

THE ROLE OF THE NATIONAL BANK IN CREATION OF PUBLIC DEBT OF INDEPENDENT KINGDOM OF SERBIA

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Summary

The time characterized by a public debt phenomenon in modern Serbia has been attached to the end of the XIX and the beginning of the XX Century, when the battle for independence had caused growth of Serbian foreign debt. It is considered that the state's contraction of debts at the National Bank⁴ has been old as well as the National Bank institution by its self. In other words, more before the Serbian National Bank's counters were opened, there was made the state debt by approving the loan of 304,216 dinars in gold, on backing of the state treasury bills. Therefore was made the initial business transaction of the bank, which was done before its regular business activities.

Key words: *loan, public debt, the National Bank.*

JEL: *H13, E4*

Introduction

Each state's economic system stability represents a top task in its functioning and survival. In order to provide it, a special attention of the state should be paid on the state's contraction of debts. Besides its use for funding the deficit in the budget, the public debt represents also an instrument of economic policy, which has its fiscal and monetary function, so in that way it has an effect on the entire economic system of the state, too.

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4 "The National Bank should not be a source for the state incomes boost. It can become such source only indirectly: by in time influence on regular development and partition of credit, which will fertilize and increase handicrafts and trade, and in such way, strengthen those original sources which provide income for the state treasury." (Dr Lazo Pacua, Minister of Finances in parliamentary search of the Law on the National Bank, 1904, *Spomenica Narodne banke 1884-1934*, p. 38)

Taking into consideration these facts on public debt, and also knowing that it is the main lever of the state's central bank monetary system, we have made up for perceiving the role of the National Bank in creation of the public debt of the independent state of Serbia.

If observes the period from 1878 to 1903, the main reason for oversized state's contraction of debts at the National Bank was constant budget deficit for exactly 25 years. The budget imbalance was covered by assets from 2 sources: debiting on domestic (internal) plan, primarily in own issuing institution and by taking the external, i.e. foreign credits. Domestic sources were not sufficient the most often, so the state also used the foreign credits.

Period of the national (state) contraction of debts at the National Bank

When it is about the national contraction of debts at the National Bank, we can notice two periods: 1) period from the Bank foundation to 1903, and 2) period from 1904 to the beginning of the WW I.

After the foundation of the National Bank, the contraction of debts has mostly brought down to a discount of treasury bills periodical loans based on debenture stocks' pledge. The share of national debt in money circulation was amounted 38,91% in 1884. After this year was relatively decreasing the national debt in relation to the total issued amount of money. In 1890, besides the discount of treasury bills and loans based on debenture stocks was included new forms of national crediting with the National Bank: approved credits for repurchase of salt monopoly (15 million dinars) and exploitation of the national railway (3 million dinars), with interest rate of 5%, then the loan to Monopoly Administration in silver for tobacco pledge and was issued a guarantee for Pirot district. In the next year was approved a loan for the Ministry of Finances in gold and silver, in amount of 300,000 dinars, so the national debts till 1897 were amounted 20-30% of totally issued notes. There should also mention the credits meant for municipalities, counties and districts. During 1885, the National Bank had approved the loan to Smederevo municipality of 200,000 dinars for building a port, with term of payment of three years. In 1893, the loans were given to the municipality Smederevo (300,000 dinars), the municipality Sabac (200,000 dinars) and the municipality Nis (250,000 dinars). To Belgrade municipality was granted the most credits, and the first credit was amounted 176,000 dinars, approved in 1886. The second credit was granted to the municipality Belgrade in 1891 and was amounted 2,3 million dinars, with interest of 6%, based on pledge of municipal excise duty incomes. In the period from 1892 to 1895, the loans were approved in amount of 950,000 dinars, while the conditions were as aforementioned. The credit was paid off from the excise duty, and the payment was every eight day. The next credit was granted to the municipality Belgrade in 1910, and was amounted 2,5 million USD, and was paid off in the following year. The last loan to the municipality Belgrade was approved during the WWI, when the Bank was in exile in Krusevac, in amount of 1,2 million dinars. Those credits were meant for funding the communal services and had the investments character. Frequent and justified criticisms were referred to the bank because of those loans, which had not been anticipated by its sphere of action.

“In order to cover up in advance planned budget deficits, Serbian Government was resorting to various aspects of provisional loans during ‘80s. Innovation since 1883 was introduction of legal possibility for using short-term loans in form of coupons, i.e. certificates of deposit. The certificates of deposit are necessary mean for keeping the continuity of the Treasury function and cannot represent a danger for setting up the budget balance, when they use for anticipating real, sure income within one budget year. It means that, by using the certificates of deposit, the treasury surpasses short-term periods of incompatibility in dynamic of the budget incomes intake in relation to the needs of the budget expenditures in one budget year. Based on these short-term loans of the state, usually with the Bank of Issue, occurs, so called, floating public debt, in duration of 3-12 months. This debt should be settled from regular, later on gathered tax incomes during the same budget year. However, if with these short-term loans covers the budget deficit, which occurs as a definite result of budget realization in one budget year, there appear, so called, financial floating debts, thanks to which the budget deficits transfer, *de facto*, from one to the next budget year.”⁵

On export trade development a direct influence had underdeveloped monetary and credit system. Till the Serbian National Bank was founded, in Serbia have functioned seven monetary institutions, Fund Administration and county savings banks. All mentioned was not enough to satisfy the needs of monetary and credit turnover. The amount of money was not sufficient, credit was hardly granted, the credit interests were too high, while usurious interest was up to 50%. Owing to that, there appeared a need for founding one central issue and credit institution, which would keep in basements silver and gold withdrawn from circulation, according to which would issue proportionally more paper money. After its foundation, the National Bank reduces credit price in the country. As already said, in the first year of its work, the National Bank had come across many obstacles, so it could not fulfil, at once, all its basic functions, primarily crediting.

With the Budget Law for the year 1883, the first time was included a paragraph, after which was allowed to Serbian state to use certificate of deposit⁶. Until then, Serbia could take short-term loans only in private monetary institutions in the country and abroad, or in foreign issuing institutions. With constitution of national issuing institution, the Treasury took the loan of 300,000 dinars in gold based on quarterly treasury bills. The credit was realized by the National Bank from capital it had received on favour of first payments for its stocks. “In paragraph 6 of the Law on the National Bank was anticipated that the Bank can, on the account of the state, to do the following activities: discounting and re-discounting of Serbian Treasury orders and state coupons; giving loans on pledge of Serbian state debenture stocks of any kind (debenture, coupons, etc.), as well as debenture stocks with guarantee of Serbian state; mediation in realization of loan in interest of the state. Starting with the first short-term loan of 300,000 dinars in 1883, the state had lavishly got into debt with the National Bank, during ‘80s. Together with short-term loans in the national issuing institution, the state started to issue also a mass of coupons to private persons and different

5 Gnjatović, D. (1991): *Stari državni dugovi*, Yugoslav review, Belgrade, p. 47.

6 Milojević, I. (2011): *Revizija izvršenja budžeta*, Accountancy, Vol. 55, no. 1-2, p. 81-88.

monetary institutions. The coupons sum was determined by the Budget Law, but was always exceeded, and the coupons were used for covering all possible expenditures. Exactly due to uncontrolled issuing of the coupons, there came to accumulation of temporary debts and chaos in managing the state finances.⁶⁷

“Thanks to conversion of permanent national debts in 1895 was decreased a total annuity of permanent national debt, but temporary debts issue was not solved. In the period 1895-1900 were alternating a progressive, radical and neutral Government, but none of them was successful in solving the problem of the national debts. Although the state incomes have been increasing, they were surely not sufficient to cover huge new expenditures of the Serbian state. The incomes of the Serbian state were increasing at the end of 19th Century primarily thanks to incomes growth from already existing sources. At first, a reimbursement of direct taxes and surtaxes was done in more organizing and more regular manner. Secondly, the state monopolies were providing increasing incomes, as due to increase of salt and tobacco price, as well as due to introduction of new monopolies.”⁶⁸

The most of military expenditures were for military acquisitions. The balance in the Balkans was considerably violated by Greek-Turkish conflict, in 1897, which has an effect on Serbia to put an accent on its military equipment. The military acquisitions have demanded additional assets, which had been available only as a loan. The foreign credit was hardly available owing to a fact that the credit of the Serbian state never had such a bad rating at the world stock markets. There was a discontent of numerous creditors regarding the decisions of the Carlsbad arrangement. King Milan becomes a commander of active army in 1897, and his will was to modernize⁹ the army at all costs. The state budget was chronically scarce, so the state, due to impossibility to get the credit abroad, turned to domestic capital.

Very unfavourable year for Serbian state and economy was 1895. That was the last year in which was decreasing the price of Serbian wheat at European markets, due to wheat import from America. Very important Serbian export product, Serbian plum, was badly rated at the world market. Owing to lack of money, the import had been decreased¹⁰. “Difficult circumstances in hog breeding had forced the government to take into consideration how could Serbia finally get free from Austro-Hungarian economic dependence. The only solution was not to export live hogs, but butchered and processed and, in that way, to take

7 Ibidem, p. 48.

8 Gnjatović, D. (1991): *Stari državni dugovi*, Yugoslav review, Belgrade, p. 75.

9 „After the acquisition of shotguns, there followed the acquisition of horses and cannons. The state budget has become more and more burdened by military expenditures. Due to huge military acquisitions, the budget expenditures of the Military Ministry have exceeded the state debts paying off. After the Karlsbad arrangement, the state has paid 17,6 million dinars for the state debts, while the military expenditures have increased to 20 million dinars.” (Jovanović, S. (1931): *Vlada Aleksandra Obrenovića*, book II, Geca Kon, Belgrade, p. 46.)

10 Annual reports of the Privileged National Bank (1898) for all years from 1890 to 1895, The State Mint of the Kingdom of Serbia, Belgrade, p. 19.

away from Austro-Hungarian a blackmail instrument. That is to say, there was inevitable to begin finally with slaughterhouse construction. After passing the Law on State Support to Abattoir Companies, in Belgrade was rapidly created, at the end of 1895, a joint-stock company for raising the livestock square and big slaughterhouse in Belgrade – Serbian Joint-Stock Company for Livestock Slaughter and Processing. In order to provide livestock transport from the Company to the Belgrade railway station, the Ministry of Finances was decided, in 1897, to take a loan of one million dinars in gold, for building the railways. The government then did not even try to find the assets from abroad, appreciating a significance of certainty of this economic project realization.¹¹ There was authorized the Administration of National Debts at the Ministry of Finances to collect assets and to pay off this loan. Especially should mention that the loan for building the local railway had met an important support at domestic monetary institutions. A special part in the loan realization was played by the Privileged National Bank, by purchasing one third of debenture stocks. Other two third of debenture stocks were purchased by other monetary institutions (66 of them), with paid capital of 15.1 million dinars. The National Bank was indirectly supported the loan realization when it is about the other monetary institutions, too. In other words, the National Bank, by crediting the monetary institutions, was helped in foundation and development of these institutions, while they become sufficiently powerful to overtake the realization of two third of the new state loan.

Difficulties with the north border were present furthermore; the border was closed for more than a year (from May 1895 to July 1896). The assets for slaughter railway construction were relatively rapidly found (mentioned loan for construction of the local railway); nevertheless, the construction of slaughter square and slaughterhouse was prolonged due to lack of stockholders' money. Around 110,000 dinars were missing to the Association for Livestock Slaughter and Processing, so it had turned to the National Bank with request to purchase a part of unpaid stocks in amount of 50.000 dinars. The National Bank responded again to the request and supported the Serbian Joint-Stock Company for Livestock Slaughter and Processing by purchasing 2,000 stocks of the company.

History of Serbian currency issue

To understand this problem, it is necessary to turn to the history of Serbian currency issue, we already aforementioned. Creation of Serbian national currency system was initiated during prince Mihailo's reign, in 1868, by forging the copper money. The system of the Latin Monetary Union was adopted by the law in 1873, which had imposed a double

11 Gnjatović, D. (1991): *Stari državni dugovi*, Yugoslav review, Belgrade, p. 77.

standard¹². Serbian monetary unit becomes a silver dinar, which had one franc parity. Finally, a creation of Serbian monetary system was crowned by the Law on Serbian National Money in 1878 when were founded gold coins with value of twenty and ten dinars, silver coins of five, two, one and a half dinar, as well as a copper money with value from 10 hundredth of a dinar, as the biggest, to 1 hundredth of a dinar, as the smallest. “ Though the system of the Latin Union has served as a pattern to the monetary system of Serbia, but by the law in 1878 had already departed from its principles, thereby had been limited a turnover of silver five-dinar coins to 500 dinars, and smaller silver coins to 50 dinars in one payoff. In that way, essentially, the Serbian monetary system had partially adopted a gold standard, i.e. a single standard.”^{13,14}

The gold standard has signified adoption of gold as universal value criterion. It is well known that, in the past, had alternating a domination between silver and gold, as the value criterion. In the second part of the 19th Century had dominated the gold standard (1850-1870), and later the double standard (1870-1895). At the end of the 19th Century had win the gold as the value criterion, and it had dominated in international economy until the WWI. “In time when Serbia *de facto* had departed from the Latin Union principles, around the world had considerably waged a struggle for the double standard. Vladimir Jovanovic, the Minister of finances of that time, had stated, as a main reason for adopting the gold standard, rapid decrease of silver value at the world market.¹⁵ Together with the foundation of the National Bank has been expected further tightening of the gold standard, however, the bank notes of 50 and 100 dinars, exchangeable for gold, had not been accepted in the monetary turnover. In 1885 there was a fear that the central bank was becoming a common credit institution. The bank notes in gold did not retain in turnover, while they were of too high value. The problem of monetary resources has appeared especially shortly before the Serbian-Bulgarian war (1885). Since that year, Serbia was actually abandoned the gold standard and was returned to the principles of double standard. The note of 10 dinars payable in silver, which has been put into circulation in 1885, has completely taken over the domination. It was already mentioned that an agio, as an additional payment for gold, had rapidly increased in 1893. The government had an attitude that the agio was a consequence of large amount of silver coins in circulation. However, connecting the monetary circulation with metal backing has denied the government’s opinion that the agio depended on money amount in circulation. The circulation of notes in silver

12 Double standard is a monetary system in which are two metals, gold and silver, monetary metals, while a relation of their mintage rates was legally determined. Both gold and silver coins were made to the same monetary unit (considering it was the same monetary system), they were forged in full value (according to determined mintage rates), were currency money and unlimited payment facilities. Economic Encyclopaedia (1994), Savremena administracija, Belgrade, I Vol, p. 957.

13 Single standard is a monetary system in which existed just one monetary metal, out of which was forged full value money. The single standard exists also when, along with forging, outlay bank-notes which are exchangeable nominally for full-value forged money.

14 Gnjatović, D. (1991): *Stari državni dugovi*, Yugoslav review, Belgrade, p. 79.

15 Ibidem, p. 79.

was extremely high in autumn 1893, when it had achieved the sum of 30 million dinars. The National Bank had succeeded, at the end of 1893, to decrease the circulation to 26 million dinars. With the law in 1896 was limited the issuing of bank notes in silver to 25 million dinars. Thereby had stopped a danger of bank notes withdrawal, nevertheless, by maximizing the amount of bank notes had significantly influenced the bank's flexibility. This amount was sufficient in common circumstances, but in autumn, in time of greater export, it was not enough. Traders – exporters had consulted the National Bank, while they had needed the money for livestock, plums, hide and wheat repurchase from farmers. Due to regulated sum of silver notes in circulation, the National Bank could not help the traders in export season. Crediting was suspended on August 20th 1897.

The end of the 19th Century was very unfavourable period regarding the currency issue, there should urgently pay a part of temporary debts, as well as the wages of employees and pensions, which had been late. The government had unilaterally passed the Loan Law at the Privileged National Bank in 1898, in amount of ten million dinars. The bank did not have this amount of money, so the government ordered to the bank to increase the circulation of bank notes in silver, for the loan's nominal amount. This form of loan issuing had negative consequences on tough economic situation in the country and on the currency circumstances.

“In March 1898, according to its decree, the state had raised a loan at the Privileged National Bank, in amount of 10 million dinars in bank notes in silver, by parity, with payment term of 10 years and rate of interest of 2%. As a guarantee for the loan payoff had served a non-pledged part of the state's excise tax income. Entire loan amount was used for payoff of the most important temporary debts. By the Decree on Loan was determined that the Privileged National bank must every year, till the end of the loan term, to withdraw from the circulation as many bank notes in silver, as the state was giving for its payoff.”¹⁶

The relation between the state and the National Bank

Thereby it had approved the loan to the state, the National Bank had increased the circulation of bank notes in silver for 10 million dinars. In order to provide the metal backing for issuing new bank notes, the bank had primarily to withdraw from the circulation 4 million dinars in silver notes and to buy silver coins for them. In that way was ensured the backing for issue of 2,5 times more bank notes in silver, i.e. 10 million dinars of loan. With withdrawal of these 4 million dinars bank notes in silver from the circulation, there was decreased the sum of money by which the bank could support trade and handicrafts, so there came to export trade endanger. The state soon realized its mistake; therefore the maximum circulation of silver bank notes was increased to 30 million dinars, on July 23rd 1898. Austro-Hungarian borders were opened again in 1897, so the export collapse was prevented, and was provided prosperity of Serbian trade at the end of 19th Century. Including the loan in 1898, the state

16 Gnjatović, D. (1991): *Stari državni dugovi*, Yugoslav review, Belgrade, p. 82.

debt at the National Bank had raised to 15,9 million dinars¹⁷. There was determined by the Loan Decree that the National Bank, every year, till the end of loan term, withdraw from the circulation so many bank notes amount as it gets from the state for its payoff¹⁸.

Scarcity of money had occur in August 1900, which had affected that the government raises the loan at the National Bank in amount of 2 million dinars of bank notes in silver, under the same conditions as on raising the loan in 1898. The bank's possibilities were not great, while the loan represented a new impact on its crediting, so the next day, after passing the Loan Law, the bank had to suspend bills (of exchange) discounting and allowing the pledged loans.

“This embarrassing relation between the state and the Privileged National Bank was discontinued in March 1908. With the Law on Privilege Prolongation for the National Bank was determined that the state can indebt at its issuing institution only in two ways: first, by discounting its coupons up to the most 10 million dinars, with payment term of three months and rate of interest of 2% to the sum of 5 million dinars maximum, and over that sum with the rate of interest of 1,5%; second, by temporary exchange of state cash (gold and silver) for equal amount of adequate bank notes, with no remuneration to the bank. The Serbian state had, yet before the compulsory loans in 1898 and 1900, indebted at the Privileged National Bank, but in other ways and in much lower amounts. The state debiting at its issuing institution by the certificates of deposit, loans on state debenture stocks pledge and by the bank share in constant state loans in the period 1884-1887 had attained up to 8,7 million dinars, i.e. the state could never withdraw more than one fourth of bank notes in silver from free monetary circulation. Increasing the state debt to 15,9 million dinars in 1898, in free circulation had left less than a half of totally allowed free quota of bank notes in silver.”¹⁹

There should emphasize that, by the law, was imposed the obligation that bank notes once put into circulation must be withdrawn in proportion with the state debt payment, which had disturbed the credit activity of the National Bank. Since the state had regularly paid its debt to the National Bank, the bank had regularly to withdraw the bank notes in silver from the circulation. All previously mentioned has influenced on crediting in autumn season. In that way appeared disproportion between credit possibilities of the National Bank and need for

17 Annual reports of the Privileged National Bank (1898), for all years from 1890 to 1895, The State Mint of the Kingdom of Serbia, Belgrade

18 The Privileged National Bank was increased silver notes circulation for 10 million, by giving the loan. In order to provide backing for issue of 2,5 times more notes in silver, i.e. 10 million dinars of loan, the bank had to withdraw four million dinars of silver notes from the free circulation and to buy silver coins for them. By withdrawal of this note amount was decreased a sum of money, by which the bank could support development of handicrafts and trade for almost one-fifth. There threatened a danger of export trade collapse in autumn season. The state immediately realized a mistake, and on July 23rd 1898 was increased the maximum of silver notes circulation to 30 million dinars, excluding the state loan of 10 million dinars. (Annual reports of the Privileged National Bank (1898) for all years from 1890 to 1895, The State Mint of the Kingdom of Serbia, Belgrade)

19 Gnjatović, D. (1991): *Stari državni dugovi*, Yugoslav review, Belgrade, p. 83.

internal money circulation. As stated before, at the end of the 19th Century, the monetary situation in Serbia was such that in circulation could not hold out gold bank notes, while the silver notes were not enough, which by the state had wanted to solve the agio problem. The currency issue was not solved, but left for some other time. "Formerly was thought that currency circumstances in the country could be regulated by legislative and purely formal way. However, both science and practice have proved that the currency issues are a product of economic and fiscal condition the country is in, and that they, by their selves solve, not by the laws but by the economic prosperity in the country. If the country is not indebted too much, if it is active in international balance, and if state finances are in good condition, then it is easy to solve the currency issues, but if the state budget constantly balance with deficit and if is indebted more than is profiting, then the currency will disrupt and could not be regulated. There should work on removing the causes which provoke and keep the currency derangement, therefore itself will bring into balance."²⁰

Organizing the state finances

Definitely settlement of the state finances has started with the loans at the end of the 19th and the 20th Century. The state's credit at the National Bank at the end of the 19th Century could only in short-term to alleviate a lack of financial resources of the main treasury. The Serbian state has, yet by concluding the loan with Bontu (1881), i.e. by the Lottery Loan had tried to solve the problem of budget deficits and temporary debts. However, at the end of the 19th Century, the debts had achieved the amount of 40 million dinars, so they could settle only by foreign loan. It was clear that the loan could get by extremely unfavourable terms, while the credit of the Serbian state was badly positioned at the European stock markets, and the course of government papers had not risen over 64%.

Radical-progressive government has taken over the power in 1901, when the radicals had dominating influence. The goal of the radical program was the country's economic emancipation and organization of the state finances. The king Aleksandar Obrenovic was turned to the Russian foreign policy in 1900, so there came to the course increase of the Serbian government papers (up to 72%). This was an outstanding opportunity to place the rest of debenture stocks of four-percentage Conversion Loan. The rest of this loan was realized till the end of May 1902. The loan was concluded with many banks, in amount of 60 million nominal dinars. The issuing course of the loan was 80%, term of payment 50 years, and rate of interest 5%. The bank were obliged to deliver the first half of the loan's effective sum to the Serbian government in June and the second half in December 1903. The guarantee for regular payoff was all income surpluses, managed by the Independent Monopoly Administration, and super-guarantee was all surpluses of rail incomes. It was determined that the Independent Monopoly Administration be authorized for the loan services, so the loan was named the Monopoly one. "Till the end of 1903, by the Monopoly loan were definitely paid all temporary debts. In that way, as things turned out, a dynasty Karadjordjevic had come to power when finally had been solved the problem that had

20 Written monument of the Privileged National Bank of the Kingdom of Serbia 1884-1908, p. 100.
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damaged the reputation of Obrenovic's reign for more than 20 years."²¹ "The new loan was Petrovic's loan in 1902, which had completely liberated us from the floating debt. The loan, concluded under the reign of the King Aleksandar, was not completely realized till the reign of the King Peter: payoff of the floating debt was considered an initial step of the new regime in organizing our finances; in fact, it was a final step of the old regime, which had working on finances organization for years."²²

The radical-progressive government was made in 1902 several important moves: it had realized the rest of debenture stocks of the four-percentage Conversion Loan, had concluded the foreign loan by which had been definitely paid off the temporary debts and had passed the Budget Law, by which had been forbidden to entry into the income account any unreal items (for example: deposited credits, expected tax collection etc.). The law had strictly forbidden costs exceeding in regard to planned expenses, therefore the government had taken care of legal situation during the budget conclusion for 1902. Also should be mentioned a merit of PhD Lazo Pacua, the minister of finances of that time. That is to say, in every former budget laws was planned a balance or surplus, and every year had ended with deficit. The year 1903 was the last that ended with deficit, starting from liberation war from Turks in the period 1876-1878.

Two reasons had, first of all, influenced on income increase of the Serbian state in the beginning of the 20th Century: first, regular collection of direct taxes and surtaxes; second, improvement of material position of Serbian people, whereat had increased the creditors' tax possibilities. "Undisturbed discount operations of the Privileged National bank had quite helped undisturbed development of export trade and increase of the population material welfare. During the realization of the Monopoly Loan²³, the government had paid off also a part of its debts to the National Bank after different loans, excluding the state (national) loans in 1898 and 1900. Thanks to it, the Privileged National Bank made available 2,7 million dinars of bank notes in silver, which had been connected to the state loans until then. The National Bank had put into the circulation these bank notes, i.e. put them available for trade, so it had not been forced to suspend the silver bank notes discount in autumn season. Thanks to the export increase and the realization of the Monopoly Loan, since 1903, in Serbia had found a large amount of gold, which had not immediately left the country. With this had revived also the circulation of bank notes in gold, while the agio had started to decrease rapidly. In regard that the government had regularly paid off the loan

21 Gnjatović, D. (1991): *Stari državni dugovi*, Yugoslav review, Belgrade, p. 87.

22 Jovanović, S. (1931): *Vlada Aleksandra Obrenovića*, book II, Geca Kon, Belgrade, p. 248-249.

23 The loan was negotiated with many banks, in amount of 60 million nominal dinars. Issue price of the loan was 80%, payment term 50 years, and interest rate 5%. As a guarantee for regular loan pay off made use all income surpluses, managed by the Independent Monopoly Administration, and as a super-guarantee made use the surpluses of rail incomes. The Independent Monopoly Administration was determined to do the loan service. Therefore the loan was named the Monopoly (M. Nedeljković (1909): „Istorija srpskih državnih dugova“, Printing firm „Štampa“ Stevo M. Ivković, Belgrade, p. 235.; *Budžet državnih prihoda i rashoda za 1904. godinu* (1904) The State Mint of the Kingdom of Serbia, Belgrade, p. 76.)

from 1898 and 1900 to its issuing institution, the state debt to the Privileged National Bank, with over 15 million dinars in 1901, had been reduced to 3,4 million dinars in 1905.²⁴

Table 1. National (state) debt at the Privileged National Bank of the Kingdom of Serbia 1884-1914 (in dinars)

Year	Debt	Year	Debt	Year	Debt	Year	Debt
1884	304.216	1900	15.857.418	1892	8.699.034	1908	3.020.861
1885	1.538.485	1901	15.085.261	1893	5.738.802	1909	11.307.626
1886	2.918.944	1902	12.835.603	1894	5.828.713	1910	-
1887	3.512.944	1903	8.528.908	1895	5.803.833	1911	-
1888	4.064.000	1904	7.517.235	1896	5.750.056	1912	5.000.916
1889	2.873.850	1905	3.430.656	1897	7.331.820	1913	34.649.915
1890	6.958.328	1906	-	1898	15.943.576	1914	170.276.900
1891	7.916.378	1907	-	1899	15.152.278		

Source: Annual reports of the Privileged National Bank of the Kingdom of Serbia for period 1884-1913. Annual reports of the National Bank of the Kingdom of SCS for the year 1920.

In the beginning of the 20th Century, the organization of Serbian finances had positively affected the credit solvency of Serbia, so the government could raise a foreign loan, which would be used for the economy reformation. Thus, the final organization of the finances had included also further construction of the railway and termination of army reorganization. The radical government had come to power in 1903 and immediately had encountered serious difficulties regarding the new loan realization. At the same time was looking for a new loan and was negotiating with Austro-Hungary about new trade agreement. A north monarchy was trying to stipulate their trade agreement conclusion with a new loan conclusion. The radical cabinet under the leadership of Sava Grujic could not separate these two issues, so, in 1905, it renounced it to the cabinet of Nikola Pasic. „The new government had tried to impose an equality character of both negotiators during the negotiations on the new trade agreement, following internationally-legal principles of legal equality among the states. Although, Austro-Hungary was trying to keep up to those relations set by the negotiations in 1881 and 1892, which had brought the Serbian economy to subordinate position. The negotiations on the new loan were conducting with the union of several French, Austro-Hungarian and German banks, under the leadership of the Union Bank from Vienna. According to a primary proposal of the loan for the military armaments and construction of the new railways, submitted to the Parliament in 1904, the Serbian Government should oblige to spend the loan in those countries the loan had been issued in. The creditors wanted to impose Serbia an unfavourable agreement by connecting the acquisitions with the loan, similar to Bontu’s Agreement in 1881 when the first railways had been constructed.”²⁵ That correlation between the loan and the industrial acquisitions reminded on old times of the General Union, when creditor, at the same time, in the same agreement, was both supplier and contractor, dictating all conditions and pilfering great profit. Austro-Hungary wanted to protect its self from the French arms

24 Gnjatović, D. (1991): *Stari državni dugovi*, Yugoslav review, Belgrade, p. 88.

25 Ibidem, p. 89.

producers by binding the acquisitions for the country the loan was issued in. That is to say, by purchasing cannons in France, Serbia would prove that it no longer depend, in economic and political sense, from the north monarchy. The primary proposal on loan was not accepted by the Assembly. The other, partially altered proposal on loan, had the same fate, more criticized due to political than economic reasons. In the creditor's union, an important part played the Union Bank, for which was believed it was subsidized by the Austrian Government. "Since the first proposal denial, to the submission to the Parliament of that loan proposal for military armaments and construction of the new railways that soon will be passed by the Parliament on December 1906, in economic life of Serbia had been happened changes that are going to completely change the country's position in the world economy."²⁶

Conclusion

The first debts of the modern Serbia have appeared at the end of the XIX and in the beginning of the XX Century, and had comprised the period of around 30 years, since the war for liberation and independence till the period of the Serbian state prosperity, in the beginning of the XX Century. Prior to it, Serbia, as a vassal Turkish province, had neither high state expenses, for administration, nor high military expenditures, because it had not entered wars. In the state existed a primitive national economy, with no social division of labour, therefore the state life was modest, and state funding was carried out simple and easy.

There are three main reasons, which led to debt occurrence in Serbia in observed period. The first and the most significant cause which led Serbia into debt was the war for liberation and independence. The second reason for debiting was the obligation of Serbia, after getting its political independence, to build a railway (according to Berlin Agreement and Berlin Convention). The third reason for Serbian debiting was the fact that Serbia, as independent country, entering the international community, had to rearrange fast into European organized country, so its governmental-legal organization for relatively short time, got significant ratio, which was also the case with militarism. All three causes had functioned in same direction and in favour of financial revolution in Serbia of that time. That all had reflected in hasty growth of budget expenditures and phenomenon of the public debt.

The emergence of the public debt was, from the beginning, bounded to the National Bank, i.e. its initial forms. And later on, during its functioning and period of finances stabilization, the National Bank was a carrier of all activities regarding the monetary system of the Independent State of Serbia.

²⁶ Ibidem, p. 90.

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ULOGA NARODNE BANKE U STVARANJU JAVNOG DUGA NEZAVISNE DRŽAVE SRBIJE

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Sažetak

Period koji karakteriše pojava javnog duga u savremenoj Srbiji je vezan za kraj za XIX i početak XX veka, gde je borba za nezavisnost usloвила porast spoljnog duga Srbije. Smatra se da je zaduživanje države kod Narodne banke³⁰ staro koliko i ustanova Narodne banke. Naime, još pre otvaranja samih šaltera Narodne banke Srbije napravljen je državni dug odobravanjem pozajmice od 304.216 dinara u zlatu, na podlozi državnih bonova. Time je učinjena prva poslovna transakcija Banke, koja je izvršena pre početka redovnog poslovanja.

Ključne reči: zajam, javni dug, Narodna banka

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30 „Narodna banka ne treba da bude izvor za pojačanje državnih prihoda. Ona može postati takav izvor samo posrednim putem: blagotvornim uticajem na pravilan razvoj i deobu kredita koji će od svoje strane oploditi i podići zemaljsku radinost i trgovinu, te na taj način ojačati one prvobitne izvore iz kojih državna blagajna dolazi do svojih prihoda.“ (Iz govora dr Laze Pačua, ministra finansija u skupštinskom pretresu Zakona o Narodnoj banci od 1904 godine, *Spomenica Narodne banke 1884-1934*, str. 38)