
ESTABLISHMENT OF THE FINANCIAL SYSTEM IN THE KINGDOM OF SERBS, CROATS, AND SLOVENES AFTER THE FIRST WORLD WAR*

Sonja Jerković, PhD**
Saša Ilić, PhD***

ABSTRACT: *As a socially, politically, and economically complex community, the Kingdom of Serbs, Croats, and Slovenes faced numerous financial difficulties. In order to enable the state to function smoothly, revive and develop economic activities, and allow citizens to meet their daily needs, it was necessary to establish a unified financial system. The elements of this system, particularly the establishment (or redefinition) of a central bank, expanding its network by incorporating branches of the Austro-Hungarian Bank to facilitate payment transactions, controlling the kronen and replacing them with new national currency, and implementing measures to stabilize the dinar, will be examined by the authors through the analysis of literature and primary archival sources.*

KEYWORDS: Kingdom of Serbs, Croats, and Slovenes, financial system, financial reconstruction, national bank, inflation, exchange of currency, krone, dinar, currency stabilization

Introduction

The unification of Serbia with other South Slav territories into a joint state was a significant political and economic turning point. The proclamation of the Kingdom of Serbs, Croats, and Slovenes (KSCS), on 1 December 1918, resulted in

* Under the title „Reconstruction and Integration of the Financial System in the Kingdom of Serbs, Croats and Slovenes after the First World War“, this work was presented in the form of a short report at the financial history conference *Financing Reconstruction*, held in Frankfurt am Main on 30 June 2023. The conference was organised by The European Association for Banking and Financial History e.V. (EABH) and sponsored by Deutsche Bank AG.

** Research Associate, National Bank of Serbia, Belgrade, Republic of Serbia
sonja.jerkovic@nbs.rs

*** Research Associate, National Bank of Serbia, Belgrade, Republic of Serbia
sasa.ilich@gmail.com

the creation of a new sovereign entity which, in addition to facing constitutional and legal ambiguities, was also marked by powerful ethnical, social and economic differences. The KSCS, with 11.98 million inhabitants (by January 1921 census), was the most complex among the new countries in Europe and represented a patchwork of historically formed cultural and economic regions.¹

The constituent parts of the KSCS were marked by different and divergent paths of economic development.² Industrialization began in the Northwest, in Slovenia, soon after the Revolution 1848–1849, and was at an enviable level before the First World War (metallurgy, wood processing, chemical and food industry). Development gathered speed in Croatia and Slavonia from late 19th century, supported by a notable inflow of foreign capital. Zagreb came to be recognized as its hub, while wood processing industry developed in Slavonia. Dalmatia remained economically backward, with the first important industrial undertakings emerging in early 20th century (food, chemical and cement industry). In the final two decades of the 19th century, in addition to the still highly prevalent craftsmanship and manufacture, efforts were made in Vojvodina to develop the agricultural industry, so the number of sugar refineries, steam mills and breweries went up. Despite the two laws on supporting domestic production (1873 and 1898), the development of industry in Serbia greatly depended on Austria–Hungary and its interests. It is only the trade dispute and the Customs War between the two neighbouring countries in 1906 that spurred domestic production, which was now free from disloyal Austro–Hungarian competition, and that enabled the rise of the textile and food industry. The beginnings of industrialization in Bosnia and Herzegovina (BiH) ensued after its occupation by Austria–Hungary (1878), but they were mostly in the function of wood and ore exploitation. In Macedonia, Kosovo, and Montenegro there were no traces of industrialization, while manufacturing production was only poorly developed.³

There were differences in the degree of development of transport as well. Railway construction in Slovenia began as early as in 1849 as part of the railway which connected Vienna with the Empire's periphery, while railways constructed in Croatia (1870), Slavonia (1875) and Vojvodina (1852) connected these areas with Budapest and were mutually connected only later. At the Berlin Congress (1878) Serbia was given the obligation to construct railways. By 1884, it built the Belgrade–Niš railway which would then continue to Bulgaria and Turkey. Railways in Macedonia and Kosovo served for making the connection with Thessaloniki (1873–1874). Separate local networks

¹ David Turnock, *The Economy of East Central Europe, 1815–1989. Stages of Transformation in a Peripheral Region* (London and New York: Routledge, 2006), 159–160, 172–173; Мари-Жанин Чалић, *Историја Југославије у 20. веку* (Београд: Клио, 2013), 104.

² Fred Singleton and Bernard Carter, *The Economy of Yugoslavia* (London: Croom Helm, 1982), 50–57.

³ Стеван Мезеи, „Стање и почетни развитак индустрије Војводине после Првог светског рата“, *Зборник за друштвене науке*, бр. 28, (1961); Мијо Мирковић, *Економска историја Југославије* (Загреб: Информатор, 1968), 127, 252–255; Никола Вучо, *Привредна историја Србије до Првог светског рата* (Београд: Научна књига, 1955), 247–251; Nikola Vučo, *Економска историја света од индустријске револуције до Другог светског рата* (Београд: Економски факултет, 1985), 126–127; Igor Karaman, *Индустријализација грађанске Хрватске (1800.–1941.)* (Загреб: Naprijed, 1991), 182–240.

(intended for natural resources exploitation), often disconnected from other networks, were also developed in Dalmatia and BiH, while Montenegro got its first railway as late as in 1908. The integration of heterogeneous railways in the new state, in addition to the severe damage to the network caused in Serbia during the war, was impeded by the existence of five systems of different track gauges. Finally, river transport was underdeveloped, while road transport was only incipient and the use of cars marginal.⁴

In a country where 76% of the population lived in rural areas, there were significant agrarian differences as well. By contrast to the small peasant holdings dominant in Serbia, in northern parts there were large private and church estates whose owners were mostly not supportive of unification, while in BiH, Dalmatia and the areas Serbia acquired after the Balkan Wars, feudal relations persisted and were yet to be abolished to ensure the transfer of ownership to farmers.⁵

The occurrence of the KSCS was attended with great expectations, among other things, of economic progress. However, before attempting to achieve greater unity (and, according to some expectations, also integration) among the nationally formed peoples, who lived in different political, economic and social conditions and belonged to different religions, with some areas linguistically very distant and having significant differences in culture and tradition, it was necessary to resolve the inherited economic and social issues. Urgent matters included the restoration of war damage, repayment of debts, eradication of feudalism, making up for shortages of capital and skilled labour.⁶

Like other countries that had been large battlefields, Serbia suffered extensive destruction.⁷ The consequences of the war were evident, not only because of the devastation which the enemy left behind after withdrawing, but also because of large-scale damage incurred during the occupation. The German, Austro-Hungarian and Bulgarian military or occupation authorities carried out robust economic exploitation, which affected agriculture in particular. According to the first inventory of war damage from November 1918, goods worth as much as around 5 billion dinars (4.4 billion French francs) were seized from Serbian peasants or destroyed. Cattle breeding suffered, as between one-third and more than four-fifths of the livestock was lost.⁸ In addition to material damage, Serbia also suffered im-

⁴ Ђорђе Стојановић, *Почеци и развој српског аутомобилизма* (Београд: Службени лист, 2003); Vesna S. Aleksić, "Mission Impossible of American Experts in Serbia 1919–1920", in: Ljubinka Trgovčević (ed.), *125 Years of Diplomatic Relations between the USA and Serbia* (Belgrade: Faculty of Political Sciences, 2008), 106; Душан М. Илијин, „Обнова железнице у Краљевини СХС (1919–1924)“, (докторска дисертација, Универзитет у Београду, Филозофски факултет, Одељење за историју, 2014), 1–45.

⁵ Momčilo Isić, „Sitnoposedništvo kao kočnica ekonomske modernizacije Srbije u prvoj polovini XX veka“, u: *Srbija u modernizacijskim procesima XX veka* (Beograd: Institut za noviju istoriju Srbije, 1994), 101–111; М-Ж. Чалић, *Историја Југославије*, 113.

⁶ Glenn E. Curtis (ed.), *Yugoslavia. A Country Study* (Washington: Library of Congress, 1990), 32.

⁷ Ivan T. Berend, *An Economic History of Twentieth-Century Europe. Economic Regimes from Laissez-Faire to Globalization* (Cambridge: University Press, 2006), 50.

⁸ Archives of Yugoslavia (AJ), Delegation of the Kingdom of Yugoslavia to the Reparation Commission in Paris (339)-12-27, Annexes № 784; Momčilo Isić, „Економске прилике на селу у Србији 1919. године“, у: *Научни скуп Србија на крају Првог светског рата*, ур. Славенко Терзић, (Београд: Историјски институт и Змај, 1990).

mense human losses, the extent of which causes controversies to this day.⁹ Estimates are that the total demographic loss of all areas constituting the KSCS was around 1.9 million.¹⁰

The situation in the regions of the former Austria–Hungary was not alarming, as there had mostly been no direct combat actions there. Agriculture suffered the most as yield declined due to a lack of labour, while industry was almost fully incorporated into the war economy. The least developed BiH suffered the most from direct conflicts, particularly in its eastern and southern parts. According to the reports of the Land Government in Sarajevo, 1200 iron plows, 1500 wooden plows, 3000 threshing machines and 10,000 carts were destroyed, and total damage was estimated at 3 billion kronen.¹¹ Considering the scope of destruction, human and material casualties of the First World War, the peace treaties signed during the Paris Peace Conference acknowledged the right to damage reparation to the Entente and the allied powers, including Serbia. The total agreed sum of 132 billion German gold marks (USD 33 billion) was more a reflection of political negotiations than of the requests of the damaged parties, but it too turned out to be unrealistic.¹² Germany was to pay 126.3 billion over 60 years, while the rest, 5.7 billion, referred to Austria, Hungary, Bulgaria and Austria–Hungary successor states, with 5% of German and 10% of other payments belonging to the KSCS (a total of 7.2 billion gold marks, or 9 billion gold dinars).

As noted by the Minister of Finance Momčilo Ninčić, in the initial months after the unification cash requirements were huge and there were no sources anywhere, as one could not “count at all on regular income in a state whose financial organisation has been destroyed”.¹³ Addressing the members of the Temporary National Representation, he highlighted budget, tax and currency issues as being of key significance. The volume of kronen in circulation was unknown and there were no data based on which to prepare the state budget. The chronic lack of money was a standing problem and the expenses mounted further. The Government ascribed this state of things to the consequences of the war, the general increase in prices and the process of forming of new institutions, but it was obviously unable to secure revenues and to collect taxes. This was also due to unequal levying and collection of taxes in different areas. Leaving aside western areas, where only some kind of voluntary tax was in place after the separation from Austria–Hungary,¹⁴ tax collection was uneven and disorderly in Serbian areas as well.¹⁵

⁹ Миле Бјелајац, „Ратни губици Србије у Првом светском рату – контроверзе око бројева“, *Токови историје*, бр. 1, (2021), 41–84.

¹⁰ М-Ж. Чалић, *Историја Југославије*, 122.

¹¹ AJ, Delegation of the Kingdom of Serbs, Croats, and Slovenes to the Paris Peace Conference (336), 47, file II, Land Government, Sarajevo, February 1919.

¹² Erik Hobsbawm, *Doba ekstrema. Istorija Kratkog dvadesetog veka* (Beograd: Dereta, 2002), 79.

¹³ *Министарство финансија Краљевине Југославије 1918–1938* (Београд: Министарство финансија, 1939), 21.

¹⁴ Petar Pečić, *Propast Austro–Ugarske monarhije i postanak nasljednih država* (Subotica: Globus, 1937), 241–242, 264.

¹⁵ *Стенографске белешке Привременог Народног представништва Краљевства СХС* (Загреб: Тисак Кр. Земалске тискарне, 1919), 47–149, 765–768.

The difficult state of things called for prompt financial consolidation and unification, which was supposed to produce (and indeed did produce) not only economic but also political consequences. Some of the first measures to integrate the financial and economic system concerned the establishing of the central and issuing bank for the entire KSCS with a developed network in the function of a single payment system and lending to the corporate sector, unification of the money system and stabilisation of the national currency. Though frequently imperfect, activities to achieve the demanding goal of financial integration were comprehensive and, in some stages, powerfully intertwined. Their successful implementation until 1925 coincides with the general European trend of transitioning from post-war recovery to the brief and limited boom which preceded the Great Depression.¹⁶

National Bank

The Kingdom of Serbia was the only one to have an issuing bank (since 1883). The intention of the new financial authorities was therefore to extend its activity to the whole KSCS, so that money issuance would not be carried out by government authorities which could then be tempted to print money without coverage in order to offset expenditures. As it was not known when the regular national assembly would convene, the Government and the Privileged National Bank of the Kingdom of Serbia reached an agreement and, in the form of a contract, adopted the Law on the National Bank of the KSCS. The new central bank began operating on 1 February 1920. Since the capital of 10 million dinars¹⁷ was not sufficient to operate under new conditions, it was planned to increase the volume of share capital by an issue of 40,000 shares (along with the existing 20,000) in the nominal value of 500 dinars, but with the sales value of 720 dinars in gold per share and additional 10 dinars per share on account of costs.¹⁸

According to the plan, 130 dinars were supposed to be paid in December 1920, with the remaining 600 dinars to be paid over a period of five years. However, only 2266 shares were subscribed by end-December. The management of the National Bank examined the reasons for such state of things and concluded that the lack of success was to be ascribed to political circumstances, as the subscription of shares was announced during the campaign for elections to the Constitutional Assembly (28 November 1920). At the peak of parties' rivalry replete with rallies, accusations and pre-electoral uncertainty, the management noted that the current "disordered political circumstances (...) make people unwilling to part from their gold, as they do not know what future has in store".¹⁹

¹⁶ Čarls Kindlberger, *Svet u depresiji od 1929. do 1939.* (Beograd: Laguna, 2021), 43.

¹⁷ Sonja Jerković and Saša Ilić, „Application of Latin Monetary Union Standards and Practice in Serbia (1868–1918)“, in: Conference: Monetary Unions in History (Sofia: Bulgarian National Bank and Frankfurt am Main: EABH, 2022), on: https://www.bnb.bg/bnbweb/groups/public/documents/bnb_publication/pub_2022_conf_s_jer_s_ilic_en.pdf (access: 1 June 2023).

¹⁸ Additional 40,000 shares were to be issued "later, as needed." *Службене новине КСХС*, 22, 31. 1. 1920; Archives of the National Bank, National Bank of the Kingdom of SCS/Yugoslavia (ANB, 1/II), Historical archive, box (b.) 23, Resolution VI, 349, 17. 3. 1920.

¹⁹ ANB 1/II, Management (UPR), Main Management Board (3), b. 21, Minutes, 58th session, 29. 12. 1920.

It is also certain that the success of the first subscription of shares was hindered by the strict terms of purchase. When, following amendments to the Law on the National Bank in April 1921²⁰ it was made possible to buy shares for banknotes in silver as well and the limit on shareholders' profit was abolished, all the remaining shares were sold successfully by March 1922 and the subscription was made by 725 shareholders.²¹ Still, there were no major changes in the composition of shareholders by nationality. Serbs continued to be the dominant shareholders and the intention to include members of other nationalities, primarily from the western regions, did not materialise. The economic reasons for this include the lack of trust in an institution which took part in the liquidation of the Austro–Hungarian Bank which, until recently, had been the guarantor of capital of rich citizens from north and west areas. However, there were also political reasons. The initial euphoria over liberation and unification²² was replaced by distrust and then, by mounting tensions, especially as it became clear that the Serbian Court, as the key driver of activities aimed at constituting the state, and the opposition, whose most vociferous representatives included the Croatian Peasants' Party, had very different views regarding the regulation of the state and its institutions.²³

Takeover of Branches of the Austro-Hungarian Bank

The division of Austria–Hungary into seven old and new states meant the forming of as many monetary areas and types of kronen in circulation.²⁴ Due to the monetary separation, it was necessary to liquidate the Austro–Hungarian Bank, as confirmed in the peace treaties signed with Austria in Saint-Germain-en-Laye (1919) and with Hungary in Trianon (1920).²⁵ As the ratification of the treaties was slow, the commissioners, i.e. liquidators, were appointed with a delay, in August 1920, but they did not begin work until April 1921.²⁶ The Austro–Hungarian Bank had a wide network of 102 branches, of which 15 were in the territory of the KSCS

²⁰ *Службене новине КСХС*, 97, 3. 5. 1921.

²¹ *Народна банка 1884–1934* (Београд: Завод за израду новчаница, 1934), 116.

²² Р. Пекић, *n.d.*, 236–241, 260–266, 352.

²³ Соња Р. Јерковић, „Народна банка Краљевине Срба, Хрвата и Словенаца/Југославије 1918–1931. године“, (докторска дисертација, Универзитет у Београду, Филозофски факултет, Одељење за историју, 2018), 70–71 108–109.

²⁴ In the latter half of October 1918, the Austrian military authorities lost control of the Monarchy's territory, but the krone remained in circulation as legal tender, though, relative to 1914, its value declined by two-thirds against the Swiss franc and by one-third against the German mark. Brendan Brown, *Monetary Chaos in Europe. The End of an Era* (New York: Routledge, 2011), 100.

²⁵ Comprehensive agreements addressed many outstanding issues, including economic matters, and within them, financial matters were also regulated. They determined the start date and procedure for the liquidation of the Austro–Hungarian Bank. It was stipulated that the liquidation would be carried out by commissioners appointed by the Damage Reparation Commission. *Staatsgesetzblatt für den Staat Deutschösterreich*, 90, 303 (1919), 996–1240; *Збирка закона протумачених и објашњених судском и административном праксом*, (Београд: Геца Кон, 1927), 64. On the treaties and their consequences, see: Arnold Suppan, *The Imperialist Peace Order in Central Europe. Saint–Germain and Trianon, 1919–1920* (Wien: ÖAW, 2019).

²⁶ J. Chown, *op. cit.*, 132.

(Novi Sad, Subotica, Zrenjanin, Pančevo, Vršac, Zemun, Zagreb, Varaždin, Osijek, Sarajevo, Banja Luka, Mostar, Ljubljana, Maribor and Split). These branches were placed under sequestration as assets of the enemy state at the beginning of 1919. Money and other movable valuables were transferred to the treasury of the Funds Administration in Belgrade, while property was managed first by the Ministry of Trade and Industry and then by the Ministry of Justice.²⁷

The Law on the National Bank envisaged the takeover of branches of the Austro–Hungarian Bank on terms to be subsequently defined. As the Government wanted the branches to start operating as soon as possible because of the exchange of kronen and easier distribution of money, on 11 March 1920 an agreement was made with the National Bank of the KSCS on the urgent start of takeover of facilities and movable property.²⁸ The basis of the agreement was the model applied in Poland in 1919 according to which the National Bank accepted the cash from the branches with the obligation to use it to settle the liabilities of the Austro–Hungarian Bank in respect of gyro-accounts and treasury bills. In order to ensure operational functioning, agreement on the appointment of employees and the takeover of branches in the territory of the KSCS was made on 20 May 1920 in Vienna.²⁹ The takeover agreement had a temporary nature, and the National Bank did not become the owner but a lessee of the branches, paying rent to the state,³⁰ while the basis for the start of operations was a circular letter with instructions on the keeping of businesses books and making of an inventory count of valuables of 1 July 1920. By October, all branches were operational, except the one in Split which, due to a dispute between the KSCS and Italy,³¹ opened its doors in January 1921. Soon, in order to normalise payment transactions, contingents of cash began to arrive.³²

The takeover of the branches could not be legally completed without the liquidation of the Austro–Hungarian Bank. To reach an agreement, several conferences were held in Vienna from January 1921 between the representatives of Austria and Hungary and the representatives of Italy, Poland, Romania, Czechoslovakia and the KSCS. Though there was much disagreement among successor states,³³ the economic situation was so difficult that they agreed to *divide the valuables* through advance payments before the signing of a final agreement. The basis for division was the volume of withdrawn and exchanged kronen and the number of inhabitants in unified territories. Hence, 15 million gold kronen was to go to Czechoslovakia, 14

²⁷ С. Р. Јерковић, „Народна банка“, 143–144.

²⁸ ANB 1/II, Historical archive, b. 24/1.

²⁹ ANB 1/II, UPR-3, b. 21, Minutes, 20th session, 26. 5. 1920.

³⁰ Initially, the branches in Mostar and Zemun were excluded from the negotiations. The Serbian army also occupied the branches in Timisoara and Pécs, but due to the unresolved border issue, their takeover was not planned. ANB 1/II, UPR-3, b. 21, Minutes, 16th session, 4. 5. 1920.

³¹ P. Pekić, *n.d.*, 299–307.

³² ANB 1/II, UPR-3, b. 21, Minutes, 26th session, 26. 6. 1920; ANB 1/II, UPR-3, b. 21, Minutes, 28th session, 7. 7. 1920; *Народна банка 1884–1934*, 122; С. Р. Јерковић, „Народна банка“, 145–147.

³³ Italy was particularly bent on obstructing the work of the conferences and, on several occasions, there was danger that agreement would not be reached at all. ANB 1/II, Historical archive, b. 25, D. Novaković's report to the Minister of Finance, 22. 3. 1922.

million to Romania, 10 million to KSCS, 7 million to Poland and 4 million to Italy. After 30 May 1921, when the liquidation protocol was signed, the successors divided gold as well on several occasions (only in October 1922, 73 crates of minted gold in kronen, perpers and Turkish liras, worth around 14 million gold kronen, were delivered to the KSCS).³⁴ The KSCS acquired *ownership* of the buildings and inventory of the branches based on the sales agreement signed with liquidators in Maribor on 23 May 1921. The amount of 2.75 million gold kronen was deducted from the advance part of the valuables which appertained to the KSCS. The National Bank soon paid same amount to the Government, thus becoming the owner of the branches. Finally, *the takeover of the assets and liabilities* of the branches posed many problems, including that of the currency in which claims would be collected and debts settled. Eventually, the liquidators agreed to suggest to successor states that their national banks receive to their account all assets and liabilities of the branches, and that the balance, which would either be a debit or a credit, be added to or deducted from the sum for withdrawn banknotes of the Austro–Hungarian Bank issued before 27 October 1918.³⁵ Regardless of the protocol, the liquidation was not completed until 1931 due to issues faced by the branches, disordered books and archives.³⁶

The Government of the KSCS confirmed the agreements on the liquidation of the Austro–Hungarian Bank by a decision of 20 July 1921.³⁷ The sequester on branches was lifted and the Government undertook to hand the money taken out from treasuries by civil or military authorities over to the National Bank. On 4 April 1923, the Ministry of Finance issued a decision on the liquidation of assets and liabilities of former branches subject to which all rights and liabilities in the procedure were transferred to the National Bank. The decision described the procedure for the liquidation of assets. Namely, debtors were invited via official heralds to settle their debts by 30 June 1923 (other than mortgage loans for which the liquidation bank in Vienna was competent),³⁸ in dinars, at the exchange rate of 4 kronen for 1 dinar. Since the liquidation of assets and liabilities did not go according to plan, the Ministry of Finance extended the deadline by a year. Through its branches, the National Bank was to invite deposit holders to withdraw their valuables and borrowers to settle their obligations, and to file court charges against them if they fail to do so. The branches were required to hand over the inherited kronen to the banknote depository in Belgrade.³⁹

The activities on liquidating the Austro–Hungarian bank continued in 1924 as well, when the final tranche of gold kronen from the liquidation estate was paid

³⁴ ANB 1/II, UPR, The Board of Directors (4), b. 1, Minutes, 49th session, 9. 11. 1922.

³⁵ The Austro–Hungarian Bank published its balance sheet items for the last time on 26 October 1918. Miodrag Ugričić, *Novčani sistem Jugoslavije* (Beograd: Zavod za izdavanje udžbenika SR Srbije, 1967), 89.

³⁶ С. Р. Јерковић, „Народна банка“, 148–150.

³⁷ *Службене новине КСХС*, 189, 27. 8. 1921.

³⁸ ANB 1/II, Historical archive, b. 25, Decision I, No. 13000, 4. 4. 1923; *Narodne novine*, 5. 5. 1923. Later, the collection of all mortgage claims was transferred to the State Mortgage Bank. ANB 1/II, Historical archive, b. 25, I. 22322, 18. 6. 1924.

³⁹ ANB 1/II, Historical archive, b. 25, Ministry of Finance's act I. 40925, 30. 10. 1923.

out. From January 1921 until November 1924, the KSCS received over 35 million gold kronen on six occasions⁴⁰ and, in 1925, a certain amount of foreign exchange as well. Based on a decision of the Ministry of Finance of April 1926, the National Bank handed over all inherited valuables to the State Attorney's Office,⁴¹ but even this did not mark the end of the liquidation activities because as late as in 1927 it was still collecting the coupons on Austrian bonds.⁴²

Exchange of Kronen

The most obvious financial problem in the everyday life of KSCS citizens was a multitude of currencies in circulation. Particularly sensitive was the question of Austro-Hungarian kronen and, less so, of the Bulgarian levs. In order to determine the volume of kronen in circulation at least approximately and protect the new market, only five days after the first KSCS Government was formed, on 25 December 1918, the Ministry of Finance issued an order prohibiting the bringing of kronen into Serbian parts of the state, i.e. into pre-war Serbia and Montenegro (by end-January 1919 this measure was extended to the entire KSCS), and ordering the marking (stamping) of kronen and lev, with numeration and signing.⁴³ According to Kosier and Steiner, stamping and signing of kronen in western regions of the KSCS was carried out based on an order of the Ban of Croatia of 8 January 1919.⁴⁴

The banknotes were stamped in the following way: imprint of the stamp for the receipt of documents of a local authority was made upon each banknote and the serial number from the list of money bearers was written on the imprint. The stamping was done in the presence of the bearer and the banknotes were immediately returned. Because of the importance of data on the volume of kronen in circulation, county prefectures were required to submit the lists of stamped kronen urgently by telegram to the Ministry of Finance, and only subsequently to mail them. It was still difficult to determine the exact scope of stamping with precision as, according to the National Bank 5,323 billion kronen were stamped by 31 January 1919, while Stojadinović wrote about 4,875 billion kronen, and the Delegation of

⁴⁰ In its annual report, the National Bank specifies a figure of over 30 million gold kronen (more than 36 million gold francs). Of the gold received in order to reduce inflation, 24.5 million gold kronen was sold in 1922 alone. Compare: AJ, Collection of Milan Stojadinović (37)-32-235, Report of the National Bank to the Minister of Finance, 28. 11. 1925; and *Извештај Народне банке за 1924* (Београд: Државна штампарија КСХС, 1925), XIV.

⁴¹ ANB 1/II, UPR-4, b. 7, Minutes, 9th session, 28. 3. 1930.

⁴² С. Р. Јерковић, „Народна банка”, 156.

⁴³ AJ, Ministry of Finance of the Kingdom of Yugoslavia (70)-3-6, Decision on the approach to stamping and listing paper money of Austria-Hungary and Bulgaria; Peter M. Garber and Michael G. Spencer, “The Dissolution of The Austro-Hungarian Empire. Lessons for currency reform”, in: *Essays in International Finance*, 191 (Princeton: Princeton University, 1994), 9, on: <https://ies.princeton.edu/pdf/E191.pdf> (access: 1 June 2023).

⁴⁴ Ljubomir Kosier, *Narodna banka Kraljevine SHS* (Zagreb: Hrvatski štamparski zavod, 1924), 234; Archives de Banque de France (ABF), Banque de France, Études et statistiques (BF, ES): N^o bordereau 1370200007, b. 2 (Economie et politique, situation et politique économiques), Frederic Steiner, *Etude historique et critique sur l'évolution du régime monétaire des états successeurs de l'ancienne monarchie Austro-Hongroise*, 1921.

the KSCS in Paris came out with a tentative figure of around 5,572 billion, noting that the number could be as high as 8 billion.⁴⁵

*The kronen banknotes in the KSCS were practically nationalised by stamping, and the intention was to break the monetary union with Austria–Hungary. That was important because the timing of the currency replacement was still uncertain.*⁴⁶ *After the stamping, and to encourage internal trade, it was allowed to bring stamped kronen into the territory of pre-war Serbia and Montenegro.*⁴⁷ *Although the stamping clearly drew a monetary boundary in relation to other areas under the dominance of the krone, it sparked controversy, with the greatest resistance emerging in Croatia. According to Nedeljković, the parts of the Croatian society whose interests were deeply intertwined with other parts of the former Austria–Hungary “campaigned against this measure in a way that was even slightly inappropriate”.*⁴⁸

Though the KSCS was the first country in which the kronen were stamped,⁴⁹ the belief that this would prevent a further rise in the volume of kronen in circulation proved to be unfounded. As the value of the krone quickly declined, in October 1919 the KSCS stopped officially setting its exchange rate against the dinar and abolished the possibility for dinar obligations to be settled using the kronen.⁵⁰ As the stamped kronen had long been in circulation, including not only valid banknotes but also many with a forged stamp (which was possible due to the primitive stamping technique), there was a need for re-marking.⁵¹ The regulation of 11 November 1919 set out a more efficient measure – marking (by special stickers).⁵² Partial withdrawal of kronen was carried out at the time, because 20% of the total value of banknotes presented for marking was deducted, which was supposed to represent the inflation rate in the past period. The 1- and 2-krone denominations were not included by this measure, while stickers of different colours were attached to the 10-, 20-, 50-, 100- and 1000-krone banknotes.⁵³ The marking began on 26 November

⁴⁵ Народна банка 1884–1934, 140; AJ-37-32-238, Stojadinović, “Valutno pitanje”; AJ-336, 40, file III.

⁴⁶ Јован Хаџи-Пешић, *Новац Краљевине Југославије 1918–1941* (Београд: Народна банка Југославије, 1995), 13.

⁴⁷ *Службене новине КСХС*, 25, 29. 3. 1919.

⁴⁸ Милорад Недељковић, „Наш валутни проблем“, у: *Алманах Удружења правника Краљевства СХС* (Београд: Државна штампарија КСХС, 1920), 10.

⁴⁹ J. Chown, *op. cit.*, 132; B. Brown, *op. cit.*, 108.

⁵⁰ *Службене новине КСХС*, 134, 9. 11. 1919. From the end of 1913 to the end of 1919, the volume of kronen in circulation increased from 2.4 billion to 54 billion. From mid-August until mid-September 1919, the krone declined against the Swiss franc from 0.13% to 0.075%, and to 0.035% by end-December. In the same period, for one German mark (which before the 1918 armistice was worth 1.70 kronen) it was necessary to pay 2.20, then 2.80 and finally 3.55 kronen. John Chown, *A History of Monetary Unions* (London and New York: Routledge, 2003) [e-Book], 130; B. Brown, *op. cit.*, 120–121.

⁵¹ P. M. Garber and M. G. Spencer, *op. cit.*, 9, 19. In his memoirs, Stojadinović wrote about the scale of counterfeiting “As the stamps were often made on very dirty and half-torn banknotes, they could frequently be replaced by any kind of stamp, even by that made by the circular rim of a small coffee cup”. Milan M. Stojadinović, *Ni rat ni pakt. Jugoslavija između dva rata* (Rijeka: Otakar Keršovani, 1970), 145.

⁵² *Службене новине КСХС*, 141, 18. 11. 1919.

⁵³ *Ibid.*, 151, 30. 11. 1919.

and, by early January 1920,⁵⁴ 5.686 billion kronen were marked,⁵⁵ or 360 million more compared to the stamped banknotes (excluding 1- and 2-krone denominations) according to the data of the National Bank, 114 million more according to the data from the Peace Conference or as much as 811 million more according to Stojadinović.⁵⁶ Be that as it may, an immense quantity of illegal money had been placed into circulation in less than a year.⁵⁷

All successor states were faced with the problem of the large volume of kronen in circulation. They therefore prohibited kronen from being brought into their territory and announced that they would not acknowledge the issue after October 1918 at the time of exchange. They had to contend with a multitude of counterfeits and went through different stages of marking the banknotes before the exchange in order to determine the amount in circulation. The provisions of the Saint-Germain and Trianon treaties committed them to marking the kronen within two months, to replacing them with the national currency within a year at an exchange rate they determine and, finally, to handing over all the inherited kronen to the Reparation Commission. However, numerous problems emerged in practice. In case of the KSCS, for instance, it was noted that the inventory count was made more difficult because of a multitude of different kronen. There were as many as ten types in the treasury of the Ministry of Finance alone: white Austrian, Austrian with red stamp, Austrian with Hungarian stamp, Austrian with suspicious stamp, kronen of other issues, Bolshevik, marked, with counterfeit stickers, counterfeit and confiscated kronen.⁵⁸

The number of kronen circulating in former Austro-Hungarian territories was difficult to establish. According to Austria's Foreign Trade Chamber, in March 1919, out of the entire sum in circulation, 31% was in Czechoslovakia, 21% in Austria, 18% in Hungary, 12% in the KSCS and 5.2% in Romania, while 12.8% was in Italy and Poland. Estimates were that there were also around 18% of unmarked kronen, the most in Czechoslovakia and Austria. Finally, contemporaries also noted that, in search of a more favourable exchange rate, the kronen easily crossed the still soft borders between the states. Thus, because of a mandatory tax of 50%, many kronen from Czechoslovakia ended up in Austria.⁵⁹

The Law on the National Bank envisaged the release into circulation of an issue of the KSCS dinar which would replace the kronen, but this did not materialise quickly. In 1919 there were still both Serbian dinars and marked kronen in circula-

⁵⁴ The Government was accused that the marking was sloppy, with poor quality stickers and no record-keeping. People wondered why kronen were being marked when the banknotes for exchange had already been printed and the intention to deduct 20% and impose a clumsily concealed and unfair mandatory loan was pointed out as the only reason. *Politika*, 27. 11. 1919.

⁵⁵ AJ-37-32-238, Stojadinović, "Valutno pitanje".

⁵⁶ Compare: *Народна банка 1884–1934*, 140; AJ-37-32-238, Stojadinović, "Valutno pitanje"; AJ-336, 40, file III.

⁵⁷ The marking was not completed in the territory of Dalmatia, as negotiations were still under way before the conclusion of the Treaty of Rapallo. When the conditions were met, additional 482 million kronen were marked in the territory which came to belong to the KSCS. ANB 1/II, Historical archive, b. 25.

⁵⁸ ANB 1/ II, Historical archive, b. 25, Stock of withdrawn krone banknotes, 6. 2. 1922.

⁵⁹ P. M. Garber and M. G. Spencer, *op. cit.*, 19; B. Brown, *op. cit.*, 93–124.

tion. Their relation varied during the year and finally stopped at the exchange rate of 4 kronen for 1 dinar. In the meantime, a series of KSCS dinars of state issue in denominations of 5, 10, 20, 100 and 1000 dinars (actual value of 20, 40, 80, 400 and 4000 kronen) arrived from printing. As of 2 January 1920, the printing of the kronen amount on these dinar banknotes began in the Funds Administration in Belgrade,⁶⁰ creating specific krone–dinar (dinar–krone) banknotes. Contemporaries from the professional and business world were baffled by the reasons for such decision by the Government. Some, like Bajkić, believed this was done in order to avoid confusion among the general population when calculating the value and because of the grave danger that a comprehensive reform could be misused in order to raise prices, while Kosier saw in this a politically determined decision.⁶¹

The exchange of kronen for dinars with the printed krone value, which took place between 16 February and 3 June 1920, was carried out by the Ministry of Finance. The National Bank, involved in internal reorganisation, did not participate in organising the exchange, though its staff helped in technical matters.⁶² The creation of economic unity in a country such as the KSCS was a laborious process, and a good illustration of the lingering of old habits and economic ties is the fact that the krone was valid as legal tender in the KSCS until 1923, even longer than in Austria.⁶³

Once the kronen were replaced by the specific dinar banknotes, the banknotes of the National Bank of the Kingdom of Serbia also remained in circulation for some time yet.⁶⁴ Through contemporaries believed that the exchange had put an end to discussions and arguments for and against the exchange rate at which kronen were valued, the contrary proved to be true. The relation of the krone and the dinar remained contentious over the coming decades, and, particularly on the Croatian side, was used as evidence of the Great Serbian hegemony and economic exploitation of the western regions.⁶⁵

Measures for Currency Stabilisation

Extraordinary post-war circumstances gave rise to currency instability in many a European country and sudden fluctuation in the value of money was conducive to all kinds of speculations. The run-down and devastated economy of the

⁶⁰ J. Хаџи-Пешић, *н.д.*, 44, 47.

⁶¹ Велимир Бајкић, „Динар“, у: *Јубиларни зборник живота и рада Срба, Хрвата и Словенаца 1918–1928*, 2 (Београд: Матица живих и мртвих СХС, 1928), 113; Љубомир Косиер (ур.), *Валутна реформа у Краљевини Југославији* (Београд, Загреб и Љубљана, 1930), 5–8.

⁶² С. Р. Јерковић, „Народна банка“, 191.

⁶³ Мари-Жанин Чалић, *Социјална историја Србије 1815–1941. Успорени напредак у индустријализацији* (Београд: Клио, 2004), 208.

⁶⁴ The krone-dinar banknotes were withdrawn from circulation over a longer period, mostly when the number of counterfeits multiplied. In 1921, 20-dinar (80-krone) banknotes were withdrawn, by June 1924 – 10-dinar (40-krone) banknotes, and in the 1929–1934 period – 100- and 1000-dinar (400- and 4000-krone) banknotes. The 0.5- and 1-dinar (2- and 4-krone) denominations were not withdrawn in the interwar period.

⁶⁵ Душан Плавић, *Држава и Народна банка. Неколико погледа на питање о законској стабилизацији динара* (Загреб, 1930); Рудолф Бићанић, *Економска подлога хрватског питања* (Загреб: В. Маћек, 1938); Анте Малбаша, *Реформа Народне банке и интереси хрватске привреде* (Осијек: Градјанска тиск., 1940).

KSCS was incapable of meeting the growing peacetime needs and the Government sought to find a policy that would stabilise the dinar and ensure enough gold and foreign currency for foreign payments. The dinar's value in the international market and its domestic purchasing power were on a decline from the unification until end-January 1923. To stabilise the dinar, the Government put in place firm measures limiting the outflow of foreign exchange and gold and silver money from the country. The rise in inflation, a typical consequence of any major war conflict of modern times,⁶⁶ was attributed in the KSCS to economic and political causes typical for the greater part of Europe – economic devastation and the loss of human capital, changes in state borders accompanied by disturbances in trade flows, high unemployment, industrial dislocation, fiscal deficit, accumulation of public debt and its enormous growth as a percentage of GDP and, especially, the factor of uncertainty.⁶⁷ The KSCS, plagued especially by the poor state of the economy, shortage of foreign currency, slow and unfavourable regulation of reparation and unification of money, was particularly severely struck by political uncertainty due to national tensions which arose in parallel with the unification.⁶⁸

Striving to suppress inflation, the KSCS Government resorted to administrative measures. By the regulation of 30 March 1919, it established the Central Office for foreign payments, a body in charge of collecting foreign currency needed to effect foreign payments on behalf of the state, the control of spending and distribution of surplus foreign currency to importers. The Central Office included representatives of the National Bank, Ministry of Finance, Ministry of Trade and Industry, Trade Chamber and Industrial Chamber. However, due to a considerably higher volume of imports compared to exports, the Central Office could not secure enough foreign currency, so it stopped operating at end-September 1920.⁶⁹

Though the value of the dinar steadily weakened (until June and again from August 1920), the currency was listed on the Belgrade Stock Exchange as of 1 March 1919, and on foreign stock exchanges having stronger links with the KSCS (Budapest, Vienna, Trieste and Thessaloniki) only in 1921.⁷⁰ A steady depreciation of the dinar value was spurred by the two currencies in circulation and the constant increase in money supply. Shortages of goods strengthened the black market and other speculative business. Importers handed over foreign currency to the Government at the times when it was the most expensive, while keeping their liabilities in arrears, or bought other goods abroad instead of repaying the foreign currency. To strengthen the dinar value and moderate the

⁶⁶ Donald L. Kemmerer, "Inflation. The First World War", *Current History*, no. 141 (1953), 281.

⁶⁷ Jose A. Lopez and Kris James Mitchener, "Uncertainty and Hyperinflation. European Inflation Dynamics after World War I" (Federal Reserve Bank of San Francisco, Working Paper 2018-06, 2018), 2, 4-5, on: <https://doi.org/10.24148/wp2018-06> (access: 9 June 2023).

⁶⁸ М. Недељковић, н.д.; Славко Шећеров, *Наше финансије 1918-1925* (Београд: Напредак, 1926); Goran Nikolić, *Kurs dinara i devizna politika Kraljevine Jugoslavije 1918-1941* (Београд: Stubovi kulture, 2003).

⁶⁹ С. Р. Јерковић, „Народна банка“, 269.

⁷⁰ Michael C. Kaser and Edward A. Radice (eds.), *The Economic History of Eastern Europe 1919-1975. Interwar Policy, the War and Reconstruction*, II (Oxford: University Press, 1987), 576-581.

agio, the Ministry of Finance offered foreign currency for sale at a lower exchange rate at the Belgrade Stock Exchange.⁷¹

As elsewhere in Europe, the KSCS economy profited from the inflationary conjuncture. The renewal incentivised demand, while also driving price growth and public debt, and the Government responded by printing money. In late 1923 the quantity of circulating money was eightfold that in 1920, but money devaluation was conducive to the growth in demand for material goods and encouraged new investments.⁷² In the post-war renewal effort, industrialisation was stepped up, though it could also be viewed as a consequence of the development of a modern society, assuming the expansion of the secondary and tertiary sector, spreading of urbanisation and independent development of science and technology.⁷³ A sudden growth (until 1922 around 140 new factories were set up annually) could be more readily attributed to the revival of demand after gloomy war years than to government efforts. Conducive to this growth were low tariffs (at the level of pre-war Serbia), which turned upward under the impact of the financial crisis of 1922, when the Government started to intervene more directly.⁷⁴

Wavering between free and restrictive imports, in October 1920 the Ministry of Finance transferred the operations of the closed Central Office for foreign payments to the General Inspectorate, Department for cheques and foreign exchange by the regulation on foreign exchange and currency transactions. Importers were able to exchange foreign currency for dinars (and kronen) at the National Bank and banks authorised by the Ministry for these transactions, and to receive a special certificate thereof, while exporters were obliged to import and sell to the National Bank the equivalent of the foreign currency obtained for the goods sold and obtain a certificate thereof which served as a guarantee in customs clearance. Banks kept records and informed the ministry about these operations. One-third of purchased foreign currency belonged to the Government, that is the National Bank to which the authorised banks were obliged to hand over foreign currency, without commission. The concentration of foreign currency at the National Bank was supposed to create a quantity sufficient to meet foreign payments and reserves which could be used to intervene in the domestic market during the dead season. Still, administrative measures failed to prevent a further fall in the dinar value.⁷⁵

Next phase of currency policy began in July 1921 when the Ministry of Finance and the National Bank made an agreement according to which the central bank assumed all operations of procurement of foreign currency needed by the state to effect foreign payments, as well as all foreign payments ordered by the Ministry. Although the National Bank was sceptical about the agreement, it instilled a certain order in the foreign exchange market. The market was freed from sudden demand because foreign currency needed by the Government was purchased at the most

⁷¹ ANB 1/II, UPR-3, b. 21, Minutes, 6th session, 22. 1. 1920.

⁷² М-Ж. Чалић, *Историја Југославије*, 121; Џ. Kindlberger, *n.d.*, 44–46.

⁷³ М-Ж. Чалић, *Ibid.*, 129–130.

⁷⁴ F. Singleton and B. Carter, *op. cit.*, 60.

⁷⁵ Душан Узелац, *Девизна политика Краљевине Југославије 1919–1929* (Београд: Правни факултет, 1931), 183.

favourable exchange rate, evenly throughout the year. The second benefit was that this created an ideational basis for the accumulation of a foreign exchange stock at the National Bank (foreign exchange reserves), which would play an important role in the later consolidation of the dinar.⁷⁶ However, as this measure failed to yield results in the short run and did not strengthen the dinar, based on the Rules regulating trade in foreign exchange and foreign currency from September 1921, the Ministry of Finance set up a board tasked with regulating the imports and analysing all issues of currency relations. The board included experts from the National Bank, private banks and chambers of commerce in Zagreb, Ljubljana and Sarajevo.⁷⁷

A certain stabilisation of the political situation after the adoption of the Vidovdan Constitution (June 1921) did not significantly contribute to putting currency circumstances in order. That is why in February 1922 the Government authorised the National Bank as the sole seller of dinars abroad. To facilitate the implementation of this decision, the National Bank transferred this right to 13 major commercial banks in Belgrade, Zagreb and Ljubljana. While at first the dinar value soared, it soon began falling and touched the level of 740 dinars for 100 French francs (vs. 200 dinars for 100 francs in October 1920), so that system also failed to produce the desired result. In June 1922 the KSCS took a loan from a New York banking firm Blair & Co. in the nominal amount of USD 100 million. During the dollar purchase (September–November 1922) the dinar value in stock exchanges strengthened, but once the purchase stopped in December, the dinar again suddenly depreciated (695 dinars for 100 francs).⁷⁸

A new period in the conduct of foreign exchange policy and the role of the National Bank began after December 1922, when Milan Stojadinović took office as the Minister of Finance. With a brief recess, he oversaw this ministry until April 1926 which was a long period for Yugoslav circumstances and marked the policy of continuity (as many as five ministers changed in office until 1922). Unlike his predecessors, Stojadinović (1921, 40) did not think administrative measures were able to prevent the dinar devaluation and stopped the practice of central foreign exchange bodies since they failed to produce the desired results, while creating “the regime of individual permits”.⁷⁹ As of January 1923 exporters were able to buy foreign currency from authorised banks based on customs declarations, of which records were kept.⁸⁰ The fall in the dinar value was halted already in February (600 dinars for 100 francs), and in March 1923 Stojadinović tasked the National Bank with setting up a foreign exchange department which would be in charge of all foreign exchange operations and start the purchase and sale of foreign currency for Government purposes in stock exchanges via the temporary exchange account.

⁷⁶ Народна банка 1884–1934, 160–161.

⁷⁷ ANB1/II, UPR-3, b. 21, Minutes, 23rd session, 2. 12. 1921.

⁷⁸ С. Р. Јерковић, „Народна банка“, 274.

⁷⁹ AJ, Ministry of Trade and Industry of the Kingdom of Yugoslavia (65)-1084-2060, I No. 3340, 23. 12. 1922. Although Stojadinović opposed government interference in economic affairs, Englesko-trgovačka banka (English Merchant Bank), which he represented, participated in the work of the board of authorised banks at the National Bank.

⁸⁰ AJ-65-1084-2060, I. 3342, 25. 12. 1922.

The minister's intention was to gradually increase the dinar's value by listing it on the European stock exchanges, as the regulators of currency strength. Stojadinović believed in the strength of stock exchange operations, guided by the belief that "a currency is worth as much as it is demanded",⁸¹ and his model was to a large extent followed by France during the third Government of Raymond Poincaré (of 1926) in a bid to appreciate the weakened franc.⁸²

Owing to its active policy in the foreign exchange market, in 1923 the National Bank managed to buy one third of foreign currency generated by exports and to secure the funds for foreign payments by the Government. To further solidify the gradually strengthening dinar, Stojadinović directed the National Bank to start buying and selling foreign currency to monitor its value in the foreign exchange market. From February 1923 until August 1925 the constantly growing dinar strengthened by as much as 79% against the Swiss franc, i.e. from 5.12 to 9.17 francs for 100 dinars.⁸³ Not even the short-lived replacement of the minister of finance (July–November 1924), could shake the stability of the national currency. The active role of the National Bank in the new currency policy was confirmed by the amended interpretation of the Law on the National Bank in the segment pertaining to the banknote contingent which may be used for purchases in foreign stock exchanges, so as of August 1925 it was allowed to exclude such banknotes from the regular contingent. This in fact meant the stabilisation of the dinar and the setting of standing principles for future work with the domestic currency so it would be protected from speculations and shocks.⁸⁴ However, once the monetary stabilisation set in, the short-lived construction boom deflated and the first signs of the crisis in the agricultural sector appeared, stemming, among other things, from the inherited economic lagging behind the developed Europe.⁸⁵

Conclusion

After the creation of the KSCS, a single country gathered communities which shared some similarities but were also divided into different areas with separate, sometimes very heterogeneous, social, economic and cultural patterns and divergent historical experiences. The level of development weakened along the northwest-southeast axis, while the level of poverty and ramifications of war devastation grew in the opposite direction. The initial euphoria over national liberation and unification was swiftly replaced by economic difficulties which parts of the political elites would begin to prey on to forward their particularistic objectives.

The new state inherited an economy in a poor condition and financial chaos marked by multiple currencies in circulation, inability to collect taxes and lack of data needed for preparing the budget. Since financial recovery was necessary, while

⁸¹ ANB1/II, UPR-3, b. 22, Minutes, 12th session, 12. 10. 1923.

⁸² Č. Kindlberger, *n.d.*, 64–66.

⁸³ Народна банка 1884–1934, 162.

⁸⁴ Dragana Gnjatović, *Stari državni dugovi. Prilog ekonomskoj i političkoj istoriji Srbije i Jugoslavije 1862–1941* (Beograd: Ekonomski institut i Jugoslovenski pregled, 1991), 153.

⁸⁵ М-Ж. Чалић, *Историја Југославије*, 121.

political tensions offered no hope of swift constitutional regulation of the state, the Government started the consolidation by its own measures. First, in an agreement with the National Bank of the Kingdom of Serbia, it amended the law and expanded the Bank's activity to the territory of the new KSCS (1920), while significantly increasing the volume of share capital and expanding the ownership structure. With smaller efforts the capital was collected, but the ownership structure did not reflect the national structure of the state, partly due to the lack of trust and partly because of the political attitude.

The next important step concerned the establishment of the financial network, which meant including the Austro–Hungarian Bank branches into a new system. Although the branches in the territory of the KSCS were sequestered as the property of the enemy state, to legally incorporate them, it was necessary to liquidate the Austro–Hungarian Bank, which turned out to be a cumbersome process due to the disagreement among successor states. To include the branches into the system as soon as possible, due to the necessity to exchange money (kronen) and enable normal payment operations, the Government concluded with the National Bank an agreement on temporary takeover with the obligation to settle the debt of the Austro–Hungarian Bank. With the liquidators of the Austro–Hungarian Bank, the Government concluded the agreement on the appointment of employees (1920) and, after the liquidation, also the agreement on the purchase of branches (1921), which the National Bank bought from the state.

Major financial difficulties in the everyday life were multiple currencies in circulation and inflation. Even before the end of 1918, the first measures were taken to control the circulating money, first by limiting the circulation of kronen, and then by stamping them, primarily with the intention to determine the money supply in circulation. Due to the primitive technique, the stamping did not yield good results and such kronen remained in circulation for an extended period, until a new form of designation was introduced in late 1919: marking. It was then established that hundreds of millions of kronen had illegally entered the market in less than a year and the measure was implemented of taking away 20% of banknotes handed over for marking. The new dinar of the common state was not issued until 1920, when the money was exchanged. However, economic and political reasons motivated the Ministry of Finance to mark those banknotes in a special manner – by printing the value in kronen along with the existing dinar nominal value (1 dinar – 4 kronen).

The financial consolidation was supposed to be rounded off by the strengthened domestic currency (the dinar) which was badly hit by post-war inflation. Initially, the Government tried to collect enough foreign currency to meet its liabilities and stimulate foreign trade through administrative measures. However, several such attempts in 1919–1921 proved fruitless. Inclusion of the National Bank (1921) in the conduct of currency policy had short-term results (and the potential that was not recognised at the time), but soon the dinar started weakening again so the way out was sought in the credit of US private capital of USD 100 million (1922). The dollar inflow briefly spurred the dinar growth, but the old weakening trend soon prevailed. A successful foreign exchange poli-

cy, resulting in a stronger dinar, was ushered in by the measures of the new finance minister Stojadinović (1923), who sought the exit in the real sector, i.e. in the free purchase of foreign currency necessary for imports and listing of the dinar on European stock exchanges as regulators of currency strength. In this way, the dinar strengthened by almost 80% in about two and a half years, practically stabilising by 1925.

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ESTABLISHMENT OF THE FINANCIAL SYSTEM IN THE KINGDOM OF SERBS, CROATS, AND SLOVENES AFTER THE FIRST WORLD WAR

Sonja Jerković, PhD*

Saša Ilić, PhD**

Summary

Among the new states on the map of Europe in 1918, the Kingdom of SHS was the most complex. It was composed of previously different state-legal entities (independent Serbia and Montenegro and several areas of Austria-Hungary) with uneven levels of economic development and diverse national, religious and linguistic communities. Part of the territory of the new state (Serbia) suffered war destruction, gross economic exploitation and many human casualties, and the entire country was gripped by inflation accompanied by the black market and other speculations. In order to unify the currency, ensure state payments, revive trade and credit and other activities to establish a unified financial system, the government undertook several interrelated and chronologically intertwined steps. There was a redefinition of the function of the National Bank of the Kingdom of Serbia, whose activity was expanded territorially, the capital was increased and a new management staff was introduced in accordance with the national and new shareholder comp. For the sake of the functioning of regular payment transactions, which was important not only for the state, but also for all citizens, activities were carried out to take over branches of the Austro-Hungarian Bank. The original sequestration was replaced by a temporary regulation of work and finally by agreements and contracts by which the National Bank bought the property and took over the personnel of the branches. The specificity of KSHS was the multitude of currencies in circulation. Considering the quantity, the Austro-Hungarian kronen was a particular problem, so several steps were taken to control and stabilize it, from stamping, through marking with a deduction of 20 percent of the value, to issuing money simultaneously denominated in SHS dinars and in kronen and replacing the kronen with those denominations. Due to the complex economic and financial circumstances and non-economic measures of the government, the national currency was continuously losing its value. In order to ensure its stability and strengthening, and indirectly to ensure sufficient amounts of gold and foreign currency for foreign payments, the state authorities undertook a series of measures of an administrative nature, which had a limited effect. It was only with the measures of foreign exchange liberalization and the listing of the dinar on the stock exchanges, initiated by the Minister of Finance Stojadinović, that the dinar began to appreciate and its de facto stabilization was achieved.

KEYWORDS: Kingdom of Serbs, Croats, and Slovenes, financial system, financial reconstruction, national bank, inflation, exchange of currency, krone, dinar, currency stabilization

* Research Associate, National Bank of Serbia, Belgrade, Republic of Serbia
sonja.jerkovic@nbs.rs

** Research Associate, National Bank of Serbia, Belgrade, Republic of Serbia
sasa.ilich@gmail.com