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THE RISE AND GROWTH OF SERBIAN BANKING UNTIL WORLD WAR I**

Part Two:

The Second Stage – The National State and the National Banking (1878-1914)

The development of Serbian banking during the 19th century was a gradual process that underwent two distinctive stages with the turning point in 1878 when Serbia became an independent state by the international agreement concluded at the Berlin Congress. In the first stage, until 1878, necessary political, economic and institutional preconditions had been formed for the rise of banking that led to the creation of the first organized credits and banks. During the second stage, decisive programme of economic and institutional development and modernization resulted in the mushrooming growth of banks. Apart from The Privileged National Bank of the Kingdom of Serbia (National Bank), as a bank of note issue, there were state banks and privately-owned banks mostly in the form of joint-stock companies. From 1894, farmers started to establish farm cooperative societies as institutions that met their credit needs with a much more favourable terms than banks. Analyses suggests that banks in the Kingdom of Serbia during 1878-1914 period better served the development of trade, building of the infrastructure (railroads) and industry than credit needs of the farmers who were the main economic agent of the country representing 85% of the total population.

Keywords: *credit institutions, banks, National Bank, credit demand, interest rates, paid-up capital, usury, foreign banks.*

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1. Introduction – Modernization and Development (1878-1914)

Political independence gained at the Berlin Congress in 1878, set in motion process of state and economic development and modernization of Serbia along the lines of Western-European countries. During this period main pillars of modern European state were created – democratic constitution (1888) and legislation, multiparty political system, the central bank, regular army, the first railroads, stock exchange, obligatory primary education and Serbian Academy of Sciences and Arts, to mention just a few of them. As for the economic development, decision about the national economic strategy was among the first decisions that forged this process of a economic modernization and development.

After vehement internal debates between liberals and protectionists over the national economic strategy, Prince Milan Obrenović and his government adopted export-led economic strategy with a liberal foreign trade policy. This decision was contrary to the decisions made by the majority of the newly independent states that usually adopted import-substitution strategy with high level of protection in order to initiate or stimulate development of the national industry.¹ Although at that time the world entered second stage of industrialization, Serbia did not close itself to begin national industry. Instead, Serbia started its national economic growth with already existing resources and economic branches – agriculture and foreign trade.

Based on this national economic strategy, foreign trade grew almost threefold between 1879 and 1911- from 80,6 million *dinars* in 1879 to 232,3 million *dinars* in 1911 (Table 1, Appendix). But, what was more important than this steady rise in the volume of trade was its balance – from 1888 there was permanent trade surplus until 1912. That year deficit occurred as a consequence of the preparations for the Balkan Wars (1912-13).

Serbia's main foreign partner was Austria from which Serbia imported industrial and to which exported agricultural products – mainly cattle. Comparing to Austria, and some other neighbouring countries, Serbia was far ahead in livestock breeding (Table 1). Simultaneously with great advance in livestock breeding, there was also growth of arable land that led to a significant rise in crop farming – especially in wheat and maize production. Between 1867 and 1910, maize production rose more than fourfold and wheat more than threefold.²

¹ About circumstances and reasons that led Prince Milan to adopt export-led economic strategy see: Stojanović, B. (1992): *Iz ekonomsko-finansijske i političke istorije Srbije (1878-1918)*, Finansije, broj 3-4, Beograd.

² *Dva veka razvoja Srbije – Statistički pregled, (Two Centuries of Serbian Development – Statistical Review)*, (oktobar 2008): Republički zavod za statistiku, Beograd, p. 121.

Table 1. *Livestock in Austria and some Balkan Countries (1900) (per thousand inhabitants)*

Country	Cattle	Pigs	Sheep	Horses
Austria	387	123	173	66
Hungary	335	288	629	132
Romania	366	165	690	85
Serbia	623	988	2 516	-

Source: Berend, I. (1974), p. 57.

Until 1906, Austria absorbed on average 86% of the Serbian exports and supplied about 65% of its imports.³ Liberal imports of industrial goods from Austria prevented the ascent of Serbian industry. Thus, adopted export-led economic strategy made a certain paradox – politically independent Serbia became economically dependent on Austria and for that Prince Milan was severely criticized. But permanent surpluses in foreign trade and big advance in agriculture justified the chosen economic strategy. Good results in these two sectors paved the way for the overall economic growth and opened opportunities for the later development of the industry. The minimum conditions necessary for the industrialization started to appear at the end of 1880s and were reinforced after the Custom War with Austria (1906- 1911).⁴ The Industrialization policy, governed by the Ministry for the National Economy, gave priority to those industries that could be supplied by domestic resources.⁵ Thus, industrialization began with food processing, textiles and mining. A Total number of industrial enterprises rose from 156 in 1893 to 464 in 1910 (Table 2).

Table 2. *Industrial development in Serbia 1893-1910*

Year	1893	1898	1899	1900	1901	1902	1903	1904	1905	1906	1907	1908	1910	1911
Number enterprises	156	243	256	268	282	292	350	360	383	375	416	448	464	-
Real growth rates in %*	-	23,8	7,7	28,6	8,3	5,1	1,0	-4,7	7,5	16,3	22,0	13,1	2,9	47,9

*of industrial production (prices 1898)

Source: Stojanović, B. (1992), p. 172.

³ Stojanović, B. (1992): p.173.

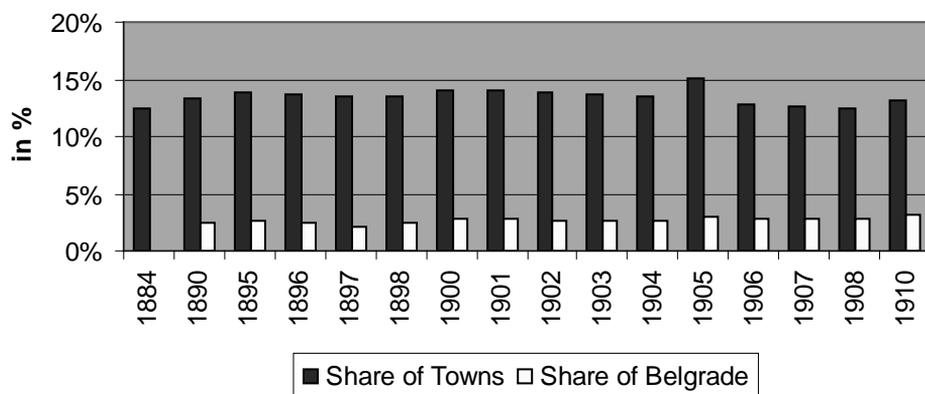
⁴ Đunisijević, R. (1990): *Osnivanje industrijskih preduzeća i razvoj industrije u Srbiji do 1918. godine*, BIGZ, Beograd, p. 9.

⁵ *Ibid.* 277.

Custom war finally put an end to predominant position of Austria in Serbian foreign trade since Serbia succeeded in opening new foreign markets for its exports by concluding trade agreements with Germany, Russia, Italy, France and England.

After 1878, Serbian population rose from about two million in 1884 to nearly three million in 1911 (Table 2 Appendix). The rapid demographic upsurge increased potential workforce and widened inner market making strong impetus for overall economic growth. At the same time, however, the share of town population did not increase markedly, in comparison to the period until 1878. In 1910, town population accounted for only 13%, and Belgrade population 3% of the total population (Figure 1). This was demographic reflection of the economic structure despite decisive step forward in economic transformation from 1878, Serbia remained agricultural country till World War I.

Figure 1. Share of Towns and Belgrade in Total Population 1884-1910.



Source: Table 2 in Appendix

2. The Structure of Credit Institutions in the Kingdom of Serbia

The first Serbian economic strategy of export-led growth and liberal trade, resulted in expansion of domestic and foreign trade that increased the volume of monetary and credit transactions. This was conducive to the creation of banks and a host of various types of credit institutions were set up by 1914. Also, monetary sovereignty, with the *dinar* as a national currency, finally facilitated realization of a long-existing idea of the creation of the National Bank in 1884.

Monetary legislation of 1868, 1873, and 1878, introduced bimetallism, i.e. limping gold standard, as a monetary system of the Kingdom of Serbia.⁶ The

⁶ See: Gnjatović, D. (2006): *The Introduction of Limping Gold Standard in the Principality of Serbia*, in: Avramov, R. And Pamuk, S. eds., *Monetary and Fiscal Policies in South-East*

legislation envisaged the minting of gold coins of 20 and 10 *dinars*, silver coins of 5, 2, 1 and 0,5 *dinars* as well as copper small coins of 10, 5, 2 and 1 *paras*.⁷ The sole right to mint coins was in the hands of the Serbian State. The first gold coins of 20 *dinars* (called *Milandors*) were put into circulation in 1879 in the amount of 10 million *dinars* and first silver coins in 1880 in the amount of 3,6 million *dinars*.⁸ Adopted bimetallism was the basis that later allowed National Bank to issue notes convertible in both – gold and silver. Parallel circulation of gold and silver notes lasted until 1914.

The structure of credit organization of the Kingdom of Serbia until 1914 was comprised of the following institutions:

- 1) *Privileged National Bank of the Kingdom of Serbia* (National Bank)
- 2) State credit institutions:
 - *Administration of Funds*
 - *State Savings Houses* (former District Savings Houses)
- 3) Privately-owned credit institutions in the form of:
 - joint-stock companies (with various names: savings houses, banks, credit houses, savings cooperatives)
 - private banks and exchange offices
 - mixed partnerships (limited liability)
- 4) Farm Cooperative Societies

Until the 1914, all these domestic credit institutions underwent certain transformations and foreign banks appeared following the increasing credit demands of the economy.

3. Privileged National Bank of the Kingdom of Serbia (National Bank)

The National Bank was set up as privately-owned joint stock company with the main purpose to provide cheap credits in order to help development of trade and production in the Kingdom of Serbia.⁹ The main instrument for achieving this purpose was the issuance of notes that would increase the supply of money and flexibility of the monetary system.

It was interesting that even before political independence and the creation of the National Bank, *The Act on the Issuance of Paper Money* had been adopted in

Europe, Comparative and Historical Perspective, Bulgarian National Bank, Sofia.

⁷ *Srpske novine*, 19.12.1878.

⁸ Dugalić, V. (1999): *Narodna banka 1884-2004*, Jugoslovenski pregled, Beograd, p22.

⁹ *Zakon o Narodnoj banci*, 6. Januar 1883. god.

1876. In compliance with this act, Serbian State printed the notes of 100, 50, 10, 5 and 1 *dinar* but they were not put into circulation.¹⁰

By the adoption of *The Act on the National Bank* 1883, National Bank was created under the name of *The Privileged National Bank of the Kingdom of Serbia*. This act established monopoly of note issue for the National bank – no other bank in Serbia was allowed to issue notes. Also, the act prescribed that the notes were fully and unconditionally convertible into gold (Article 10) and that a minimum metal cover was 40% for the notes in circulation (Article 11).¹¹ The convertible notes of the National Bank were proclaimed acceptable by the state cash desk (Article 12), which meant that they became legal tender.¹² The first notes of 100 *dinars* were put into circulation on July 15, 1884 by way of discounting credits with 5,5% interest and lombard credits with 6,5% interest.¹³ However, due to the problem of maintaining gold notes in circulation, National Bank started in 1885 with issuing notes backed by silver (silver notes) which gradually became dominant in circulation – just before the First World War their share in circulation was 95%.¹⁴

The authorized capital of the National Bank was 20 million *dinars* the payment of which was divided into two subscription series of 10 million *dinars* each. The payment of the first subscription was being carried out throughout almost three decades and was ended in 1912. The national Bank started its operation in 1884 with subscribed capital of 2,5 million *dinars*.

Throughout the period, the minimum legal cover of 40% was strictly observed as well as convertibility of the gold and silver notes. Redemption of notes was suspended only on two occasions – at the outbreak of the Balkan War (1912) and on the eve of World War I.

Apart from issuing notes, the National Bank applied other instruments for providing cheap credits. One of the major instruments was its discount policy by which discount rates was set in the range of 4,5-8% per annum throughout the period until 1914.¹⁵

The National Bank was allowed to advance credits to the State, banks and private firms. These credits took the form of discount operations, lombard credits and current account operations (collateralized loans).

With its operations, the National Bank primarily met demand of merchants, craftsmen and industrialist for short-term credits.¹⁶ However, national plans

¹⁰ About these notes see: Hadži-Pešić, J. (1995): *Novac Srbije 1868-1918*, Zavod za izdavanje novčanica, Beograd., p. 62.

¹¹ *Zakon o Narodnoj banci*, 6. Januar 1883 god.

¹² *Ibid.*

¹³ Dugalić, V. (1994): *Konvertibilnost dinara u periodu 1884-1941*, Finansije 5-6, Beograd, p. 256.

¹⁴ *Ibid.* 258.

¹⁵ Dugalić, V. (1999), p. 244.

¹⁶ Glomazić, M. (1933): *Istorija Državne Hipotekarne Banke 1862-1932*, Narodna misao, Beograd, p 68.

and endeavors for economic development and modernization required strong credit institutions able to provide long-term loans. To achieve this aim, the State reformed already existing state credit institutions – *District Savings Houses* and the *Administration of Funds*.

4. State credit institutions

The name of the former *District Savings Houses* was changed in *State Savings Houses*. To the existing five houses, State added another two by establishing one in Niš (1881) and second in Vranje (1886). However, all these savings houses began to show losses from 1888 due to poor organization, prolongation of maturities, non-performing loans and weak control of their work. In 1894, the *Decree on liquidation of the State Savings Houses* was passed, according to which all their assets and liabilities were transferred to the *Administration of Funds*.¹⁷ Official statistics recorded separately the data on *State Savings Houses* even beyond 1894 because their liquidation was slow and long process that lasted almost until World War I. Financial resources and debtors of the seven *State Savings Houses* are presented in Table 3.

Table 3. *State Savings Houses in Serbia 1888-1899*

Year	Number of Savings Houses	Creditors' Capital In mill. dinars	Number of Debtors
1888	7	4,40	9695
1889	7	4,40	6663
1890	7	3,63	6835
1891	7	3,63	6168
1892	7	3,58	4744
1893	7	3,64	6156
1894	7	3,64	5845
1895	7	4,20	6800
1896	7	4,10	6762
1897	7	4,00	6451
1898	7	3,10	4822
1899	7	4,80	5784

Source: *Statistički godišnjak Kraljevine Srbije*, various years.

In 1898, *Administration of Funds* was reformed. The new legislation did not change the principal aim and financial sources of the *Administration of Funds*. As before, it was allowed to advance long-term loans at an interest rate of 6% per

¹⁷ Arhiv Srbije, Zbornik zakona (1894): Zbornik 50, p. 1.

annum secured by immovable property and communal loans secured, either by immovable property or, by the revenues of the local authorities. Financial sources were also the same – public and court funds, private deposits, bonds and mortgage debentures (that could be sold on domestic and foreign markets). Securities issued by the *Administration of Funds* were given the status of the government securities. The significance of the new legislation was in the fact that it enabled transformation of the *Administration of Funds* from the simple state financial department into a proper state mortgage bank that began with strict application of banking principles, disciplines and procedures.

Until World War I, the *Administration of Funds* remained the biggest national mortgage bank. Its financial sources amounted to 68 million dinars in 1908 and 65 million *dinars* in 1909.¹⁸ In the respective years, total paid-up capital of all privately-owned Serbian banks was much lower – about 40 million *dinars* (Table 4).

In 1913, the structure and amounts of financial sources of the *Administration of Funds* were as follows:¹⁹

1. public and court funds	53 million dinars
2. private deposits	5 million dinars
3. foreign debentures	60 million dinars
4. domestic debentures	1,5 million dinars
<hr/>	
Total amount	119,5 million dinars

As it is seen, foreign debentures were the largest source of capital for the *Administration of Funds*. This verified how important was the role of the *Administration of Funds* in raising capital for the national economy on the foreign financial market. In this regard, the work of the *Administration of Funds* was in complete contrast to the operations of the *First Serbian Bank* from the previous period (1869-75) which better served foreign than the national interests. This favourable change was certainly the result of the great improvements in banking skills of the Serbian government and other private bankers.

¹⁸ Glomazić, M. (1933), p. 92.

¹⁹ Kukla, S. (1924): *Razvitak kreditne organizacije u Srbiji*, Komisionalna naklada Hrvatski štamparski zavod, Zagreb, p. 31.

5. Privately-owned Credit Institutions

Before the creation of the National Bank, several new banks had appeared – Šabac Savings House (1880), Belgrade Cooperative (1882), Serbian Credit Bank (1882) and Obrenovac Savings House (1884).²⁰ In total, only seven banks existed before the creation of the National Bank.²¹ Except for the Serbian Credit Bank, all other banks were of a small size.

The Serbian Credit Bank was the first foreign bank in the Kingdom of Serbia. Its founders were *Comptoir d'Escompte* from Paris and *Landerbank* from Vienna.²² The dominant owner became *Landerbank* with around 75% share in paid-up capital that was 1,2 million dinars. With this capital, the Serbian Credit Bank was the leading bank in Serbia until the beginning of the 20th century. Besides, this bank was the first Serbian bank that opened the inland office. This office was set up in Šabac, export center near the Austro-Hungarian border.

After the establishment of the National Bank in 1884, the pace of growth of the privately-owned banks accelerated. The number of these banks rose from 37 in 1888 to 187 in 1912 (Table 4). Their total paid-up-capital increased from 8,6 to 60,3 million dinars in the respective years. Data presented in Table 4 include all privately-owned banks in Serbia – domestic and foreign alike.

Privately-owned credit institutions appeared under different names – banks, credit houses, savings houses and savings cooperatives. The newspapers, literature and official statistics at the time, used the word “*money house*” as a general term for all these institutions.²³ Here arose questions - how these differences in names actually occurred and whether these different names reflected differences in the nature of these credit institutions?

Owing to the shortage of money and capital in Serbia, the first domestic credit institutions were set up in the form of savings cooperatives for mutual help of their members. Customarily, payments for the subscribed capital of the savings cooperatives was divided into several installments. Shares were of small denominations – 50 or 100 *dinars*. However, even the payment of one installment was carried out gradually, i.e. not in one sum. Usually, one installment would be paid weekly, i.e. by paying 1 or 0,5 dinars per week. Thus, payment of one installment could last even 100 weeks.

²⁰ Dugalić, V. (1999), p.24.

²¹ *Ibid.*, p. 24 and 90.

²² Mitrović, A. (1999): *Foreign Banks in Serbia 1881-2-1914*, in: Kostis, K.P. (ed.) *Modern Banking in the Balkans and West-European Capital in the 19th Century*, Aldershot, p. 76-97.

²³ The Serbian term “*novčani zavod*“ is here translated as „*money house*“ because early banks are very often called „houses“ in literature. See: Davies, G. (2002): *A History of Money From Ancient Times to the Present Day*, University of Wales Press, Cardiff, p. 291.

Table 4. *Banks in the Kingdom of Serbia 1884-1912* in mill. dinars*

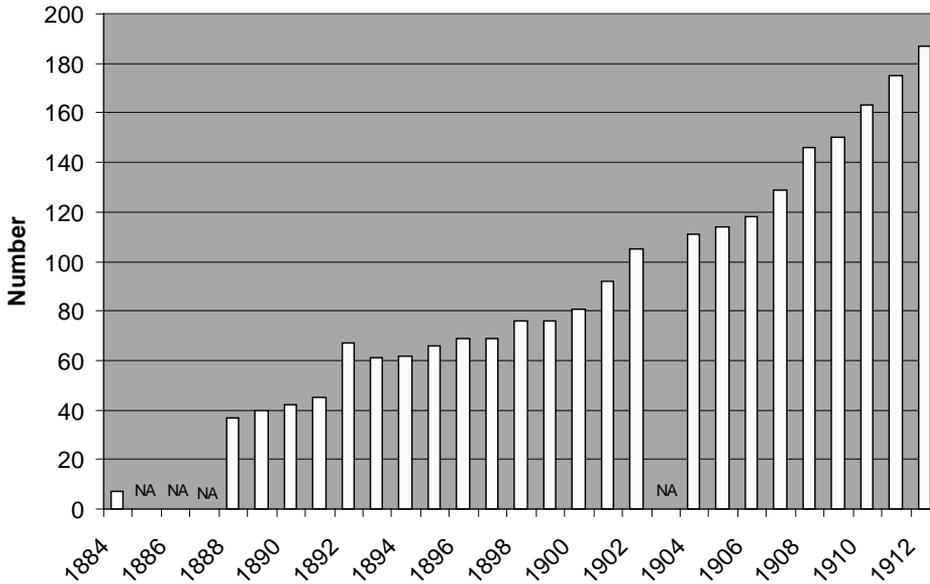
Year	Number	Paid-up capital with NB	Paid-up capital of the NB	Profit	Rate of return %	Savings deposits
1884	7	5,7	2,5			
1885	-	-	2,5			
1886			2,5			
1887			2,5			
1888	37	8,6	2,5	0,926	11	
1889	40	9,8	2,5	0,923	9	
1890	42	10,6	2,5	1,18	11	
1891	45	11,6	2,5	1,28	11	
1892	67	12,0	2,5	1,56	13	
1893	61	13,5	2,5	1,64	12	
1894	62	14,5	2,5	1,62	11	
1895	66	15,1	2,5	1,90	13	
1896	69	17,9	3,7	1,83	20	
1897	69	18,9	4,9	1,88	10	
1898	76	20,5	4,9	2,30	11	
1899	76	20,8	4,9	2,39	11	
1900	81	21,6	4,9	2,38	11	20,8
1901	92	23,2	4,9	2,64	11	21,8
1902	105	24,8	4,9	2,76	11	21,4
1903	-	-	4,9	-	-	23,9
1904	111	27,8	4,9	3,33	12	27,8
1905	114	29,5	5,0	2,42	8	31,0
1906	118	29,0	5,0	-	-	35,2
1907	129	32,9	5,0	3,76	11	39,5
1908	146	39,7	7,5	4,07	10	35,0
1909	150	41,0	7,5			-
1910	163	53,2	7,5			54,5
1911	175	53,3	7,5		8	65,0
1912	187	60,3	9,1		9	65,0

* Without the *Administration of Funds* and seven *State Savings Houses*

Source: 1. For 1888-1908 period: *Statistički godišnjak Kraljevine Srbije*, various years.

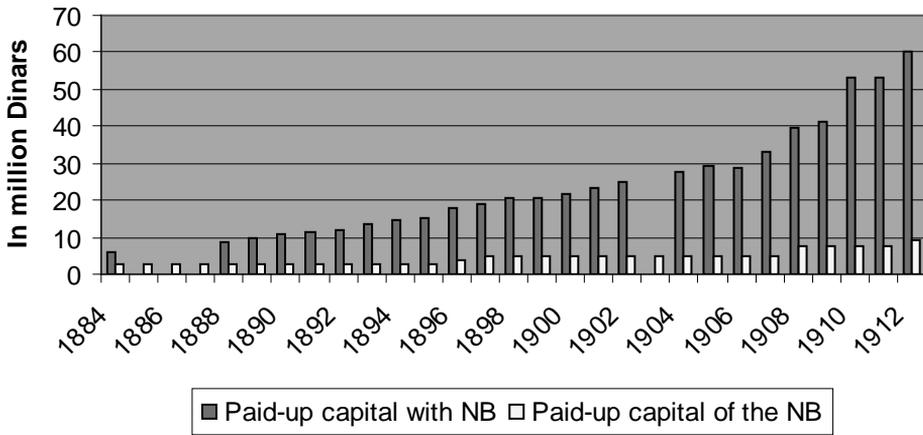
2. For 1909-1912 period: Author's calculation on the basis of Kukla (1924) and Mitrović (1999)

Figure 2. Banks in the Kingdom of Serbia 1884-1912.



Source: Table 4

Figure 3. Paid-up Capital of Banks 1884-1912.



Source: Table 4

Upon the payment of subscribed capital, majority of these savings cooperatives began to advance credits beyond their membership, i.e. to non-members and thus transformed themselves into real banks taking the organizational form of partner-

ships of the mixed or joint-stock form as was defined by the provisions of *The Commercial Law* (Chapter III). When *The Act on Joint Stock Companies* was adopted in 1896, majority of these bank partnerships assumed the form of real joint-stock companies. But during all these transformations they retained their original names. Thus, differences in the names actually reflected the organizational evolution of credit institutions more than differences in the nature of their businesses. This was also officially recognized. From 1906, official statistics of the Kingdom of Serbia discontinued with classifying “money houses” into four categories – banks, credit houses, savings houses and savings cooperatives arguing that all these institutions actually were of the same nature.²⁴ But, official statistics continued to use the term “money houses” for credit institutions instead of the term “bank”, perhaps because there wasn’t any legislature on banks that would define them.

As the essence of the banking business is giving credits and taking deposits, this paper would continue to use the term “banks” for Serbian credit institutions since they all were doing this essential banking business. However, Serbian banks also developed various other banking and, even, not strictly banking operations that would be presented later.

6. Foreign Banks in the Kingdom of Serbia

Foreign banks established operations in Serbia during 1880s as creditors of the Serbian State. They were advancing loans for the construction of the first Serbian railways for which domestic credit institutions did not have enough resources. Some of the foreign banks came to Serbia opening their branches and daughter banks (Table 5). These foreign banks were not numerous but in terms of paid-up capital were very important.

It is already mentioned that *Serbian Credit Bank*, set up in 1882, was the first foreign bank in Serbia. Later, another seven foreign banks were founded as daughter banks or branches of the foreign banks. *Bank Andrejević and Co* was set up in 1882 as a domestic bank but became foreign in 1888 when it was taken over by the *Hungarian commercial Bank* of Pest. In 1910 the bank was reorganized as a joint-stock company with 60% stake of the mentioned Hungarian bank and 40% stake of a new co-owner *German bank Berliner Handelsgesellschaft*. The branch of the *Prague Credit Bank* was founded in summer 1910 and only a few weeks later the *French-Serbian Bank* was created with head office in Paris and the branch office in Belgrade. The founders of the *French-Serbian Bank* were strong French banks that represented powerful concern of international proportions. This bank had a predominant position in the Serbian banking before World War I. *The Danubian Joint Stock Trade Company* was the creation of the Budapest branch of the *Serbian Bank* from Zagreb (Hungary). In early autumn

²⁴ *Statistički godišnjak Kraljevine Srbije, 1907, 1908. Prefice.*

1912, Serbian authorities granted a license for the creation of *Serbian-English Bank* but this bank never started to work perhaps due to three successive wars in 1912, 1913 and 1914. On the eve of World War I, bank *Fatherland* was established with Hungarian capital and *Imobilijarna banka* with French capital but they did not start to work.²⁵

Table 5. *Foreign Banks in the Kingdom of Serbia 1878-1914*

Name	Year of establishment	Country of origine	Paid-up or Authorized capital*	Branches
<i>Serbian Credit Bank</i>	1882 Daughter-bank	Austria/France	1,2	1 (Šabac)
<i>Bank Andrejević & Co.</i>	1882/1888** Daughter-bank	Hungary/Germany	1,0	1 (Niš)
<i>Prague Credit Bank</i>	1910 Branch	Czech Republic	5,0***	-
<i>French-Serbian Bank</i>	1910 Branch	France	4,0	2 (Skoplje and Bitolj)
<i>Danubian Joint Stock Trade Company</i>	1911 Daughter-bank	Serbian Bank from Zagreb (Hungary)	0,6	-
<i>Serbian-English Bank***</i>	1912	England	5,0****	-
<i>Imobilijarna banka</i>	1914	France	1,0****	-
<i>Fatherland</i>	1914	Hungary	-	-

*In million dinars

** Bank was established in 1882 but became foreign in 1888.

***It was not discernable from the sources if this was authorized or paid-up capital

****Authorized capital

Source: Kukla (1924), Mitrović (1999) and Milić (1992).

In addition to purely banking operations, foreign banks, especially *Prague Credit Bank* and *French-Serbian Bank*, engaged themselves in Serbian industry. The *Prague Credit Bank*, among other industrial undertakings, set up and run sugar plant, modern textile plant and chemical plant. For the industrial and communal projects, the *French-Serbian Bank* founded separate company the “*French-Serbian Society for Industrial Firms and Public Works*”.

Except for the foreign banks and the *Administration of Funds*, the majority of domestic Serbian banks did not open branches. However, branches of the *Administration of Funds* were not much of a help in mobilizing savings from inland Serbia or providing credits in the provinces because they had right solely to collect

²⁵ Milić, D. (1992): *Učešće Jevreja u bankarstvu Srbije do Prvog svetskog rata*, Jevrejski istorijski muzej, Zbornik 6, p. 181 and Kukla (1924), p. 32.

repayments of its loans. Merely the head office in Belgrade could approve loans to borrowers. The National Bank also did not have branches. Only after the Balkan Wars (1912), when Serbia got new territories on the south, it opened branches in Skoplje and Bitolj. Just three Belgrade banks followed suit. Since having branches was rarely the case, Serbian banking had a character of a unit banking.

7. Factors of the Mushrooming Growth of Banks

There were many factors contributing to the fast growth of the number of banks from 1884 - political, economic and institutional and they were intricately interwoven. Surely, the major factor was political independence that stands as a milestone for other factors since it forged independent national economic system and policy. Another crucial factor was chosen national economic strategy of export-led growth with liberal trade because it resulted in vibrant trade and increased demand for money and credit. Creation of the *dinar* as a national currency and the National Bank were the leading institutional monetary factors that contributed to the growth of banks.

Apart from mentioned primary factors, there were also other important factors. One of those was the incompleteness of the *The Act on Joint-stock Companies* (1896). This act missed to define minimum capital requirement and also allowed companies to start working only with the payment of 10% of the subscribed capital. But, there was no any authorized body or mechanism for controlling if this 10% were really paid-up in money terms or not. All these deficiencies in legislation on joint-stock companies contributed to easy and fast creation of banks.

Political parties took advantage of these legal circumstances giving additional impetus to the rise of the number of banks. They began to create their own banks as a method of political competition. By offering high deposit rates in their banks, political parties tried to win elections. To this end, political parties used to open banks even in villages. One example is the small village of Azanjath that had three banks.²⁶

Unit character of banking was another factor of fast creation of banks since the lack of branches was compensated by the opening of the new banks, especially in the provinces.

Analyzing the functioning of the credit market, the National Bank concluded that competition of too many small banks actually led to high market interest rates which annihilated its efforts of providing cheap credits to the economy. The government also realized this problem. At first, it decided to liquidate certain small banks but later it took the initiative to remove deficiencies in legislation, especially regarding the minimum capital requirements, in order to prevent further creation of very small banks.

²⁶ Avramović, M. (1914): *Zemljoradnik i novčani zavod*, Pijemont, Beograd, p. 18.

8. The Importance of the Serbian Banks for the Economy

The level of interest rate could be considered as the main indicator of the importance of banks for the economy. This stems from the very purpose of the banks' existence – to supply the economy with money at the lowest costs possible. Apart from the interest rates, there are other indicators that could show the significance of the banks for the economy. This analysis uses some quantitative and qualitative indicators: the level of the interest rates, several ratios that show the size of the banking sector and geographical distribution of banks in the Kingdom of Serbia.

8.1. Lending Rates of the Banks

Monetary history shows that some countries applied severe measures for those who jeopardize monetary stability or practice usury. In this regard, England is such an egregious example. Even in the 19th century, people in England were hanged for counterfeiting and forgery.²⁷ Usurious practices were thwarted from the early 12th century by the official setting of the maximum interest rates and punishment of expulsion from the country. In 1242, the king James I, fixed the interest by law at 18% but in practice it was disregarded.²⁸ The Jews, who arrived in England about the time of the Conquest, immediately became remarkable for usury why they were expelled from England in 1290 and were not readmitted until 1656.²⁹ In 1546, the taking of interest for money was made legal in England, and the rate of interest was fixed at 10%. In time, the legal rate was reduced in 1624 to 8%, in 1651 to 6%, in 1714 to 5% where it stood during the 1830s.³⁰

In the 19th century Serbia, the widespread usury had also been tried to be discouraged by the letter of the law. *The Civil Code*, adopted in 1844, prescribed that the lawful interest was 6% and maximum interest 12%.³¹ It also forbade the practice of compound interest.³²

Until the creation of the National Bank in 1884, interest rates of 11% and 12% were common in Belgrade while that of 10% was considered as low but in interior Serbia the rates were much higher. After 1884, however, market rates decreased throughout the country - in Belgrade to 6-8% and in provinces to 11-12%.³³

²⁷ Davies, G. (2002), p. 297.

²⁸ Gilbart, J.W. (1834): *The History and Principles of Banking*, Longman, Rees, Orme, Brown, Green, and Longman, London, p. 18.

²⁹ Ibid, p. 17.

³⁰ Ibid, p. 20

³¹ Article 601, Chapter XXI, *Građanski zakonik za Kraljevinu Srbiju*, 1891, p. 254.

³² Article 603, *Ibid*.

³³ *Godišnji i zveštaj Privilegovane Narodne Banke Kraljevine Srbije*, 1890, p. 9-10.

Table 6. Annual Lending Rates of the Serbian Banks 1888-1908 in %

Year	Number of Banks	Minimum Lending Rate	Maximum Landing Rate
1888	37	6,5	12
1889	40	8	12
1890	43	4 1/3	12
1891	45	5,5	11
1892	67	6	12
1893	61	5	12
1894	62	4	12
1895	66	5	12
1896	69	5	12
1897	69	4	12
1898	76	4	12
1899	76	4	12
1900	81	3	12
1901	92	5	12
1902	105	4	12
1903	-	-	-
1904	111	6	12
1905	114	6	12
1906	118	-	-
1907	129	8	12
1908	146	7 1/2	12

Source: *Statistički godišnjak Kraljevine Srbije*, various years.

According to the official statistics, the annual lending rate of the Serbian banks varied from the minimum of 3% to maximum of 12% between 1888 and 1908. (Table 6). The minimum rate emerged only once - in 1900 but the maximum rate of 12% was constantly present.

The lowest lending rates were charged by large Belgrade banks but the majority of provincial banks charged the maximum legal rate of 12%. Unofficial sources from the literature claimed that provincial banks actually charged the interest of 20-30%.³⁴ After the Balkan Wars, in the new south territories, according to unofficial sources, lending rates reached even 40-50% and often 100%.³⁵

What could be the proof of these claims? The first proof could be the official data on the banks' profits shown in Table 4. These figures show that banks' rates of returns were very high - averaging 11,1% during 1888-1912 period.

³⁴ Kukla, S. (1924), p. 57.

³⁵ Ibid.

A spontaneous creation of farm cooperative societies could be considered as the second proof of the high and usurious lending rates of the banks. Dissatisfied with the credit terms of the banks, farmers started to organize their own credit institution from 1894 when the first farm cooperative society was established. In three years there were 35 and in 1913 about 700 of such societies. Some sources report the existence of about 1000 farm cooperative societies in 1914.³⁶

Discussions in the National Assembly about usury was also evidence of the problem. In 1913, for example, banks were accused of ruining farmers in Smederevo district.³⁷ Some representatives even raised the question of “bankocracy” – the rule of banks in Serbia.

At the same time, some authors in literature resolutely claimed that “bank credits were not suitable for agriculture at all” and that “capitalistic institutions (money houses) could not solve the problem of usury.”³⁸

8.2. Other Indicators of the Banks' Importance

There are two most commonly used quantitative indicators of the banks' importance for the economy. The first measures the size of the banking sector relative to the national income or GDP of a country and the second measures the size of banking sector relative to population.

Geographical distribution of banks is a qualitative indicator showing the level of concentration of banking services, i.e. level of the access of city and provincial dwellers to the bank funds.

In order to reckon these indicators, reliable data are needed. In case of the Kingdom of Serbia, some indicators could not be reckon due to non-existence of data, lack of reliable data or broken time series. This problem was tried to be overcome by acceptable adjustments of the indicators or time series where possible.

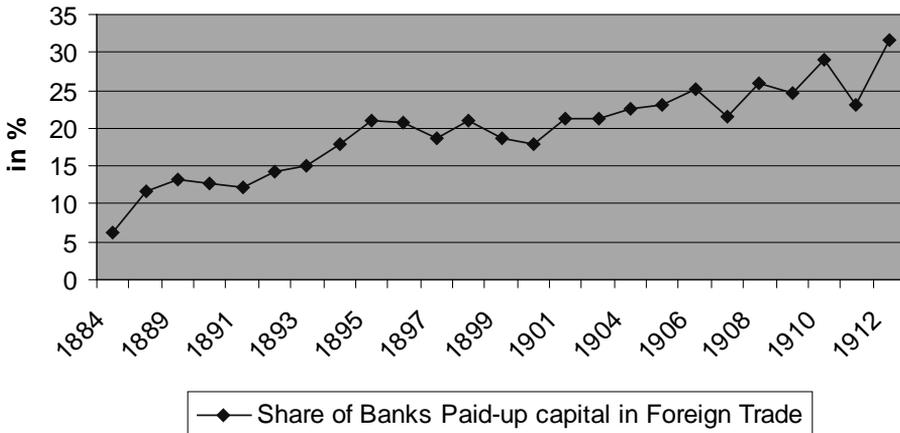
The first indicator was impossible to calculate because there was no data on Serbian national income and GDP for the period until World War I. As a surrogate for the missing national income and GDP, total foreign trade is taken for calculation because firstly, foreign trade was one of the most important economic activity in Serbia throughout the 19th century and, as such, total foreign trade could be taken as an indicator of the trend of the overall economic activity; secondly, there were official data on foreign trade for the whole period.

As mentioned earlier, there was steady increase of the volume of Serbian foreign trade until 1912 indicating steady economic growth (Table 1 Appendix). At the same time, the ratio of banks' paid-up capital to total foreign trade was also increasing – from the level of 6,3% in 1884 to 31,7% in 1912, suggesting that importance of the banking sector for the economy was growing. (Figure 4).

³⁶ Avramović, M. (1914), p. 51.

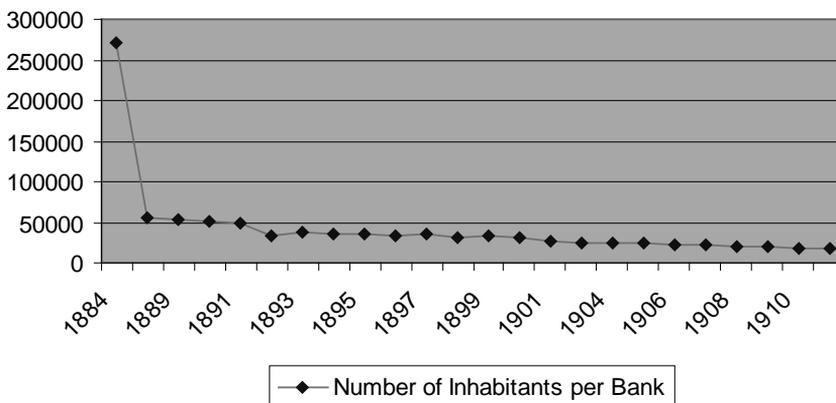
³⁷ Ibid. p.25.

³⁸ Ibid. p. 29 and 90.

Figure 4. *Share of Banks Paid-up capital in Foreign Trade.*

Source: Table 4 and Table 1 in Appendix

The second indicator – the ratio of population to banks, markedly declined from 271 676 inhabitants in 1884 to 16 838 in 1911 with the highest decline between 1884 and 1889 (Figure 5). Constant decline in this indicator meant that the access of borrowers to bank services was constantly increasing. This strongly supports the above conclusion of the growing importance of banking sector for the economy between 1884 and 1912.

Figure 5. *Number of Inhabitants per Bank.*

Source: Table 3 in Appendix

When data on geographical distribution of banks are added to the above favourable indicators, than the more realistic picture of the Serbian banking

appears. Data from Table 7, show that, on the one side, banking sector was concentrated in the capital of Belgrade and on the other, banks in provinces were of a much smaller size than those in Belgrade. The average paid-up capital of banks in Belgrade was about 0,60 million *dinars*, while that of provincial banks was only about 0,16 million *dinars* - roughly 3,7 times less. Interestingly enough, these differences in the size are not pronounced in the profits they earned.

Table 7. Banks in Belgrade and Provinces in 1911 and 1912* *in mill. dinars*

Year	Number of banks		Paid-up Capital		Average capital		Profit	
	B	P	B	P	B	P	B	P
1911	40	134	23,4	21,8	0,58	0,16	1,7	1,9
1912	44	143	29,3	21,9	0,66	0,15	3,1	1,7

* B = Belgrade P = Provinces

Source: Kukla (1924), p. 60.

Banks with paid-up capital over one million *dinars* were considered big.³⁹ These twelve banks are shown in Table 8. They all had their head office in Belgrade and only foreign banks opened branches in the provinces.

Table 8. The Biggest Serbian Banks in 1913 *in mill.dinars*

Bank	Year of establishment	Paid-up capital
<i>Prague Credit Bank</i>	1910	5,0*
<i>French-Serbian Bank</i>	1910	4,0
<i>Belgrade Cooperative</i>	1882	2,5
<i>King-Serbian Privileged Export Bank</i>	1901	2,5
<i>Belgrade Trade Bank</i>	1894	2,5
<i>Turnover Bank</i>	1895	1,5
<i>Vračar Cooperative</i>	1893	1,2
<i>Serbian Credit Bank</i>	1882	1,2
<i>Bank Andrejević & Co.</i>	1882/1888	1,0
<i>Country Bank</i>	1906	1,0
<i>General Economic Bank</i>	1907	1,0
<i>Vračar Savings House</i>	1898	1,0

*It is not certain in the sources if this was authorized or paid-up capital

Source: Kukla (1924) and Table 5.

In the group of the “big five”, with capital over two million *dinars*, the first two banks were foreign banks - *Prague Credit Bank* and *French-Serbian Bank*. These

³⁹ Stanarević, Nik. (1912): *Beogradske banke u 1911*, Štamparija Sv. Sava, Beograd, p. 7.

banks came to Serbia after the Customs War with Austria when economic activity all over Serbia was flourishing giving to foreign banks bright opportunities, not only for banking, but also for direct industrial activities. Foreign banks were able to meet rising demand for credits with the help of their powerful head offices. Only in 1914, one domestic bank – *the King-Serbian Privileged Bank*, was able to raise paid-up capital to five million *dinars*, approaching the largest foreign banks in Serbia.⁴⁰

Conclusion

Decisive programme of economic and institutional development and modernization of the Kingdom of Serbia that began after gaining political independence in 1878, resulted in the mushrooming growth of various types of credit institutions. Apart from the *Privileged National Bank of the Kingdom of Serbia* (National bank), as a bank of note issue, there were state credit and privately-owned institutions. The later were mostly in the form of joint-stock companies and operated under the various names – banks, savings societies, credit houses. The majority of private banks were small, unit banks of the universal type but their growth was remarkable – from 7 in 1884 to 187 in 1912. Foreign banks were much larger but not numerous – in 1912 there were five foreign banks in the form of branches and daughters of some European banks. In terms of capital, however, during the whole period the biggest bank was the *Administration of Funds* which was the state mortgage bank.

Creation of the National bank and other banks contributed to the decline of the lending rates at the banks, but market interest rates remained high and soared to usurious levels (100%). Surely, lack of capital was the main reason for usury but there were some other factors too – deficiencies in legislation, unit character of banking, lack of controlling body for the banks, geographical distribution of banks - to mention few of the basic factors. Private banks were concentrated in the capital of Belgrade which contributed to the violation of the legal maximum rate of 12%, especially by provincial banks. Farmers were especially beset by usury. To save themselves from usury and improve position on the credit market, farmers started from 1894 to create farm cooperative societies as institutions that met their credit needs better than banks. The growth of farm cooperative societies was also remarkable – in 1897 there were 35 and in 1913 about 700 such institutions. In terms of the absolute numbers, farm cooperative societies were more than three times numerous than banks. Analyses suggests that banks in the Kingdom of Serbia during 1878-1914 period better served the development of trade, building of the infrastructure (railroads) and industry than credit needs of the farmers who were the main economic agent of the country representing 85% of the total population.

⁴⁰ Kukla, S. (1924), p. 69.

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APPENDIX

Table 1. Foreign Trade of the Kingdom of Serbia 1879-1912 in mill. dinars

Year	Import	Export	Total	Balance	Growth of total trade in %*	Export growth in %*
1879	41,7	38,9	80,6	- 2,8		
1880	46,1	35,2	81,3	- 10,9	0,8	- 10
1881	43,2	40,1	83,3	- 3,1	2,5	14
1882	48,5	40,3	88,8	- 8,2	6,6	0
1883	49,7	40,2	89,9	- 9,5	1,2	0
1884	50,9	39,9	90,9	- 11,0	1,1	-1
1885	40,5	37,6	78,1	- 2,9	- 14,0	- 6,0
1886	51,7	40,7	92,4	- 11,0	18,3	8,0
1887	36,5	36,1	72,6	- 0,4	- 21,4	- 11,0
1888	35,2	38,9	74,1	+ 3,7	2,0	8,0
1889	34,8	39,0	73,8	+ 4,2	- 0,4	0
1890	38,0	45,8	83,8	+ 7,8	13,5	17,0
1891	42,8	52,3	95,1	+ 9,5	13,5	14,0
1892	37,0	46,4	83,4	+ 9,4	- 12,3	- 11,0
1893	40,9	48,9	89,8	+ 8,0	7,6	5,0
1894	34,8	46,0	80,8	+ 11,2	- 10,0	- 6,0
1895	28,2	43,4	71,6	+ 15,2	- 11,4	- 6,0
1896	33,4	53,4	86,8	+ 20,0	21,2	23,0
1897	45,3	55,9	101,2	+ 10,6	16,6	5,0
1898	41,1	56,9	98,0	+ 15,8	- 3,2	2,0
1899	46,4	65,7	112,1	+ 19,3	14,4	15,0
1900	54,0	66,5	120,5	+ 12,5	7,5	1,0
1901	43,8	65,7	109,5	+ 21,9	- 9,1	- 1,0
1902	44,8	72,1	116,9	+ 27,3	6,7	10,0
1903	58,2	59,9	118,1	+ 1,7	1,0	- 17,0
1904	60,9	62,1	123,0	+ 1,2	4,1	4,0
1905	55,6	71,9	127,5	+ 16,3	3,6	16,0
1906	44,3	71,6	115,9	+ 27,3	9,1	0
1907	70,6	81,5	152,1	+ 10,9	31,2	14,0
1908	75,6	77,7	153,3	+ 2,1	0,8	- 5,0
1909	73,5	93,0	166,5	+ 19,5	8,6	19,7
1910	84,7	98,4	183,1	+ 13,7	9,9	5,8
1911	115,4	116,9	232,3	+ 1,5	26,9	18,8
1912	106,1	84,2	190,3	- 21,9	- 18,0	- 27,9

* Annual growth rate

Source: 1. For 1869-1908 *Statistički godišnjak Kraljevine Srbije 1907 i 1908*, 1913, p.506.2. For 1909-1912 *Statistik aspoljne trgovine Kraljevine Srbije za 1912*, Državna štamparija Kraljevine Srbije, 1911 i 1914.

Table 2. Population of the Kingdom of Serbia 1884-1911

Year	Total	Towns	Belgrade	Towns in % of total	Belgrade in % of total
1884	1 901 736	235 887	-	12	-
1885	1 946 354				
1886	1 977 224				
1887	2 026 958				
1888	2 077 427				
1889	2 123 362				
1890	2 161 961	286 466	54 249	13	3
1891	2 191 908				
1892	2 211 606				
1893	2 240 270				
1894	2 272 992				
1895	2 312 484	319 375	59 115	14	3
1896	2 345 837	321 493	59 237	14	3
1897	2 384 205	323 734	51 259	14	2
1898	2 413 694	324 769	59 223	13	2
1899	2 450 392				
1900	2 492 882	351 015	69 769	14	3
1901	2 535 956	353 834	69 990	14	3
1902	2 571 517	355 323	69 904	14	3
1903	2 621 576	356 963	69 823	14	3
1904	2 671 505	358 969	69 725	13	3
1905	2 688 025	404 784	77 816	15	3
1906	2 735 147	348 434	77 504	13	3
1907	2 784 036	350 159	77 280	13	3
1908	2 821 015	350 682	76 965	12	3
1909	2 847 861	-	-	-	-
1910	2 911 701	384 822	89 876	13	3
1911	2 946 783	-	-	-	-

Source: 1. *Statistički godišnjak Kraljevine Srbije*, various years.

2. *Dva veka razvoja Srbije – Statistički pregled (Two Centuries of Serbian Development-Statistical Review)*, (oktobar 2008): Republički zavod za statistiku, Beograd, p.

Table 3. Population and Banks 1884-1911

Year	Population	Number of Banks	Inhabitants per Bank
1884	1 901 736	7	271 676
1885	1 946 354	-	-
1886	1 977 224	-	-
1887	2 026 958	-	-
1888	2 077 427	37	56 146
1889	2 123 362	40	53 084
1890	2 161 961	42	52 188
1891	2 191 908	45	48 709
1892	2 211 606	67	33 009
1893	2 240 270	61	36 725
1894	2 272 992	62	36 661
1895	2 312 484	66	35 037
1896	2 345 837	69	33 997
1897	2 384 205	69	34 553
1898	2 413 694	76	31 791
1899	2 450 392	76	32 242
1900	2 492 882	81	30 776
1901	2 535 956	92	27 564
1902	2 571 517	105	24 538
1903	2 621 576	-	-
1904	2 671 505	111	24 067
1905	2 688 025	114	23 585
1906	2 735 147	118	23 179
1907	2 784 036	129	21 581
1908	2 821 015	146	19 322
1909	2 847 861	150	18 985
1910	2 911 701	163	17 863
1911	2 946 783	175	16 838

Source: Statistički godišnjak Kraljevine Srbije, various years.

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NASTANAK I RAST SRPSKOG BANKARSTVA DO PRVOG SVETSKOG RATA

Drugi deo:

Nacionalna država i nacionalno bankarstvo (1878-1914)

Razvoj srpskog bankarstva tokom 19. veka je bio postepen proces koji je imao dve faze sa prekretnicom 1878. godine, kada je međunarodnim ugovorom Srbiji priznat status nezavisne države na Berlinskom kongresu. U prvoj fazi, do 1878. godine, stvarali su se neophodni politički, ekonomski i institucionalni preduslovi za pojavu bankarstva koji su doveli do stvaranja prvih organizovanih kredita i banaka. U drugoj fazi je odlučno sprovođenje ekonomskog i institucionalnog razvoja i modernizacije rezultiralo u velikom porastu banaka. Pored Privilegovane narodne banke Kraljevine Srbije (Narodna banka), kao emisione banke, postojale su državne banke i privatne banke koje su uglavnom bile u obliku akcionarskih društava. Od 1894. godine, poljoprivrednici su počeli da osnivaju seljačke zadruge koje su zadovoljavale kreditne potrebe seljaka po mnogo povoljnijim uslovima od banaka. Analiza ukazuje na zaključak da su banke u Kraljevini Srbiji u periodu 1878-1914. godina, više služile razvoju trgovine, izgradnji infrastrukture (železnica) i industrije nego zadovoljavanju kreditnih potreba poljoprivrednika koji su bili glavni ekonomski akteri zemlje u kojoj su činili 85% ukupnog stanovništva.

Ključne reči: *kreditne institucije, banke, Narodna banka, tražnja za kreditom, kamate, uplaćeni kapital, zelenaštvo, strane banke.*