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## THE LOAN AGREEMENT BETWEEN THE OTTOMAN EMPIRE AND MONTENEGRO, AND FINANCIAL AID TO MONTENEGRO

**ABSTRACT:** *The relationships between Ottoman Empire and Montenegro which declared its independence in 1878 were developed to a good point, especially during Abdul Hamid and Nikola's reign. Thanks to these good relations, loan agreements were among the financial supports. In this presentation, two loan agreements signed in order to loan to Montenegro through Ottoman Bank will be mentioned and the effect of these two loan agreements on Ottoman-Montenegro relations will be discussed.*

**KEY WORDS:** *Montenegro, Ottoman Empire, Loan Agreement, Ottoman Bank, Abdulhamid II, Nikola*

### **Introduction**

Montenegro, an independent and relatively small-sized Balkan country by the Adriatic Sea, established relations with the Ottoman Empire as early as the 14<sup>th</sup> century. The Ottomans were not able to dominate Montenegro fully due to difficulties posed by geography and the tribal lifestyle prevailing in the region. Montenegro was home to several revolts against the Ottomans in the 19<sup>th</sup> century, which was a consequence of nationalist movements and pan-Slavic tendencies of the time. The accession of Abdul Hamid II to the Ottoman throne, followed by the Russo-Turkish War (1877-1878), led to the conclusion of 1878 Berlin Treaty which meant independence for Montenegro.

Berlin Treaty gave Montenegro an opportunity to expand its borders. Centuries-long struggle against the Ottoman Empire culminated and its success at the war took the country to the international stage<sup>1</sup>.

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<sup>1</sup> Elisabeth Roberts, *Realm Of The Black Mountain A History Of Montenegro*, Cornell

Under the rule of Nicholas I, Montenegro began diplomatic relations with the Ottoman Empire. Minor border skirmishes being excepted, the relations ushered in an approximately 30-year era of no armed conflict between the two states until the deposition of Abdul Hamid II. The peaceful era has raised the relations between the two to a very positive high. The political leadership skills of Abdul Hamid and Nicholas I, as well as their friendly manners, played a major role on the mutually amicable relations. Incidents escalating to crisis levels between the two states were resolved with the solution-oriented and peaceful approaches of these two leaders. Nicholas' visits to Istanbul, coupled with Abdul Hamid's hospitality, helped Montenegrins to tone down their historic perception of Turks as foes<sup>2</sup>.

In this 30-year period, the economic and financial relations between two country, continued to increase. States always made loan agreements in the name of financial affairs in the history. One of the loan agreements which was signed in history is the one between Otoman State and Montenegro. Before explaining this loan to Montenegro in 1892, I would like to take a look at the political, economical and financial stituation of Otoman Empire and Montenegro.

#### **a. Financial Situation of Ottoman Empire at the End of the 19th Century**

Even though the Ottoman Empire was nearing the end of her life and known as the "*sick man of Europe*" at the end of 19th century, she was able to keep her position among the most powerful states in Europe and the world.

Facing very huge wars like Crimean and Ottoman-Russian War of 1877, Ottoman Empire started losing its power on Balkan states and the economy kept worsening. Especially after the Crimean War, Ottoman Empire borrowed money from the Big Powers. This was the starting point of getting into debt in 1854. It was thought and expected that this financial activity would be the solution for Ottoman Economic crisis. But it did not happen. Because the loans were not used effectively, the economic situation got worse. Until the year 1874 Ottoman Empire made 15 foreign indepments. Even though the amount of Money for dept was 239 million liras, the Money that the Porte take was only 127 million liras. In order to cover this budget deficit, the Ottomans increased taxes taken from the people living in the Balkan region. This tax increase made the people uncomfortable and they started

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University Press, New York 2007, pp. 21

<sup>2</sup> Ugur Ozcan, *II. Abdülhamid Dönemi Osmanlı-Karadağ Siyasi İlişkileri*, Unpublished Phd Dissertation Thesis, Suleyman Demirel University, Institute of Social Science, Isparta 2009, p. 300-310

revolting against Ottomans. After 1877-78 things got even worse. It was declared that even the loans taken from Ottoman Bank and Galata Bankers could not be paid<sup>3</sup>.

In 1881, by signing The Muharrem Decree the revenues from stamp duties, alcohols, fishing, salt and tobacco were left to the Duyun-ı Umumiye, (Ottoman Public Debt Administration) an organization established for paying domestic and international debt of the Ottoman Empire<sup>4</sup>. Through this organization, the debt payment was systematized, and the big powers were prevented from interfering in Ottoman politics. Some says this organization was a 'state within the state' and a financial integration with Europe<sup>5</sup>.

The 1877-78 War left a lot of casualties died and wounded millions. Thousands of people were forced to immigrate and leave their habitual places. This process turned Anatolia and also İstanbul to a place of immigrants. Even though the immigration problem was not a new one in the Ottoman Empire, this war worsened the situation. At least one million people migrated to Ottoman Empire from Russia, Balkans and Caucassia. It caused economic and financial problems. This cumulative migration caused problems in the areas of settlement, feeding, and administration. These problems took a very heavy toll on the economy and the budget.

### **b. Financial Situation of Montenegro at the end of the 19th century**

Montenegro with its geographic features and geopolitical position was not fit for commercial activity. And also it was pretty much impossible to engage in agricultural activity because of the mountainous character of the region. Michale Palairret says:

*“The crops seldom sufficed to meet the exiguous levels of grain consumption to which the population was accustomed and they were subject to serious year to year fluctuations because the porosity of the karst rock made the harvest acutely vulnerable to drought. Grain was usually imported but communications inhibited its commercial circulation in rural areas. Even in the relatively abundant 1880s not a year went by without reports of starvation and famine mortality reaching the goverment in cetinje. The supply of livestock products was also at the mercy of a hard winter, since the output of*

<sup>3</sup> Stanford J. Shaw & Ezel Kural Shaw, *History of the Ottoman Empire and Modern Turkey*, V. 2, Cambridge University Press, UK 2002, pp. 223

<sup>4</sup> Enver Ziya Karal, *Osmanlı Tarihi*, V.8, TTK, Ank. 1993, p.427; Stanford J. Shaw & Ezel Kural Shaw, *ibid*, p. 223

<sup>5</sup> Edhem Eldem, “Ottoman Financial Integration with Europe: Foreign Loans, the Ottoman Bank and the Ottoman Public Debt”, *European Review* (2005), 13:3, Cambridge University Press, pp. 433

*hay usually fell far short of the minimal winter fodder needs of the animals. Deep snow could result in huge losses and a single adverse winter could reduce the animal stock by a fifth or more<sup>6</sup>.*"

There was very little area suitable for agriculture and it was not enough for economic revival. In this mountainous region, people of Montenegro put any suitable area to agricultural use, no matter how small it was. In addition, however, very fertile agricultural and commercial areas, such as Ulcinj (Ülgün), Podgorica and Bar, were left to Montenegro under the Berlin Treaty. Residents of these places, farmers, traders etc. migrated to Ottoman State. So Montenegro could make use of these places and areas very efficiently<sup>7</sup>. This situation affected Montenegrins and Montenegrin economy very negatively.

Montenegrins, in this atmosphere of peace between the Ottomans and Montenegro, went for work to other countries like Italy, Britain, Austria, and the United States. Montenegrins also preferred the Ottoman Empire as a place of work. As such, Montenegrin men and women helped the economy to rise. They could pay their taxes and send money to their families. Between 1856-1874, about 1500 Montenegrin workers had migrated to İstanbul. They could be hired as guards, stableboys, bodyguards, bank guards, doormen in İstanbul<sup>8</sup>. Even in 1888 İstanbul, the district of Büyükçekmece was one of the places that these laborers worked as guards in farms and forests<sup>9</sup>. And also at the Zonguldak Ereğli coal mine (Meadin-i Hümayun) there were about 150 Montenegrin coal mine workers in 1898<sup>10</sup>. Beside this, Prince Nicholas, through family connections, contacted with the other countries' royal families. As a "father in law" of Europe, he had the opportunity of taking the advantage of these countries to get help<sup>11</sup>.

### c. First Loan Agreement

Considering all these incidents, Montenegro dived into a very big financial crisis in 1892. Despite the aid from Russia, Austria, France, Britain and Italy, Montenegro was fighting against hungry and famine. Of these financial aids, the most significant one was the Ottoman's financial aid.

In this context, the Ottomans loaned to Montenegro for a two-year period with the treasury obligations<sup>12</sup>. Montenegro provided Ottoman Ministry

<sup>6</sup> Michael Palairot, *Balkan Economies c. 1800-1914*, Cambridge University Press, Cambridge 1997, pp. 146

<sup>7</sup> Michael Palairot, pp. 212

<sup>8</sup> Michael Palairot, pp. 152

<sup>9</sup> BOA (Başbakanlık Osmanlı Arşivi), DHMKT, 1482/17, 31.01.1888

<sup>10</sup> BOA, İHUS, 55/1315RA045, 16.RA.1315; İHUS, 62/1315L028, 12.03.1898

<sup>11</sup> Ugur Ozcan, pp. 131

<sup>12</sup> BOA, Y.PRK PT, 4/65.

of Finance a guarantee for 40 thousand liras. Even though he was criticized for being very generous, Abdül Hamid always tried to keep the relations with Montenegro at a very high level.<sup>13</sup>

1892 was the year Montenegro had a rising financial crisis, and drought affected agriculture. Faced with hunger and famine, Montenegro got into action to obtain a loan. Financial minister first paid a visit to Austria. Negotiations took place in Vienna. Then the next minister of finance applied to the banks of Paris and Brussels for a loan. The foreign minister, when he went to Venice to attend Princes Darinka's funeral applied to traders from Venice for a loan. But he could not obtain it.<sup>14</sup>

On the other side, as Montenegro's chief trading partner, Austria cut the yearly 30 thousand florin nearly 3800 Osmanlı liras aid, designated for road construction. Austria used the advantage of her geographical position to dominate Montenegro economically<sup>15</sup>. Montenegro's balance of the budget was abolished because of Austrian interfere. Even the Officers of Montenegro could not get their salaries for seven mounts. At the beginning of 1892, Montenegro's debt was as follows:<sup>16</sup>

43.000 Florin	To the Traders
35.000 Florin	To the Traders from Schoder and Italy
13.000 Florin	Ottoman Post and Telgraf Office
7000 Florin	Austria-Hungaria Post and Telgraf Office
8.500 Florin	Malta Traders
1500 Florin	To the trader whom coal bought for ship.
<b>Totally</b>	
108.000 Florin	Nearly 10 bin Ottoman lira

Although Montenegrin officials applied to financial organizations all around Europe, they could not find the money they needed.

When the Officials and the traders raised their voices against government, Montenegrin ambassador in İstanbul Mitar Bakic, contacted the Sultan and explained the situation that Montenegro was in. With the guarantee provided by the Ottoman Empire, Montenegro and Ottoman Bank signed a small loan agreement for an amount of 10 thousand Napoleons<sup>17</sup>. At that time

<sup>13</sup> Süleyman Kani İrtem, *Bilinmeyen Abdülhamid Hususi ve Siyasi Hayatı I.*, Haz: Osman Selim Kocahanoğlu, Temel Yayınları, İstanbul 2003, pp.141.

<sup>14</sup> BOA, Y.PRK EŞA, 16/29, 21.08.1892

<sup>15</sup> According to 29<sup>th</sup> article of Berlin Treaty, Montenegro had to ask for Asutrias permission to build roads and railroads. John D. Treadway, *The Falcon and The Eagle*, Purdue University Press, Indiana 1998, pp. 10

<sup>16</sup> BOA, Y.PRK EŞA, 16/29, 21.08.1892

<sup>17</sup> BOA, Y.PRK EŞA, 16/29, 21.08.1892

The Ottoman Bank (Bank-ı Osmanî-i Şahane) founded in 1856 in İstanbul, was a French, British investors and Ottoman government mutual organization<sup>18</sup>.

So Montenegrin government overcame this financial crisis with this loan agreement. When Mitar Bakić sent a telegram and explained the improvements to Nikola, he was in Nikšik, and pleased with the news. He sent a congratulatory and thankful telegram to the Sultan for his friendship and generosity<sup>19</sup>.

#### **d. Second Loan Agreement**

The second loan agreement between Ottoman Empire and Montenegro was signed in 1898. In January 25th, 1898, with the guarantee of the Ottoman Empire, the Ottoman Bank loaned 25 thousand gold francs. (500 thousand frank) to Montenegro.<sup>20</sup> This amount of 100 thousand francs per year was to be paid back in a 5-year period.

While Montenegro was represented by his ambassador Mitar Bakic in İstanbul, Ottoman Empire's representative was Finance Minister Tevfik Paşa<sup>21</sup>. Now let's take a closer look at the articles of this agreement:

##### ***First article***

At the Montenegrin request, Ottoman Bank agrees to loan 25 thousand Gold Francs, which is nearly 500 thousand francs

##### ***Second Article***

Montenegro shall pay back the loan, with %6 interest, in 100 thousand frank installments per year till 1898 and pay it back in 5 years to the Ottoman Bank.

##### ***Third article***

%6 interest if it won't pay on time.

##### ***Fourth article***

Ottoman Empire provides guarantees against Montenegro's 500 thousand frank loan.

##### ***Fifth article***

If the yearly installment was not paid on time, the principal and the interest would be taken either from debtor (Montenegro), or the guarantor (Ottoman Empire)

<sup>18</sup> Kaya Bayraktar, "Osmanlı Bankası'nın Kuruluşu" *Cumhuriyet Üniversitesi İktisadi ve İdari Bilimler Dergisi*, V.3, No:2, 2002, Sivas, pp. 81-82. Even though it was an "Ottoman Bank" only %4 of the capital belonged to Ottomans.

<sup>19</sup> BOA, Y.PRK EŞA, 16/29.

<sup>20</sup> BOA, YA.RES, 91/4, 24.01.1898

<sup>21</sup> BOA, İ.HR, 357/1315N-14. 05.02.1898

This agreement consists of 3 copies prepared in İstanbul in 1898. And also the *Sadrizam* had written to the sultan to get his permission.<sup>22</sup>

This loan agreement being talked about, was discussed in the Special Council of Ministers (Encümen-i Mahsus-u Vükelâ) consist of the minister of commerce and work ministry for internal affairs, deputy of the council of the cabinet (şurâ-yı hükümet nâibi) and ministry of justice. The fact that Abdul Hamid's point of view had been very effective in this discussion. Beside this, it was decided not to refuse Montenegro's request to keep its good relations with Ottoman Empire and its friendly approach to sultanate and it means also "confirmation for being a guarantor" for this loan. following day, Decision of the Special Council of Ministers, approved by the Sultan, and sent to department of finance to take in action<sup>23</sup>. As it is seen, stable situation between two country was in consideration, while signing the loan agreement.

According to this agreement Ottoman Empire had deposited 500.000 franks to Ottoman Bank for Montenegro in the year 1900<sup>24</sup>. But the way this loan agreement was reflected in the newspapers was very different in US and Britain. Although it was written in the New York Times that Abdul Hamid II, loaning to Montenegro through the Ottoman Bank, had "bought off" Montenegro, the same NY Times also declared that the loan agreement was very wise and made Montenegrins happy<sup>25</sup>.

### Conclusion

These loan agreements helped the good relations to reach a very positive high. Right after this year in 1899 Prince Nikola visited İstanbul. There were border problems in his dossier. But there was one more thing there also. It was the 1898 loan agreement. To thank Sultan Abdülhamid for this loan agreement was an important reason for visiting İstanbul.

Montenegro sometimes did not or could not pay the loan back. At that time the Ottoman Empire erased the debts. For example in 1903 the money loaned to Montenegro was paid by Ottoman Treasury. After this gesture, Prince Nicholas, sent a message of gratitude to sultan Abdülhamid.

There is one more thing we should consider: Ottoman Empire was at war against Greece at that time. Even though Ottoman Empire was in war economy, Abdül Hamid did not hesitate to be guarantor for Montenegro<sup>26</sup>.

<sup>22</sup> BOA, İHR 357/1315-N-14. 05.02.1898

<sup>23</sup> BOA, İHR 357/1315-N-14. 05.02.1898

<sup>24</sup> BOA, Y.PRK.EŞA, 33/37, 09.06.1899

<sup>25</sup> New York Times, "The Sultan's Astuteness; Abdul Hamid Has Prevented A Combination Against Turkey. Montenegro and Servia Placated, and Now An Attempt Is Being Made To Deal With Bulgaria" September 26, 1903, Saturday, pp. 5

<sup>26</sup> BOA, Y.A.HUS. 454/20, 13.08.1903



The main reason for doing this was to hold Nicholas out of Balkan Union. Abdülhamid as a close friend never wanted Nicholas to stand against him. Secondly he wanted to keep the peace and did not want the Balkans destabilized.

On the other hand Nicholas had the opportunity to use big powers interest' in Montenegro for the benefit of his country intelligently<sup>27</sup>.

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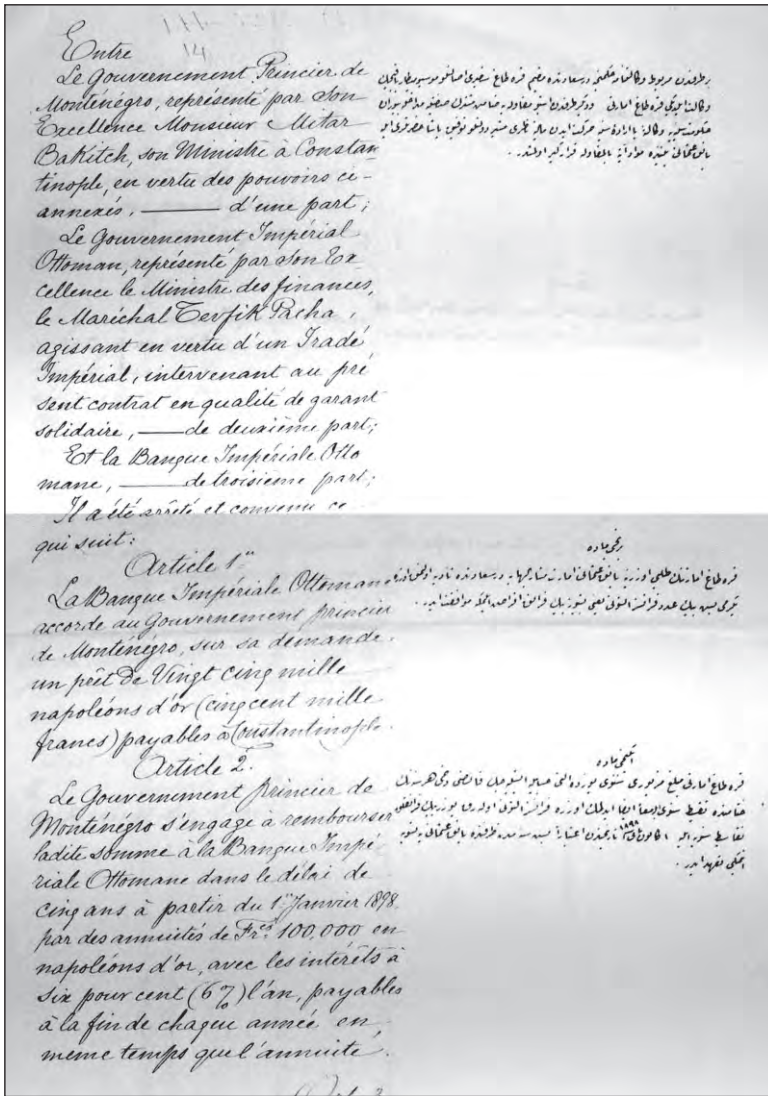
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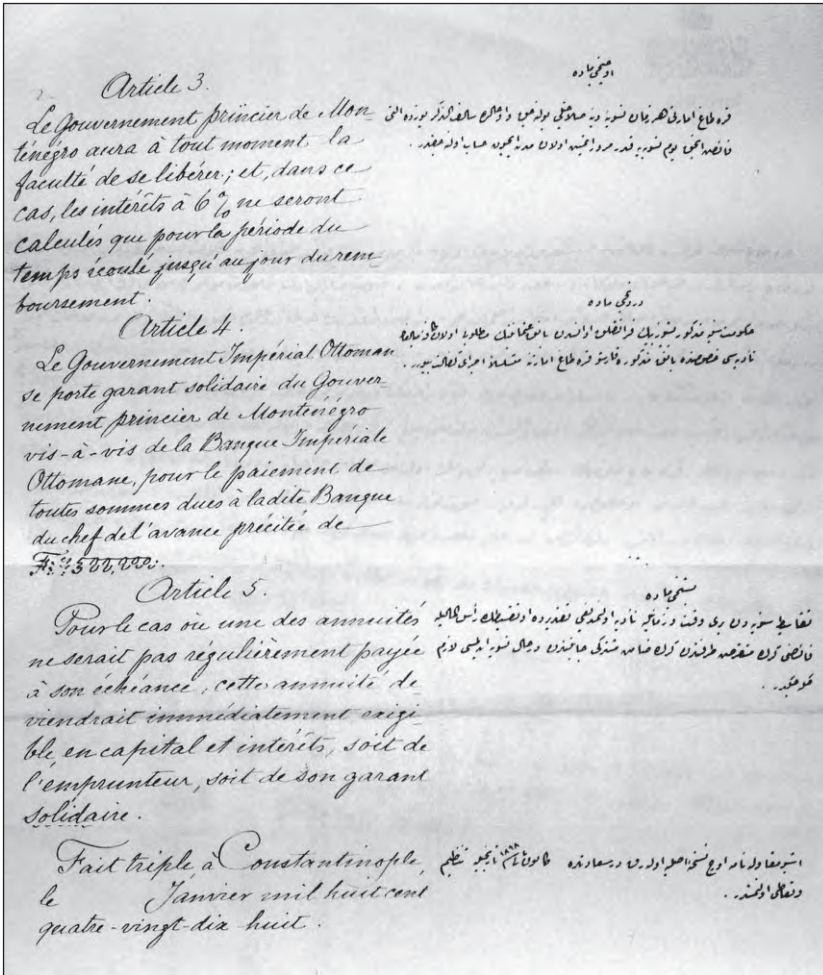
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<sup>27</sup> BOA, Y.A.RES, 121/51, 01.07.1903; BOA, İ.HUS, 107/1321/R-058, 14.07.1903.

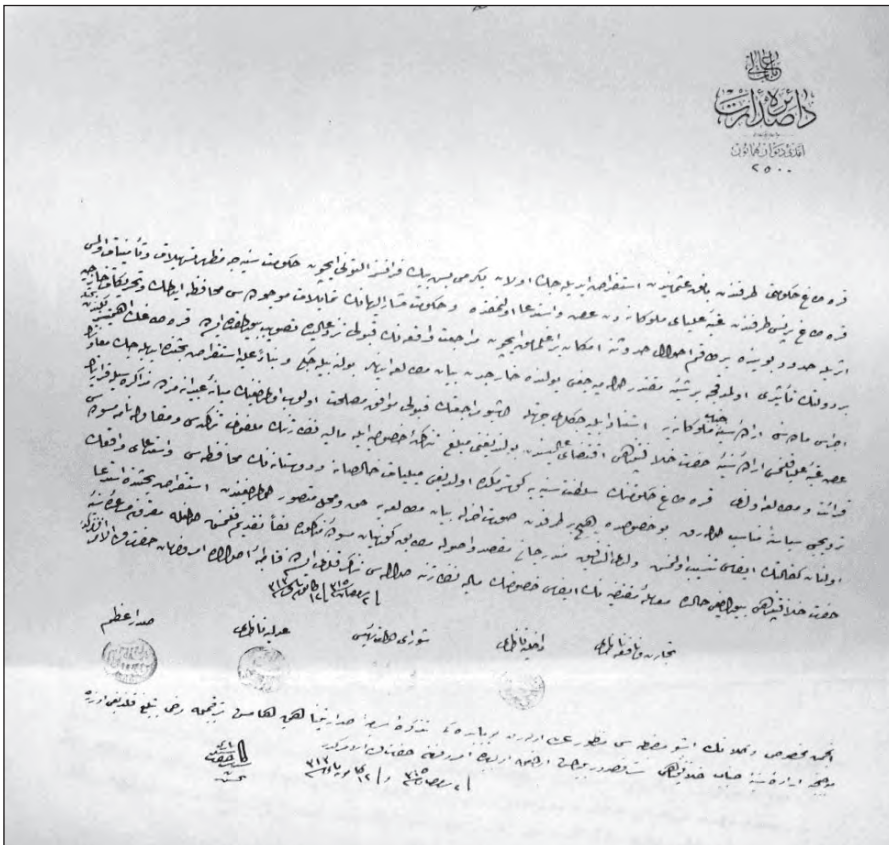




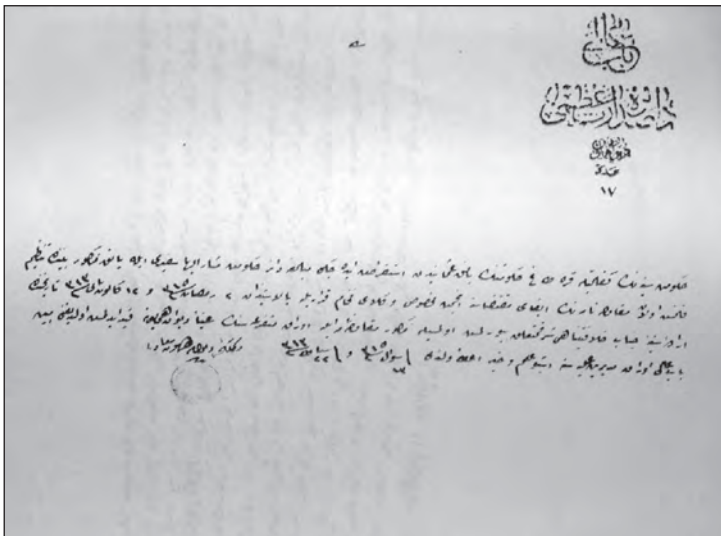
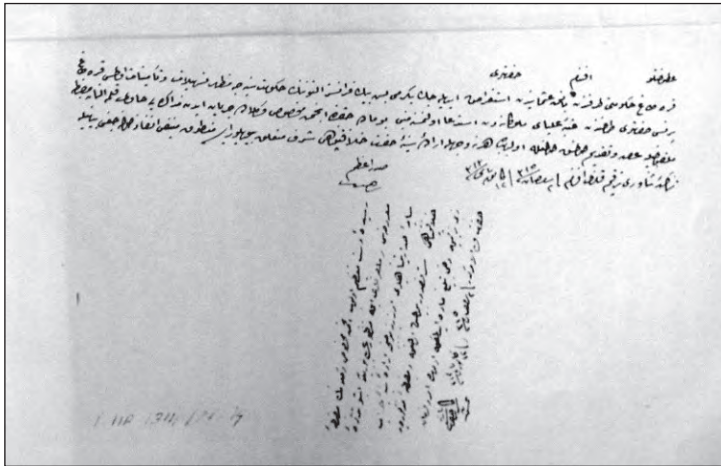
Document 1. The First Page of the Loan Agreement. BOA, I.HR,357/1315N-14



Document 2. The second Page of the Loan Agreement. BOA, I.HR, 357/1315N-14



Document 3. The Decision of the Special Council of Ministers (Encümen-i Mahsûs-u Vükelâ). BOA, İ.HR, 357/1315N-14



Document 4-5 Two document from the Prime Ministry Ottoman Archive (BOA)

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*Summary*

According to author, loan agreements helped the good relations to reach a very positive height between Ottoman Empire and Montenegro. To thank Sultan Abdülhamid for the loan agreement in 1899, was an important reason for Prince Nikola's visiting İstanbul.

Montenegro sometimes did not or could not pay the loan back. At that time the Ottoman Empire erased the debts. For example in 1903 the money loaned to Montenegro was paid by Ottoman Treasury. After this gesture, Prince Nicholas, sent a message of gratitude to Sultan Abdülhamid.

Even though Ottoman Empire was in war economy, Abdül Hamid did not hesitate to be guarantor for Montenegro. The main reason for doing this was to hold Nicholas out of Balkan Union. He wanted to keep the peace and did not want the Balkans destabilized.