

# Indebtedness and the road to monetary sovereignty following the international recognition of Montenegro in 1878

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Texto recebido em / Text submitted on: 04/01/2021

Texto aprovado em / Text approved on: 03/09/2021

**Abstract.** The paper is dedicated to furthering the research into different aspects of Montenegrin sovereign status gained at the Congress of Berlin, with a focus on the country's financial sovereignty. Becoming an independent state had a great historical significance for Montenegro, marking the realisation of the centuries-old aspirations for liberation. Still, exercising sovereign power proved challenging for Montenegro, as the country was still an underdeveloped, agrarian country with a high percentage of illiterate population, scarce human resources and modest economic opportunities. Aside from this, there were still many congressional restrictions to exercising the rights acquired by gaining access to the sea. The author seeks to determine the reasons for the high level of indebtedness, as well as the decisions made in trying to resolve the challenges in maintaining the country's financial sovereignty. The author also touches upon the broader subject of the role of gold standard in international trade and argues to which extent Montenegro was able to adhere to this internationally accepted standard, having established its banking institutions and having introduced its own currency. Considering that this paper is a part of the scientific research work on the project 'Montenegro on the political and cultural map of Europe' (CLIO MAP), explaining the reasons for minting the first Montenegrin coin is but a way to examine a segment in exhibit the country's sovereign status acquired at the Congress of Berlin.

**Keywords.** Montenegro, Austro-Hungary, national currency, financial sovereignty, monetary sovereignty.

## State of play subsequent to gaining sovereignty at the Congress of Berlin

With international admission acquired at the Congress of Berlin in 1878, Montenegro received all attributes of a sovereign country, as well as equal legal status with other members of the international community. Having been a state in a factual sense throughout the majority of the 19th century, it was at the Congress of Berlin that Montenegro finally became a state "in the sense of international law".

The decisions passed by the Congress contained a set of stipulations

which can be positively characterised, such as the recognition of Montenegrin independence, determination of its territory and territorial extension to include access to the sea. However, there were still a number of negative stipulations concerning the compromises made in favour of Austria-Hungary<sup>1</sup>. According to some authors, thus imposed limitations to Montenegrin sovereignty, especially those concerning coastal control, had put Montenegro in a very dependant position<sup>2</sup>.

Despite such interpretations, there is still no doubt regarding the historical significance of the decisions made at the Congress. Apart from the fact that Montenegro was recognised as an independent state, it also gained territorial expansion allowing it to establish conditions for faster economic growth and development. Although it was still an underdeveloped agrarian country, the forms of improved economic and overall social relations were far from negligible. In addition to a boost in domestic trade with the acquisition of new territories, there were also developments in foreign trade and a significant increase in import levels. After the Congress of Berlin, trade agreements were concluded with: Italy, Belgium, Serbia, Egypt, Germany, Greece, the Netherlands, France, Turkey, Bulgaria, Russia, England, Switzerland and Austria-Hungary. The economic and political life of Montenegro and its relations with the world began to intensify relatively quickly.

Still, there was pronounced industrial backwardness, especially subsequent to the Congress of Berlin. The enterprises were mostly small-scale with limited capacity and crude mechanisation, mainly in the field of food and wood industries. At the beginning of the 20th century, with the influx of foreign capital, primarily Italian, major Montenegrin companies found themselves in

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<sup>1</sup> In article 26 of the Berlin Contract (see *Le Traité de Berlin = Berlinger vertrag = Berlinski ugovor 1878: 190*) it was provided that the port of Bar and all Montenegrin waters would be closed for war ships of all nations; naval-police and sanitary control, both in Bar and along the Montenegrin coast were to be done by the Austrian light watch boats. Legislation which was in force in Dalmatia was adopted for the Montenegrin coast. The Austria-Hungary reserved the right to provide consular protection to Montenegrin trade flag. Finally, Montenegro had to make an agreement with Austria-Hungary about the right of that country to build and maintain one road and one railway road across Montenegrin territory on the coast. They also had to demolish all the fortresses built along the Bojana river and in the interior of Montenegrin territory; (see VUKIC 1928: 281 and PERAZIC, RASPOPOVIC 1992: 127).

<sup>2</sup> A famous lawyer in the XIX century, Friedrich Martens, wrote that if the decisions of the Berlin congress are taken into consideration, especially article no 29, then we can conclude that “The Berlin agreement obviously put Montenegro in a worse position than it had had previously been in; from factually independent country which it had been until the war with Turkey, the contract turned it into a country, with the right of the patronage of Austria-Hungary, which certainly has both strength and means to exercise that patronage“. We should, as Martins states, agree with the opinion of Bluncilo that Montenegro with its 285,000 citizens, under the conditions created in accordance with the Berling agreement, could not avoid falling under the influence of a big neighbouring state, and that it would make it difficult for the country to keep its political independence (MARTENS 1882: 264).

Italian hands. With granted monopoly in particular industries, the companies such Crnogorsko anonimno društvo controlled tobacco trade. Another example is Barsko društvo with monopoly over the exploitation of the Port of Bar, the construction of the railway to connect Bar and Virpazar and sails across Lake Skadar. However, it is important to note that the contribution of these companies in the country's overall economic growth was minor. The trade capital and the associated bank capital played a much more significant role.

Aside from the newly acquired ability to take part in international trade and thus undergo industrial transformation, the basic attributes in exhibiting a newly gained international and legal capacity as a sovereign country did not solely depend on congressional decisions, but were also conditioned by the country's own internal development. In spite of any internationally set frameworks, the country's capacity to become a full-fledged member of the international community is reflected in its ability to meet the requirements of establishing internal organisation as set by the international community. Following Montenegro's international recognition, we can note that all national life, in terms of state organisation, was underprepared. Ramping up state reforms became imperative immediately following the gaining of independence. The reforms would allow Montenegro to venture out of its ossified traditionalism and set up new, modernised institutions encapsulating the spirit of the times, while ensuring that the internal metamorphose would not affect the relations with its neighbours.

In terms of institutional solutions, there were assumptions that any country gaining independence through an international plan should work towards establishing its departments, while simultaneously improving in other segments.

Most of the state reforms made during the first decades following Montenegro's independence concerned mainly the government administration and institutional organisation, whereas the reforms in the areas such as economy, education, business, monetary policy and many others were yet to be tackled. Aside from any negative assessments of the reforms in 1879 and 1903, they still were, in a formal sense, directed towards reaching modern European standards in state administration. The said reforms exhibited strong aspirations to affirm international independence and improve the institutional apparatus.

The rights given to Austria-Hungary to "interfere" in the domestic affairs of Montenegro, in accordance with the Article 29 of the Treaty of Berlin, also included the monetary sphere. The establishment of a long-standing monetary policy proved yet another challenging task in the reform process. Even a few decades following its independence, Montenegro failed to establish coherent

monetary policy and decisively claim its monetary sovereignty<sup>3</sup>, seizing its sovereign rights to regulate all matters in regard to possible implementation of a national currency in the economic life of the state. The reasons preventing it from doing so were of realistic and objective nature and concerned the low level of development, small scale of trading, underdeveloped industry and crafts, and so on.

For Montenegro, finding foreign sources of financing was crucial to ensuring economic flow after 1878. The expansion of its territory to new areas of cultivated land and the cities gained after the liberation wars could not solely account for substantive economic development. General economic backwardness and poverty, along with the poorly developed trading relations, conditioned the low degree of capital accumulation, so the requests for loans abroad were necessary in order to acquire financial resources.

### **Borrowing from the foreign creditors**

Without adequate economic or financial policies set in place to ensure a certain amount of profit and under the circumstance that the loans were mostly used for the sole purpose of meeting essential and vital needs, this practice would soon enough bring about heavy debt for the state, making the payoff of such loans particularly challenging<sup>4</sup>.

The estimated indebtedness in the late eighties amounted to more than two million florins. There was an attempt to overcome the financial difficulties by arranging a new, larger loan. Such loan was agreed in Russia 11-23 September 1889. By concluding the Loan Agreement between the Principality of Montenegro and the State Bank of the Russian Empire, the debt to the Bank of Saint Petersburg was written off on the basis of the a from 1879 and the debt to other banks and foreign creditors were rehabilitated (AVPRI, F. Politarchiv d. 384).

Montenegro was able to consolidate its state debts by liquidating Viennese loans and regulating its debts to Russia. Still, the effect was not a lasting one. By concluding a very beneficial loan arrangement with Russia, Montenegro pledged not to no longer borrow money and in particular from Austria-Hungary. However, this commitment was soon broken when a loan agreement in the

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<sup>3</sup> On limitations to monetary sovereignty see ĐURIĆ 1992

<sup>4</sup> Although, along with the international recognition and territorial expansion (the territory of Montenegro doubled in 1878 and covered about 9.000 square km) its economic power grew, and as was noted, Montenegro did not manage to become financially independent from foreign financial funds that were gained by means of loans. That practice was developed to a greater degree, by taking more loans than in 1878. That was the reason why Montenegro found itself in the state of permanent indebtedness.

amount of 250 000 florins was concluded with a lender bank from Vienna on 31 October 1890. Yet another loan was arranged in Constantinople in 1892. Mitar Bakić, who was a diplomatic representative of Montenegro in Turkey at the time, arranged the conclusion of a loan agreement (DJUROVIC 1960: 218). The situation, however, drastically worsened in the following year 1893, when another large loan was concluded with the Imperial and Royal bank in Vienna on July 17/29<sup>5</sup>. By arranging this loan, Montenegro found itself in a challenging financial position. In his book, Djurovic notes that with this loan Montenegro had stepped into acute crisis, which would gradually become more apparent until there is a bigger force “to appear and temporarily settle this situation, only to, once again, continue along the same tracks and enter the financial ravine. The year 1893 marks a period when Montenegro had no option other than to conclude loans, one after another, in order simply to pay off the debts, and what is worse, to pay them off only partially”.

The debiting of the country abroad continued with Austrian credit bank, by concluding two loan agreements in Constantinople in 1897 in the amount of 350 000 napoleons in gold, and another loan was agreed in Italy in the amount of 500 000 francs (DACG, MF 1893-1896). Furthermore, in 1889 Montenegro caused a scandal due to unauthorized spending of the Austrian post office money, which consequentially lead to a crisis in the political relations with Austria-Hungary<sup>6</sup>.

Once again, the way out was sought with the help of Russia. The initial loan of 2 000 000 francs was given and the payoff was supposed to be done from the approved Russian subvention. The debt towards the Austrian post offices was liquidated (1 848 963,38) from these funds and a special protocol was signed between the Austrian Post and Montenegro (DACG, MF, 1898, folio 65). This time, aside from paying off all Montenegro's debts, Russia took extensive action to regulate internal financial conditions in the country. In 1900, a Russian financial expert Miler was sent to Montenegro on a mission to assist the process.

By eliminating the postal debt and paying off other due obligations with the help of Russia, the financial position of the country was alleviated. Although the conditions had improved, the debt at the end of 1900 towards the beginning

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<sup>5</sup> The loan was agreed with the interest rate of 6% and it was to be paid off in 25 equal semiannual installments. Much like with the earlier loan concluded in Austria-Hungary, the incomes from the monopoly on salt, income from customs duties, as well as the right to country's forest resources were given as a guarantee.

<sup>6</sup> Due to a lack of money from its own resources, the state was taking money from the post offices. In 1900, the amount of the taken money reached 600.000 florins. The money mostly belonged to Austria-Hungary, and thus Montenegro became even more indebted to Austria-Hungary. Because of this, the government of Austria-Hungary threatened to occupy a part of land until the postal debt is paid off.

of 1901 was 4,5 million florins. An unsolved question of paying off the loans from the Viennese banks remained, and there was the issue of paying off the million-worth loan agreements. Furthermore, the loan was regulated twice (in 1895 and in 1900) with a prolonged duration until the end of 1910. Due to financial difficulties, the State bank of Russia undertook to pay off of the Russian loan. In that way, a part of annual subventions to Montenegro were carried out in the amount of 60 000 rubles. This money had previously been used for paying off the loan. Owing to Russian assistance in sending its financial adviser Miler to Montenegro tasked with helping the process of modernization of the Montenegrin financial system, establishing the system of budget financing meant a significant step forward in reforming the monetary sphere. It resulted in passing the Law on Budget on 1-14 May 1901 (Crnogorski zakonici, Book II, 534). By means of this law, state financial policy was legally regulated for the first time. The Law on Budget was again passed in 1907 and for the first time in history of Montenegro the peoples' representatives at the Montenegrin National Assembly, introduced by the Constitution of 1905, were given power to control state incomes and expenses.

By establishing a modern budget system, for which Miler's mission was extremely significant, the conditions for paying off the annuities due on the basis of other loans from the state's own funds were set in place. By obtaining internal revenues through customs and taxes, the financial abilities of the country were strengthened, while the need to borrow money abroad was simultaneously reduced. As regards the financial conditions within the country, the situation in the first decade of the XX century changed significantly in a positive way. It was namely at the time that a decision was made towards stabilizing the financial system by introducing a new measure – a national currency.

### **Influence of external and internal factors on introducing Montenegrin currency**

Montenegro did not have its own currency until the beginning of XX century, or more precisely, until 1906. People used other currencies on its territory (mostly Austrian thaler, or florin). That was why all the clearing service was done in the Austrian currency – the gold currency until the Berlin congress and after 1878 in inconstant one (florins of Austrian value), which also had a cover in gold.

In terms of larger amounts of money (except for the banknotes of the Austrian bank of all denominations), various currencies circulated in the

country: “gold American dollars, which circulated in large amounts, because Montenegrin emigrants sent them ..., then French gold napoleons, Italian gold liras, English gold pounds, Turkish gold liras, German gold marks, and Russian gold rubles” (ASIICG, Jovanovic, f. 480). The official exchange rates for these currencies would be calculated by the Montenegrin Ministry of Finance in relation to the Austrian kronen, and these would be published in the Official Gazette Glas Crnogorca.

For Montenegro, possessing its own currency had great significance not only in economic, but also in a political sense. As we shall later see, such move eventually proved to be justified in terms of generated income. Still, having a national currency was a natural need for a sovereign country, as it meant emancipation from foreign forms of influence on monetary flows in the country. The goal was to limit any political interference of foreign centres of power in the internal matters of Montenegro. From a broader perspective, the existence of a national currency bears specific significance, not solely as a confirmation of national sovereignty, but it synthesises collective awareness and a sense of belonging to a national community. The existence of a national currency was likely to galvanise the identity status and a sense of historical individuality.

By the very nature of its existence, a national currency not only affirms the sovereign status of a country, but it can have a range of other influences on the collective. For example, showing state symbols and national heroes engraved on monetary units, as a way of paying homage to personalities of unquestionable high regard in a society, serves to make an imprint in the historical memory of the people, connecting it to a sense of pride and belonging to a state union, which then contributes to social cohesion within a given national historical and socio-cultural context.

Such ardent emancipatory ambition is not only evident in the national historical and socio-cultural sphere as it simultaneously pertains to the political realm, and strongly articulates the political resolve of the state of Montenegro. At the beginning of the first decade of the 20th century, this desire can be seen as very pronounced not only in the views of Prince Nikola, but also in the opinion of his political associates. After gaining independence, the Montenegrin people had Prince Nikola to thank for introducing Montenegrin money (ASIICG, Jovanovic, f. 480).

Still, no matter how adequate the economic and political reasoning behind the move to start minting Montenegrin money, or the determination to set off activities in that direction, the manner in which this was done in Montenegro was very particular bearing in mind the internationally upheld standards and established monetary practices of other countries.

The emergence of Montenegrin currency occurred at the time marked by the internationally adhered set of rules relating to exchangeability of national currencies, also known as “the gold standard” – a monetary system set in place to counter the volatility of exchange rates by ensuring that the money in circulation had a backing in gold. While “each country would define the price of gold in terms of its currency and keep the price fixed” still, “as an international standard, the key rule was maintenance of gold convertibility at the established par.” (BORDO 1999: 202). Generally, this meant that countries that opted for the gold standard tied the value of their currency to gold and the “maintenance of a fixed price of gold by its adherents in turn ensured fixed exchange rates” (BORDO 1999: 202). It is traditionally regarded by the scientific community that the system was put in place to stabilise volatile exchange rates and thus consolidate international trade, however, in more recently published literature, it is argued that British model of the gold standard, that eventually came to be internationally applied, was actually introduced with the aim of resolving domestic issues relating the rise of modern banking institutions, i.e. issuing banks. Thus, it is argued that what is known as “gold monometallism” was not merely “a technical solution” in bringing market stability by resorting to a fixed value of gold, but it rather “represented a first step in the state’s attempt to gain control over the rise of modern banking” (KNAFO 2013: 123). It is therefore argued that this system may be regarded as essentially political, as its goal was primarily to discipline banking institutions (KNAFO 2013: 150).

It is argued that “the essence of the gold standard rule was as a domestic commitment mechanism” (BORDO 1999: 205). By agreeing to gold standard, the countries were to set up their own institutions of gold standard, i.e. central bank, gold monometallism and sound money. It is important to note that this monetary regime was often adopted to provide domestic tools of governance to empower states (KNAFO 2013: 150). Therefore, the system is said to have been “particularly important to the countries that were relatively less developed and therefore depended on access to international debt markets” (BORDO 1999: 205).

Given what we have briefly said about the amount of public debt in Montenegro, in the first decades after gaining independence, due to the difficult economic situation it evidently struggled to maintain the country’s financial system and large borrowings from foreign banks show that there were neither gold nor silver reserves, and for a relatively long time after 1878 there were no

banking institutions<sup>7</sup>. Even after they were established, none of these institutions reached the level of a Central Bank, nor did they have an issuing function. This means that at the time when Montenegro started minting its first metal coin, it could not adhere to the international gold standard by means of any established “gold standard institutions”.

There was yet another noteworthy aspect of gold standard that concerned Montenegro. Since international adherence to the standard “created a system of fixed exchange rates linking all countries on the same standard,” there was an established practice where countries could choose currency of another country as its monetary basis, and the amount of monetary units was determined based on that currency stock (DJUROVIC 1960: 1969).

The issuing of the first Montenegrin coin was not done through the banking system, as there were no the issuing banks, but this was performed in accordance with the Article 10 of the Constitution of the Principality of Montenegro, which stated: “The Prince is entitled to mint money.” After issuing such decision, the first Montenegrin money could be minted on the basis of the monetary stock, that is, the required amount of foreign currency, likely of the country in which the money was to be minted.

## **The minting of Montenegrin money**

The Montenegrin government felt the need to “emancipate from the Austrian money” and the first attempts in that direction were made in 1893<sup>8</sup>. However, because of the position of Montenegrin finances and the big debt of the country, breaking away was not easy. On the other hand, Austria-Hungary had no interest in allowing Montenegro to mint its own money, especially allow its circulation on the Austrian territory. That was why the negotiations between the Minister of Finance Matanovic and the Austrian Prime Minister

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<sup>7</sup> The first banking institution in Montenegro was the Prva nikšićka štedionica, founded on 5-18 March 1901. The bank capital consisted of shares of 200 shareholders, with a total value of 200 thousand crown (the bank changed its name to Nikšićka kreditna banka in 1911). In the following years the following institutions were established: Podgorička banka (1904), Crnogorska banka (1905), Narodna štedionica Cetinje (1906), Narodna banka Knjaževine Crne Gore (1908), Državna hipoterna banka Kraljevine Crne Gore (1912) (DJUROVIC 1959).

<sup>8</sup> In the mid 1893, the Minister of Finance Niko Matanovic addressed Mita Perovic, the manager of the Viennese mint, in order to give him data about coins. At the end of 1893 Gavro Vukovic informed the Austrian deputy in Cetinje that the Montenegrin money could be equalised with the Austrian. The only difference would be that the Montenegrin money would contain Prince Nicholas's image and the two-headed eagle with the state coat of arms N. Matanovic travelled to Vienna from the same reasons and talked to the Austrian government (DJUROVIC 1960: 340).

Kucinski ended in failure<sup>9</sup>.

Minting its own money had great significance for Montenegro, not only in economic, but also in a political sense. As a sovereign country, it showed a natural need for possessing its own currency, which meant not only the confirmation of that sovereignty, but also a means for emancipation from foreign influence, Austrian most of all, and as a dam against its financial and political interference in Montenegro's internal affairs.

The edict of Prince Nichola concerning minting Montenegrin nickel and copper coins in denominational value of 200.000 kronen was announced on April 11/24 in 1906. This edict allowed Prince Nichola to exercise his right under Article 10 of the Constitution of Montenegro written in cyrillic alphabet, namely, that "The Prince ruler had the right to mint money." (PAVICEVIC, RASPOPOVIC 1998: 4). The edict specified that the money was to be minted in the currency units of 20, 10, 2 and 1 paras. It also determined the characteristics of Montenegrin money. It would bear the state coat of arms on one side, and the value designated in Arabic numerals on the other side, along with the inscription in a circle along the rim: "Principality of Montenegro 1906" (Glas Crnogorca, 15/04/1906). The Ministry of Finance was in charge of determining alloy and the amount of certain pieces. The specifics regarding the minted copper and nickel money were given in the book "Pedeset godina na prestolu Crne Gore". Perper was considered a basic monetary unit for the money minted in 1906. Bearing in mind that it had not existed as a monetary unit at that time and that all the clearing service was still being done in Austrian kronen, a reason for using such designation in this book can be that the value of perper, after it was minted in 1908, was equal to kronen and there was no basic difference between them.

According to data published in 1906, 200 000 pieces of bronze were minted in the value of one para (or 2 000 perpers) and 600 000 pieces of the same currency in the value of two paras (or 12 000 perpers). 750 000 of the nickel coins were minted in the value of 10 paras (or 75 000 perpers), and 600 000 pieces of 20 paras (120 000 perpers). The total amount of minted money, both bronze and nickel had the value of 209 000 perpers, which, as said, equals to the same amount in kronen (TOMANOVIC 1910: 189).

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<sup>9</sup> Concerning the ideas about minting real Montenegrin money, before it really came true, literature quotes the suggestion of the former Montenegrin consul in Skadar, Jovan Vaclik. In 1902 he suggested that the "Russian monetary palace in St Petersburg" minted the Montenegrin money out of the funds that Montenegro got from Russia as a subvention. Instead of paying off the subvention in rubles, Vaclik suggested that the Montenegrin money would be minted in St Petersburg during the following four years and sent to Montenegro. He thought that gold money should be minted first and then little copper or nickel money, which would then substitute the Austrian currency.

According to the writings of the gazette *Trgovinski glasnik* which was quoted by *Glas Crnogorca*, “the main Imperial and Royal Mint in Vienna” took on the job and completed it successfully “according not only to the experts who can assess this job, but also to the Montenegrin government” (*Glas Crnogorca*, 09/09/1906).

“A special deputy of the Imperial and Royal state Mint” in Cetinje was supposed to deliver the money. As it is later stated in the text, “project, model and the production of the coins were carried out in the mint itself, under the supervision of its manager, court counselor Mita Petrovic who was born in Pancevo, and was a mining engineer by profession” (*Glas Crnogorca*, 09/09/1906).

Once the minted money arrived in Cetinje by means of a communication made by the Ministry of Finance of August 28/September 10, the Montenegrin money was released and the customs offices were ordered to make exchange for Austrian small change – heller – which used to circulate in Montenegro. The customs received the necessary amount of money and were supposed to complete the exchange into Montenegrin currency by October 15 1906, after which the Austrian small change on Montenegrin territory would be removed from circulation by January 1 1907.

Montenegro began the seizing of its “monetary sovereignty” by minting small bronze and nickel coins. In the following years bronze and nickel small coins were still minted. This was followed by the minting of silver and gold coins.

In 1908, 110 000 small nickel and bronze perper coins were minted. According to the Prince’s edict from May 18 1908 the Ministry of Finance was authorized to release Montenegrin nickel and bronze coins in the stated nominal value, in the pieces of twenty, ten and two paras (*Glas Crnogorca*, 24/05/1906).

The nickel and bronze coins were minted in Vienna under the same conditions as those of 1906. Now, 250.000 pieces of nickel coins of 10 paras in the value of 25 000 kronen and 40 000 pieces of 20 paras in the value of 80 000 kronen were minted. There were 250 000 bronze coins of 2 paras minted in the value of 5 000 perpers (TOMANOVIC 1910: 191). The coins minted in 1906 and 1908 were not enough to meet the needs of the circulation in Montenegro. Thus, although it was strictly ordered that small Austrian money – heller, would not be accepted after 1 January 1907, it was still in circulation.

By taking up the minting of coins, the state achieved a large special income which it did not have before. It is estimated that the income from the money minted in 1906 was 162 441,17 perpers, or kronen, and from the money in 1908 – 88 560,32 kronen (TOMANOVIC 1910: 191).

It was certain that the financial profit was one of the reasons for continuing with minting money in Montenegro and raising the amount of cash flow. There was also the need to eliminate the domination of Austrian money and great diversity of different currencies which circulated in Montenegro. Certain expectations were expressed regarding the minting of silver Montenegrin coins. This would eliminate the Austrian silver krone which was the only silver currency that was circulating in Montenegro.

## **The minting of Montenegrin silver coins**

After the decision on minting Montenegrin silver coins was made, the government decided to have the coins minted in Paris because of the annexation of Bosnia and Herzegovina in 1908. Avoiding the Viennese mints was a sign of protest towards the expansionist politics of the Dual monarchy. The suggestion made by the Head Minister of Finance of Montenegro that the National Bank in Belgrade should take the responsibility of crediting the minting by opening the credit at the Parisian bank – Banque de Paris et des Pays-Bas, was accepted. In concomitance with bringing the decision about minting the silver coins, it was necessary to determine its name, too. Mihailo Jovanovic wrote in his memoirs that there were different suggestions such as: Lovcen, Zeta, Srebrić. Since these names were declared as “inconvenient, though, in the end the name ‘Perper’ was finally suggested. It was the name of the old German money from the time of Emperor Dushan” (AZIICGT, folio 380). The design for both sides of the coins was drafted by the Prof. Sobajic from Cetinje, and the cliché by Prof. Stevan Sulc from Vienna. The coins were minted in the French mint Bertrand et Beranger in the units of one and five perpers. The Prince’s edict, which empowered the Ministry of Finance “to have permission to mint and release Montenegrin silver money in the total value of 800 000 perpers,” was announced only after the money was minted and brought to Montenegro (Glas Crnogorica, 06/07/1909). There were 60 000 pieces made in denominational units of five perpers, in the value of 300 000 perpers. The second part of minted coins of 500 000 perpers was done in pieces of one perper. The excess profit from making this money was 492 216,99 perpers.

Together with the decision to mint silver coins, the Montenegrin government also decided to mint gold coins. The preparations were completed at the beginning of 1910. The draft and cliché were created by the same authors who were hired for the silver money. Minting these coins was entrusted to the Viennese mints, but a small profit was expected from the minting.

The edict which empowered the Ministry of Finance to mint and release Montenegrin gold and silver coins in denominational value of 1 630 000 perpers – 1 030 000 gold and 600 000 silver, was announced on March 19 / April 1 in 1910. The gold coins were minted in the pieces of 100 perpers (300 monetary units in the value of 30 000 perpers); 20 perpers (30.000 monetary units in the value of 600.000 perpers) and 10 perpers (in the value of 400 000 perpers); 300 000 pieces of silver money of two perpers in the total value of 600.000 perpers were minted. (Glas Crnogorca, 21/03/1910).

By the decision of the Ministry of Finance, the gold Montenegrin money in the total value of 1 030 000 perpers was released on March 25 in 1910 on the day of annunciation (Glas Crnogorca, 21/03/1910).

In 1910, on the occasion of celebrating the fiftieth anniversary of the reign of Prince Nichola, a jubilee gold coins were minted. They were different from those minted before. Next to the image of Prince Nichola, a laurel was put with the inscription of the period of ruling 1860-1910. The jubilee gold coin was also minted in Vienna, a million perpers were released. The jubilee money was made of three types. 500 pieces of 100 perpers (50 000 perpers) were minted; 30.000 pieces of 20 perpers (600 000 perpers) and 35 000 pieces of 10 perpers (350 000 perpers). As a result of the minting in 1910, 2 030 000 gold perpers and 600 000 silver ones were released.

No extra profit was made from the minting of gold coins in 1910. On the contrary, there were losses. The minting cost was more than its denominational value. As far as the minting of the silver money is concerned, the profit turned out to be 378 674,92 perpers (DJUROVIĆ 1960: 348).

The normative bases for all the coins minted in 1910 and before were the Prince's edicts which were based upon the Article 10 of the Constitution of Montenegro. That was why it was necessary to pass a legal act which would authenticate the existing situation, that is to say, create a tangible basis for the Montenegrin monetary system based on its own currency. That act was the Law on State Currency of the Kingdom of Montenegro from December 4 – 17 in 1910, which came into effect at the beginning of 1911.

Article 1 of the Law specified that "The Kingdom of Montenegro has adopted gold currency for monetary traffic in its territory whose monetary unit is perper". Thus, the Law ratified the significance of the Montenegrin currency forms that had already been circulating at the time of its passing. It concerned the shape, size, weight and alloy composition of gold, silver and bronze coins.

In addition, the Law concerned the matters of foreign currency circulation in Montenegro, as well as Montenegrin the circulation of Montenegrin currency abroad. It also stipulated the possibility of allowing the circulation of foreign

currency in Montenegro based on reciprocity should a country mint its money according to the same system. A special agreement would have to be made in that case. It concerned the gold coins, whereas silver, nickel, bronze and other small units, according to the text of the Law, “would not be accepted at the state exchequers, nor could it circulate in the domestic traffic as money” (Law on State Money, Art. 32).

The importance of the state law on money was also in that perper, being the only accounting unit – since the accounting values were not to be expressed in foreign but in domestic units – the accounting books and records relating to institutions and individual persons had to be set according to the same principle.

Bearing in mind this and some other conclusions, we can consider correct the estimates in the scientific literature “that the Law basically sanctioned the existing situation, by adopting those principles on which the money in flow was minted” (DJUROVIĆ 1960: 349). Apart from this, by proclaiming perper as national currency, the Law excluded the circulation of foreign currency in regular monetary traffic.

The Efforts of Montenegro to make its currency independent and stable in the monetary aspect, which finally yielded positive results, did not meet the benevolent attitude of Austria. Austria, for example, bought out Montenegrin gold coins and cast it in Austrian kronen. Thus, the Montenegrin gold coins soon became a rarity and the presence of the Austrian krone was retained. On the other side, Montenegrin money made its way into the Austrian territory and circulated there. Unofficially, Montenegrin money was accepted in Austrian territory. Such circumstance posed a demand for special regulations relating to the matter of monetary circulation in both of the countries’ official territories.

As Montenegro achieved monetary sovereignty by minting its own money, Austria was forced to contractually regulate its monetary relations with Montenegro by issuing a special document. Thus, a monetary convention<sup>10</sup> was concluded and it became effective of 21 September 1911 (DACG, MID 1911, folio 153). Without going into further consideration of its stipulations, it can be said that it was accepted on the Austrian territory with equal value as Austrian money. By means of this convention, the flow of Montenegrin money was limited, especially the small coins and the circulation of the Austrian small coins on the Montenegrin territory was limited, as well. The principle of reciprocity was achieved, i.e. the Montenegrin money had a 1:1 exchange rate to the Austrian money.

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<sup>10</sup> On the history of international monetary diplomacy see GALLAROTTI 2021.

Even after 1910, Montenegro continued minting money. Thus, on 23 December 1915 / 5 January 1912, The Monetary Law was passed (Glas Crnogorca, 11/06/1912). According to the said law, about 3 000 000 perpers, 2 000 000 of which were gold and 800.000 in silver, were to be minted, while 6 000 or 11 000 perpers were to be minted in nickel and bronze. The minting of such a big amount of gold coins was conditioned by the outflow of Montenegrin gold money and its treasuring, which influenced the permanent lack in flow. This law on money was partially realized. In 1912 only silver coins in the value of 586 800 perpers were minted. The minting continued in 1913 when the provided amount of nickel and bronze small money was minted. Two million gold coins were never minted.

After the First Balkan War, the Montenegrin territory significantly expanded and it required larger amounts of money in circulation. That was why the Montenegrin government passed a law on minting the silver, nickel and bronze money in February 1914 (Glas Crnogorca, 11/02/1914). The money was minted on the basis of the clauses of the Law on state money from 1910. A million and 250 000 perpers were minted in total. It was the last money minted in Montenegro. The Montenegrin government was not able to mint the rest of the planned 700 000 perpers of silver and 140 000 nickel and bronze coins because the World War I broke out.

## Conclusion

By introducing national currency, a great step was made towards strengthening the economic independence and state sovereignty of Montenegro with the emancipation from Austro-Hungary. By forming Monetary convention and thus creating a kind of monetary union, the equalization of both countries was carried out on the basis of equal currencies. In this manner, Montenegrin perper circulating on the territory of Austria-Hungary was treated as a monetary unit equal to Austrian krone. The result which was obtained with this Convention attested to the equality of the contracting parties and mutual acceptance of the reciprocities in cross-monetary relations.

Apart from the commercial and political effects, introducing national currency provided significant financial benefits as the net-income made from money issuance was 1 271 870,32 perpers. Compared to the condition of the Montenegrin financial system prior to minting its own currency, the monetary situation improved greatly which had far-reaching positive effects on the country's economic development.

## Abbreviations

ASIICG – Arhivska Sluzhba Istorijskog instituta Crne Gore (Archive collection of Historical Institute of Montenegro), Podgorica.

AVPRI – Archiv vneshnei politiki Rossiiskoi imperii (Archive of Foreign Policy of the Russian Empire), Moscow, St. Petersburg.

AZIICGT – Arhivska zbirka Istorijskog instituta Crne Gore Titograd (Archive collection of Historical Institute of Montenegro, Titograd), Podgorica.

DACG – Drzhavni Arhiv Crne Gore (State Archive of Montenegro), Cetinje.

MF – Ministarstvo finansija (Ministry of Finance).

MID – Ministarstvo inostranih djela (Ministry of Foreign Affairs).

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