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Early Banknotes of the Habsburg Empire and Their Circulation in Transylvania Until the Establishment of the Austro-Hungarian Dualism

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KOSSUTH'S banknote,
10 forint (1848)

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Introduction

THE TEMPORAL boundaries of the research are defined by the first issues of Austrian banknotes and the year 1867, when the Privileged Austrian National Bank was reorganized on a dualist basis, becoming the Austro-Hungarian Bank, with all the subsequent monetary changes. These would be much more severe for Transylvania, newly annexed to Hungary.

We outlined the second part of this theoretical itinerary of banknotes by means of the following monetary milestones:

- 1848–1849: Kossuth's banknotes, issued and put into circulation by the first independent Hungarian government in 1848;
- 24 January 1857: the conclusion of the monetary agreement between

Austria, Prussia and other states that participated in the German Customs Union (*Zollverein*); maintaining the silver standard as the basis of the monetary system;

- 19 September 1857: imperial patent by means of which the monetary system of the monarchy is reorganized and modernized;
- 27 April 1858: imperial patent on monetary reform; the introduction of the Austrian currency system beginning with 1 November 1858;
- 30 August 1858: imperial patent which amended the privilege of the bank of issue, in accordance with the provisions of the Monetary Convention (Treaty);
- 26 December 1858: order which stipulated the withdrawal from circulation of the old currency and the issue of a new one.

What is new in 1848, the year of the revolution, is the issue and entry into circulation of banknotes from the first independent Hungarian government. The last part of the article is dedicated to the presentation of the terms of the Monetary Convention, concluded between Austria and the countries of the German Customs Union, ending with a series of conclusions formulated in response to the central topic of each section.

The studied bibliographical material is extremely vast, including documents, archives and other sources, yearbooks, statistics, periodicals and indexes, monetary legislation, general works and specialized works, which is why this research required an extended period of time.

“Kossuth’s Banknotes”—Banknotes Issued by the First Independent Hungarian Government 1848–1849

“ON 3 SEPTEMBER (1848), the harvest of Archpriest George Crișan from the commune of Săcalu [Bărboși/Mezőszakál], Mureș County, from the Plains, was parched, and the damages amounted to 4,000 (four thousand) florins in Austrian currency.”²¹ In 1848, especially after the events of March, the Privileged Austrian National Bank faced a number of difficulties, due to the large quantities of coins from the coverage stock, withdrawn under the pressure of events by holders of banknotes, by virtue of their convertibility.

Thus, beginning with 1848, at the request of the state, the Privileged Austrian National Bank issued the so-called salt mine vouchers (*Salinenscheine*). Their name comes from the fact that the guarantee for the issued mortgage vouchers was made with the income from some state salt mines in Austria. Their repayment term was 12 months, the interest ranging between 5% and 6%. The term ‘voucher’ itself, taken from French, means ticket authorizing the receipt of

something.² Being received as payment by all public pay offices, they fulfilled the function of a means of payment.

In the context of the revolution, Lajos Kossuth (1802–1894), the leader of the Hungarian revolution, addressing the Diet of Pozsony (Bratislava, Pressburg) on 3 March 1848, made a number of claims, among which in Section 9 he also mentioned the establishment of a national bank. On 11 April 1848, 31 laws were sanctioned by the emperor and they went down in history as the “April Laws,” broadly reflecting the revolutionary claims of 3 March. These laws represented, in fact, a new Constitution.³

The first independent Hungarian government was established on 12 April 1848, and was called “the Batthyány Cabinet,”⁴ after the name of the prime minister. Here, Lajos Kossuth, as minister of finance, played a key role in trying to gain independence in the organization and management of state finances, considering the fact that he took over an almost empty treasury.⁵

So, to begin with, they sought to stabilize Hungary’s financial position by issuing their own banknotes and treasury bonds. At that time, throughout the Habsburg Empire, and obviously in Transylvania too, were circulating only banknotes issued by the Privileged Austrian National Bank starting with 1816.⁶

For this purpose, starting from the claim made under Section 9 during the Diet of 3 March 1848, concerning the establishment of a national bank, on 17 June 1848 Kossuth signed a convention with the Commercial Bank of Pest, which was thus granted the status of Central Bank by the Hungarian state. In accordance with this convention, the state undertook to provide the bank with an amount of gold and silver worth 5 million florins, and the bank was to issue on this basis banknotes worth 12.5 million florins.⁷

Despite the opposition of the Privileged Austrian National Bank, on 24 May 1848 the imperial government authorized the issuance of the first Hungarian banknotes, which circulated under the famous name of “Kossuth’s banknotes” (*Kossuth-bankók*). The total value of banknotes in circulation was 3,772,000 florins, and in August a new issue worth 61 million florins was authorized, in denominations of 5, 10, 100 and 1,000 florins.⁸

Thus, the first banknotes were issued by the Commercial Bank of Pest, granted the status of bank of issue, on 5 August 1848. Then came the issues of 1 September 1848, represented by banknotes in denominations of 1, 5, 10 and 100 forints. The convertibility of these banknotes is proven by the printed text under their nominal value, which states the equivalence and the possibility of their exchange for silver coins, maintaining silver monometallism as a type of monetary system. For example on the front of the 1 forint banknote the text states: “This banknote will be accepted in all the states belonging to Hungary and by

all public pay offices as 1 florin in silver, three zwanzigers being one florin: and its whole nominal value is guaranteed by the state.”

The issuance continued throughout 1849; on 1 March, banknotes of 1, 2 and 10 forints, along with banknotes of 1 gulden were issued and put into circulation. Due to a shortage of fractional coins in monetary circulation, paper money of 10, 15 and 30 kreuzers (10 pengő krajczárra; 15 pengő krajczárra; 30 pengő krajczárra), began to be issued on 1 August 1849. On the new banknotes, the text in Latin or German was replaced with a text in Hungarian. These banknotes came into circulation in Transylvania (the printed text below the nominal value mentions the obligation to accept them in all territories belonging to Hungary; the nominal values of the banknotes were also inscribed in Cyrillic letters, especially for Transylvania), the most commonly used in commercial exchanges being the ones of 1, 2, 5, 10 and 100 forints.

With the defeat of the revolution of 1848–49, a new stage in the history of the Habsburg Empire began—the neo-absolutist one. After a period of intense turmoil, which considerably weakened the imperial power and questioned the very existence of the multinational Habsburg state, there came a return to peace and stability, strengthening the foundations of some structures which in many cases had proven their fragility. The means used to achieve this led to a strong centralization, which became excessive, given that it ignored the particularities of the local context. Thus, it aimed to solve problems through measures ordered by the Court and its related bodies, and implemented by a complicated bureaucratic system, reinforced by the military authority. This is an era when a vast reorganization was devised and attempted, especially on an administrative and judiciary level, but the many decrees and ordinances lead to modest results. Similar attempts at reorganization concerned the economic, social and cultural fields, and included the patents for the abolition of Land Register relations, provisions instituting the principle of free competition, or the reorganization of education. The strict censorship, the exceptional laws and the judicial bodies aimed to apply them, as well as the fear of another set of revolutionary events, all complete the picture of a regime which is generally associated with its principal promoter, Alexander von Bach.⁹

Ludwig von Wohlgemuth was tasked with implementing the first measures of the new regime in Transylvania, in his capacity as governor and commander of the imperial troops in the country, along with Edward Bach, who served as commissioner for civil matters.¹⁰ The military commander and the district commissioner for civil affairs were responsible for restoring and maintaining the political order, ensuring the security of property and people, publicizing and applying the laws. Along with the disarmament of the masses, the seizure of goods belonging

to the revolutionaries and the organization of reprisals against them, these local administrative bodies also supervised the elimination of the banknotes issued by the Hungarian revolution during the early neo-absolutist regime.¹¹

After the defeat of the revolution, the withdrawal of Kossuth's banknotes (due to their cancellation) meant major losses for the population of Transylvania:

. . . the late merchant D. Sterie Arsenie from Preurbiu has bequeathed to the school belonging to the great holy church of St. Nicholas 2,500 fl.w.w. (Wiener Währung), i.e. two thousand five hundred florins, which were collected by the administration in 1849, when the Hungarians were masters in Braşov. The treasury cashier of the Holy Church, Nicolae Dumitru, identified 10 Hungarian banknotes of 100 fl.c.c. (Convention currency) each, and because these banknotes were in danger, they could only exchange seven of them, with the loss of 225 fl.v.c. (Vienna currency) and the other three, along with other lower denomination that remained in the amount of 1,053 fl.¹²

Counterrevolutionary actions also involved considerable expenses, the Austrian currency entering a new crisis. The total value of new Austrian banknotes in circulation at a forced rate, until the end of 1849, was 242.8 million florins. The silver coins and the lower denominations again disappeared from circulation.

Starting with 1854, only the banknotes of the Privileged Austrian National Bank were kept in circulation throughout the monarchy.

The Monetary Convention between Austria and the Countries of the German Customs Union (*Zollverein*)

THE VIENNA Monetary Convention (Treaty) (also known as the Vienna Coinage Treaty), concluded on 24 January 1857 between Austria and the states of the German Customs Union (*Zollverein*), brought some changes to the monetary system of the monarchy, except for the silver standard, which was maintained. These changes had effects on the money circulation in Transylvania and included the generalization of the decimal system and the issue of various types of coins: the main national currency (Austrian florin) and union silver coins (*Vereinsthaler*); commercial gold and silver coins; fractional silver and brass coins, in compliance with the obligation to maintain their divisional character.

The conclusion of the convention was a very important moment in the reorganization and modernization of the monetary system of the Habsburg monar-

chy, and therefore had important consequences on money circulation in Transylvania.

In order to consolidate the currencies of the states participating in the Monetary Convention, Article 22 regarding the issue of paper money forbade the setting of a forced rate, introducing the obligation of their convertibility upon presentation and at any time into the main silver coin (standard) of that respective state, as of 1 January 1859. The right to issue banknotes was granted either to the state, or to an institution empowered by the state, but only provided that they would observe the obligation of ensuring their convertibility into silver. This article was aimed primarily at Austria, which was thus required to restore the convertibility of banknotes, which the Privileged Austrian National Bank, as a bank of issue, had given up since 1848. For this reason, issued banknotes were to have written on them the value in standard coin. Otherwise, when paper money lacked coverage in silver coin (a frequent situation especially in times of war), the issue was suspended.

The removal of the forced exchange rate for paper money and the keeping in circulation of only a limited amount in such currency, fully covered in silver coin, were to be made no later than 1 January 1859. Austria, which was referred to explicitly, criticized this decision, considering it prohibitive, and ruled in favor of each state's right to introduce the forced rate of banknotes.

We can say that this monetary union was a metallic union, since the free circulation of issuing banks' banknotes from one country to another was not stipulated by the convention.

The Monetary Convention was adopted for a period of twenty years, with the automatic right of renewal for five more years, provided that it would not be denounced by one of the parties two years before the deadline. The parties had the right to control one another regarding the compliance with the provisions of the convention, the compliance with technical minting conditions, the number of coins that were to be minted etc.

The Transition from the Convention Currency System to the Austrian Currency System¹³

AS A CONSEQUENCE of the Monetary Convention of 24 January 1857, in the same year, on 19 September, Austria issued a 22 article patent, which reorganized and modernized the monetary system of the monarchy. A new currency system was introduced and, at the same time, the money

issued under the terms of the convention currency system was gradually withdrawn from circulation.

Another patent—the imperial patent of 27 April 1858—reinforced the introduction of the new currency system, the Austrian currency system, starting with 1 November 1858. As a result, the new currency and the other monetary signs to be minted and issued in accordance with the previous imperial patent of 19 September 1857 were introduced in circulation and used, as stipulated by the Monetary Convention of 24 January 1857. Yet another patent—the patent of 30 August 1858—amended the bank’s privilege to issue in accordance with the stipulations of the Monetary Convention.

At the same time, by this last patent, the notes issued by the Privileged Austrian National Bank were given, for the first time, the quality of legal tender (in 1848 this quality had been assigned to them only provisionally),¹⁴ at their nominal value, which made their acceptance obligatory not only for the public pay offices, but also for payments between individuals.

Furthermore, the coverage metal stock of the Privileged Austrian National Bank was regulated for the first time. It was stated that the notes issued and put into circulation after 1 November 1858 were to be covered at least in proportion of one third with metal stock, coins or silver ingots, or even a part in coins or gold ingots, and the remaining two thirds with bills of exchange and other such valuables.

The evidence of the application of these monetary changes in Transylvania is also found in the account of George Barițiu,¹⁵ where the transition from the Convention florin to the Austrian florin is obvious: “Around 1855, Rosetti submitted to the bishopric in Sibiu one thousand florins, counted, in Convention currency, to offer an award for the best Romanian History . . . In 1860, coming to Brașov, he counted 100 florins, in Austrian currency, in the accounts of the Romanian schools; . . . he exchanged the prize for three other translations of ancient authors, namely 1,000 florins, in Austrian currency, for Tacitus, and 500 florins, in Austrian currency, for Suetonius and Jordanes.”

The following texts are also representative for the transition from the Convention currency to the Austrian currency. Moreover, they capture aspects of the reality of those times regarding the Romanian press in Transylvania, religious life, the support offered to school education in the Romanian language, etc. “In the same year, the fund of the ‘Gazette’ is slowly established, while in Cluj one Hungarian newspaper, *Korunk* (Our Age), received 400 florins in Austrian currency, an annual grant from that aristocratic party.”¹⁶

“From the figures mentioned by Babeș can be noted that in 1861 the Mocioni family had given out 2,550 florins in Austrian currency for grants of 340, 200, 120, 60, 50 florins to 16 young people, and two others were individu-

ally supported for all their needs. Likewise, in 1862 they gave out 2,450 florins in Austrian currency to the two dependents.”¹⁷

Although concluded for a period of 20 years, with the right of extension for further 5-year terms, following disputes between the two parties over supremacy within the Customs Union, this Monetary Convention was abolished, losing its validity as of 1 January 1868.

As to the controversial issue of the convertibility of Austrian banknotes (point 2 of the patent stipulated the obligation to reintroduce the convertibility of paper money in the legal tender coin of the country—the silver Austrian currency at that time), their forced rate was suspended only between 1 September 1858 and 29 April 1859. This decision was reversed because of the increased need for money, showing that, in case of war, the forced rate was almost unavoidable.

Moreover, the imperial patent of 28 April 1859 provided for a secured loan with state bonds to the bank of issue, worth 200,000,000 florins, in exchange for suspending the convertibility of banknotes,¹⁸ the latter issuing banknotes in denominations of 1 and 5 florins to cover the loan.¹⁹ Thus, the guarantee for this paper money was not coins, but nonconvertible treasury bills.

The suspension of the forced rate and then the return to it resulted in a loss of silver coins in the country, especially thalers, the numerous conversion requests being due to the agio of silver, silver beginning to prevail as compared to the signs of value in the circulation ever since 1848.

Objections were raised concerning the impossibility of maintaining the convertibility of banknotes and especially the introduction into circulation of paper money in the form of state notes with mandatory rates: “But what do noblemen care of the state of finances? The press for printing paper money was right there and an act for the introduction of the forced rate could get it going without great difficulty. Let nobody dare say that they would not receive paper money in everyday transactions—there are plenty of empty prisons.”²⁰

On top of all this, the currency depreciation, caused by the economic crisis which broke out in Europe in 1857, was also felt in Transylvania: “The great commercial crisis of 1857–1858 caused about 15 houses [companies] to collapse, half of which were Romanian, with liabilities falling by 30–70–170 to 190,000 florins in Austrian currency, and 100 thousand in Braşov worth 500 thousand in Vienna.”²¹

Moreover, the banknotes of 1, 2 and 5 Convention florins, issued with the consent of the imperial government in 1848, breached the privilege of the Central Bank, which had prohibited the circulation of banknotes with the face value below 10 fl. They continued to circulate at a mandatory rate even after 1858.

The only restriction was capping their volume to 100,000,000 florins and their replacement by the end of 1859 with banknotes of the new Austrian cur-

rency system.²² However, there were attempts to restore the convertibility of banknotes.

Thus, on the basis of the imperial patent of 27 December 1862, the Central Bank was granted a renewed privilege of banknote issue, the third right of issue (*drittes Privilegium*). The most significant innovation was restoring and fixing the independence of the bank of issue in relation to the government.

Furthermore, the changes to the bank status were also aimed at the problem of covering the issue and amending the provisions of the imperial patent of 30 August 1858 regarding the regulation of the metal guarantee of the bank of issue.

Under the Bank Law, analogous to Peel's Act (1844), regarding a new coverage system, the maximum amount of banknotes issued by the Privileged Austrian National Bank and put into circulation without monetary coverage was set at 200,000,000 Austrian florins. The banknotes issued over this limit would have an express metal coverage in silver coins or ingots, and a proportion of 25% in gold coins or ingots.

At the same time, the issued banknotes whose value exceeded the amount of the metal reserve were to have coverage in bills of exchange, discounted or guaranteed through bonds issued by the state.

In conclusion, the efforts to restore the convertibility of banknotes, albeit incomplete, resulted in:

- the decrease by the bank of issue of the number of banknotes in circulation by 5.25% in 1864, as compared to 1863; 6.58% in 1865 as compared to 1864 and respectively 19.11% in 1866 as compared to 1865, representing a decrease of 39.5% in 1866 as compared to 1863;
- the increase of the metal reserve of the bank of issue, which can be judged by the proportion of banknotes covered with metal stock, a percentage that ranged as follows: 28.37% in 1863; 29.85% in 1864; 34.61% in 1865 and respectively 36.62% in 1866;
- the increase in the degree of coverage of banknotes with securities: 0.14% in 1863; 1.38% in 1864; 2.34% in 1865 and 15.33% in 1866.

However, the efforts of the bank of issue were thwarted by the fact that the metal stock of coverage was totally insufficient, due to the withdrawal from circulation of the silver coins for the purpose of hoarding. This withdrawal was caused by the agio of silver, so the number of banknotes that circulated at a forced rate, although it declined during the studied period, remained at a very high level.

The manner in which the banknotes in circulation were guaranteed at the date of cancellation of the Monetary Convention varied according to their face value (high and low), with metal stock and non-convertible treasury bills, respectively.

At the end of 1866, nothing was left of the independence established by the Bank Act, or of the ban on banknotes issue by the state reserve. Moreover, at that time, along with banknotes issued by the bank of issue, there was a considerable amount of florins in state notes and salt mine vouchers in circulation.

The state notes, as paper money, had entered into circulation in the Habsburg monarchy since 1860, but the regulation which marks the adoption of state notes is considered to be the imperial patent of 25 August 1866. According to it, the total allowable amount of state notes in circulation was fixed at 312,000,000 florins, and the salt mine vouchers at 100,000,000. In case the issue of the latter did not reach the value of 100,000,000 florins, the difference could be covered with state notes issued over the allowable limit of 312,000,000 florins.

As can be seen in Table 1, at the end of 1866 the total value of paper money, including the total value of banknotes from the bank of issue, state notes and salt mine vouchers, was as follows²³:

TABLE 1. TOTAL VALUE OF PAPER MONEY
(BANKNOTES, STATE NOTES, SALT MINE VOUCHERS) AT THE END OF 1866

	Banknotes (fl.)	State notes (fl.)	Salt mine vouchers (fl.)	TOTAL paper money (fl.)
		12,000,000		
	284,000,000	150,000,000	100,000,000	
		60,000,000		
		90,000,000		
TOTAL (absolute value)	284,000,000	312,000,000	100,000,000	696,000,000
%	40.80	44.83	14.37	100

SOURCE: Costin C. Kirîţescu, *Sistemul bănesc al leului și precursorii lui*, vol. 2 (Bucharest: Ed. Enciclopedică, 1997), 328.

From the total amount of paper money in circulation at that time (696,000,000 florins), it can be noted that the largest share was given to state notes, namely 44.83%, representing the maximum limit allowed by the imperial patent, followed by the banknotes of the bank of issue, at 40.8%, and salt mine vouchers, representing 14.37%.

Conclusions

AT THE end of this sinuous monetary, economic and historic itinerary of paper money around the time of the establishment of the Austro-Hungarian dualism, without claiming to have exhausted the full range of characteristic aspects of this problem, we synthesized a series of conclusions.

Starting with the transition from commodity money to money as a sign of value—a significant process for what paper money represents from a monetary and economic point of view—we identified a series of consequences for the economy and the money circulation in the Habsburg Empire and implicitly in Transylvania: the replacement of the private status of the currency with the public one, the latter requiring a strict control over the creation of the monetary instrument; the establishment of the bank of issue; the increased influence of the bank of issue as the main monetary authority, due to the faith given to it by the banknotes users; the reduction of the costs of production of a new type of money; the liaison with the monetary metal (also as the monetary standard) in the reserve bank of issue in order to impose the new monetary instrument in money circulation, with all the functions of money; the introduction of convertibility; the use of banknotes is supported by the mechanism of convertibility.

The revolutionary events of 1848 led, in monetary terms, to a sharp deterioration in the coverage stock of the bank of issue, following the conversion of a large number of banknotes into coins by their owners, which led the Privileged Austrian National Bank to issue the so-called salt mine vouchers (*Salinenscheine*), guaranteed with the incomes from some state salt mines in Austria.

Despite all opposition from the Austrian bank of issue, the imperial government authorized the issue of the first Hungarian banknotes, which circulated in Transylvania until their final withdrawal, along with the defeat of the revolution, under the name of “Kossuth-bankók.”

The adoption of the Monetary Convention, concluded between Austria and the countries of the German Customs Union on 24 January 1857, represented an important moment in the reorganization and modernization of the monetary system of the monarchy and therefore had important consequences on money circulation in Transylvania. A shift occurred from the Convention currency system to the Austrian currency system. Regarding the paper money, the provisions of the Convention prohibited the setting of a forced rate, introducing mandatory convertibility in silver coin (the standard of the monetary system), the metal stock of coverage of the Privileged Austrian National Bank being regulated for the first time. Despite these provisions and efforts of the bank of issue, as a result of the insufficient metal stock coverage the number of banknotes circulating at a forced rate remained very high.

We can conclude that around the year 1867, marking the end of the analyzed period, along with the banknotes issued by the bank of issue, a considerable amount of florins as state notes and salt mine vouchers was in circulation. □

Notes

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Abstract

Early Banknotes of the Habsburg Empire and Their Circulation in Transylvania Until the Establishment of the Austro-Hungarian Dualism

The study of the circulation of early banknotes issued in the context of the monetary developments and regulations in the Habsburg Empire, starting with the second half of the 18th century and until the rise of the Austro-Hungarian dualism, is structured in two parts. The present article follows the one entitled “Early Banknotes of the Habsburg Empire and Their Influence on Money Circulation in Transylvania,” *Transylvanian Review* 25, 3 (Autumn 2016). The novelty brought about by the revolutionary year 1848 was the issue and the introduction into circulation, in Transylvania too, of the banknotes of the first independent Hungarian government (Batthyány Cabinet), called “Kossuth-bankók,” amid the instability of the Privileged Austrian National Bank, followed by all the monetary and economic consequences of its defeat. In the final part of the article are presented the terms of the Monetary Convention (Treaty) (1857) drawn up between Austria and the countries of the German Customs Union (*Zollverein*), the paper money being under the obligation of convertibility upon presentation, at any time, into the main silver standard coin of the empire. The signing of the dualist compromise between Austria and Hungary would trigger important changes in the structure of the monetary system.

Keywords

banknotes, silver standard, bank of issue, monetary circulation, Monetary Convention (Treaty), treasury bills