Institut für Ost- und Südosteuropaforschung

Online-Handbuch zur Geschichte Südosteuropas

John R. Lampe

Finance and Banking in Southeastern Europe 1939–1989

From Wartime Disjuncture to Political Upheaval

aus dem Band:

Wirtschaft und Gesellschaft in Südosteuropa nach 1800

Contents

1. Introduction

The Second World War disrupted, if not destroyed, the financial systems of Southeastern Europe. From the nineteenth century forward, imperial and then sovereign state governments, central and agricultural banks, as well as private commercial or investment banks had organized themselves around state currencies. Domestic banknotes pegged to a common European standard – initially convertible to gold held in reserve − facilitated foreign trade and provided access to European capital markets. Stable rates of exchange encouraged lenders and reduced interest rates for borrowers – largely national governments – before the First World War. Despite the war's new debt burdens, the respective financial institutions of what were now five national governments finally managed to stabilize their currencies in the late 1920s under the new gold exchange standard, which added reserves in the several major Western currencies. Yet the expected volume of prewar lending did not resume until the late 1920s. The region's governments of Albania, Bulgaria, Greece, Romania and the Yugoslav Kingdom then joined Britain and others in abandoning the new gold standard in the 1930s. Nevertheless, despite the increasing centralization under state authority during the Depression decade, a common set of financial institutions and their European framework stayed in place.

This chapter proceeds first from wartime disjuncture to the postwar inflation and state intervention that combined to leave only Greece's prewar financial system in place. The second section traces the mixture of foreign aid and domestic oversight that combined to leave financial markets frozen – or restricted as in Greece – through the 1960s. Then a variety of domestic financial frameworks returned to Western capital markets – with the exception of Albania. Looking for support beyond low-interest loans for infrastructure from the postwar World Bank, the respective governments borrowed from US and European banks to provide essential imports and cover trade deficits. With the exception of Romania, domestic banks again played a leading role in distributing credit, both of foreign and domestic origin. By the 1980s, the size and servicing of these loans demanded further support from the same Western banks. When they refused, only Yugoslavia accepted support from the International Monetary Fund (IMF). By lending under terms, now called conditionality, brought the sort of constraints demanded by the European Financial Commissions before and after the First World War. Yugoslavia soon declined to continue; it joined the rest of the region in the debt crisis and inflationary spiral that greatly contributed to the political upheavals of 1989, only delayed in Greece.

2. From Wartime Disjuncture to Inflation and Foreign Intervention, 1939–1948

The five states comprising Southeastern Europe in 1939 did not suffer the same financial fates in the Second World War. They all paid heavy but different prices. Some common features nonetheless divided the experiences of Yugoslavia, Albania and Greece – the three occupied countries – from Bulgaria and Romania, both allies of Nazi Germany. After its seizure of Albania in 1939, Italy joined Germany and Bulgaria in occupying Yugoslavia and Greece in 1941. Italy's retreat from the war in 1943 left its occupied territories to Germany. To support this enlarged occupation, Nazi authorities improvised a desperate new financial strategy in Greece and Albania. Elsewhere, the costs of occupation, domestic resistance, or Soviet advance only mounted. For Bulgaria, less war damage, Soviet assistance, and a financial system already dominated by state banks allowed it to survive the immediate postwar period with less inflation than elsewhere in the region. United Nations Relief and Rehabilitation Administration (UNRRA) aid helped repair war damage in Yugoslavia, Greece and briefly in Albania. But for different reasons, their financial systems struggled with inflation despite foreign aid.

2.1 Yugoslavia, Albania and Greece

We begin and end with Yugoslavia. The German-led invasion of Yugoslavia in April 1941 destroyed not only the state but also the financial system, leaving its postwar reconstruction to a new Communist government. The National Bank of Yugoslavia ceased to exist, and the dinars issued under its authority were no longer recognized as legal tender. Subsequent efforts to smuggle the bank's gold reserves out of the country failed. The state's former territory was divided into a half dozen jurisdictions. Italy had one jurisdiction on the Adriatic coast into Slovenia, and Bulgaria had another one in Macedonia. Consequently, lira and leva became the accepted currencies in those jurisdictions. So did Reichsmark and pengő in the northern border territories annexed respectively by Germany and Hungary. Bordering the German occupied Serbia and the Banat was the Croatian jurisdiction under a self-proclaimed Independent State of Croatia (NDH), which also included Bosnia-Herzegovina. These two Croatian jurisdictions each received German authorization to establish their own central banks and issue banknotes.[1]

The National Bank of Serbia (NBS) was soon established in May 1941 and was allowed to use the predecessor's printing press at Topčider to issue a new set of dinars. Their exchange rate for the Reichsmark was set at 1 for 20, overvalued by 14 percent from the prewar rate for the benefit of German imports and investment. All prewar bank and current accounts were

[1] On Serbia, see Karl-Heinz Schlarp, Wirtschaft und Besatzung in Serbien, 1941−1944. Ein Beitrag zur nationalsozialistischen Wirtschaftspolitik in Südosteuropa. Stuttgart 1986, and for Croatia, the definitive account remains Holm Sundhaussen, Wirtschaftsgeschichte Kroatiens im nationalsozialistischen Großraum. Das Scheitern einer Ausbeutungsstrategie. Stuttgart 1983.

however blocked. Any new credits from the NBS over 20,000 dinars required the approval from the General German Economic Authority for Serbia. Most credits went to support irrigation, silos and other agricultural improvements in the Banat properties of ethnic Germans. In Serbia, only the Bor copper mines and several Jewish enterprises – also confiscated by the Germans – received support, although rumors of some NBS funds diverted to the Chetnik resistance movement persisted. Even with grain and livestock of the Banat largely sent to support the German war effort, Serbia was still obliged to hand over 40 percent of its income for occupation costs. After near starvation in the winter of 1941/1942, a black market led by Banat German traders in Belgrade provided food and other daily urban necessities at escalating prices. The resulting inflation pushed up price levels nearly 20-fold in Serbia by 1944 and 10-fold in the Banat.

The presumed wartime advantage of the Independent State of Croatia appeared only as a result of its smaller payment of direct German costs, for military operations that were barely one fifth of per capita extractions for occupation in Serbia. Otherwise, banknotes from the new Croatian National Bank in the new currency (the kuna) were pegged at the same 20 to 1 rate of exchange for Reichsmark as the new Serbian dinar.[2] German economic representatives rejected the Croatian demand for accepting only 5 percent of Yugoslavia's prewar obligation for foreign debt. Instead, the Germans demanded 15 percent. Then, as the Communist-led partisan insurgency spread from Bosnia to Croatia, the economic limitations of the NDH's Ustaša regime itself contributed to the Croatian failure to deliver the promised non-ferrous ore and grain supplies to the German war effort. Meanwhile, the banknote issue of kuna increased not only with domestic shortages but also with advances for German military operations in Croatia, to be repaid later in Reichsmark. The tide of depreciating dinar, lira, pengő and leva, when added to the depreciating value of the Croatian kuna, explains the 10-fold increase in note issue across the divided Yugoslav territories recorded in Table 1 between 1941 and 1944.

Albania first faced Italian and then German occupation, while Greece was divided between the two Axis powers until Italy left the war in September 1943. Both of their financial systems were confounded in this later period, with German sales of gold as a substitute for domestic banknotes. In Greece, banknotes rapidly declined in value and in Albania in their availability.

Immediately after the Italian takeover of Albania in April 1939, its control of the National Bank of Albania expanded to include foreign exchange, thereby replacing hard currency reserves with lira or credits from the Bank of Italy, and pegging the Albanian franc to the lira instead of gold. A Livorno bank now replaced the Albanian Agricultural Bank. With a Naples bank, these two were the only other banks in Albania. A flood of new banknotes to support the Italian occupation and incorporation of Albania launched the wartime inflation. The volume of notes in circulation had tripled by the end of 1939 and doubled again

2 E.[dward] A.[lbert] Radice, Economic Developments in Eastern Europe under German Hegemony, in: Martin M. McCauley (ed.), Communist Power in Eastern Europe, 1944–1949. New York 1977, 3–21. Tables 1 and 1.2, 7–9.

by 1943. Budget deficits also contributed to inflation, despite a subsidy from Rome of 15 million francs. The subsidy nevertheless failed to compensate for the loss of customs duties from duty-free Italian imports. The swollen import surplus was however covered by large allocations of lira from Rome in 1939 and 1940 to invest in urban and rail construction.

The German takeover of Italy in September of 1943 transferred the National Bank of Albania's gold reserves from Rome to Berlin and suspended all domestic bank lending and accounts. Hermann Neubacher, the former mayor of Vienna and the new Nazi architect for the economic management of Southeastern Europe arrived in Albania to take charge. To win initial Albanian support, he not only put remaining Italian supplies up for sale at low prices and brought back franc notes seized in Rome, but he also authorized the sale of a limited amount of German gold. A 10-fold inflation in prices since 1939 now slowed, as a German agreement in December 1943 promised the Albanian authorities not to charge additional occupation costs. But covering German charges for military operations and facilities soon forced the National Bank of Albania to increase note issue. To stem the renewed surge in inflation by 1944, Neubacher put more German gold into the domestic market. A British military mission brought in 32,000 gold sovereigns to Albania in August 1944 to support a Communist-led reistance that forced the German departure by late November, Albania's own gold reserves remained in Berlin, where they had already been moved from Rome. They were taken to London by British authorities at war's end. There they would stay until 1996, retained as a result of the sinking of a British destroyer in the Corfu Channel by Albanian mines in 1947 and the absence of diplomatic relations until 1985.[3]

By the end of 1945, however, the new Communist regime had established a State Bank of Albania, revoking all past Italian connections and its liabilities through the now closed National Bank of Albania. Claiming 10 million old francs in founding capital, the new bank was given the sole power of note issue in the new lek currency. The sum of new currency circulation in the immediate postwar years is unknown, but severe food shortages and gold left after German and British involvement must have driven down its value. UNRRA supplies valued at $26 million in 1946 and a Yugoslav credit worth $40 million in 1947, arrived to provide the majority of state budget revenue for those years.[4] But the regime's suspicion of the large US share in UNRRA deliveries followed by rising resentment over the low export prices and high shipping fees imposed by joint Yugoslav-Albanian companies, cut off those lines of assistance. Consequently, by 1948 Soviet aid was stepping in.

For Greece, the British aid reappeared for 1944–1946 but was now less effective than the support provided in the first two years of the war. After the drachma's limited devaluation

[3] Arta Pisha/Besa Vorpsi/Neraida Hoxhaj, Albania from 1920 to1944, in: South-Eastern European Monetary and Economic Statistics from the Nineteenth Century to World War II. Athens et al. 2014, 355–377, 359f.; Alessandro Roselli, Italy and Albania. Financial Relations in the Fascist Period. London et al. 2006, 112–117, 131–145; Bernd J. Fischer, Albania at War, 1939–1945. London 1999, 176–183.

[4] Pisha/Vorpsi/Hoxhaj, Albania, 360; Adi Schnytzer, Stalinist Economic Strategy in Practice. The Case of Albania. Oxford 1982, 18–64.

of 12 percent in 1939, because of its links to the British pound now cut by other countries, credit from the Bank of England covered the sharp rise in military spending needed to repulse the Italian invasion of 1940. This support, plus existing controls on foreign exchange, kept the drachma's rate of exchange fixed and inflation well below the 72 percent rise in note issue. Then the German invasion of April 1941, and the joint occupation with Italy, triggered a deadly food shortage. Famine and hyperinflation followed in the winter of 1941/1942. With the price rise passing 3,000 percent by February 1942, the Bank of Greece printed new notes six times the value of tax receipts. Over 60 percent of the total sum went to occupation costs, for which Greece was to be solely responsible. As hyperinflation continued and the Bank of Greece turned to forced loans to cover occupation costs, the aforementioned Hermann Neubacher arrived to take charge of the German economic mission. His initial measures in Greece ranged from discouraging domestic hoarding to a new trade corporation to divert profits for German importers to occupation revenues. Italy's departure from the war left its share of Greek revenues to Germany. But as occupation costs rose with German expenses increasing in North Africa and now Italy, Neubacher turned to the sale of German gold stocks (French gold francs included) in order to reduce the need to pay for seigniorage from new note issuance. His initiative ironically coincided with the rising British supply of gold sovereigns to the Greek resistance movements. Its total worth of 700,000 pounds approached the gold estimated at 1.2 million pounds worth from Germany if not the private prewar stock of Greek gold worth some 3 million pounds. As Hitler turned down Neubacher's request for more gold in August 1944, the Greek inflation passed 500 percent a month. The drachma's exchange rate plummeted to less than 4 percent of its 1943 level. A third hyperinflation thus greeted the British authorities who replaced the departing Germans that October.[5]

After Commonwealth troops put down the Communist-led uprising of December 1944, hyperinflation resumed despite the introduction of a new and revalued drachma. By May 1945 the British representatives turned to the long-term Governor of the Bank of Greece, Kyriakos Varvaressos. He proceeded along the same lines that he had favored in the 1930s.[6] This was to increase direct taxation, introduce price controls, and raise wages. British Treasury officials, led by John Maynard Keynes himself, supported this approach. And the arrival of UNRRA food and other supplies worth $351 million, largely from the US, promised support for these reforms and some industrial investment, while also serving the British interest of reducing public employment and the budget deficit. But price controls failed to hold,

5 Michael Palairet, The Four Ends of Greek Hyperinflation of 1941–1946. Copenhagen 2000, 34–39, Table 8.1, 104; A. F. Freris, The Greek Economy in the Twentieth Century. New York 1986, 115–119.

6 See John R. Lampe, Finance and Banking in Southeastern Europe to 1939, Part 2: The Costs of War and the Trials of Interwar Financial Recovery (with Bibliographical Essay). Version: 1.0, in: Online-Handbuch zur Geschichte Südosteuropas, Bd.: Wirtschaft und Gesellschaft in Südosteuropa nach 1800, hg. vom Leibniz-Institut für Ost- und Südosteuropaforschung, 4.4.2017. URL: http://hgsoe.ios-regensburg.de/themen/wirtschaft-und-gesellschaft.html.

military expenses rose, and trading in the huge gold stocks fed renewed inflation. Varvaressos was forced to ask for more British supplies beyond the UNRRA deliveries.

By 1946, this request exceeded the UK's much depleted resources. An agreement struck in January in London with Greek representatives replaced the Varvaressos Plan with a Treasury Plan to fall back on gold sales. The rival Greek economist Zenophon Zolotas was installed as Governor of the Bank of Greece. He oversaw the sale worth another 2.1 million pounds as a substitute for financial restructuring. The National Bank of Greece, which he had formerly headed, kept its huge advantage in assets over the smaller, surviving Greek banks. But now a British Economic Mission and a new joint Currency Committee were established, with powers that also reduced seigniorage by 1947. That June, the British Mission was replaced by an American mission. In the face of the renewed civil war in Greece, $300 million in aid arrived under the administration of the American Military Assistance Group (AMAG). Only half went for military supplies, leaving the other half to economic assistance that provided food supplies but continued a preference for investment in industry over agriculture. The AMAG restructured the Currency Committee but was not able to prevent new note issue and price inflation from resuming by the end of 1948.[7] After a last limited resort to gold sales in 1949, the US Mission would finally turn to currency as well as agricultural reform in the 1950s. But in 1949, the volume of currency in circulation, Table 1's only index of inflation for all four countries, rose by 55 percent for Greece, its sharpest jump since 1945 when the new drachma was introduced.

The financial experience of Yugoslavia under a new Communist regime – more firmly entrenched than Greece's – was less complicated in these early postwar years. Food shortages and destruction were, if anything, more widespread than in Greece, but that generated a stronger case for recovery aid. Reparations from Germany, Italy and Hungary would be slow to arrive. But UNRRA aid was not; and as in Greece, it played a far larger role. In 1946/1947, aid to Yugoslavia amounted to $415 million – even more than Greece received. Despite its Russian director, the large US share of $298 million of the aid as well as the presence of US aid workers in uniform, aroused Yugoslav Communist suspicion that this foreshadowed plans for political influence or a military base. Meanwhile, however, the apparent alliance with the Soviet Union generated joint companies for river and air transport, from which the Yugoslav side gained no financial advantage. Complaints about the joint companies formed part of the background to the Tito-Stalin split of 1948.

With no access to Western capital markets, the regime in Yugoslavia made the best of its UNRRA aid by mobilizing youth brigades to join in the road and rail reconstruction. Trucks and tractors arrived to facilitate industrial and agricultural repair, while deliveries of food, clothing and medical supplies relieved the food-deficit areas in the interior of the country.[8] The banking system had been restructured along the same lines as had been done in Bulgaria

7 The most comprehensive study is by Athanasios Lykogiannis, Britain and the Greek Economic Crisis, 1944–1947. From Liberation to the Truman Doctrine. Columbia/Mo. 2002.

8 Full details may be found in George Woodbridge (ed.), UNRRA. The History of the United Nations Relief and Rehabilitation Administration, 3 vols. New York 1950.

Table 1. Currency Inflation, 1939–1949 (1939=100, 1945=100).

Currency in Circulation	*Bulgaria*	*Greece*	*Romania*	*Yugoslavia*
1940	142	163	132	143
1941	276	516	198	158
1942	413	3,543	240	–
1943	631	33,841	328	–
1944	1,182	–	731	3,011*
1945	109	7,398	340	297**
1946	202	39,393	1,715	342**
1947	113	71,147	12,989	492**
1948	–	87,301	–	654**
1949	–	135,793	–	752**

* Dinar equivalent from Croatian kuna, Reichsmark, Italian lira, Albanian francs and Hungarian pengő. ** New Yugoslav federal dinars. – Sources: John R. Lampe and Marvin R. Jackson, Balkan Economic History, 1550–1950. From Imperial Borderlands to Developing Nations. Bloomington/Ind. 1982, Table 13.8, 552.

and Romania, but more rapidly. The large Zagreb banks were closed for wartime participation in the NDH regime. The four large private Belgrade banks were merged into a new *Izvozna i Trgovačka Banka* (Export and Trade Bank), and promptly nationalized. So was the former *Hipotekarna Banka* (Mortgage Bank) as a new Investment Bank. They were the only two banks retaining limited commercial functions. Some 60 communal banks also survived after nationalization.[9] Only in 1948, as the split with the Soviets emerged, were they allowed to begin the expansion that would make them a separate financial force by the 1960s. For the time being, this limited financial framework left only the nationalized National Bank of Yugoslavia with the authority to respond. It increased issue of the new federal dinar to cover the shortfalls from reduced trade with the Soviet Bloc. The increases of currency in circulation in 1948 and 1949, as noted in Table 1, now jumped ahead to triple the level of 1945.

2.2 Romania and Bulgaria

Of the region's two wartime allies with Nazi Germany, Romania was the closer. Joining in the German invasion of the Soviet Union in 1941, it would pay the higher price after the war. Soviet reparations and confiscations exacted a greater toll, and a far greater inflation burdened the financial transition in Romania than in Bulgaria. The latter's forces had taken territory from Yugoslavia but never moved against the USSR. Bulgaria's fellow Communist

[9] J. J. Hauvonen, Postwar Developments in Money and Banking in Yugoslavia, *International Monetary Fund, Staff Papers* 17 (1970), no. 3, 563–601; M. Golijanin, Bankarstvo Jugoslavije. Beograd 1977, 39–42.

regime in postwar Yugoslavia forgave the limited reparations of $25 million. Greece's claim to be paid reparations was pushed down to the same sum under Soviet pressure but was never paid. Even had Bulgaria and Romania not been ruled by Communist regimes, they were both ineligible for UNRRA aid because of their wartime Axis alliances. At least, like Yugoslavia, their new Communist governments could effectively default on their prewar debts to the European capital market, simply making permanent the wartime suspension of their servicing. Their governments were thus spared the burdens that settlement of wartime and prewar debts had imposed on their economies after the First World War. Only Romania faced a huge claim for postwar reparations, as did Bulgaria from the Western Allies in 1919, this time $300 million demanded from the Soviet Union.

Early in the war, both the Romanian and Bulgarian economies had become fully dependent on Germany. Already in March 1939, the *Wohltat* Agreement provided Romania with German military equipment in return for its export of oil and grain. Under the sort of clearing trade agreement with negotiated exchange rates already in place for Bulgaria, German shares of Romanian exports and imports climbed rapidly. After the loss of territory ceded to the Soviet Union and then Hungary in 1940, the new military regime in Bucharest had joined the Nazi invasion of the USSR in June 1941, in the hope of regaining both territories. By 1941, two thirds of Romania's foreign trade was with Germany. Romanian currency in circulation had doubled by then, less than in Greece according to Table 1, but about the same amount as in Bulgaria and Yugoslavia. Behind the new note issue from the National Bank of Romania (NBR) already lay two devaluations that reduced its gold coverage, first by 50 percent, and then by 9 percent by April 1942. External debt service was suspended that same month, and government bonds issued to service the public debt were suspended by the end of the year. All this came from a budget deficit created by increasing military expenditures. The deficit was supposed to be covered by new note issue for NBR loans and credit from the five remaining large banks in Bucharest – supposedly in collaboration with German banks. Romanian budget deficits continued to climb with the ill-fated Russian campaign, with revenue covering only 52 percent of expenses by 1943. A German credit of one billion Reichsmark and the shrinking Romanian surplus in its clearing trade with Germany – now needing less new note issue to pay Romanian exporters – combined to restrain the increase in currency in circulation until 1944.[10]

But then, until 1947 as noted in Table 1, Romania's currency in circulation shot up at a rate matched only by Greece. First came a tripling in 1944, as the Red Army swept in and demanded direct payment for its expenses and replacement for rubles expended. The smaller currency increase for 1945 in Table 1 reflected the absence of any German military costs and the loss of Bessarabia, the site of the agricultural projects that were the one major German investment in wartime Romania. The new Communist-led regime used the 40-fold currency surge in 1947 to discredit the management of the NBR, still consisting of a mix of state and

[10] George Virgil Stoenescu et al., Romania. From 1880 to 1947, in: South-Eastern European Monetary and Economic Statistics, 243–289, 247f.; Henry L. Roberts, Rumania. Political Problems of an Agrarian State. New Haven/Ct. 1951, 214–222.

private shareholders. Only massive seigniorage from new note issue could cover the 65 percent of budget expenses not covered by revenues. Unavoidable costs ranged from paying Soviet reparations equivalent to $300 million for war damages, the continuing coverage of Soviet military expenses, and the launching of joint Soviet-Romanian companies that soon took 35 percent of Romanian bank credit, often for unpaid export of equipment or materials to the USSR. Exports to Western markets were not allowed, and total exports for 1946 were only 31 percent of imports. Foreign debt service was permanently suspended, and all public debt was declared paid.

In August 1947, the new Communist regime eliminated private shareholders from Romania's 70 banks, most of them small commercial or savings banks that were allowed to survive. But all large bank assets or company deposits not in a small bank's "social category" were confiscated and the lei was revalued at 1 to 20,000 – not convertible to gold. Already under a Communist director by this time, the NBR was reconstituted as the People's Republic Romanian Bank. The state was its only shareholder and had authority over any credit transaction. By 1948, the stock market was closed, and the only other banks in Romania were the new National Society of Credit and Industry and a Postal Savings Bank, plus the Soviet-Romanian Bank. The result, according to a recent Romanian study, was "the annihilation of competition in the banking sector until 1989".[11] In addition, the core of the financial system passed from the central bank to the ministries for finance, central planning and industry.

The Bulgarian National Bank (BNB) survived both the war and the postwar Communist transition with more of its authority intact, if not as an independent central bank, compared with Romania. As noted in the previous chapter, it was a state bank from the start and had acquired new authority over domestic banks and foreign trade in the 1930s. Under the maze of wartime economic agreements with Nazi Germany, its new note issue had boosted currency in circulation by almost 10-fold, as indicated in Table 1. The decline in its gold coverage from 26 to 4 percent testifies to the resort to seigniorage. But domestic price inflation had lagged behind the five-fold Romanian increase at 3.5 times the 1940 level by 1944.[12] Then both currency note issue and price levels briefly doubled and then fell back by 1947, as the Romanian note issue exploded and hyperinflation peaked.

Along with existing state leverage, contrasting experiences with both the German war effort and the subsequent Soviet advance set the Bulgarian financial system aside from Romania's. The multitude of Bulgaria's wartime agreements with Nazi Germany began with a new clearing agreement in December 1940 that, unlike Romania's 25 percent devaluation, kept the original 1938 exchange rate of 33 leva to the Reichsmark. One further agreement in 1941 provided first for 500,000 and then 900,000 leva for the support of German troops

[11] Ioana Sbârcea, The Analysis of the Romanian Banking System Evolution in the Important Milestones from Its History, *Studies in Business and Economics* 9 (2014), no. 2, 70–77; also see Stoenescu et al., Romania, 248f., and Costin C. Kirițescu, Sistemul bănesc al leului și precursorii lui, vol. 2. București 1967, 500–531.

[12] Radice, Economic Developments, Table 15.11, 367, and 15.13, 369, with the lower Bulgarian figure ascribed to price controls and peasant hoarding of banknotes.

in Bulgaria. A second agreement financed the German use of mines and other acquisitions in Macedonia and Thrace – now under Bulgarian occupation – authorized the acceptance of German military marks in Bulgaria; and accepted responsibility for some Yugoslav and Greek bank debts. All of this was covered by note issue from the BNB. So was the payment to Bulgarian exporters for the surplus in clearing trade with Germany that had reappeared by the end of 1941. Even with an overvalued leva, German representatives demanded increased import prices and duty-free access. The Bulgarians were asked to pay a premium for gold-backed banknotes used for imports, such as Turkish cotton, outside the clearing agreement. Refusing to pay the premium familiar from the interwar period, the Bulgarian side lost its access to external imports. Unlike Romania, there was no large loan forthcoming from the Reichsbank. At least price controls and peasant hoarding kept down the rate of inflation.

Meanwhile, however, the Bulgarian National Bank (BNB) and theAgricultural Bank (BZNS) had increased their dominance over a shrinking private sector in which foreign banks had only 6 percent of assets. The BNB consolidated control of the dozen domestic banks already merged into the *Banka Bălgarski Kredit* in 1934, and of the BZNS's cooperative network. Its share of bank assets rose to 78 percent. Thus, as a pre-1989 Bulgarian account put it, the BNB was already set up "to play a key role in socialist reorganization" by providing credit from the state budget to industry and infrastructure.[13]

In the interim, before the start of central planning on the Soviet model in 1948, the BNB coordinated short- and long-term credit with the new Higher Economic Council (VSS). After fronting large, unrecorded sums of money to the advancing Red Army in 1945, BNB Governor Ivan Stefanov objected to further payments to the Soviet-led Allied Control Commission and rejected unsecured loans to the BZNS. But Soviet deliveries of grain and Czech rolling stock, reduced budget deficits and the demand for BNB note issue. Currency in circulation only doubled for 1946 (see Table 1). Meanwhile, the BZNS and the *Banka Bălgarski Kredit* helped to acquire still more assets from the remaining domestic banks. Among the foreign banks in Bulgaria, the Soviets had taken control of the Italian and German ones. In 1946, the Paris-Bas Bank in Paris was obliged to sell back its shares in the Banque Franco-Belge. And in 1948, the French, Belgian, Dutch, Swiss and British bondholders of prewar debt agreed to accept 10–13 percent of the service due since 1944 as a final payment, which was in fact never made. Private bank depositors first faced obligatory contributions to the Freedom Loan of 1945 that reduced the amount needed from BNB note issue. Then the monetary reform of 1947 purged old banknotes and wartime government bonds; blocked all accounts over a limited amount; and added a one-time tax on transfers of 50–70 percent. As noted in Table 1, currency in circulation was cut in half. Down to just 11 percent of bank capital, all 32 private banks were closed, along with the Sofia stock market. So by 1948, the

[13] Totiu Totev, Bankovata sistema na NRB sled socialistička revoljuciia, *Finansi i kredit* 31 (1981), no. 7, 42–45. On wartime German policy and Bulgarian reactions, see Hans-Joachim Hoppe, Bulgarien, Hitlers eigenwilliger Verbündeter. Eine Fallstudie zur nationalsozialistischen Südosteuropapolitik. Stuttgart 1979, 108–134; and Nikolaj Todorov et al, Stopanska istorija na Bălgarija, 681–1981. Sofija 1981, 415–428.

Bulgarian financial system consisted only of the VSS, the BNB, a new Investment Bank for long-term loans, a Postal Savings Bank, and for the time being, the BZNS cooperative network.[14] The same subordination to the planning and industrial ministries as in Romania and Albania lay ahead.

3. Varieties of Fiscal Stabilization and State Finance, 1949–1974

All three of these Soviet-style economies operated through the 1950s under a fiscal system driven by industrial investment from state budgets balanced by taxing consumers and enterprises. Bank investment was too small; price and foreign exchange controls too rigid; and note issue and interest rates too restricted to speak of a monetary policy – let alone an independent financial system. Foreign economic relations, primarily with the Soviet Bloc proceeded as clearing trade under fixed exchange rates for inconvertible currencies. Only Bulgaria would prove something of an exception in the 1960s. Regarding foreign aid, Albania was also an exception, as it received a combination of grants and credits first from the Soviet Union and then from the People's Republic of China across these two decades. Aid for Yugoslavia and Greece from the United States also continued for most of this period, but with banking systems free to provide credit under less central control. The US aid's promotion of economic investment also increased the money supply and inflated prices. These inflationary pressures challenged both central banks to respond with monetary restraint that was more effective in Greece than in Yugoslavia.

3.1 Romania, Bulgaria and Albania

Little needs to be said about Romania. Its three banks left standing by 1948 were subordinate to the system of ministerial control that emerged under the new State Planning Commission from 1949 forward. Aside from the small Postal Savings Bank, the renamed National Bank of Romania, and the Credit Investment Bank simply provided enterprises with banking facilities and designated credits. The State Planning Commission and the Ministries of Industry, Construction, and Supply, among others, decided on the designating itself. At least bureaucracy had slimmed down slightly, with the number of ministries reduced from 27 to 16 in 1957. But the emphasis on industrial investment in the Five Year Plans would

[14] Based on the BNB archives, recent Bulgarian research on the wartime transition from German to Soviet primacy and the initial postwar period is summarized in Oleg Nedyalkov/Lyudmila Dimova, The Bulgarian National Bank and its Role in Bulgarian Economic Development (1879–2009). Sofia 2009, 55–63. John R. Lampe, The Bulgarian Economy in the Twentieth Century. London 1986, 112–138, draws on the detailed Bulgarian scholarship of the 1980s to spell out how an already centralized financial and foreign trade system worked to the advantage of the new Communist regime, leaving the wartime and postwar growth of smaller industrial enterprises to be cut away. On the settlement of obligations to West European banks and bondholders, see William H. Wynne, State Insolvency and Foreign Bondholders, vol. 2: Selected Case Histories of Governmental Forgein Bond Defaults and Debt Readjustments. New Haven/Ct. 1951, 574.

continue, despite Soviet objections throughout the 1960s. Moscow's leverage under the joint *Sovrom* bank and enterprises, in combination with the Romanian reparation debt, ended in the wake of the Hungarian Revolution in 1956. After demanding payment for the value of oil and other assets, sold back for the abolition of the *Sovroms* in 1955 and 1956, the Soviet Union had cancelled the remaining Romanian debt, worth as much as $700 million. To facilitate the regime's resistance to de-emphasizing heavy industry under the plan for Soviet Bloc integration from the Council for Mutual Economic Assistance (CMEA), the Romanian government created two new banks in 1968 – the Bank for Agriculture and Industry and the Foreign Trade Bank. The latter was to negotiate the imports of Western, rather than Czech or East German, machinery. The Foreign Trade Bank became the vehicle for new hard currency debt, which was accumulating by the 1970s. But after a 1967 banking reform misleadingly advertised as providing some regional decentralization, decision-making in the four state banks remained subordinate to state economic ministries under the close supervision of Nicolae Ceaușescu's Politburo.[15]

The Bulgarian financial system stayed centered on the BNB with more apparent authority than its Romanian counterpart in the 1950s, but without any greater part in the ministerial framework for planned investment. In 1951, the all-powerful Council of Ministers and the party's Central Committee issued an Instruction on Banking System Reorganization, which made the BNB sole authority over currency emissions and circulation. By 1952, all large private deposits had been sequestered and the lev pegged to the ruble, with a corresponding ratio for gold cover. Now with better qualified staff, the BNB was authorized to grant short-term credits to state enterprises. But as these flowed from the state budget, they were authorized by the Ministry of Finance until 1956 and after that by the full Council of Ministers. The rural Popular Banks and credit cooperatives left from the prewar cooperative framework were merged into the BNB as branches. A new State Savings Bank replaced the Postal Savings Bank. The State Investment Bank for long-term credit stayed in place, but it was the BNB that worked with enterprises to prepare their financial plans based on drawing from the state budget. Turnover taxes on consumer goods and levies on enterprise income continued to provide two thirds of budget revenues. These, and other sorts of forced savings, kept the fiscal balance and maintained monetary stability. After a shift to consumer goods in the mid-1950s, Five Year Plan targets under the subsequent Great Leap Forward remained concentrated on an expansion of heavy industry that demanded machine imports.[16]

Monetary intervention was needed in order to address a deficit in the balance of payments in the early 1960s. In response, the BNB oversaw a devaluation of the currency and the selling off of Bulgaria's gold reserves. A trade deficit of 20 percent had opened up by 1960,

[15] Alan H. Smith, The Romanian enterprise, in: Ian Jeffries (ed.), Industrial Reform in Socialist Countries. From Restructuring to Revolution. Aldershot et al. 1992, 201–218, 205f., refers only to the role of banks in passing. On the Soviet role and the fate of their joint companies in the 1950s, see Ghita Ionescu, Communism in Rumania, 1944–1962. London 1964, 163f., 221.

[16] Bojidar V. Bojinov, Flashes from the Past. The Origin and Development of Banking in Bulgaria. Munich 2015 (MPRA Paper No. 67234); Totev, Bankovata sistema, 47f.

primarily because of machinery imports from East and West Germany. The latter was the larger, amounting to 20 percent of Bulgarian imports. The previous export surplus with the Soviet Union had vanished along with the joint Soviet-Bulgarian enterprises. Only credit from Soviet-based banks in London and Paris was covering the Western trade deficit. Payment arrears by 1962 pushed the BNB to devalue the lev and reduce its gold backing, while requiring the public to exchange old for new banknotes at a ratio of 10 to 1. The new "heavy lev" was fixed at $1.17 versus the old, a wildly unrealistic rate of $6.80. This still overvalued rate, and more rescheduling, did not resolve the payments deficit. Only the sale of the entire Bulgarian gold reserve – already moved to Moscow in 1959 for security in case of nuclear war – finally relieved the payments crisis in 1964, as recent research in the BNB archives has revealed. That same year, the regime created a Bulgarian Foreign Trade Bank to secure and service future Western credits.

But centralizing control remained the major response from the regime, after the brief experiment with New System of Management reforms from 1964 to 1967. The reforms had allowed loans at 4 percent interest from the State Investment Bank to enterprises, judged on profit and loss rather than planned targets. But in 1967, a year before the Soviet intervention in Czechoslovakia cut short the New System of Management, the BNB absorbed the State Investment Bank and its rights to provide short- and long-term credit. BNB representatives now were added to the Council of Ministers, but as a subordinate committee without ministerial rank.[17] Although the Foreign Trade Bank was joined by two more banks in 1968 and 1969, their efforts to create a two-tier banking system foundered in the face of mounting defaults on their enterprise loans. Censured in 1974 for excessive lending, their functions were absorbed back into the BNB and what would remain a single-tier banking system for the rest of the decade.

Albania's economy would proceed with a more inflexible financial framework than either of its centrally planned neighbors, not just through the 1960s, but into the 1980s. The ministerial framework for central planning used the Finance Ministry and its so-called "treasury police" to monitor enterprise investment and tax plans. The State Bank of Albania served only to issue inconvertible lek currency and regulate its use according to instruction. From September 1948, Soviet advisors arrived to help establish the same fiscal system that sustained central planning in the USSR. But from the start, the Albanian industrial enterprises could not provide enough taxable income; nor could a population still 70 percent rural, possess the purchasing power to generate enough revenue from enterprise or turnover taxes. Income taxes brought in little from private agriculture's shrinking sector, and were consequently discontinued in 1967. Budget deficits were joined by trade deficits, created by the

[17] After an initial chapter on the automatic credit from the BNB under the initial Communist system, Rumen Avramov, Pari i de/stabilizaciia v Bălgariia, 1948–1989. Sofija 2008, devotes a long chapter, 123–210, to the payments crisis of the early 1960s and the destabilizing consequences for the monetary system. On the trade deficit that emerged under the Great Leap Forward 1958–1960 and the financial reforms under the subsequent New System of Management, see Lampe, The Bulgarian Economy, 149–154 and 200–206.

planners' demand for industrial imports and a domestic grain shortage. In the absence of forced domestic savings, the Albanian Communist leadership was nonetheless determined to sustain a Soviet-style fiscal system and persist with investment in heavy industry.

Direct foreign aid from the Soviet Bloc, and then later aid and credits from China in to the 1970s, filled the gap created by continuing foreign trade and payments deficit. Most of the aid was directed domestically toward industrial investment, advancing its amount by one half in the early years and its effectiveness primarily in the last years.[18] When the long-term loans and credits from the Soviet Bloc were cut in half in 1954, plan fulfillment faltered despite a reduction in the number of state employees and the number of state enterprises. By 1957, the Soviet side was obliged to cancel all past debts and offer another 300 million rubles in new aid. Still in 1959, wheat imports from the Soviet Bloc were required to provide half of Albanian needs. But as the Soviet rapprochement with Yugoslavia proceeded, the Albanian regime turned to China and its initial offer of $123 million in new aid and credits in 1959. The Soviet Union responded with a comparable offer, on top of more than one billion rubles already provided, but then withdrew it when Chinese support was accepted.

As Chinese technicians arrived in Albania to replace the Soviet ones, so did Chinese foodstuffs and spare parts covering 90 percent of what the Soviets had supplied. But the promised new machinery and industrial plant was slow in coming. Combined with a halt in Soviet Bloc trade, the resulting disruption of industrial production prompted a campaign of forced enterprise savings that reduced budget expenditures by 6 percent. This would have been larger, if indeterminate savings were included that followed from the elimination of 15,000 state jobs in 1966. With the continued inflow of Chinese aid and credits totaling $900 million for 1961–1971, the Five Year Plan for 1966–1970 met its targets. The industrial share of Net Material Product rose from 26 to 39 percent. But in 1972, as Chinese relations with the US and Yugoslavia troubled Tirana, the flow of credits was sharply reduced. There were Albanian complaints about delays, and Chinese complaints about corruption. The resulting fiscal crisis left the Albanian Communist regime for the rest of the 1970s to search for new export markets to balance its budget as well as its foreign trade. Foreign debt would remain forbidden by statute, and with no income from tourism or remittances, there would be nothing from the capital or current account to cover trade deficits.

3.2 Yugoslavia and Greece

Despite their differences with each other, let alone the economic system of Stalinist Albania, the financial frameworks of both Yugoslavia and Greece shared one common feature with their small and isolated neighbor in the first two postwar decades. They all received substantial foreign aid, supplemented by soft loans. All of it came for political reasons from a distant Cold War power. While Albania obtained some $2 billion worth from the Soviet Union and then China, as we have seen, Yugoslavia and Greece each received $3.7 billion in aid and

[18] See the calculations on the impact of foreign aid in Schnytzer, Stalinist Economic Strategy, 90–103.

Table 2. US Aid to Yugoslavia and Greece, 1945–1967 (millions of dollars).

1945–1967	*Yugoslavia*	*Greece*
Grants		
UNRRA (1945–1948)	298	253
Economic	896 (from 1950)	1,666 (from 1947)
Military	722 (1950–61)	1,600 (from 1947)
Loans		
Exim Bank	1,052 (1950–64)	
Other	815	224
Total	3,783	3,743

	1947–1949	*1950–1952*	*1953–1955*	*1956–1958*	*1959–1961*
Yugoslavia					
US Aid as % of trade deficits	–	36.2	61.5	50.2	18.8
Greece					
US aid as % of current account plus state investment deficits	82.9	73.1	76.4	47.4	21.3

Sources: John R. Lampe/Russell O. Prickett/Ljubiša Adamović, Yugoslav-American Economic Relations since World War II. Durham/NC 1990, Tables 2.1 and 3.7, 41, 70f. A. F. Freris, The Greek Economy in the Twentieth Century. New York 1986, Table 4.7, 178.

soft loans from the United States. Almost all of it came after the aforementioned relief aid of 1946/1947 from UNRRA.[19] Both countries began with economic aid from the Marshall Plan and continued with military aid and infrastructure loans into the 1960s.

US support for Yugoslavia began later in 1950, after Yugoslavia's initial alliance with the Soviet Union had broken down in 1948/1949. But the financial consequences are easier to track, because of a still socialist economy that initially constrained its banking system in a single tier system such as that found in Bulgaria and Romania. The initial provision of $497 million under the Marshall Plan from 1950 to 1952 provided more military than economic aid, supplemented by $55 million in soft loans from the Exim Bank. But under the Mutual Security Act from 1953 through to 1961, the military share shrank after Yugoslavia's rapprochement with the USSR in 1955/1956. Economic aid now predominated but shifted to include as much in soft loans free from US Congressional approval as in direct grants, even for the food shipments provided from US farm surpluses under Public Law 480.

[19] The three quarters of UNRRA aid contributed by the US amounted to $298 million for Yugoslavia and some $250 million for Greece, as noted above, while $20.4 million for Albania of the far smaller total of $26.3 million.

Already in 1953/1954, US leverage was sufficient to prompt a reduction in the regime's large number of industrial projects. But the Yugoslav response left each republic free to choose its own reduced list, each still concentrating investment in heavy industry. At the same time, the joint Yugoslav-American interest in avoiding a payments crisis over short-term debts to Britain and West Germany in 1954 was enough to avoid a wider debt conference that would have included prewar British claims. Then, after the dispute over Trieste was settled, Italian trade and credits relieved the Yugoslav imbalance.

Overall, from 1954–1959, foreign transfers led by US aid covered 74 percent of Yugoslavia's balance of payments deficits.[20] Long-term economic aid came later, primarily from the Development Loan Fund which provided rail and road building equipment between 1959 and 1961. Further soft lending from the Exim Bank and the Foreign Assistance Act, left grants to fall to 20 percent of the final $536 million received for 1962–1967. Prompt completion of projects with US Loans encouraged the start of lending from the World Bank – renamed from the International Bank for Research and Development. It would total $4 billion by 1980. The regime's reluctant 1960/1961 reforms also encouraged this access. These monetary reforms qualified Yugoslavia for membership in the General Agreement on Trade and Tariffs (GATT). The dinar was devalued from 750 to 300 to the dollar, multiple exchange rates were eliminated, and tariff rates were reduced. But to absorb the costs of transition, Yugoslavia needed a separate short-term credit of $275 million, consisting of $100 million from the US, another $100 million from Britain, France, Switzerland and West Germany, plus $75 million from the International Monetary Fund.[21]

To take advantage of lower prices for its exports and compensate for paying higher prices for industrial imports following the devaluation, Yugoslavia's economy needed to reign in the domestic inflation that now appeared. Through the 1960s, prices would rise by an annual average of 10 percent. One cause was the restructuring of enterprise self-management, allowing the Workers Councils to vote on distributing profit between bonuses and reinvestment. Another cause was however the emergence of a two-tier banking system, one tier for federal banks and another tier with a large number of communal banks. Both tiers bore responsibility for excessive lending. The two large Belgrade banks for exports and investments, set up after the war to provide long-term loans, had taken over the authority of the federal budget's General Investment Fund by 1961. Both of the banks used the next decade's freedom from ministerial control under central planning to expand their lending. And they were soon pressured to provide funding for the republics' growing interests under the framework of self-management. Local political interests were increasingly represented by the set of communal banks authorized from 1955. By the early 1960s, there were 380 communal banks.

Supposedly confined to short-term loans, communal banks typically rolled the short-term loans over for favored local enterprises, providing them an extra source of long-term credit.

20 Dragana Gnjatović, Uloga inostranih sredstava u privrednom razvoju Jugoslavije. Beograd 1985, 54–68.

21 John R. Lampe/Russell O. Prickett/Ljubiša S. Adamović, Yugoslav-American Economic Relations since World War II. Durham /NC 1990, 53–72.

With the large Belgrade banks, their combined share of fixed assets had jumped from 27 to 59 percent between 1961 and 1964. The major point of the economic reform of 1965 was to abolish communal banks in favor of 30 to 40 regional banks, intended to offer credit only to worthwhile projects on the basis of a country-wide competition. Instead, the regional banks became new centers for advancing the interests and enterprises of their republic or autonomous region, eight in all.[22] Further reforms, such as opening up to direct foreign investment, were not carried out. A limited number of joint ventures still placed discouraging conditions on foreign partners.

Overall, we may conclude that US aid helped to open up the Yugoslav economy to Western markets and their monetary framework, but also facilitated the domestic leverage of its Communist leadership, increasingly at the republic level. Food aid had allowed the republics to continue the 1950s' concentration on heavy industry familiar from Romania, Bulgaria and Albania. Then in 1961, the standards for development aid from the US and the World Bank had encouraged currency devaluation and other GATT qualifications, in order to trade in Western markets and repair payments deficits with Western creditors. But by 1969, Slovenia was challenging the federal authority for its regional banks to determine the use of a World Bank loan for road construction. Federal fiscal leverage was already reduced by then to taxing the budgets of the three more developed republics to provide the federal development fund FADURK with the same prescribed 2.6 percent of their expenditures as did the 1969 federal budget. Created under the 1965 economic reform, the fund was to support investment and social costs in the three less developed republics and Kosovo. Then in 1971, as one of the confederal features incorporated into the new 1974 constitution, the Bank of Yugoslavia itself was subdivided. The six republics and two provinces (Vojvodina and Kosovo) were each entitled to a national bank. Their Governors had equal standing on the board of the National Bank of Yugoslavia. With unanimity required for any decision, a multi-tier system of regional banks replaced any coordinated control over municipal government or bank borrowing from Western banks. This system would spread after 1974, as we shall see, with inflation that exceeded interest rates and cheapened debt service in dinar.[23]

For Greece as well, 1974 marked a turning point with the end of the military regime in power since 1967 and also the end of annual inflation rates under 5 percent since 1951. The rate rose to 15.5 percent in 1973 and jumped to 26.9 percent in 1974, never to fall under 10 percent again.[24] Until then, Greece's market economy had restrained domestic inflation

22 John R. Lampe, Yugoslavia as History. Twice there Was a Country, 2nd ed. Cambridge 2000, 286–289.

23 On the financial devolution to the republic budgets and the complaints from Slovenia and Croatia about the FARDURK contributions, see Dijana Pleština, Regional Development in Communist Yugoslavia. Success, Failure, and Consequences. Boulder/Colo. 1992. On the rise in federal budget expenditures from 1967 to the prescribed 2.6 percent by 1969, see *OECD Economic Surveys*: Yugoslavia 1970, Table 11, 36. From the 1965 economic reform, the republic and district/community budget revenues and expenditures exceeded federal totals, according to *OECD Economic Surveys*: Yugoslavia 1967, Table 9, 24.

24 Freris, The Greek Economy, Table 5.16, 151.

more successfully than Yugoslavia. Yet its financial history since the Second World War was comparable to its socialist neighbor's in two other significant respects. First, the supply of US aid and credit largely covered the trade and payments deficits of an economy seeking to promote modern development. Second, the state worked with a limited set of large domestic banks to control the financial system. Foreign banks would not be allowed to operate until the 1990s.

US assistance to Greece amounted to $3.7 million, matching the amount provided to Yugoslavia as noted in Table 2. Assistance to Greece had started earlier, namely in 1947, with $300 million of largely military aid. But it peaked in 1950/1951, just as post-UNRRA American aid to Yugoslavia was getting under way. Already connected by 1949 to the guidelines of the Organization for European Economic Cooperation (OEEC) under the Marshall Plan, the aid granted up to 1953 sought to eliminate payments deficits and to reduce inflation by restraining public spending and note issue. The Currency Committee, created by the London agreement in 1946, continued to provide international oversight until 1951, when its members were reduced to the Governor of the Bank of Greece (BOG) and the ministers of finance, industry, agriculture commerce and coordination. Majority rule replaced unanimous decisions with their potential for delay or obstruction in exercising the Committee's wide range of monetary and credit authority, extending beyond currency issue to bank lending and interest rates.

In addition, the US aid was initially intended to promote the rapid development of industry over agriculture, just as in Yugoslavia. The Bank of Greece kept dollar aid in a blocked account, while using an equivalent sum in drachma for distribution to commercial banks, primarily the large National Bank of Greece. To dampen the inflationary pressure, the BOG turned briefly again to the sale of gold sovereigns, still 8 percent of the broad money supply. German and Italian reparation payments, combined with US aid, aimed to trim if not eliminate the payments deficit. Then in 1953, with US complaints rising over lax tax collection, the Currency Committee agreed to a 50 percent devaluation of the drachma. As in Yugoslavia in 1960, multiple exchange rates were also eliminated and a two-decimal adjustment, fixed the drachma at 36 to the dollar. This corrective to the trade deficit combined with credit restraint led by the Bank of Greece to set a more constructive course for the rest of the decade.

So did a change in investment strategy supported by the US. This was another Varvaressos Plan from the past Governor of the Bank of Greece, whose 1945 plan had briefly promoted higher wages and living standards. Here his proposal to raise living standards rested on a shift from industrial to agricultural investment. US farm equipment and advisers started the overdue process of making Greece's food production self-sufficient. Less need for food imports facilitated the 1957 reduction in tariff rates. Until the payments balance turned positive in the early 1960s, boosted by rising income from tourism, US aid covered deficits which had at least begun falling in 1953.[25]

Beyond a Postal Savings Bank, as in the rest of the region, the Greek banking system opened to private savings, which began to swell the deposits of commercial banks by the late 1950s. A rise in interest rates from 7 to 10 percent in 1956 helped to encourage the transition as well as to keep inflation under control. Some 30 commercial banks were dominated by the large National Bank of Greece and two private domestic banks. They took the lead in reducing the BOG's share of credit from two thirds to one third between 1949 and 1957. Nevertheless oversight from the Currency Committee was not relaxed. In addition, imposing to reserve requirements over bank resistance, the Currency Committee demanded the first 10 percent in 1957 and then 15 percent of credits granted to support capital formation in industry. Then in 1962, it reduced interest rates to support and promote industrial exports. Given the small postwar size of the Athens Stock Exchange and the limited incorporation of Greek enterprises, bank credit was indeed the major source of funding for industrial investment, with bank holdings in control of two thirds of industrial assets. Oversight was finally relaxed in late 1963 under a new code for commercial banking.

After lending expanded in the next few years, the imposition of the Colonels' military regime in 1967 prompted a significant withdrawal of private savings and other deposits. The share of credit granted directly from the BOG increased to fill the gap, under a new and compliant Governor. He had replaced Zenophon Zolotas, who had resigned in protest after the Colonels' coup. BOG discount and overdraft credits to commercial banks were now offered at a low interest rate of 4.5 percent, all supported by a compliant Currency Committee. To revive public confidence, the military regime also relaxed the past restriction on credit for housing and also extended the terms for repaying loans to support tourism. But by 1972, rising domestic demand and international prices prompted the regime, fearing inflation, to restrict consumer credit, increase the discount rate to 6.5 percent, and restore a reserve requirement on commercial deposits of 20 percent to be held at the Bank of Greece. These restraints combined with the reduction in private savings to cut back investment and production. But with goods in short supply from the recession, the financial restraints failed to prevent the consumer price index from rising as noted above, to 15.5 percent in 1973 and to 26.9 percent for 1974. With the fall of the Colonels' regime in July 1974, the new Karamanlis government brought back Zolotas as BOG Governor and restored the authority of the Currency Committee.[26]

25 Freris, The Greek Economy, Table 4.7, 147; and for a comprehensive account of US aid and the Greek response, 128–152.

26 D. J. Haliakis, Money and Credit in a Developing Economy. The Greek Case. New York 1978, provides the most detailed account of the activities of the Currency Committee. See especially the chronological account of credit policies from 1946 to 1974, 26–54, and the Statistical Appendix, 255–301. See the increasing detail in the annual *OECD Economic Surveys* for Greece from 1961. Submitted from the Greek side but vetted in Paris by the same OECD staff reviewing the Surveys for Yugoslavia, they provide the best available basis for comparing their statistical data.

4. Finance and Banking between Inflation and Foreign Debt, 1975–1989

From 1975 forward, all of Southeastern Europe – with the exception of Albania – turned to Western capital markets for loans to sustain their plans for industry-led growth. Mounting inflation challenged their efforts to continue the advance in living standards that had been a common source of support for their regimes since the 1960s. By the early 1980s, Romania and Yugoslavia had accumulated sizeable debts for annual service in hard currency; Bulgaria and Greece would follow suit later in the 1980s. By then the Bulgarian foreign debt climbed to $10 billion, a level which Romania already reached and Yugoslavia had almost doubled by 1980. By 1989, Greece's foreign debt reached $20 billion. Each of their financial systems would struggle to deal with these burdens, already familiar to them from before and after the First World War. Their policies differed, but the three Communist regimes would be forced from power by 1990; in no small measure because of their responses to the debt crisis. The Albanian regime would survive only a year longer, collapsing as its labor force fled from an economy isolated from domestic as well as foreign credit.[27]

4.1 Romania and Bulgaria

Both of their economies faced a shortage of investment capital by the late 1970s. Romania was understandably the first of the two countries to turn to the Western banks who had already been lending to Poland and Yugoslavia. The Romanian regime's reluctance over its membership in the Soviet Bloc was most clearly expressed in its turn to trade partners outside the CMEA framework, which it had resisted in 1963/1964. But after the subsequent trade agreements with France and West Germany, better prospects were seen for exporting its industrial and petroleum products to less developed economies, in what was then called the Third World. The plan to generate an export surplus by devoting at least one third of its trade to these economies succeeded only up to 1975. Afterwards, this market receded. As other oil-producing countries were increasing their production, the demand from non-producing countries was being reduced as import prices rose with the first global oil shock of 1973. Then the earthquake of 1977 heavily damaged Bucharest and several other locations. Imports for its rebuilding added to a trade deficit that loans from New York banks in particular were ready to provide. Global prices, rising again with the 1979 oil shock and bad Romanian harvests in 1980/1981, boosted interest rates relieved only by some short-term credits. Debt service rose by 60 percent between 1975 and 1981.

[27] With the state budget long the only source of funding for industry, the agricultural cooperatives had at least received credits from the State Bank of Albania until 1981. Then the ill-fated incorporation of even small peasant livestock herds into collective farms under newly centralized control ended this access. Örjan Sjöberg, The Albanian Economy in the 1980s. Coping with a Centralized System, in: Örjan Sjöberg/Michael L. Wyzan (eds), Economic Change in the Balkan States. Albania, Bulgaria, Romania and Yugoslavia. New York 1991, 115–127.

A small loan from the World Bank in 1980 did not help while the Western banks now backed away, as they would in Yugoslavia. Despite two loans from the IMF and the promise of rescheduling of payments due to the Paris Club of Western official state lenders, past and pending service of $4 billion on a total foreign debt of $10 billion confronted the economy by 1982. Meanwhile, under more relaxed price controls, domestic shortages pushed up the rate of inflation to an unprecedented 17 percent. Western lenders were ready to accept rescheduling for 1983, but only if Romania accepted the hard prescription that accompanied a token IMF advance. As already applied in Poland, these terms would have cut investment in half and required decentralizing price and monetary reforms. The regime adamantly refused, standing by its ideological commitment to economic independence through central planning and investment in heavy industry.[28]

The existing promise from the Romanian financial reforms of 1978 had however already vanished. The only change resulting from the New Economic Financial Mechanism was to demand that enterprises use profits from their own cost-cutting for new investment under "auto-financing". The advertised measures for employee self-management and for new access to bank credit never materialized.[29] The regime's response to the debt crisis of the 1980s was instead a draconian new trade policy. Imports were slashed and domestic food and fuel supplies were diverted to exports. The aim of this rigorous trade policy was to pay off the entire foreign debt, principal as well as service, in five years. Severe domestic shortages of food and fuel reached their deadly peak in the hard winter of 1984/1985. Starvation threatened in Bucharest and other major cities. The diversion of fuel supplies only to industry left public facilities, like hospitals as well as apartment buildings, without heat. But by 1988, the foreign debt was indeed paid off, as far as could be determined from the diminishing publication of official economic statistics.

While Romanian banks played no significant role in this draconian response to its debt crisis, the Bulgarian regime sought to use the BNB and a succession of new banks to deal with the comparable crisis it confronted by the late 1980s. Credit problems had started a decade before with Western bank loans to provide investment for hard currency exports. By 1975 bank credits mainly through the BNB had risen to 54 percent of investment funds. Then in 1978, as the State Planning Commission relaxed its limits on enterprise investment, the BNB was unable to use what was supposed to be new oversight to prevent the enterprises themselves from accounting for 45 percent of investment by 1981.[30] But too much of their

28 Marvin R. Jackson, Romania's Debt Crisis. Its Causes and Consequences, in: East European Economies. Slow Growth in the 1980's. Selected Papers, Submitted to the Joint Economic Committee, Congress of the United States, vol. 3: Country Studies on Eastern Europe and Yugoslavia. Washington/DC 1986, 488–542, 488–501, questions the prospects of even these hard terms to relieve the payments deficit. A recent and comprehensive study by Cornel Ban, Sovereign Debt, Austerity, and Regime Change. The Case of Ceausescu's Romania, *East European Politics and Societies* 26 (2012), no. 4, 743–776, sees the Romanian reaction to the debt crisis as a logical last step according to Ceauşescu's neo-Stalinist ideology.

29 Smith, The Romanian Enterprise, 201–218.

30 Lampe, The Bulgarian Economy, Table 9.2, 217.

advertised "auto-financing", along the same pattern as in Romania, was used to borrow for needed imports. A payments deficit with Western partners was already threatening any further credits. But by 1979, the Soviet Union stepped in again with oil imports, which could be re-exported for hard currency at high market prices. Until Western complaints cut it off in 1984, this renewed form of Soviet aid allowed a positive trade balance to cover debt service. This second postwar debt crisis, after the first in the early 1960s as noted above, was soon followed by a third. Recent Bulgarian scholarship, again drawing on the BNB archives, details how further financial restructuring tried and failed to deal with the third crisis from 1986 forward.[31] As part of the New Economic System introduced in 1979, the Zhivkov regime had already created a new Mineral Bank to arrange foreign loans on a more supportable basis, but it was soon extending its purview beyond mining. By 1984, the already existing Foreign Trade Bank took over long-term investment credit from the state budget in an effort to tighten its allocation. But by 1986, huge domestic debt, and the threat of default on foreign debt now rising toward $10 million, prompted a new set of initiatives. The BNB oversaw the "radical idea" of a disguised devaluation of the lev – long overvalued at $1.17 to the dollar – and an effort to eliminate multiple exchange rates. In 1987, following pressure from the Finance Ministry, the BNB abolished or rescheduled half of its outstanding loans as non-performing. The BNB also took the lead despite opposition from the Finance Ministry in creating seven new specialized banks, supposedly a second tier of commercial banks. One of them, the *Stopanska Banka*, intended to supply credit to what were now admitted to be unprofitable enterprises in order to turn them around. In 1989, the other new banks were allowed to operate outside their specialized area as universal banks. The 114 branches of the BNB were combined into 60 equity-based banks. But it was too late. The long semi-automatic flow of credit to an increasing number of unprofitable enterprises had made the default of 1990 inevitable, even if the Communist political regime had not collapsed several months before.

4.2 Yugoslavia and Greece

Unlike the single tier system dominated by the central bank in Albania, Romania and Bulgaria, the two tiers operating in Yugoslavia and Greece provided more financial intermediation in both economies. The financial deepening, provided by stock and insurance markets in Greece, did however not extend to Yugoslavia. Yet both countries faced rising inflation from the mid-1970s forward, spending being driven by local political pressure in Yugoslavia and national party pressure in Greece. Both banking systems continued to exclude foreign banks and, more for Yugoslavia than for Greece, to discourage direct foreign investment. And both economies needed the oil imports that the two international crises of 1973 and 1979 had made more expensive.

31 Avramov, Pari i de/stabilizacija, 211–313; Nedyalkov/Dimova, The Bulgarian National Bank, 71–91. For further detail on foreign debt, see Daniel Vačkov/Martin Ivanov, Bulgarskijat vănšen dălg 1944–1989. Bankrutăt na komunističeskata ikonomika. Sofija 2008.

Table 3. Inflation Indicators and Foreign Debt, Yugoslavia and Greece, 1979–1989 (Annual percentage increases and billions of dollars).

	1979	*1981*	*1983*	*1985*	*1987*	*1989*
Yugoslavia						
M1	19.0%	26.6	20.1	46.5	92.5	945
Bank credit	15.0%	22.8	37.8	151.8	108.0	2498
Consumer price inflation	21.1%	41.9	41.3	71.5	120.0	2714
Foreign debt	$4 bil	20.0	18.8	18.8	18.8	16.2
Greece						
M1	16.4%	20.1	14.8	24.4	14.4	23.4
Bank credit						
Private	16.9%	24.7	17.7	18.8	10.7	20.9
Public*	45.4%	40.9	27.3	36.5	22.7	38.2
Consumer price inflation	11.0%	24.5	21.0	14.3	16.4	14.0
Foreign debt	$5.1 bil	7.8	10.4	13.7	21.1	20.6
Foreign debt as % of GDP		14.0%			39.2%	

*Public Sector Borrowing Requirement (PSBR). Sources: *OECD Economic Surveys*: Yugoslavia 1980, Table 8, 26; Yugoslavia 1984/1985, Table 8, 21; Yugoslavia 1987, Table 6, 16, Table, 21, 53; Yugoslavia 1989/1990, Table 1, 15, Table 6, 26, Annex: Table I, 98. *OECD Economic Surveys*: Greece 1977, Table 13, 27; Greece 1980, Table 6, 16, Table 11, 32, Table 12, 35; Greece 1987, Table 1, 8, Annex: Table I; Greece 1986/1987, Table H, 66; Greece 1989/1990, Table 1, 12, Table 3, 17, Table 4, 18, Table 20, 68, Table H, 119, Table M, 124.

It was Yugoslavia that faced the more immediate problems by the 1980s, first a foreign debt crisis and then inflation accelerating into hyperinflation by 1989. The debt from loans by US and West European banks had already jumped from $4 billion in 1975 to $18 billion by 1980, as noted in Table 3. In 1981, two New York banks balked at new loans simply to assure debt service. Then, as the Soviets had stepped in to aid Bulgaria with exportable oil, the US stepped in to lead a rescheduling of debt service. Dubbed the Friends of Yugoslavia, this Western coalition worked through the Paris Club of Western official state lenders to craft two agreements in 1983 and 1984. The agreements extended repayment periods and reduced interest rates for Yugoslav debt to Western governments and banks. In return, Yugoslavia was obliged to accept a monitoring agreement with the IMF that would guarantee the newly agreed payments. But Yugoslav authorities were unable to contain the inflation that made hard currency payments more expensive. Under the financial system described below, rising amounts of domestic savings were converted into foreign exchange in order to avoid negative interest rates in depreciating dinars. Under IMF guidelines setting interest rates at one percent above the rate of inflation, the National Bank of Yugoslavia jumped its discount rate from the long-standing 6 percent through 1981 to 66 percent by 1985, at least reducing the real negative rate to 3.2 percent. Then in 1986, the successor to the federal leadership that had avoided default by accepted rescheduling, abandoned the IMF program. "Bye Bye Standby" said the Belgrade newspaper headlines, and the rate of inflation soared to 120 percent in 1987. Dinar depreciation continued apace, from 12.5 to the dollar in 1979 to 300 by 1985 and then past 1,000 in 1989, as hyperinflation peaked at 2,500 percent.[32]

The banking system that fueled this inflation and frustrated accountability under IMF guidelines came together in 1976 under a new set of institutions.[33] The separate republic and provincial banks, which together shared responsibility as a central bank with the National Bank of Yugoslavia in Belgrade, were already in place by 1971, as we have seen. Together they accounted for about one quarter of the assets in the financial system. By the 1980s, the other three quarters rested with the 169 Basic Banks, founded since 1976 by Yugoslav economic enterprises or social associations, and expressly excluding government bodies. The five largest Basic Banks accounted for only one third of total assets, while the nine Associated Banks, assembled from combinations of Basic Banks, had one half of the assets in the financial system. They were all universal banks, able to invest as well as perform commercial functions. For both the National and the Basic Banks, their transactions in hard currency had risen sharply by 1985 to account for over half of their assets and also their liabilities. Domestic savings had by this time massively shifted to foreign exchange and positive interest rates for deposits. Assets held in depreciating dinars represented significant losses for these banks as their hard currency liabilities rose. Bank revenue declined by one half, as dinar loans expanded. Frustrating the effect of a 1983 Banking Law to put a ceiling on new credits, inter-enterprise credits outside the banking system – soon facilitated by a set of so-called Internal Banks – added to the inflationary impetus.

The belated shock therapy, administered in 1989 under the surviving authority of the Federal Executive Council, began by lifting price controls and a variety of other restrictions. These measures only accelerated the aforementioned hyperinflation in the short-run. Later in that year, an impressive set of changes was introduced, from allowing loss-making enterprises to declare bankruptcy to eliminating the Basic Organizations of Associated Labor, which had subdivided enterprises since 1976. The dinar was revalued at 10,000 to 1 and then fixed at 11 to the dollar under a new mandate for restricted note issue. Foreign direct investment was to be permitted, and the National Bank of Yugoslavia was empowered to restructure the Basic Banks under new solvency ratios and ceilings on foreign exchange.[34] But politically it was

32 Lampe/Prickett/Adamović, Yugoslav-American Economic Relations, 147–188; *OECD Economic Surveys*: Yugoslavia 1989/1990.

33 The account that follows is drawn largely from *OECD Economic Surveys*: Yugoslavia 1987/1988, Part III, Financial Markets and Monetary Policy, 32–57, and *OECD Economic Surveys*: Yugoslavia 1989/1990, 49–59.

34 For a listing of the 1989 reforms, see Saul Estrin/Lina Takla, Reform in Yugoslavia. The Retreat from Self-Management, in: Jeffries (ed.), Industrial Reform in Socialist Countries, 267–277, 267–269.

too late. The dissolution of the Communist party in January 1990 was followed by separate republic elections. Only after the subsequent years of civil war could the now independent republics begin to construct a new set of separate financial systems.

The Greek financial system had remained unchanged from the early 1950s. Its dominance by the Bank of Greece and its Governor's leading role in the Currency Committee had been restored soon after the ill-fated Colonels' regime of 1967–1974 had used its ministerial majority in the committee to set it aside. By 1980, the BOG still oversaw the universal activities of the National Bank of Greece and two other large banks, together still accounting for 70 percent of assets, four other banks accounting for 22 percent, and 22 smaller banks making up the rest. As inflation had risen to 19 percent in 1979, the BOG, with Zenophon Zolotas again as Governor, joined other European central banks in announcing annual targets for currency in circulation. The rate of inflation was initially cut in half, but the targets were still exceeded, and inflation and currency increases were back to 24 percent for 1980.

Meanwhile, the post-1974 Karamanlis government was pursuing its search for a longer-term connection to European economic and financial standards by pressing for membership in the European Economic Community (EEC). Already recognized as potential member in 1961, Karamanlis personally led the efforts to overcome a 1976 EEC "Opinion" that would impose a waiting period of another ten years. After prolonged negotiations, Greece signed a Treaty of Accession in 1979. It was to take effect in 1981, but also provided for a transition period of five years. This would allow the elimination of tariffs, the liberalization of capital markets, and the introduction of a Value-Added Tax (VAT). Another two years was added for joining the European Monetary Union as well as eliminating the subsidies needed to join the Common Agricultural Policy, which had its own support system. The attendant complex of EEC regulations promised membership in a European financial system, with EEC support based on VAT revenues and a single market, was also expected to restrain inflation.[35]

But restraint did not follow under the new PASOK government that came to power after the 1981 elections and stayed in office throughout the 1980s. Andreas Papandreou, its leader and Prime Minister, had opposed Greece's accession to the EEC in the first place. By 1982, his government had presented the EEC with a Memorandum asking for a five year delay in ending tariffs on industrial imports and delaying the VAT for another two years. It was reluctantly accepted by the EEC on a promise of progress in regional integration. What happened instead was a surge of public sector borrowing for state employment and enterprises that not only increased the inflation rate but also doubled the external debt of Greece by 1982. It doubled again by 1987. As noted in Table 3, the Greek debt rose from \$5.1 billion in 1979 to \$21 billion by 1987, thus passing the \$18.4 billion with which Yugoslavia had been dealing since 1981.

[35] Freris, The Greek Economy, 201–215; and on inflation rates, Table 5.16, 291; Nicholas C. Garganas/George S. Tavlas, Monetary Regimes and Inflation Performance. The Case of Greece, in: Ralph C. Bryant/Nicholas C. Garganas/George S. Tavlas (eds), Greece's Economic Performance and Prospects. Athens, Washington/DC 2001, 43–102, 51–56; John S. Kolipoulois/Thanos M. Veremis, Modern Greece. A History since 1821. London 2009, 159–161.

The Greek struggles during the 1980s have received less scholarly analysis than Yugoslavia's. Greece was not treated as part of the Eastern Europe defined by the Cold War nor did it enjoy the special attention given to Yugoslavia for having broken with the Soviet Bloc. Recent Greek scholarship has now begun to reach back from the current debt crisis to its origins in the 1980s.[36] And for detailed comparison with Yugoslavia during the last decade of its existence, we can again turn to the *OECD Economic Surveys*, to which both countries submitted annual reports under the aforementioned common standard. The surveys for 1987 and 1989/1990 indicate that, if accelerating inflation in the face of a decentralized financial system supporting unprofitable enterprises distinguished Yugoslavia, then Greece's more powerful central bank had more success in restraining inflation after 1985 with high real interest rates and reserve requirements for the still entirely domestic banking system.[37] But by 1985, the so-called Public Sector Borrowing Requirement (PSBR) had provided a 31 percent rise in enterprise credit and was accounting for 17.9 percent of GDP.

Government paper was responsible for the largest part of this increase in the broad money supply, more so than the banks themselves, whose private credit grew no faster than the monetary targets set by the Bank of Greece. The PSBR was used to subsidize an expanded number of state enterprises and public employees, also increasing their real wages for shorter hours by 10.3 percent in 1982. Union contracts followed to provide mandatory cost of living increases. From 1985, some 250 smaller enterprises facing bankruptcy were kept open with state support through a new Industrial Reconstruction Organization. A Stabilization Program launched in 1986 – with an EEC loan of $1.75 billion – and a 15 percent devaluation of the drachma, brought down the PSBR to 13.2 percent of GDP, inflation from 25 to 12 percent, and the current account deficit from 10 to 2 percent by 1987. But with the dismissal of the Stabilization Program's architect, Minister of Economy Kostas Simitis, and the opening of the mortgage market to imported financing, these reversals had been had wiped out by 1989.

Only with the reduction of the swollen public sector and support for unprofitable enterprises, could Greece take advantage of a political framework that was not, like their Communist neighbors', disintegrating just as these reforms were underway. First, a more competitive financial system came with the arrival of foreign banks and a much expanded stock market, to be regulated effectively with the continued oversight of the Bank of Greece. Later, membership in the Eurozone would also be counted on for financial discipline. But this promised advantage would still face the same challenges of public enterprise, public employment, and public debt as in the former Communist economies.

36 See Kolipoulois/Veremis, Modern Greece, 158–169, for critical analysis and references, 248, especially Mark Dragoumis, The Greek Economy, 1940–2004. Athens 2004.

37 For Yugoslavia, see the aforementioned Part III, Financial Markets and Monetary Policy, *OECD Economic Surveys:* Yugoslavia 1987, 32–47. For Greece, *OECD Economic Surveys:* Greece 1989/1990, on monetary policy and balance of payments, Tables 1–4 and 10, 12–18 and 29 in particular, and on financial markets and foreign debt, 63–73.

5. Conclusion

The Second World War had swept away the European framework in which the financial systems of Southeastern Europe had operated since the First World War and on which they had modeled themselves since the mid-nineteenth century. Their central banks and other domestic banks were either destroyed and replaced, as in Yugoslavia, taken over by the occupiers, as in Albania and then in Greece, or tied to participation in the German war effort, as in Bulgaria and Romania. Their assorted currencies issued were initially pegged to the Reichsmark but their values declined as inflation gathered momentum later in the war. Under the postwar regimes that took power in 1944/1945, the rapid inflation continued under domestic currencies. To bring inflation under control, the Communist regimes in power everywhere but Greece used new, inconvertible note issue to soak up private savings and reduce their financial systems to a single central bank and a few specialized state banks. Little had changed in the region's financial systems well into the 1960s. In the Soviet-style regimes of Bulgaria, Romania and Albania, the central planning and financial ministries drew on "automatic credit" largely for industrial investment from the central bank and the few specialized banks to supplement budget revenues from turnover and enterprise taxes. Only Albania benefitted from foreign aid, first from the Soviet Union and then from China; Bulgaria received some advantages from the USSR in its foreign trade; while Romania faced disadvantages. Yugoslavia and Greece received comparable amounts of foreign aid from the United States for some infrastructure investment, but also used much of the aid to relieve their deficits on balance of payments. This relief did however not prevent the emergence of moderate price inflation. The Yugoslav economic reform of 1965 did manage to replace the hundreds of communal banks, providing extended credits to local enterprises, with a smaller set of regional banks. For Greece, the Colonels' regime of 1967−1974 set aside the independent authority of the Bank of Greece and its Governor's leading role in the domestic Currency Committee. The regime's failure to prevent the soaring inflation of 1973/1974 helped to make the case for restoring that authority.

Then, from the mid-1970s, the region enjoyed greater access to Western capital markets than it had received in the 1920s. US and West European banks were the primary lenders, but now with security resting on central bank guarantees rather than reserves in convertible and not just stable gold and convertible currencies. Only Albania refused any such access to international capital markets. Romania and Yugoslavia had already accumulated more debt than their budget revenues could service by the early 1980s. To maintain investment in centrally planned industrial development, the Ceauşescu regime cut back on all imports not supporting heavy industry. It also exported food and fuel supplies needed for domestic consumption. The resulting trade surplus was used, not just to service, but to pay off the full foreign debt by 1987. The centrally controlled monetary system prevented inflation, so a growing black market and political discontent were the primary responses to the severe shortages of food and fuel. Yugoslavia's multi-tiered financial system had allowed its banks, enterprises, and local communities, to run up more foreign debt than could be domestically calculated, let alone serviced by 1981. When US banks refused new loans to fill the gap, the central government promised financial reform in return for the rescheduling of the debt at a more favorable rate of interest. Unable to restrain investment in unprofitable enterprises, the regional central banks responded with new note issue. Turning away from IMF support by 1986, inflation turned into hyperinflation by 1989. That year's full set of financial and central bank reforms came too late to prevent the disintegration of the Communist party, and Yugoslavia itself.

By then Bulgaria was also facing an unserviceable debt burden that had mounted in the late 1980s. The resale of cheap Soviet oil at market prices in the early 1980s had initially eased the burden. Then the region's one major effort at financial reform , organized around a presumed second tier of new banks to allocate credit on market principles, failed to stop the support of unprofitable enterprises. Too many of them were essential to the Zhivkov regime's continuing commitment to investment in heavy industry. For Greece, the same excessive investment, in what became a much expanded set of state enterprises, services, and employees during the 1980s, pushed its debt burden up to the Yugoslav level by 1989. A still domestic set of banks could not resist the demands of the Papandreou government for public borrowing to support this largely unprofitable investment. But as in Bulgaria, the central bank did what it could to restrain the borrowing. At least deficits in the balance of payments were cut down. And as in Bulgaria, Romania and the Yugoslav successor states, the Bank of Greece became a foundation stone for reshaping the region's financial systems within the wider European framework, to which they had all aspired from the nineteenth century forward. The search for other financial foundation stones in the region and in Europe – presumably united since 1989 – has remained elusive.

6. Bibliographic Essay

The financial historiography of these 60 years may be divided, as was the chapter above, into three periods. The inflationary first decade of wartime disruption or destruction, foreign occupation, and then foreign aid has received considerable attention primarily from what was called Western scholarship after 1945. The rise of regional scholarship began in the second, more settled period from 1949 to 1974. Largely stable prices and growing money supplies promoted economic growth, supported by foreign aid or credit in Greece, Yugoslavia and Albania and by self-contained central planning in Bulgaria and Romania as well as Albania. As rising inflation and foreign debt from 1975 to the crises of 1989 made domestic monetary policy relevant and raised issues of international oversight within the region, the interest of Western scholarship also revived.

For 1939–1948, the regional authors preparing their country reports and tables for Greece, Bulgaria, Romania and Albania in the new central bank sponsored *South-Eastern European Monetary and Economic Statistics from the Nineteenth Century to World War II* (Athens et al. 2014), extend their coverage through the war years to 1947. So do the analysis and statistical accounting for Albania in Alessandro Roselli, *Italy and Albania. Financial Relations in* *the Fascist Period* (London 2006). Wartime and immediate postwar financial history are also treated in M.[ichael] C.[harles] Kaser and E.[dward] A.[lbert] Radice (eds), *The Economic History of Eastern Europe, 1919–1975,* vol. 2: *Interwar Policy, War and Reconstruction* (Oxford 1986), and John R. Lampe and Marvin R. Jackson, *Balkan Economic History, 1550–1959. From Imperial Borderlands to Developing Nations* (Bloomington/Ind. 1982). And from the Bulgarian National Bank, its own archival-based volume, in English as well as Bulgarian: Oleg Nedyalkov/Lyudmila Dimova, *The Bulgarian National Bank and its Role in Bulgarian Economic Development (1879–2009)* (Sofia 2009) covers not only the wartime years but also the entire period to its date of publication.

Otherwise, German historians have made the major contributions to the largely pre-1989 publication on war years themselves. On occupied Serbia, Karl-Heinz Schlarp focuses precisely on *Wirtschaft und Besatzung in Serbien, 1941–1944. Ein Beitrag zur nationalsozialistischen Wirtschaftspolitik in Südosteuropa* (Stuttgart 1986). For Croatia as a German satellite, Holm Sundhaussen, *Wirtschaftsgeschichte Kroatiens im nationalsozialistischen Großraum. Das Scheitern einer Ausbeutungsstrategie* (Stuttgart 1983) remains the definitive account. On Bulgaria, economic relations are also addressed in Hans-Joachim Hoppe, *Bulgarien. Hitlers eigenwilliger Verbündeter. Eine Fallstudie zur nationalsozialistischen Südosteuropapolitik* (Stuttgart 1979). More recent, continuing attention may be seen in the annual issues of *Südost-Forschungen.* Detail on the otherwise neglected Partisan finances in wartime Yugoslavia is offered in Obren Blagojević, *Naše financije, 1941–1945* (Belgrade 1976).

A recent British study. Michael Palairet, *The Four Ends of Greek Hyperinflation, 1941–1946* (Copenhagen 2000) follows Greece's repeated currency inflations and their relief by gold sales from the German occupation to the early postwar British administration. Athanasios Lykogiannis, *Britain and the Greek Economic Crisis, 1944–1947. From Liberation to the Truman Doctrine* (Columbia/Mo. 2002) covers the transition from British to American aid. For wartime and postwar Romania, we have the second edition of the 1967 volume II of Costin C. Kirițescu, *Sistemul bănesc al leului și precursorii lui* (Bucharest 1997). For financial detail on the Communist transition, see Maria Curteanu, *Sectorul de stat în România anilor 1944–1947* (Bucharest 1974), and for a critical reappraisal see Ioana Sbarcea, The Analysis of the Romanian Banking System Evolution in the Important Milestones from its History, *Studies in Business and Economics* 9 (2014), no. 2, 70–77.

For the subsequent years, John R. Lampe, *The Bulgaria Economy in the Twentieth Century* (London 1986) joins the more financially focused Freris volume on Greece (see below) in the same series edited by Derek Aldcroft to reach into the mid-1980s. Totiu Totev, "Bankovata sistema na NRB sled socialistička revoljucija", *Finansi i kredit* 31 (1981), no. 7, 42–45, covers the postwar financial transition as seen before 1989. Recent and more critical Bulgarian scholarship ranges from Rumen Avramov, *Pari i de/stabilizacija, 1948–1989* (Sofia 2008) to Bojidar V. Bojinov, "Flashes from the Past, The Origin and Development of Banking in Bulgaria", MPRA Paper No. 67234 (Munich 2015).

The foreign debt burdens from borrowing in Western capital markets, which peaked across the region by the 1980s, has attracted considerable American attention, as may be seen

in volume 2: Foreign Trade and International Finance, in: *East European Economies. Slow Growth in the 1980's. Selected Papers, Submitted to the Joint Economic Committee, Congress of the United States* (Washington/DC 1986). Articles on Bulgaria, Romania and Yugoslavia provide useful detail on debt levels and financing. On Albania, with no borrowing but growing foreign trade, see the article by Michael KASER in volume 3 of the same publication and his earlier survey of trade and aid in the 1977 edition, *East European Economies Post-Helsinki.* Pre-1989 financial problems are addressed in Örjan SJÖBERG, "The Albanian Economy in the 1980s", in Örjan SJÖBERG and Michael WYZAN, *Economic Change in the Balkan States. Albania, Bulgaria, Romania and Yugoslavia* (New York 1991), 115–127.
Romania's foreign debt had swelled by the early 1980s, and Bulgaria's by the late 1980s. For Romania, Marvin JACKSON examines the prospects of the Ceauşescu regime's harsh measures to end its payments crisis in the 1986 volume cited above. Its later success at political cost that brought down the regime is now reexamined in Cornel BAN, "Sovereign Debt, Austerity and Regime Change. The Case of Nicolae Ceauşescu's Romania", *East European Politics and Societies* 26 (2012), no. 4, 743–776. From Bulgarian scholarship, in addition to the aforementioned volumes by Rumen Avramov and the Bulgarian National Bank itself, Daniel VAČKOV and Martin IVANOV focuses explicitly on foreign debt in *Bulgarskijat vănšen dălg 1944–1989. Bankrutăt na komunističeskata ikonomika* (Sofia 2008).
Yugoslavia and Greece, with larger foreign debts by the 1980s and significant domestic inflation from the 1960s, have received greater attention. Yugoslavia's financial system as it had evolved by the 1960s is addressed in M. GOLIJANIN, *Bankarstvo Jugoslavije* (Belgrade 1977) and by J. J. HAUVONEN, "Postwar Developments in Money and Banking in Yugoslavia", *International Monetary Fund, Staff Papers* 17 (1970), no. 3, 563–601. The American role from aid extending into the 1960s to support for debt rescheduling in the 1980s is examined in John R. LAMPE, Russell O. PRICKETT and Ljubiša S. ADAMOVIĆ, *Yugoslav-American Economic Relations since World War II* (Durham/NC 1990). Dragana GNJATOVIĆ, *Uloga inostranih sredstava u privrednom razvoju Jugoslavije* (Belgrade 1985) and Momčilo CERNOVIĆ, *Zašto, kako i koliko smo se zadužili* (Belgrade 1985) focus on the debt crisis of the 1980s. Also, see relevant sections in Harold LYDALL, *Yugoslavia in Crisis* (Oxford 1989).
For Greece, A. F. FRERIS, *The Greek Economy in the Twentieth Century* (New York 1986) concentrates on domestic finance and foreign trade. D. J. HALIAKIS, *Money and Credit in a Developing Economy. The Greek Case* (New York 1978) follows monetary policy under the Bank of Greece and the Currency Committee into the 1970s. Recent Greek scholarship includes Mark DRAGOUMIS, *The Greek Economy, 1940–2004* (Athens 2004), Nicholas C. GARGANAS and George S. TAVLAS, "Monetary Regimes and Inflation Performance. The Case of Greece", in: Ralph C. BRYANT, Nicholas GARGANAS and George S. TAVLAS (eds), *Greece's Economic Performance and Prospects* (Athens, Washington/DC 2001). Most useful for comparing both Yugoslavia and Greece are the annual *OECD Economic Surveys* prepared for each country according to a common standard by the Organization for Economic Cooperation and Development in Paris. Starting in 1961, they provide longer analysis and more statistical detail by the 1980s.

Zitierempfehlung und Nutzungsbedingungen für diesen Artikel / Recommended Citation and Terms of Use

John R. Lampe, Finance and Banking in Southeastern Europe, 1939–1989. From Wartime Disjuncture to Political Upheaval. Version: 1.0, in: Online-Handbuch zur Geschichte Südosteuropas. Band: Wirtschaft und Gesellschaft in Südosteuropa nach 1800, hg. vom Leibniz-Institut für Ost- und Südosteuropaforschung, 6.10.2017, URL: http://hgsoe.ios-regensburg.de/themen/wirtschaft-und-gesellschaft.html