SERBIAN ACADEMY OF SCIENCES AND ARTS
INSTITUTE FOR BALKAN STUDIES

LI 2020

BALCANICA

ANNUAL OF THE INSTITUTE FOR BALKAN STUDIES
UDC 930.85(4-12)
BELGRADE 2020
ISSN 0350-7653
eISSN 2406-0801

https://doi.org/10.2298/BALC2051183G
UDC 336.748.5(497.1)"1918/1931"
336.743(497.1)"1918/1931"
Original scholarly work
http://www.balcanica.rs

Dragana Gnjatović*

University of Kragujevac

Evolution of Economic Thought on Monetary Reform in the Kingdom of Serbs, Croats and Slovenes after the Great War**

Abstract: This paper analyses the opinions of economists and policy makers on the monetary reform undertaken in the Kingdom of SCS after the Great War. The purpose of the analysis is to show how those opinions evolved in the situation of growing monetary instability. Immediately after the war it was believed that the pre-war gold parity of the national currency could be restored but, after several years burdened with the depreciation of the dinar and inflation, it became clear that monetary stabilization needed a new realistic approach. The opinions on this approach ranged from extremely regulatory to completely liberal ones. Early commitment to administrative measures was more the consequence of an extremely delicate and changing economic and political situation in which the State was in the early 1920s than renunciation of the liberal economic policy pursued in the Kingdom of Serbia before the Great War. When it became clear that the implementation of palliative administrative measures could not prevent the value of the dinar from falling, a pragmatic liberal approach prevailed. The major proponent of this approach among economists was Velimir Bajkić, and among policy makers, Finance Minister Milan Stojadinović and the Governor of the National Bank of the Kingdom of SCS Djordje Vajfert.

Keywords: gold standard, currency depreciation, paper standard, monetary unification, monetary reform, Kingdom of SCS

Introduction

Monetary reform in the Kingdom of Serbs, Croats and Slovenes (SCS) may be said to have begun on 12 December 1918 with the *Decision* of the Ministerial Council on marking the Austro-Hungarian crowns for their later substitution for the dinar-crown banknotes, and to have ended only on 28 June 1931 with the *Law on National Bank*, which proclaimed the legal stabilization of the dinar. During all this time, just as during the Great War, the convertibility of

* dragana_gnjatovic@yahoo.com

** An earlier version of this paper under the title "Discussions on monetary stabilisation among Yugoslav economists during the 1920s" was presented at the International Scientific Conference *Facing the Crisis and Depression. Discussions on Economic Policy and Reforms in Europe during the Interwar Period*, University of Picardie Jules Verne, Le Logis du Roy, Amiens, France, 21–22 September 2017.

the dinar was suspended and it was just one of a number of European currencies on the paper standard.

The ultimate goal of the monetary reform was return to the gold standard. Art. 20 of the *Law on the National Bank of the Kingdom of SCS* of 26 January 1920 authorized the Bank to issue three times more banknotes than its metal base, and Art. XII of the Transitional Provisions of this *Law* provided for the reintroduction of the exchange of banknotes for monetary metal when the financial and economic situation, and the level of gold reserves, allowed it.

At the International Monetary and Financial Conference in Genoa, Italy, in 1922, the Kingdom of SCS, like most European countries, opted for a monetary system based on a gold exchange standard.[1] Two steps that had to be made in the framework of the monetary reform before returning to this modified concept of classical convertibility were: monetary unification and the stabilization of the exchange rate of the dinar. As far as the ultimate goal of the monetary reform was concerned, immediately after the Great War there were no major divergence in public opinion. It was generally thought that the pre-war gold parity of the dinar had to be restored. However, with the first signs of monetary stabilization after years of experience with inflation and depreciation of the dinar, the idea of returning to the old gold parity was abandoned.

Monetary reform was carried out in an extremely delicate and changing economic and political situation in which the State was in that period. This situation is illustrated by the fact that from the creation of the Kingdom of SCS on 1 December 1918 until the enactment of the *Law on the National Bank* on 28 June 1931, there was a succession of as many as twenty-five governments.[2] Before the achievement of the final goal of the monetary reform, it was believed in professional circles that policy decisions of two finance ministers, Vojislav Veljković and Milan Stojadinović, were of vital importance to the restoration of the monetary system and the stabilization of national currency.[3]

From 16 August 1919 to 19 February 1920, the office of finance minister was held by Vojislav Veljković, former Professor of Administrative Law at the Great School in Belgrade and member of the National Assembly before and after the Great War. He took office amidst monetary chaos in the newly-created State, which practically still did not have definitive borders or an operational legislature. Veljković had the determination, expertise and integrity to lay the foundations of the monetary system and conduct monetary unification within

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[1] D. Gnjatović and Ž. Lazarević, *Prilozi finansijskoj istoriji Jugoistočne Evrope* (Belgrade 2011), 52.

[2] D. Mrdjenović, ed., *Ustavi i vlade Kneževine Srbije, Kraljevine Srbije, Kraljevine SHS i Kraljevine Jugoslavije (1835–1941)* (Belgrade 1988), 198–244.

[3] Lj. St. Kosier, "Valutna reforma u Kraljevini Jugoslaviji", in *Valutna reforma u Jugoslaviji*, ed. Lj. St. Kosier (Belgrade and *Zagreb* 1930), 6.

an extremely short period of time.[4] He submitted to the National Assembly the proposal for a legal solution by which the validity of the *Law on the Privileged National Bank of the Kingdom of Serbia* was extended to the whole of the Kingdom of SCS.[5] His assistant at the Ministry of Finance was Velimir Bajkić, Professor of Finance and Statistics at the Faculty of Law in Belgrade, Director of Belgrade Trade Bank and the most influential economist in Serbia.[6] Bajkić technically carried out the idea of a dinar-crown banknote that was used for the replacement of Austro-Hungarian crowns and their withdrawal from circulation. From 16 December 1922 to 12 April 1926 (with a short break from 27 July to 6 November 1924) the position of finance minister was held by Milan Stojadinović, Professor of Economics at the University of Belgrade and a prominent financial expert. He put an end to the practice of budget deficit financing and took measures for monetary stabilization. Later on, in the period from 1935 to 1939, he would serve as Prime Minister of the Kingdom of Yugoslavia.[7]

On the causes of monetary instability

The first years after the Great War in the Kingdom of the SCS were a period of an abrupt increase in the quantity of money in circulation. The period was marked by a general price increase and a depreciation of the national currency. In 1923 prices were almost twenty times higher compared to 1913. While in 1913 the dinar was equal in worth to the Swiss franc in Zurich, ten years later, in January 1923, it was 27 times less worth than the Swiss franc (see Table1).

Immediately after the Great War, the issues most discussed by economists were directly related to the monetary problem: the quantity of Austro-

4 V. Matić, *Serbian Finances/Finansije srpske* (Belgrade 2014), 145.

5 On 26 January 1920, the National Assembly adopted the *Law on the National Bank of the Kingdom of SCS*, on the basis of which, on 1 February 1920, the Privileged National Bank of the Kingdom of Serbia was reorganized into the National Bank of the Kingdom of SCS.

6 B. Mijatović, "Pet života Velimira Bajkića", in *Velimir Bajkić, Izabrani spisi*, ed. B. Mijatović (Belgrade 2009), 9–16.

7 Milan Stojadinović pursued higher education in Belgrade, Berlin and Munich, earning, his doctoral degree from the University of Belgrade in 1912, with a dissertation on German budget. He was Director of General State Accounting at the Ministry of Finance of the Kingdom of SCS until 1919. Due to disagreement with the Finance Minister Vojislav Veljković and his assistant Velimir Bajkić over the way the currency reform should be conducted, he left the civil service and became Director of the British Trade Corporation in Belgrade until his appointment as Finance Minister in 1922. He was also President of Belgrade Stock Exchange from 1934 to 1941. L. Pejić, *Razvoj ekonomske misli u jugoslovnskim zemljama do prvog i u Jugoslaviji između dva rata* (Belgrade 1986), 153.

Hungarian crowns in circulation, the conditions for their withdrawal from circulation and the growing costs of living due to high inflation.[8]

In the fairly chaotic monetary situation, monetary instability was additionally fuelled by the uncontrolled inflow of Austro-Hungarian crowns. The Dual Monarchy had collapsed, but crown notes were still printed in Vienna and Budapest and released into circulation. In order to prevent further depreciation of the crown and establish a stable relation between the value of crown and dinar, on 12 December 1918, the Ministerial Council of the Kingdom of SCS issued an order to ban the inflow of new Austro-Hungarian crown notes (and Bulgarian levs) and to stamp the crown notes in circulation with official seals.

The Kingdom of SCS was thus the first of the successor states of the Dual Monarchy to carry out the nationalization of crown notes in its territory. This happened even before that became a legal obligation in accordance with the provisions of the Peace Treaties. The stamping of crown notes was carried out in Belgrade by 5 January and in the rest of the Kingdom of SCS by 31 January 1919. Owing to this operation, the amount of crown notes was established at 5.3 billion. However, the measures taken did not prevent further inflow of newly-printed crown notes. Milorad Nedeljković, Professor of Political Economy at the Faculty of Law in Subotica, speaking of this problem in a lecture at the Law Association in Belgrade on 2 February 1919, claimed that after the disintegration of the Dual Monarchy, the Austro-Hungarian Bank continued to print more than one billion crowns a month.[9] Miodrag Ugričić, adviser to the National Bank, would later claim that, the total amount of Austro-Hungarian banknotes in circulation rose from 2.5 billion to 35.5 billion crowns from the beginning to the end of the Great War, and that it increased by another 20 billion crowns from the end of the war until the liquidation of the Austro-Hungarian Bank in late 1922.[10]

The public was very dissatisfied with the sloppy way in which the marking of crown notes was organized. The task had been entrusted to various authorities and they all had different seals that could easily be counterfeited. As a result, the amount of crown notes in circulation continued to increase steadily. Forced to find another way to stop the inflow of this impaired currency, the authorities decided to mark the already marked crown notes merely by sticking tags on them although it was clear that a certain quantity of newly-infiltrated notes stamped with counterfeited seals would also be tagged. The tagging of the stamped crown notes lasted from 26 November to 28 December 1919.

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[8] Besides the dinar of the Kingdom of Serbia and the crown of the former Austro-Hungarian Monarchy, other currencies were in circulation as well: Bulgarian levs and Montenegrin perpers, but their quantity in circulation was relatively small.

[9] M. Nedeljković, *Pred rešenje našeg valutnog pitanja* (Zagreb 1919), 5.

[10] M. Ugričić, *Novčani sistem Jugoslavije* (Belgrade 1967), 90.

There was no explicit public information about the amount of crown notes that were eventually tagged. In the Report to the Board of Directors of 25 December 1919, Djordje Vajfert, Governor of the National Bank, estimated that before the Great War there had been barely 500 million crowns in the territories of Austro-Hungary subsequently incorporated into the Kingdom of SCS; he pointed out that the replacement of crown notes with new currency would inevitably trigger inflation because the circulation of these notes increased by "ten to twenty times" during and after the war.[11] Just two days before this Report was submitted, the daily *Pravda* gave an estimate that the amount of crown notes in circulation in the Kingdom of the SCS rose to "six to seven billion".[12]

At its meeting of 18 January 1920, the Ministerial Council made all important decisions regarding the restoration of the monetary system: the dinar would be the currency of the Kingdom of the SCS; the dinar would remain a monetary unit equal in value as the old dinar of the Kingdom of Serbia; Austro-Hungarian crowns, Bulgarian levs and Montenegrin perpers would be withdrawn from circulation and replaced with new banknotes to be produced in Zagreb, Prague and Paris; dinar notes issued by the Privileged National Bank of the Kingdom of Serbia would remain in circulation because "the old and the new dinar are equal in value"; the nominal value of new banknotes to be printed in Zagreb, Prague and Paris should be expressed both in dinars and in crowns "in order to make the transition to the new monetary unit easier to the people living in the territories of the former Austro-Hungarian Monarchy that had become part of Yugoslavia, who are accustomed to counting in crowns."[13]

The withdrawal of Austro-Hungarian crown notes from circulation was announced on 1 February 1920, just a day after the *Law on the National Bank of the Kingdom of Serbs, Croats and Slovenes* was published in the *Official Gazette*. Then, on 3 February 1920, the *Rules of Withdrawal of Crown Notes* were published, in which the ratio of exchange of dinar and crown was set at 1:4. Also, it was stipulated that 20% of the crowns turned in for exchange would be retained and paid off at some point in the future. The withdrawal of the marked crown notes lasted from 16 February to 3 June 1920, and the unmarked smaller crown denominations were withdrawn from circulation in early 1921.[14] Without going into analysis of the debate that arose in the Kingdom of the SCS regarding the ratio of exchanging four crowns for one dinar, it should be noted that the question is still open as to whether such terms of monetary unification were to the

[11] Narodna banka, *Izveštaj Upravnog odbora od 25. decembra 1919* (Belgrade 1920), 10.

[12] "Zamena kruna", *Pravda*, 23 December 1919, 1.

[13] D. Uzelac, *Devizna politika Kraljevine Jugoslavije 1919–1929* (Belgrade 1931).

[14] Narodna banka, *Godišnji izveštaj 1920* (Belgrade 1921), XIII.

detriment of the crown holders or, on the contrary, the huge amount of Austro-Hungarian crown notes in circulation had a general detrimental effect.[15]

The monograph on the fifty years of the National Bank (1884–1934) published in 1935, contains the information that the State borrowed 1.28 billion dinars from the National Bank in order to replace crown notes with dinar-crown banknotes.[16] This means that 5.12 billion crowns were withdrawn. Dinar-crown banknotes of the Kingdom of SCS and dinar banknotes of the Privileged National Bank of the Kingdom of Serbia were gradually replaced with dinar notes of the National Bank of the Kingdom of SCS (Yugoslavia from 1929) over the period from 1922 to 1934.

Once the problem of monetary unification was resolved, the attention of economists shifted to the problem of budget deficit as a generator of inflation. In the first years of post-war recovery, the State borrowed from the National Bank to meet ever-growing public expenditures (see Table 2). Fiscal years ended with deficits, and the monetization of the deficits was a constant source of inflation. At a conference devoted to curbing inflation in early September 1921, Milan Stojadinović, not yet finance minister at the time, explained that the continuous printing of dinar notes for the needs of the State led to a rise in prices. He argued that the value of national currency would necessarily fall as long as the State had a huge budget deficit financed by constant printing of new notes.[17] He described the relationship between the increase in the quantity of money in circulation and the rise in prices as a vicious circle: "An increase in the amount of money causes an increase in prices, an increase in prices causes a new increase in monetary circulation."[18]

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[15] Even today, some economic historians from the region of the former Yugoslavia contend that monetary unification was carried out to the detriment of the holders of Austro-Hungarian crowns: B. N. Kršev, "Monetarna politika i problem unifikacije novca u Kraljevini Srba, Hrvata i Slovenaca 1918–1923", *Civitas* 3 (2012), 113–124; M. Kolar-Dimitrijević, *Povijest novca u Hrvatskoj* (Zagreb 2013). Some, on the other hand, consider such views as unfounded because the exchange rate of 4:1 corresponded to the market rate of exchange of crown and dinar: I. M. Becić, *Finansijska politika Kraljevine SHS 1918–1923* (Belgrade 2003); B. Mijatović, "Ekonomska politika i konjunktura u Jugoslaviji 1919–1925", *Godišnjak za društvenu istoriju* 3 (2013), 99–118; I. M. Becić, "Za dinar ili za krunu – ko je dobio ako izgubio?", *Istorija 20. veka* 2 (2013), 41–58; B. Mijatović, "Zamena austrijskih kruna za dinare 1920. godine", CLDS Radni dokumenti, 2014. Making objective judgments about this phenomenon is hampered by the lack of relevant statistical data on the quantity of crown notes in circulation and retail price movements in different parts of the Kingdom of SCS in the first few years after the Great War.

[16] *Narodna banka 1884–1934* (Belgrade 1934), 40.

[17] M. Stojadinović, *Borba protiv skupoće* (Belgrade 1921), 26.

[18] M. Stojadinović, "Finansijska politika i pitanje skupoće", *Novi život*, no. 4, 1921, 280, quoted in B. Mijatović, "Ekonomske ideje i dela Milana Stojadinovića u prvom periodu rada",

The State fought against inflation by introducing price ceilings for foodstuffs. Milan Stojadinović considered this policy as counterproductive and strongly criticized a decree which imposed price control on basic foodstuffs.[19] He argued that any state intervention, contrary to the economic laws of supply and demand, only encouraged inflationary tendencies.[20]

"There is in this Decree a contradiction between economic and human laws. This Decree undermines a very important economic law, which is called the law of supply and demand. According to this law, the price of a good will go up if demand for it increases, and drop if demand falls. Or, in other words, the greater the supply of a good, the more its price drops. Supply actually means the existence of a certain quantity of goods, while demand represents the need of people for the goods concerned. And if such supply and demand determine the price of foods, then we must wonder how come that some believe that prices can be determined by a single decree? Can a decree strengthen supply, or increase the amount of foods needed? Or, can it weaken demand, that is, reduce the human need for these foodstuffs?"[21]

The financing of budget deficit by printing money lasted until mid-1922. After that, there was no inflationary financing of government expenditures. On 28 September 1922, the Board of Directors of the National Bank issued a formal decision on terminating the approval of new loans to the State. On this occasion, Governor Djordje Vajfert gave an interview to the daily *Politika*. He said: "It is interesting that almost all our finance ministers tend to take the path they should not take. Whenever a financial gap needs to be closed, they run to the National Bank ... National Bank has completely different goals, not to sit and print banknotes for the account of the State." He also expressed satisfaction at the fact that the State made it clear that revenues should be provided from taxes, by reforming the tax system.[22]

On 20 January 1924, in the framework of the general parliamentary debate on the government budget for fiscal 1924/25, Milan Stojadinović addressed the National Assembly with a report on state finances in the first years after the Great War. He spoke about the enormous financial needs of the State that could only be met with the assistance of the National Bank. He also pointed to vari-

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CLDS Radni dokumenti, Belgrade 2012, 5.

[19] "Uredba o suzbijanju skupoće životnih namirnica i nesavesne spekulacije", *Službene novine Kraljevine SHS*, no. 159, 1921.

[20] "The whole building of his economic views was based on solid fundamentals of classical economic thought, which meant liberal understanding of the world that believed in positive effects of competition for individuals and companies operating in a free environment." Mijatović, "Ekonomske ideje i dela Milana Stojadinovića", 9.

[21] Stojadinović, *Borba protiv skupoće*, 8–9.

[22] "Narodna banka neće više da štampa banke", *Politika*, 29 September 1922, 3.

ous inherited fiscal systems as yet another cause of budget deficit in the previous period – from 1 December 1918 to fiscal 1923/24, the State spent five billion dinars more than it realized in revenues (see Table 3), largely as a result of the lack of budgetary unity. Namely, Stojadinović explained that in the situation where different inherited fiscal systems were implemented, expenditures were divided into global sums to meet the basic public needs of the provinces and the central government regardless of the state of revenues collected. It was impossible therefore to plan the annual needs of the budget, so financial plans were made every month. He said that "monthly planning, however, always brings disorder into the State's financial sector. It prevents the normal course of state affairs and thus inflicts damage not only on finances, but also on the economy as a whole."[23]

On palliative measures for preventing the depreciation of dinar

Inflationary growth in the quantity of money in circulation caused frequent changes in the dinar exchange rate, with a constant tendency of its deterioration. Before Milan Stojadinović took the post of finance minister, his predecessors Momčilo Ninčić, Velizar Janković, Kosta Stojanović and Kosta Kumanudi had tried to prevent the depreciation of the dinar by various restrictive policy measures. These measures were criticized constantly by prominent economists and bankers.

At the proposal of Momčilo Ninčić, the Kingdom of SCS's first finance minister, on 30 March 1919, *The Office for Foreign Exchange Control* was established "in order to maintain our money at a favourable international level".[24] This Office issued licences for the export of goods, with the obligation of the exporters to transfer the collected sums in foreign currency to the National Bank, which paid them an equivalent amount in domestic currency at an officially determined exchange rate. On the other hand, the Office sold foreign currency only to those persons who could prove that they imported commodities, machinery, raw materials or any other items that were needed for consumption or industrial, craft and agricultural production. Persons going abroad were allowed to take out of the country a maximum of 1000 French francs or an equivalent amount in another foreign currency.

Attempts to improve the exchange rate of the dinar by monopolizing the foreign exchange market were unsuccessful and were amply criticized by the professional public. One of the loudest critics was Slavko Šećerov, a prominent financial expert. He explained this failure by the fact that exporters evaded their obligations in various ways, and the State failed to provide enough foreign currency for importers.

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[23] M. Stojadinović, *Naš finansijski položaj* (Belgrade 1924), 4.

[24] "Uredba Centrale za plaćanje u inostranstvu", *Službene novine Kraljevine SHS*, no. 59, 1919.

"Exporters, under various excuses, prolonged the transfer of foreign currency at agreed deadlines… Some did not meet their obligations at all, and some did not even turn in foreign currency, but they invested abroad the sums obtained for certain exported goods to buy another commodity, using such compensation deals as an excuse for avoiding depositing foreign currency. And if they did not succeed in this, they appeared in foreign exchange markets as buyers of foreign currency so as to be able to fulfil their obligations at home. This only aggravated further the exchange rate of the dinar."[25]

Velizar Janković, Professor of Finances at the Commercial Academy in Belgrade, served as finance minister from 19 February to 17 May 1920. He did not criticize the existence of the Office for Foreign Exchange Control as such, he only thought that it was prevented from operating efficiently because of an inadequate legal framework. In his parliamentary speech delivered on 14 March 1920, he claimed that this Office could not serve its purpose of regulating trade in foreign currencies because "carrying foreign currency out of the country is prohibited for sums larger than 1000 French francs, while at the same time one can take out millions in checks."[26]

A new regime in foreign currency trading was set by Kosta Stojanović, who served as finance minister from 18 August 1920 until his death on 4 January 1921. At his proposal, the Office for Foreign Exchange Control was dissolved and on 25 September 1920, *Regulation on Trading in Foreign Exchange* was adopted.[27] Under this Regulation, trade in foreign currencies was placed under a specific control regime of the Ministry of Finance. All exporters were obliged to bring into the country the foreign currency received for the exported goods through one of the authorized banks, and the authorized banks were obliged to purchase one-third of the deposited foreign currency for dinars and to transfer the purchased foreign currency to the State through the National Bank.

The dinar did not cease depreciating even after several months of implementation of *Regulation on Trading in Foreign Exchange*. Kosta Kumanudi, Professor at the Faculty of Law in Belgrade, who served as finance minister from 4 January 1921 to 17 December 1922, initially tried to save the dinar by introducing greater freedom in trading in foreign currencies. New *Regulation on Currencies and Foreign Exchange* of 20 March 1921 allowed free import of foreign currencies, and the *Amendments* to this Regulation of 27 June 1921 abolished all restrictions on trading in foreign currencies.[28] However, the dinar exchange rate

[25] S. Šećerov, *Naše finansije 1918–1925* (Belgrade 1926), 111.

[26] Uzelac, *Devizna politika*, 124.

[27] "Uredba o regulisanju prometa sa devizama i valutama", *Službene novine Kraljevine SHS*, no. 221, 1920.

[28] "Uredba o valutama i devizama", *Službene novine Kraljevine SHS*, no. 115, 1921; "Izmene i dopune Uredbe o valutama i devizama", *Službene ovine Kraljevine SHS*, no. 156, 1921.

did not improve, which suggested that free trade in foreign currency was premature.[29] That is why Kumanudi opted for restrictions again. At his proposal, on 25 September 1921, the *Rules on Transactions in Foreign Exchange* were adopted, under which the National Bank was obliged to set up administrative bodies called Committees on Foreign Exchange tasked with controlling the operation of the banks authorized for dealing in foreign currency.[30]

The sharpest critic of government intervention in currency trading was Milan Stojadinović. Before he succeeded Kosta Kumanudi as finance minister, he insisted that restrictive measures could not improve the dinar exchange rate. He repeatedly stated that the dinar would not stop depreciating unless its causes were eliminated, pinpointing budget deficit and deficit in foreign trade as the major causes of the depreciation (see Table 4). He criticized the institution of a state monopoly in trading in foreign currencies, pointing out that negative experience had already led to the abolishment of such monopolies in Greece, Germany and Italy.[31] On the other hand, he did not mind the regime of government purchases of one-third of bank deposits in foreign currency in itself, which was retained under the *Rules on Transactions in Foreign Exchange*. He said that this regime would not have an impact on the exchange rate and that the dinar would recover one day, "perhaps even under the same *Rules*, since no *Rules* can determine a currency exchange rate".[32] Indeed, the aforementioned *Rules* remained in force until the introduction of gold-exchange standard under the *Law on the National Bank* in 1931.

The stance of the central banking institution was to a large extent concurrent with the stance of Milan Stojadinović. Board of Directors of the National Bank had repeatedly warned the public of the harmfulness of frequent changes in the foreign exchange regime and insisted on the necessity of eliminating the causes of monetary instability. "It was explained that the dinar had constantly depreciated under all regulations, even under the free regime; it was said that it was also clear that again the transition from the freedom of trading to the regime of restrictions did not bring any improvement in the value of the dinar ... It was stressed that all these attempts to raise the exchange rate of the dinar artificially were doomed to failure in advance. Board of Directors claimed that the dinar would only grow stronger if the government budget did not run a deficit, if the production increased, if foreign trade balance was achieved."[33]

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[29] G. Nikolić, *Kurs dinara i devizna politika Kraljevine Jugoslavije 1918–1941* (Belgrade 2003), 86–87.

[30] "Pravilnik o regulisanju prometa sa devizama i valutama", *Službene novine Kraljevine SHS*, no. 214, 1921.

[31] Stojadinović, *Borba protiv skupoće*, 22.

[32] M. Stojadinović, *Naše valutne nevolje* (Belgrade 1921), 40.

[33] Narodna banka, *Godišnji izveštaj 1921* (Belgrade 1922), XIV.

The depreciation of the dinar was not stopped even after the adoption of the *Rules on Transactions in Foreign Exchange*. Kumanudi had accused the speculative behaviour of traders and bankers of weakening the exchange rate of the dinar. That is why he went to the other extreme and demanded that a new type of state monopoly be introduced in currency trading. Thus, a new *Regulation* was issued on 28 February 1922, requiring that every trader who needed to buy foreign currency for the payments of imported goods request prior approval from one of the National Bank's eleven Committees on Foreign Exchange. Under the same *Regulation*, private banks were completely forbidden from trading in foreign currencies.[34]

Then, a warning came from the National Bank. It was argued that the Committees on Foreign Exchange were in fact given jurisdiction over deciding whether goods would be purchased abroad at all, because this purchase depended directly on whether the Committees would approve importers' request to purchase foreign exchange.[35]

Banking Association in Belgrade saw this new foreign exchange regime as "a direct attack on the freedom of banking". It launched an extensive campaign against the implementation of this regime: "Banks have been denounced as enemies of this country, accused of finding the most favourable terrain for big profits... Such an absurd view culminated in February this year when the Ministry of Finance publicly accused certain Belgrade banks of making fictitious deals on the Belgrade Foreign Exchange Market in order to weaken our currency. The Board of the Banking Association, having noted, through a poll, that fictitious deals did not exist, took the attacked banks under protection and tried to convince the public that the Ministry of Finance was wrong. Success of our action was evident. It later became clear that those accusations were nothing but tactics to justify in advance the enactment of a more restrictive regulation, which was to introduce the state monopoly on currency trading."[36]

The campaign of the Banking Association had put pressure on the National Bank to find ways to avoid the implementation of the disputed *Regulation*. After several meetings held at the National Bank and the Ministry of Finance, it was noted that Committees for Foreign Exchange, due to their workload, were technically unable to respond to the requirements of the *Regulation* of 28 February 1922. Therefore, the Ministry of Finance accepted to continue to implement the *Rules on Transactions in Foreign Exchange*, deciding arbitrarily which banks would be permitted to deal in foreign exchange again.

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[34] *Službene novine Kraljevine SHS*, no. 45, 1922.

[35] Narodna banka, *Godišnji izveštaj 1922* (Belgrade 1923), XXI.

[36] Udruženje banaka Beograd, *Izveštaj Upravnog odbora o radu Udruženja od 1. decembra 1921. do 30. aprila 1922* (Belgrade 1922), 21.

Building foreign exchange reserves

The regulations on transactions in foreign currency introduced between 1919 and 1922 did not save the dinar from depreciation, but they helped building foreign exchange reserves.[37] The *Agreement on Commission Sales of Foreign Exchange* reached by the Ministry of Finance and the National Bank on 23 July 1921 had a similar effect. Although this was not the primary goal of the Agreement, its adoption created an institutional framework for building foreign exchange reserves, which would later be used to stabilize the internal and external value of the dinar.

Namely, before the signing of the Agreement, the Ministry of Finance occasionally purchased foreign exchange at a market rate in order to provide funds for payments abroad. National Bank warned that, if made under conditions of unfavourable exchange rates, these purchases had negative effects on government finances. In order to avoid such negative effects, the National Bank took on the obligation to buy foreign exchange and make payments abroad in the name and for the account of the State under the most favourable terms. Thus, the implementation of the *Rules on Transactions in Foreign Exchange* and the *Agreement on Commission Sales of Foreign Exchange* contributed considerably to the creation of foreign exchange reserves of the State even though this was not their primary goal.[38]

On quantitative restrictions of the National Bank

Although the Kingdom of SCS had not implemented budget deficit financing since mid-1922, the amount of money in circulation continued to rise, and the dinar continued to depreciate. When the dinar appeared on the Zurich Foreign Exchange Market in May 1920, eight Swiss francs could be bought for 100 dinars. In January 1923, no more than 3.69 Swiss francs could be bought for 100 dinars.

Velimr Bajkić claimed that the National Bank was responsible for an increase of more than one billion dinars in the quantity of money in circulation in the second half of 1922 and early 1923. He spoke of the inflation that was caused by the private sector's growing demand for money which, in his opinion, was fuelled by the expansionist monetary policy of the National Bank. "That is the amount [more than a billion dinars] by which the National Bank's claims to

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[37] Foreign exchange collected through the regime of government purchases of one-third of bank deposits in foreign currency was not sufficient for abundant interventions in foreign exchange markets. As a result, foreign Government loans as well as golden crowns from the liquidation mass of the Austro-Hungarian Bank had to be used, too. Nikolić, *Kurs dinara i devizna politika*, 89.

[38] Narodna banka, *Godišnji izveštaj 1922* (Belgrade 1923), XXI.

its credits to the private sector increased; that is the amount of inflation on the National Bank's account. This inflation had the worst effect already at the end of 1922 and beginning of 1923. Hence, we have a phenomenon that exchange rates of foreign currencies reached their maximum in January 1923."[39]

Indeed, in the years of economic recovery after the Great War, the private sector's monetary demand grew rapidly. National Bank mostly discounted bills of exchange and granted sparingly Lombard loans, secured by government bonds (see Table 5). During 1919, the National Bank discounted bills of exchange for 40.2 million dinars, whereas in April 1922 the amount of discounted bills of exchange rose to 900 million dinars. Due to a sharp decline in the exchange rate of the dinar on foreign markets, in the second quarter of 1922 the National Bank decided to introduce restrictive measures in crediting the private sector. Its Board of Directors decided on quantitative restrictions and revision of all loans in order to cancel the risky ones. The amount of already approved loans was reduced by 10%, strict censorship of bills of exchange was introduced and loan revision was carried out "of all those who do not conduct healthy business".[40]

As a result of the restrictions on loans from the National Bank, the financial situation in the country deteriorated. When the demand for crediting the export of agricultural products increased in the second half of 1922, the National Bank was forced to give up the decision on limiting the amount of loans. As a result, its loans reached the amount of 1.43 billion dinars by the end of September 1922. Then the National Bank reimposed restrictive measures. From 1 January 1923, the amount of already approved loans was reduced by 10%, and the discounting of bills of exchange was completely suspended.[41]

Restrictive measures of the National Bank were met with strong opposition from industrialists and bankers. They believed that the growth of monetary circulation should not be stopped by limiting the operation of the private sector, but by reducing the government debt to the National Bank.[42]

The policy of credit restrictions was also criticized by those economists who argued that the basic monetary policy instrument should be a discount rate rather than quantitative restrictions. Slavko Šećerov argued that the central bank should become the regulator of commercial banking through the mechanism of interest rates.[43] This opinion was shared by Dušan Uzelac, an expert in monetary issues and one of the National Bank directors.[44] As the National

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39 V. Bajkić, "Dinar", in *Velimir Bajkić. Izabrani spisi*, 11.

40 Narodna banka, *Godišnji izveštaj 1922* (Belgrade 1923), XX–XXII.

41 *Narodna banka 1884–1934* (Belgrade 1934), 15.

42 Udruženje banaka Beograd, *Izveštaj Upravnog odbora za 1922* (Belgrade 1923), 18.

43 Šećerov, *Naše finansije1918–1925*, 110.

44 Uzelac, *Devizna politika*, 17.

Bank did not alter the discount rate until 1931, this criticism could be heard throughout the 1920s.

Why was the discount rate not used as an instrument of monetary policy? It was assessed at the National Bank that the discount rate could not be an effective monetary policy instrument. It was considered that the goal of lowering the demand for discounting bills of exchange would not be achieved by raising the discount rate, since the difference between the National Bank's discount rate on bills and market interest rates on commercial bank loans was extremely high in the Kingdom of SCS.[45]

On the paths to monetary stabilization

In his speech at the Conference on Curbing Inflation, held on 7 September 1921, Milan Stojadinović presented the basics of his liberal economic policy, which he would pursue as finance minister. His position could be seen from the following statement: "We must abandon monopolies, restrictions and regulations, and return to economic freedom."[46]

Milan Stojadinović took up the post of finance minister on 16 December 1922 and, with a short break, held it until 1926. Only a week after he became finance minister, on 23 December 1922, the Ministerial Council accepted his proposal to abolish the state monopoly in foreign currency trading. Committees on Foreign Exchange were dissolved and the ban on commercial banks dealing in foreign exchange was lifted.

When making a proposal to abolish the state monopoly in foreign currency trading, Milan Stojadinović pointed to the damage this regime had inflicted on the economy.

"Based on the *Rules on Transactions in Foreign Exchange* of 25 September 1921, and the *Amendments* to these Rules of 25 February 1922, Committees on Foreign Exchange started to operate at the National Bank and its branch offices. They gave permits for the import of goods and for the purchase of foreign currency, and had control over the use of foreign exchange.

These committees, eleven of them, did not produce the desired result; while, on the other hand, they created a regime of individual permits, with all the consequences that this regime inevitably entails. In addition, substantial expenditures were needed to support them. It is my honour therefore to ask the Ministerial Council to decide that...

1. The Committees on Foreign Exchange should be dissolved;

[45] The National Bank's discount rate was 6%, and the market interest rate was twice and three times higher. Narodna banka, *Godišnji izveštaj 1922* (Belgrade 1923), XX.

[46] Stojadinović, *Borba protiv skupoće*, 11.

2. Banks authorized for transactions in foreign currencies should supply importers with foreign currency and other payment instruments for their needs, provided the latter are able to submit evidence of the use of these payment instruments for the purpose of import within 6 months."[47]

The abolition of the state monopoly in trading in foreign currencies combined with restrictive monetary policy had positive effects on the dinar exchange rate. The severe restrictions on the loans of the National Bank put a stop to inflationary tendencies and the dinar began recovering in 1923. The recovery was then supported by the National Bank's interventions on foreign exchange markets, pursued at the request of Milan Stojadinović. Explaining the basic elements of the policy of monetary stabilization in his address to the National Assembly on 30 January 1924, Stojadinović underlined the significance of building foreign exchange reserves, and advocated a gradual appreciation of the dinar. He argued that the goal should not be an abrupt and fast appreciation, but a process of gradual monetary stabilization with movement towards the improvement of the dinar exchange rate. Thanks to the foreign exchange reserves piled up at the National Bank, he was able to intervene on foreign exchange markets for that purpose and in that direction.[48]

The strengthening of the dinar in the course of the next year, 1924, was assisted by stopping the growth of public expenditures, establishing the balance of the government budget, and achieving an export growth and foreign trade surpluses. In addition, the National Bank's foreign exchange interventions at the request of Milan Stojadinović kept preventing major fluctuations in the dinar exchange rate, while being continuously directed towards its further strengthening. The interventions were made possible by a constant increase in gold and foreign exchange reserves at the National Bank. Expressed in their dinar equivalent, they amounted to 349.3 million dinars at the end of 1922, 437.3 million at the end of 1923, and 474.3 million at the end of 1924.[49]

In June 1925, it was already possible to buy 9.17 Swiss francs for 100 dinars on the Zurich foreign exchange market; that is, one Swiss franc was worth 10.90 dinars. This means that compared to the Swiss franc the dinar was worth two and a half times more in June 1925 than in January 1923. The strengthening of the dinar, which hindered economic prosperity, did not cause too much criticism among the professional public. Milan Todorović, Professor of Finances at the Faculty of Law in Belgrade, even claimed that dinar strengthening could not

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[47] The decision to dissolve Committees on Foreign Exchange came into force as early as 26 December 1922. "Uredba o ukidanju deviznih odbora", *Službene novine Kraljevine SHS*, no. 290, 1922.

[48] Stojadinović, *Naš finansijski položaj*, 26.

[49] *Ministarstvo finansija Kraljevine Jugoslavije 1918–1938* (Belgrade 1939), 223.

have an adverse effect on economic activity. He explained that only the companies that were frivolously established in the period of economic boom after the Great War would be endangered by the strengthening of the national currency.[50]

The transition period from inflation to deflation was mitigated by relatively high income from exports of agricultural products thanks to the rich harvests of 1923 and 1924. However, in the summer of 1925, there arose fears that further dinar strengthening could jeopardize the autumn export season. Addressing the National Assembly on 27 July 1925, Milan Stojadinović pointed to the dangers involved in further dinar strengthening and implicitly called for maintaining its exchange rate at the existing level. He abandoned the policy of "gradual correction of the dinar exchange rate", fearing the possible consequences of its further application, and added: "Our dinar now stands solid as a granite wall and we are no longer concerned that it may weaken, but we fear that it may strengthen even further. An abrupt strengthening of the dinar is as bad as its abrupt weakening."[51]

The value of the dinar would be maintained at 10.90 dinars for one Swiss franc over the next few years, until its legal stabilization in 1931. However, the policy of maintaining the dinar exchange rate by intervening from the foreign exchange reserves collected mainly through the regime of government purchases of one-third of bank deposits in foreign currency was criticized by the expert public. One of its most vociferous critics was Slavko Šećerov. He was of the opinion that the exchange rate of the dinar was unreal and that its value had been kept artificially high owing to the interventions from foreign exchange reserves. The value of the dinar, he said, would be completely different had it not been for such government interventions through the National Bank. He argued that the value of the dinar could not be considered stable as long as it had to be maintained by continuous interventions.[52]

On dinar gold parity

The actual stabilization of the dinar opened the question of the final legal determination of its gold parity. At the International Financial and Monetary Conference in Genoa in 1922, it was recommended to European countries to set the return to the gold standard as the ultimate goal of their monetary reforms. Also, all countries were recommended to individually decide whether to stick to the old gold parity or to adopt a new parity approximating the exchange rate of their

[50] M. Todorović, "Bojazan od popravke dinara", *Ekonomist* 1 (1926), 1.

[51] *Ministarstvo finansija Kraljevine Jugoslavije*, 223.

[52] S. Šećerov, "Vrednost dinara i otplata duga Narodnoj Banci", in *Valutna reforma u Jugoslaviji*, ed. Ljubomir St. Kosier (Belgrade and Zagreb 1930), 18–19.

respective monetary units at the moment of return to the gold standard.[53] The experience with post-war inflation, the rapid decline in the purchasing power of the dinar at home and its weakening on foreign exchange markets abroad made its legal stabilization in accordance with its old gold parity almost senseless. This new reality was pointed out as early as 1924, in the Report of the Board of Directors of the Banking Association in Belgrade, which argued that the idea of returning to the old gold parity of the dinar seemed to be increasingly abandoned and that a request arose for national currency devaluation so that its new gold parity could be determined in keeping with its real exchange rate.[54]

This new reality became especially visible when Finance Minister Milan Stojadinović gave up further dinar strengthening. Aware of the fact that the dinar was stabilized at the value which was several times lower than its old gold parity, on 27 July 1925 he presented the National Assembly with a proposal for the official devaluation of the national currency and the adoption of its new gold parity.

"Let us carry out legal stabilization and devaluation at the current dinar value, let us settle for the fate that the dinar will never be stronger than it is now and let us determine its gold parity at its present value."[55]

The stance of the National Bank as regards the ultimate goal of the monetary reform evolved as a result of disruptions to which the dinar was exposed in the 1920s. When, in 1920, the Privileged National Bank of the Kingdom of Serbia had been reorganized into the National Bank of the Kingdom of SCS, it was still believed that it would be possible to return to the old gold parity, that conditions for the dinar to regain the old gold parity would arise as the economy recovered. In the National Bank's *Annual Report for 1920*, it was stated that "repair" of the dinar would take a long time and that it would only return to its old gold parity when both the State and the economy grew stronger, and when there were sufficient conditions for both.[56]

However, in the situation where it first was necessary to overcome inflationary tendencies, and then to maintain actively, in cooperation with the Ministry of Finance, the achieved level of internal and external value of the dinar, the perceptions of the reach of monetary stabilization policy had matured. The National Banks's *Annual Report for 1930* pointed to the fact that although all laws concerning the National Bank contained a provision imposing on it the duty to extend cheap loans, it had always been clear that its primary task was to keep the national currency stable. It stressed that, without any assistance, without any specific legal provisions, the coordinated work between the Ministry of Finance

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[53] Articles VI and VII of the Resolution adopted at the International Monetary and Financial Conference in Genoa in 1922.

[54] Udruženje banaka Beograd, *Izveštaj Upravnog odbora za 1922* (Belgrade 1924), 13.

[55] *Ministarstvo finansija Kraljevine Jugoslavije*, 223.

[56] Narodna banka, *Godišnji izveštaj za 1920* (Belgrade 1921), XV.

and the National Bank had resulted in monetary stabilization; thus, since 1925, there was a stable currency worth 26.5 milligrams of gold. It pointed out that this parity had not yet been established legally and that, when this was done, trust in the dinar, especially abroad, would undoubtedly be strengthened.[57]

Epilogue

In 1928, the National Bank started preparations for the legal stabilization of the dinar. The project of a new monetary system was carried out by Bogdan Marković, a prominent expert in public and monetary finances who served as finance minister from 1926 to 1928.[58] His currency policy was fairly in line with the policy established previously by Milan Stojadinović. Addressing the National Assembly in his capacity as finance minister, Marković opted for "maintaining the dinar at its present value and preventing any fall or rise."[59]

The basic principles of legal stabilization of the dinar were announced by the Board of Directors of the National Bank at the Shareholders Meeting of 8 July 1928. Firstly, gold parity of the dinar was to be determined in accordance with the value at which it had been stabilized. Secondly, a foreign loan had to be obtained in order to increase the country's foreign exchange reserves, so that the National Bank could maintain the dinar exchange rate on a stable level even when all foreign exchange restrictions were lifted, including the regime of government purchases of one-third of bank deposits in foreign currency. Thirdly, in order to reduce the quantity of money in circulation, the State should repay a part of its debt to the National Bank, which amounted to over four billion dinars and made up three-quarters of the money in circulation. The debt would be reduced by the amount of foreign loan obtained and by the revaluation of the National Bank's metal base. Fourthly, banknotes would be convertible into gold only for sums exceeding 10,000 dinars, and this obligation would apply for any amount for the purchase and sale of foreign exchange.[60]

It was only after the National Bank's shareholders had accepted the basic principles of the legal stabilization of the dinar that a broad public debate on this issue opened. In the opinion of Velimir Bajkić, legal stabilization was profoundly significant because it meant the "transition from the stabilization that depended on the will of political power to the one based on law". He warned that

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[57] Narodna banka Kraljevine Jugoslavije, *Godišnji izveštaj za 1930* (Belgrade 1931), XXXV.

[58] In his capacity as Finance Minister, Marković travelled to London to try to obtain from the most famous Anglo-American banks a solid loan that would strengthen the country's foreign exchange reserves. His attempts were unsuccessful because Yugoslavia first had to settle the issue of debts to the Allies from the Great War.

[59] A. Fogelquist, *Politics and Economic Policy in Yugoslavia 1918–1929* (Los Angeles 2011), 293.

[60] D. Gnjatović, V. Dugalić & B. Stojanović, *Istorija nacionalnog novca* (Belgrade 2003), 280.

it was necessary first to secure a legally determined minimum amount of foreign exchange reserves to cover one-third of banknotes in circulation and only then to proceed to legal stabilization.[61] Dušan Uzelac emphasized the importance of the legal stabilization of the dinar for the country's international economic position. He believed that introduction of the gold exchange standard would facilitate the inflow of foreign capital into the Yugoslav economy, which would make it possible to reduce interest rates on commercial credits in the country.[62] Miodrag Ugričić would explain later that the Kingdom of Yugoslavia had carried out the legal stabilization of the dinar in accordance with the theoretical view of Gustav Kassel that the actual stabilization of a national currency should always precede its legal stabilization.[63]

After the unsuccessful attempt made in 1928 to obtain a loan from Anglo-American banks in London for strengthening the foreign exchange reserves, the legal stabilization of the dinar was temporarily postponed. This ultimate goal of the monetary reform was achieved only in 1931, when the Kingdom of Yugoslavia managed to obtain a stabilization loan in France.

Tables

Table 1 Wholesale price indices in the Kingdom of SCS (Yugoslavia) and the exchange rate of the dinar on Zurich foreign exchange market 1919–1930

Year	Wholesale price indices (1913=100)	Exchange rate of dinar (Swiss francs for 100 dinars) on Zurich FOREX market
1919	523	-
1920	1172	8.00
1921	1036	6.68
1922	1415	5.00
1923	1970	3.69 (January, minimum quotation)
1924	2029	5.12 (June)
1925	1804	9.30 (August, maximum quotation)
1926	1526	9.12
1927	1560	9.13
1928	1562	9.13
1929	1536	9.12
1930	1322	9.12

Source: G. Nikolić, *Kurs dinara i devizna politika Kraljevine Jugoslavije 1918–1941* (Belgrade 2003), 167; D. Gnjatović, V. Dugalić and B. Stojanović, *Istorija nacionalnog novca* (Belgrade 2003), 263–272m

61 Bajkić, "Dinar", 124.

62 Uzelac, *Devizna politika*, 42.

63 Ugričić, *Novčani sistem Jugoslavije*, 106.

Table 2 Government debts to National Bank and quantity of money in circulation 1919–1930, million dinars

Year	Government debt	Money in circulation
1919	602	773
1920	3,283	3,441
1921	4,418	4,688
1922	4,517	4,868
1923	4,524	5,917
1924	4,521	6,001
1925	4,467	6,091
1926	4,414	5,811
1927	4,338	5,743
1928	4,202	5,528
1929	4,153	5,818
1930	4,021	5,396

Source: National Bank's Annual Reports for all years from 1919 to 1930

Table 3 Government revenues and expenditures of the Kingdom of SCS (Yugoslavia) 1919–1930, million dinars

Fiscal Year	Revenues	Expenditures	Balance
1919/20	416	2,193	-1,777
1920/21	3,844	4,815	-931
1921/22	5,249	6,149	-900
1922/23	7,132	8,131	-1,000
1923/24	9,809	10,209	-400
1924/25	10,838	10,540	+298
1925/26	12,063	11,777	+286
1926/27	11,606	11,592	+14
1927/28	11,909	10,983	+926
1928/29	11,386	11,146	+240
1929/30	13,449	11,816	+1,633

Source: *Ministarstvo finansija Kraljevine Jugoslavije 1918–1938* (Belgrade 1939), 28–30

Table 4 Foreign trade of the Kingdom of SCS (Yugoslavia) 1919–1930, million dinars

Year	Exports	Imports	Balance
1919	686.8	2,982,1	-1,295.3
1920	1,320.6	3,465.8	-2,145.2
1921	2,460.7	4,122.1	-1,661.4
1922	3,691.2	6,441.9	-2,750.7
1923	8,048.8	8,309.6	-260.8
1924	9,538.8	8,221.7	1,317.1
1925	8,904.5	8,752.9	151.6
1926	7,818.2	7,631.8	186.4
1927	6,400.1	7,286.3	-886.2
1928	6,844.7	7,835.3	-1,390.6
1929	7,921.7	7,594.7	327.0
1930	6,780.0	6,960.1	180.1

Source: *Statistika spoljne trgovine Kraljevine SHS za 1921* (Belgrade 1922); *Statistika spoljne trgovine Kraljevine SHS za 1924* (Belgrade 1925); *Statistika spoljne trgovine Kraljevine Jugoslavije za 1932* (Belgrade 1933)

Table 5 Loans of National Bank to private sector 1919–1930, million dinars

Year	Bills of exchange	Lombard loans	Total
1919	40.2	4.3	44.5
1920	222.4	24.2	266.9
1921	557.7	40.2	597.9
1922	1,421.2	99.6	1,520.8
1923	1,333.7	190.0	1,523.7
1924	1,289.3	205.7	1,495.0
1925	1,207.9	162.3	1,371.2
1926	1,241.9	239.1	1,481.1
1927	1,432.0	259.9	1,683.1
1928	1,470.5	253.8	1,724.3
1929	1,287.5	230.1	1,517.6
1930	1,433.7	203.5	1,637.2

Source: Narodna banka, *Godišnji izveštaj za 1930* (Belgrade 1931), XXXIV

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