introduced as parallel legal tenders, while the gold to silver ratio was set at 1 to 15.09. The adopted bimetallic standard implied an open mint system for both monetary metals, but it was never fully put into practice. Unable to provide sufficient funds to withdraw the earlier kinds of silver coinage from circulation, the state had to recognize them as legal tender. This is why the official exchange rate lists kept reappearing in the Ottoman capital stating the prices, expressed in *kuruş* as the accounting unit, at which the authorities were willing to accept this variety of old silver coinage.[20] Not even in 1881, when the Ottoman government abandoned bimetallism in favour of the gold standard, were the old kinds of silver coins withdrawn from circulation. As Serbia planned on withdrawing from circulation all kinds of foreign silver coins of small values after the introduction of domestic silver coins, the incomplete bimetallic system involving many kinds of silver coins that was in use in the Ottoman Empire was not a suitable model for her monetary system.

2.2. Why not the monetary standard of the Habsburg Monarchy?

In the 1860s, the monetary system of the Habsburg Monarchy was even less acceptable as a model to the Principality of Serbia, since this neighbouring country was on a pure paper standard. Although Austria had established a central bank in 1816, which, at least formally, was granted the exclusive right to issue national currency, the state did not renounce its privilege to print its own money.[21] Once it had been founded, the Privileged National Bank of Austria started withdrawing state money from circulation, replacing 250 state paper forints with 100 forints in its banknotes convertible into silver. Until 1848 the Austrian government restrained itself from issuing new quantities of money directly, but applied constant pressure on the central bank to do so. The pressure led to a rapid growth of the quantity of money in circulation and to a drop in the silver reserve ratio, often considerably below the prescribed minimum.[22] Yet, the convertibility of banknotes, i.e. their legally enforced redemption in silver, was sustained until 1848.

[20] Pamuk, *Monetary History*, 205–211.

[21] D. Gnjatović, "Novac iz nužde: primer Austrougarske monarhije" [Money of necessity: Case study of Austria-Hungary], *Ekonomska misao* XXXIV/1–2 (2003), 120.

[22] S. Pressburger, *Das österreichische Noteninstitut 1816–1966* (Vienna: Österreichische National-Bank, 1969), vol. I, 173–175.

This was a brief period in which the central bank managed to a certain extent to fulfil its main function of controlling the money in circulation. However, the severe financial crisis of 1848 forced the Austrian government to suspend the convertibility of the banknotes issued by the central bank, to impose an exchange rate for these banknotes and to restart issuing state paper money. So until the final transition to the gold standard in 1892, two kinds of ever-growing quantities of paper money were in circulation in the Habsburg Monarchy, state money and central bank money, with a high incidence of inflation as a result.

2.3. Adopting the standards of the Latin Monetary Union

In the 1860s, the Principality of Serbia found the model for its monetary system in the bimetallic standard of France, a country that had just switched from complete to incomplete bimetallism, complete bimetallism implying an open mint system for both silver and gold, and incomplete bimetallism, fully open gold coin minting and partially open minting for certain kinds of silver coins. Due to the fluctuating price of silver, all silver coinage, except the five-franc one, were proclaimed small change in France in 1864. Metal fineness for silver small change was reduced from 900/1000 to 835/1000 and its open minting was discontinued. It was now minted exclusively by the state in limited quantities and in 0.20-, 0.50-, one-, and two-franc denominations. Only the five-franc coin kept 900/1000 fineness; it could be minted freely; it was accepted for payment in unlimited amounts and was convertible into gold at the fixed rate of 15.5 to 1.[23]

In order to harmonize their monetary systems in the minting field with France, with which they had intense commercial relations, Belgium, Switzerland and Italy concluded a convention with France on 23 December 1865, by which the Latin Monetary Union was founded. According to the Convention, gold coins of 100, 50, 20, 10 and five monetary units and silver coins of five monetary units, all of 900/1000 fineness, could be minted without limits and freely. The silver coins of 835/1000 fineness were proclaimed small change in all member-states of the Union and minted in limited quantities. Coins minted by all signatories to the Convention were in open circulation throughout the Union.[24]

[23] M. Nedeljković, *Osnovi političke ekonomije* [Bases of political economy] (Belgrade: Napredak, 1921), 358.

[24] V. Meichsner, "Latinska kovnička unija", in *Ekonomska enciklopedija* (Belgrade: Savremena administracija, 1984), vol. I, 1032.

2.4. Limping gold standard

Between 1870 and 1872 the production of silver saw an abrupt rise and the market price of silver started to fall again. There was a danger that the member countries of the Latin Monetary Union would be flooded with five-franc silver coins and that gold would disappear from circulation. Namely, it became quite profitable to buy silver as specie at market places and then to convert it into coinage of much higher nominal value. This is why the member countries of the Latin Union discontinued the open minting of the five-franc silver coin between 1873 and 1878, thereby *de facto* switching to a limping gold standard[25] or the monetary system under which coins are minted only in gold, open minting in silver is stopped, and in that way the quantity of silver in circulation is artificially limited, but the possibility is left of making payments to any amount in certain pieces of silver coins of higher values. Therefore, the difference between a pure and a limping gold standard is in that under the former all silver coins are reduced to the role of change, while the latter allows for some kinds of silver coins to be used as an unlimited payment instrument. In addition, free convertibility of silver into gold according to the legally fixed ratio of gold to silver value is retained, but only for the quantity of silver minted into coins. In that way silver coins become change convertible into gold according to their nominal value.

As a result, the bimetallic system upon which the Union had been originally based could not be maintained under the conditions of the constantly decreasing market price of silver, which soon after the founding of the Union created a trend of gold disappearing from circulation. In 1878, the open minting system for full-value pieces of 5-franc silver coins was temporarily cancelled, but the temporary solution became final. After the First World War, monetary conditions underwent such a change that the Latin Monetary Union eventually broke up in 1926.

3. Re-introduction of national currency minting

Following the example of France and other member countries of the Latin Monetary Union, Serbia *de iure* based its monetary system on a limping gold standard in 1873. The original intention was to introduce complete bimetallism, such as had been in use in France until 1864. In the early 1870s, however, the objective circumstances compelled the Serbian government to give up such intentions and to follow the decisions made by the Latin Monetary Union.

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[25] V. Meichsner, *Osnovi nauke o novcu* [Bases of the science of money] (Skopje: Univerzitet u Skopju, 1954), 185.

3.1. National monetary unit – dinar

The Law on Minting Serbian Silver Coinage passed on 20 November 1873, and published in the Code of Laws and Regulations of the Principality of Serbia, determined the national monetary unit *dinar*, at par with the French franc. The dinar was divided into 100 *tax para*s. The fineness of metal, the weight and dimensions of national currency, the metric system of dividing the basic monetary unit into 100 parts as well as the state's exclusive right to mint silver small change were determined in accordance with the provisions of the Latin Monetary Union.[26] The weight of the dinar was set at five grams of silver, fineness to 835/1000 and tolerance to 3/1000, and the state exercised the exclusive right to mint coins. According to the letter of the law, silver coins in two-, one- and 0.50-dinar denominations to the total value of six million dinars with the year 1875 as the year of issue and featuring the portrait of Prince Milan Obrenović (1868–1882; King 1882–1889) were minted in a Viennese mint and put into circulation in 1875. Under the same law, state accounting and commercial books were to be kept in dinars as the only legal tender in the Principality of Serbia. Postponed during the wars of independence (1876–1878), conversion from the accounting unit *groš* to the national monetary unit dinar was carried out in 1879.

The issue of minting silver coins was on the agenda in Serbia at the time the declining market price of silver had already caused disturbances in the countries of the Latin Monetary Union. As a result, the member countries began to take decisions to limit the monetary functions of the silver five-franc coin. Given that in 1873 it was not clear yet what would eventually happen with this kind of money in the Union, its functions were to be determined later.

Immediately after putting silver coins in two-, one- and 0.50-dinar denominations into circulation, foreign silver small change began to be withdrawn from circulation. Article 8 of the Law on Minting Serbian Silver Coinage authorized the Minister of Finance to devalue foreign silver small change circulating in Serbia. The devaluation was sanctioned as early as 28 December 1873, when a modification to the currency exchange rate list of 1 April 1866,[27] reducing the value of foreign silver small change by one third on average, was issued.

3.2. Serbia's first gold coins

The monetary reform got into full swing once Serbia was recognized as a sovereign state at the Congress of Berlin in 1878. On 10 December 1878,

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[26] *Zbornik zakona*, 1874, 1.

[27] *Ibid.*, 75.

the National Assembly passed the Law on Serbian National Currency replacing the Law on Minting Serbian Silver Coinage of 1873.[28] Under the new law, Serbia abolished the oriental measurement system of money values and the Ottoman accounting monetary unit. A five-gram pure-silver coin of 835/1000 fineness was prescribed for the monetary unit dinar and the unit was divided into 100 *para*s. The old tax and market accounting values were to be converted into new dinar values in such a way that a *tax groš* was worth 42.1 *para*s and a *market groš* 19.8 *para*s. In this way, *tax para*s were in fact converted into dinars. The small change that had been put into circulation under the decision of 1868 now had the nominal value of one, five and ten dinar *para*s instead of one, five and ten *tax para*s. In the same way, the silver small change that had been put into circulation under the 1873 Law was now divided into 100 dinar *para*s instead of 100 *tax para*s. The 1878 Law also stipulated that all state accounts, as well as the books of private monetary institutions, retail shops, handicraft shops and manufactures be kept in accordance with the new monetary system.

The Law on Serbian National Currency once again confirmed that Serbia had decided in favour of the minting standards of the Latin Monetary Union. Article 3 of the Law stipulated the minting of "gold coins or *milandor*s" (*Milan d'Or*, of Prince Milan Obrenović) in denominations of twenty and ten dinars, silver coins of five, two, one and 0.50 dinars, and copper coins of ten, five, two and one dinar *para*s. Pursuant to the decision of the Minister of Finance, the first gold coins in 20-dinar denomination were released on 16 December 1879,[29] and ten-dinar gold coins on 23 June 1882.[30]

3.3. Limiting the monetary functions of silver coinage

By the time the Law on Serbian National Currency was passed, all member countries of the Latin Monetary Union had definitively limited the monetary functions of silver five-franc coins in such a manner that the state claimed the exclusive right of minting. Therefore, a similar decision was included in the Law on Serbian National Currency. The first Serbian five-dinar coins to the total amount of one million dinars were released into circulation on 25 July 1880.[31] At the same time, an additional quantity of silver small change in denominations of two-, one- and 0.50 dinars to the total

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[28] *Zbornik zakona*, 1879, 8.

[29] *Zbornik zakona*, 1880, 8.

[30] *Zbornik zakona*, 1882, 169.

[31] *Ibid.*, 174.

amount of 2.6 million dinars was put into circulation. Namely, it turned out that the quantity of silver small change released in 1875 pursuant to the Law on Minting Serbian Silver Coinage could not meet the demand for small change because foreign silver coins were mostly forced out of circulation. For the same reason an additional quantity of copper small change to the total amount of 1.2 million dinars was put into circulation on 3 April 1880.

3.4. The use of foreign coinage

As for the use of foreign currencies, the Law forbade the acceptance of copper small change as well as of silver coins the value of which was two dinars or less. Foreign gold coins and silver coins the value of which exceeded two dinars could remain in circulation under conditions stipulated in currency exchange rate lists. The Law regulated the conditions for the currencies of the states whose monetary systems in the field of minting were arranged according to the provisions of the Latin Monetary Union separately from those for the coinage of all other states. Provisions were made for the situation of the Principality of Serbia joining the Convention signed in Paris in 1865, namely that foreign gold coins and silver coins in a denomination of five monetary units minted according to the guidelines of the Latin Monetary Union should be accepted at all state cash desks under the same conditions as the corresponding domestic money, if cash desks in the countries that minted such money would accept the corresponding Serbian gold and silver coins. Until then, the rules applying to all other countries were to apply to the member countries of the Latin Monetary Union as well.

At the proposal of the Minister of Finance, on 9 February 1879 Prince Milan Obrenović issued the currency exchange rate list with exchange rates for foreign coinages expressed in Serbian dinars for ten countries: France, Belgium, Italy, Switzerland, Greece, Austria-Hungary, Russia, Germany, Great Britain and Ottoman Turkey.[32] Of course, the list included only foreign gold coins and silver coins exceeding the value of two dinars. In order to prevent excessive inflow of silver coinage from abroad, the list limited the acceptance of foreign silver coinage at state cash desks to a maximum of twenty-five percent of the value of each payment.

4. Conclusion

Although the Principality of Serbia minted money according to the rules of the Latin Monetary Union and although even the initial plans for a

[32] *Zbornik zakona*, 1879, 211.

monetary reform envisaged her joining the Union, Serbia had never joined this organization. The system of minting gold coins introduced in Serbia in 1879 differed from the limping gold standard of the Latin Monetary Union primarily in the provision of the 1878 Law on Serbian National Currency under which the state had the exclusive right to mint in gold.[33] By contrast, in the member countries of the Latin Monetary Union, the state's exclusive right of minting was limited to silver and copper. Gold was openly minted in the state mints, but private persons could obtain permission to do so provided they paid a special tax to the state. In France, for instance, this tax was 6.70 francs per kilo of monetary metal.[34]

For the most part of the nineteenth century Serbia was an underdeveloped country, and as such could not afford to let the market regulate the quantity and kind of national currency in circulation, the more so as a market in the true sense of the word had not been developed yet. She lacked market institutions in the field of banking and commerce and autonomous contracts with foreign countries. Furthermore, the open minting system for gold coins with full intrinsic value, which under the metallic monetary systems played the role of automatically adjusting the quantity of money in circulation to the requirements of financial transactions, required at least a certain degree of state legislation. Serbia became independent in 1878 (and a kingdom in 1882), and important state and commercial institutions were yet to be built.

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[33] Article 8 of the Law on Serbian National Money, *Zbornik zakona*, 1879, 8.

[34] Nedeljković, *Osnovi*, 353.