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Finance and Banking in Southeastern Europe to 1939

Part 1: Founding Financial Systems, 1865–1912

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Wirtschaft und Gesellschaft in Südosteuropa nach 1800

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Introduction

The First World War ended almost a century of shifting territorial division between the Ottoman and Habsburg empires and the new set of smaller Balkan states. It also ended a half century of comparable efforts across the region to create modern financial systems within a European monetary framework originating with Britain and France. In the wake of the war's deadly destruction, the postwar settlements dissolved the two empires and fixed borders between the five states of Albania, Bulgaria, Greece, Romania and the new Yugoslav Kingdom. Political discontinuity and demographic disruption burdened the creation of this new Southeastern Europe. Still, its polities and peoples resumed their efforts to establish financial systems that promoted modern economic growth. They persevered until the cesura of the Second World War.

Their finances shared four recurring features. First, their ruling regimes all created domestic currencies also exchangeable in foreign trade. Second, a single designated bank received sole rights to its coinage or paper note issue. The third feature was a central bank, which also added to the money supply by discounting short-term lending, largely by the joint-stock set of domestic and foreign commercial banks. Some of them also supported industry or trade as "universal" banks on the Central European pattern with stock purchases or credits. Cooperative banks credited agriculture. Finally, this financial framework allowed state government's access beyond domestic stock markets to the wider European capital market. Largely Anglo-French supervision of debt repayment with rights to domestic tax revenue began with the Ottoman Empire and the same rights were extended to secure the repayment of loans to the pre-1914 Balkan states.

The growing European trade of the 1860s, coming on the heels of the inflationary disruptions of the Crimean War, prompted the Continent's first efforts to establish financial systems based on a common monetary framework and a set of convertible currencies. Under French leadership, the Latin Monetary Union of 1865 sought to establish a bimetallic standard at a fixed ratio between pure silver and gold content of 15.5/1. This standard promised members more convertible coinage and reserve-backed banknote issue under per capita limits than the Bank of England's reliance on gold reserves. With only Greece as a formal member, the other Balkan states and the two empires also tried to follow the Union's bimetallic standard. But by the 1890s, they were sharply limiting their reliance on silver coins or banknotes while struggling to introduce gold coinage or banknotes on the Austro-German pattern. With silver currency still in circulation, these efforts have been dubbed "a limping gold standard". But by the last decade before the First World War, national gold banknotes backed by gold reserves were spreading across the region. Their stable rates of exchange eased access to the European capital market.

Fifty years before, the majority of the region was still divided between the Ottoman and Habsburg Empires. The Balkan states of Greece, Romania and Serbia existed but were not recognized as independent by the European powers until 1878. Then Bulgaria, still autonomous until 1908, and Montenegro joined them. We consider them in that order, omitting only Montenegro where a domestic gold coin minted by the Ministry of Finance entered circulation only in 1911 to replace Austrian and other foreign coins.

The Ottoman Financial System from Foreign Debt to the Imperial Ottoman Bank

After the Ottoman Empire had failed to repay war debts, first from the Crimean War (1853–1856) and then the Russo-Ottoman War (1877/1878), without more borrowing, its executive authority known as the Porte was forced to accept a Public Debt Administration in 1881. Its largely European members were promised that state revenues would service the foreign debt. Such a financial regime, here and elsewhere, has since been seen either as justifiable conditionality or as an imperialist imposition on a state's economic sovereignty.

Starting from the latter perspective, Turkish economic historians have recently moved to a more nuanced position on the Ottoman financial system, finding it less dependent on foreign control given the emerging role of the Imperial Ottoman Bank (IOB). Founded by English interests in 1854, new French support provided half of the capital for relaunching in 1863 under a wider mandate. Now doubling as a state bank, the IOB was to service the payment of the state's external debt in return for a monopoly for issuing gold-backed banknotes. When its service was interrupted by the state issue of unbacked notes in the warfare of 1877–1878, it was able to turn away from largely French stockholders to Austro-German backing for the funding needed to launch the Public Debt Administration. Its provisions allowed the Imperial Ottoman Bank to retain the right to service the debt with access to state budget revenues. Initial budget tightening cut the debt total in half and annual debt service by 80 percent. Turkish scholarship now credits the bank's management with its own independent role in establishing the gold-backed lira notes needed not only for debt service but also to attract new European capital or investment.[1] Returning to the European capital market by the 1890s, the Ottoman government was able to sell its bonds at 4–5 percent interest, instead of the 12 percent demanded in the 1870s. At the same time, Ottoman exports and state revenues were rising by 4–6 percent a year.

From the 1890s forward, the IOB also created a growing set of branches intended to penetrate into the Empire's more distant territories such as the southern Balkans. But there

[1] Edhem Elden, A History of the Ottoman Bank. Istanbul 1999, 145–164; Şevket Pamuk, A Monetary History of the Ottoman Empire. Cambridge 2000, 205–220.

the silver-backed kuru remained the principal paper currency, with their exchange for lira or Russian or Austrian gold-backed bank notes only at a premium. The Ottoman Bank branch opened in Salonika focused on supporting foreign trade, leaving domestic borrowers, primarily textile manufactures, to look to local lenders for credit at high interest rates. An Austrian Banque de Salonique opened in 1888 and provided some cheaper access until a dispute with its parent Vienna Länderbank that reduced operations.[2] The branches in Plovdiv and Ruse, also opened in 1875, when both were still Ottoman territory and survived in autonomous Bulgaria after 1886. A Bulgarian agreement with the Ottoman government in 1889 allowed branches in Sofia and the Bourgas to open until a speculative scandal over South African gold prices forced the parent Ottoman Bank to retrench and close all of the Bulgarian branches. Meanwhile, for the predominately rural peasantry, low interest loans were available from 1888 through branches of the Ziraat Bankassi (Agricultural Bank). It had been set up on the pattern pioneered by Midhat Pasha in the Danubian villayet in the 1860s.[3] But the new bank's emphasis on aiding the Turkish peasantry of Anatolia offered little to Ottoman Macedonia or Kosovo.

The Austro-Hungarian Financial System, the Great Banks, and the Southern Borderlands

The Habsburg financial system (Austria-Hungary from 1867) reached further and deeper into imperial lands than its Ottoman counterpart, as has long been established. Yet its monetary base was initially less different than assumed from the Ottoman counterpart. Both had aspired to join the Latin Monetary Union with its fixed ration of silver to gold for coinage or paper currency. Both soon turned to a so-called "limping gold standard". Silver coinage and banknotes continued to be issued but paid a premium of 5–15 percent above the fixed ratio for gold currency into the early 1890s. Then in 1892, settlement of the long standing dispute between Austrian and Hungarian authorities over the redemption of Austria-Hungary's floating debt allowed the introduction of a new gold-backed crown to replace the florin. All silver-backed currency was withdrawn from circulation. Even then, the Austro-Hungarian Bank, as the original Austrian Bank from 1816 had been retitled after the *Ausgleich* in 1867, assumed the same sort of responsibility for the state's gold and foreign exchange transactions as the Imperial Ottoman Bank. But unlike its counterpart, it did not provide for the convertibility of crown notes into specie. What it did establish was a forward market for swapping foreign exchange that kept the crown's exchange value more reliably stable than the Ottoman gold lira.[4]

Western and Central European scholarship starting in the 1960s focused instead on the so-called Great Banks. Vienna's Creditanstalt was a classic example of such a universal bank,

2 Bernard MICHEL, Banques & banquiers en Autriche au début du 20e siècle. Paris 1976, 265.

3 PAMUK, A Monetary History, 222.

4 Clemens JOBST, Market Leader. The Austro-Hungarian Bank and the Making of Foreign Exchange Intervention, 1896–1913, *European Review of Economic History* 13 (2009), no. 3, 287–318.

combining commercial lending and enterprise investment.[5] This was the leading role as major investor and entrepreneur, the role that Alexander Gerschenkron had ascribed to the German Great Banks. According to his influential thesis, such banks were needed to promote industrial growth in intermediate economies, lagging behind England's market model but not needing state intervention as in Russia.[6] The large banks of Vienna, Budapest and Prague had been renowned for their caution after the stock market crash of 1873. But as detailed by David Good, they turned to some industrial promotion by the 1890s. They were now supported by the sort of financial deepening that Raymond Goldsmith has argued was essential to modern economic growth.[7] Such deepening spread access to credit from a growing network of banks and a stable, gold-backed currency, combining lower interest rates and price differentials across most of Austria-Hungary.

Even then, however, industrial investments from the 11 Great Banks in Vienna and the 5 in Budapest rarely lived up to the innovative reputation of innovative entrepreneurship from the model of the French Credit Mobilier and its German successors. Instead, they stepped in to support established ventures in the Czech lands, their choices described as plump and juicy.[8] In the Hungarian Vojvodina, where larger shares of the 230 local banks were all owned or supported by the Budapest Great Banks, their enterprise investment went primarily to already established sugar refineries or flour mills. In Slovene Carniola, the resident Italian banks had lost their initial advantage in multiple currency exchanges when the Austrian conversion to the gold crown took effect. But the subsequent ascendency of the Creditanstalt and several other Vienna and Prague banks supported only shipping and new port facilities.[9] The Czech Živnostenská Banka did support the founding of the first Slovene bank in Ljubljana (then Laibach) in 1900.

For the Slovene hinterland, the principal financial institution was instead the set of Raiffeisen agricultural societies that soon outstripped the Schulze-Delitzsch model of paid shareownership in a profit-making enterprise. The cost-free Raiffeisen model also offered more loans and at a lower interest rate. By 1905, their 224 cooperatives outnumbered the 137 on the Schulze-Delitzsch model.[10]

Croatia-Slavonia used its specified rights as a separate entity under the joint Nagodba (agreement) signed in 1868 to develop its own commercial banking. A domestic savings bank had already been founded in 1846. The initial leader, the Hrvatska Komercijalna Banka, was incorporated in Zagreb (then Agram) in 1872 with local Jewish backing. It had survived

5 Eduard März, Österreichische Industrie- und Bankpolitik in der Zeit Franz Josephs I. am Beisp. d. K.K. priv. Österreich. Credit-Anstalt f. Handel u. Gewerbe. Wien et al. 1968, 289–351.

6 Aleksander Gerschenkron, Economic Backwardness in Historical Perspective. New York 1965.

7 David F. Good, The Economic Rise of the Habsburg Monarchy, 1750–1914. Cambridge 1984; Raymond W. Goldsmith, Financial Structure and Development. New Haven 1969.

8 Richard L. Rudolph, Banking and Industrialization in Austria-Hungary. Cambridge 1976, 164.

9 Michel, Banques et bancaires, 73–76.

10 Toussaint Hočevar, Structure of the Slovenian Economy, 1848–1963. New York 1965, 66–72.

the 1873 Vienna crash that took down its few competing institutions. Joining a slow revival was the Srpska Banka u Zagrebu, founded in 1885 as a joint stock Serb merchant bank. It also promoted over 200 Raiffeisen cooperatives for Serb peasants. By 1900, new banks began to appear, and by 1913 there were 61 joint-stock banks in operation, mostly in Zagreb or Slavonia. Joined by 146 savings banks and over 800 Croat and Serb credit cooperatives, the combined total capital of 761 million crowns exceeded totals in neighboring Slovenia, Bosnia-Herzegovina or Serbia.[11] Joint stock bank operations extended to mortgage lending, and their leverage was sufficient to force the Hungarian-controlled Hipotekarna Banka (Mortgage Bank) to relax its mortgage monopoly. Prague's Živnostenská Banka made a limited investment in flour milling and expressed enough interest in promoting a wider milling network in Slavonia to prompt instant protests from the Hungarian press.[12]

We have a clearer picture of the limited role that both the Vienna and Budapest banks played in Bosnia-Herzegovina, occupied in 1878 and annexed in 1908. Viennese bank interest in Bosnia began in 1881 with an agency that was set up by the Creditanstalt and some state funds. The Wiener Bankverein assisted in founding an official Landesbank in Sarajevo in 1883. But powerful opposition to further Austrian bank penetration came from Benjamin Kallay, ruling the province as Ban until 1903. He preferred that bonds for railway construction be sold to German investors. The Wiener Bankverein did support the expansion of a Sarajevo ironworks by 1895. The 1908 annexation prompted the official Austro-Hungarian Bank to open a branch in Sarajevo. The Landesbank launched a program for mortgage lending in 1904, but overall, its capital together with the 37 smaller, local or Hungarian banks present by 1911 was barely 10 percent of the total for Croatia-Slavonia. Prague's Živnostenská Banka was asked but declined the offer to open its own branch or assist in the official Austrian efforts to promote industrial enterprise.[13]

Greece: From the First National Bank and the First Debt Crisis to Prewar Stability

The argument for treating Greece as a separate case begins with its earlier start in issuing paper currency and its continuing reliance on a single predominant bank. George Stavrou drew on British and French connections from the Greek commercial diaspora as well as a Swiss backer to found the National Bank of Greece in 1841. A private joint-stock bank with the Greek government holding only 20 percent of its shares, it was first a commercial and later a universal bank. With the British-founded Ionian Bank and banks for Thessaly/Epirus (1882–1899) and Crete (1901–1917), it enjoyed sole rights of note issue until a central bank was established in 1928.[14]

11 Ivan M. Becić, Ministarstvo finansija Kraljevine Jugoslavije 1918–1941. Beograd 2012, 449–454.
12 Igor Karaman, Privreda i društvo Hrvatske u 19. stoljeću. Zagreb 1972, 197–206.
13 Peter Sugar, The Industrialization of Bosnia-Hercegovina, 1878–1918. Seattle 1964, 82–92.
14 M. S. Eulambio, The National Bank of Greece. Athens 1924, 3–14.

Its initial bank notes in the 1840s were the region's first domestic paper currency. But by 1848, their promised convertibility to silver or gold had been compromised by the state's continuing failure to service the two British Independence Loans of 1824/1825 and the Anglo-French loan of 1833. Final settlement of the 1833 obligation was not secured until 1864. Subsequent Greek efforts to stay within the per capita limits of the Latin Monetary Union on silver currency faltered with resorts to fiat money (1870 and 1885) a declaration of inconvertibility (1878–1881). By the 1890s, the European turn to gold found Greece's swelling silver notes, the region's largest total, paying huge premiums for gold exchange. The government's continuing struggles with note issue and monetary policy under a growing burden of European debt and supervision have been called *terra incognita* in foreign as well as domestic scholarship by a recent Greek study.[15] In contrast, pre-1914 ground has been well covered for Romania, Bulgaria and Serbia, as we shall see, by post-1945 scholarship working from a Marxist emphasis on early capitalist origins. And the states' lead in founding their banks of issue added the attraction of asserting national sovereignty. For Greece, the one detailed study of the intrusive role played by its pre-1914 debts to European creditors dated from the 1930s.[16]

Its issues of drachma banknotes, well beyond the state's silver and limited gold reserves, expanded in the 1880s as the National Bank opened a series of branches, one for note issue in the newly acquired territory in Thessaly and eastern Epirus. After the government's belated settlement of its obligations for the 1824/1825 loans, it could proceed again into the European capital market with the assistance of the aforementioned Greek diaspora. Both for badly needed railway construction or military expenses, five new Greek bond issues were offered between 1881 and 1890. Largely through London and Berlin, the offers amounted to 670 million francs. Their effective sale at 75 percent of face value yielded 502 million. This obligation at the higher effective interest rate of 6.1 percent pushed debt service up to nearly 40 percent of state budget expenses (see Table 1). Already in 1891, total note issue from the Bank of Greece had swelled to four times the Serbian figure and nearly matched the total for the much larger Romanian population and economy (see Table 2). Then in 1892, the export earnings needed to sustain debt service dropped precipitously with the post-disease return of rival current cultivation and a new import tariff in France. The Greek government was forced to default on its debt service in 1893. The premium for converting silver drachma to gold climbed past 70 percent by 1895. Only domestic loans forced by the government from the National Bank in 1897 could cover the expenses of the failed campaign to wrest Crete

15 Sophia Lazaretou, Greece. From 1833 to 1949, in: South-Eastern European Monetary and Economic Statistics from the Nineteenth Century to World War II. Athens et al. 2014, 101–170, 102–148, whose study makes up considerable domestic ground. Making up foreign ground in the same volume on the Greek experience with the Latin Monetary Union and the "limping gold standard" is Matthias Morys, South-Eastern European Monetary History in a pan-European Perspective 1841–1939, in: ibidem, 25–53, 33–39.

16 William H. Wynne, State Insolvency and Foreign Bondholders, vol. 2: Selected Case Histories of Governmental Foreign Bond Defaults and Debt Readjustments. New Haven 1951; cited from the new edition (Washington/DC 2000), 283–358, based on research from 1934/35.

Table 1. Budget Revenue and Foreign Debt Service, 1886–1911 (thousands in national currency).

	Bulgaria	*Greece*	*Romania*	*Serbia*
1886	55,896|2,931[a] (5.2%)	95,568|35,290 (36.9%)	136,769|54,330 (39.7%)	32,168|14,485 (45.0%)
1891	89,920|18,173 (20.2%)	106,296|41,713 (39.2%)	130,147|61,441 (36.7%)	56,340|20,537 (36.1%)
1896	92,145|18,173 (20.7%)	167,652|36,717 (24.4%)	211,820|76,417 (36.1%)	59,635|20,101 (33.7%)
1901	91,387|25,555 (28.0%)	167,652|36,712 (21.6%)	237,242|86,246 (36.4%)	79,698|20,737 (26.0%)
1906	144,486|29,131 (20.2%)	133,074|34,006 (21.6%)	297,346|83,356 (28.5%)	91,270|23,107 (25.3%)
1911	203,840|36,682 (18.0%)	240,193|78,784 (32.4%)	575,056|99,419 (17.2%)	131,280|35,401 (27.0%)

[a] 1887. Sources: South-Eastern European Monetary and Economic Statistics from the Nineteenth Century to World War II. Athens et al. 2014, Table BG 4A, 238–239, GR 4A, 163–164, RO 4A, 286, SR 4A, 347.

Table 2. Banknotes and Bank Deposits, 1891–1911.

Thousands in National Currency					
		Bulgaria	*Greece*	*Romania*	*Serbia*
1891	Banknotes	1,303	129,460	128,872	27,271
	Bank Deposits	2,356	36,807	301,283	–
1901	Banknotes	26,640	131,472	144,965	35,461
	Bank Deposits	161,189	29,957	317,708	–
1911	Banknotes	110,789	136,950	443,351	65,823
	Bank Deposits	461,160	394,042	367,964	–
Per Capita					
		Bulgaria	*Greece*	*Romania*	*Serbia*
1891	Notes	5	590	226	160
	Deposits	7	394	528	–
1901	Notes	70	525	241	141
	Deposits	424	119	529	–
1911	Notes	251	507	633	226
	Deposits	1,059	1,559	1,240	–

Sources: South-Eastern European Monetary and Economic Statistics, Tables BG 1.2, 234, GR 1.7, 153, RO 1.2, 282, SE 1.2, 338.

from Ottoman control. The state faced budget expenditures for 1898 twice as large as its projected revenues.

More forced loans in drachma worth less than 30 percent of their face value in gold francs left the government with no alternative to the same sort of supervisory European debt commission as accepted by the Ottoman Empire in 1881. Convened in Athens from 1897 with a member from each of the six creditor countries, this European Financial Commission banned new note issue from the National Bank. It received direct drawing rights on revenue from state monopolies, tobacco taxes and other duties in order to assure the payment of debt service.[17] As growing state revenues from their low point in 1899 began to shrink budget deficits, the gold premium on the existing stock of silver notes declined to less than 10 percent by 1910. Also helping to reduce the premium were the efforts of the National Bank's Governor through the decade, the former Finance Minister Stephen Strait. A Hungarian immigrant trained in Leipzig, Streit restrained domestic interest rates and resumed the mortgage lending that it had launched in the 1890s.[18] With authorization from the European Commission for the issue of 25 million new gold-backed drachma, the so-called GXMA law of 1910 fixed an obligation to maintain parity with the French gold franc that held until the start of the First World War. This brief golden era at the end of the region's longest and most difficult struggle for a stable currency and rate of exchange was indeed an achievement. But domestic credit was nonetheless scarce, not only from the European restraint on note issue but also from the heavy reliance on a single domestic bank. This scarcity was not much relieved by the one large rival; the Bank of Athens was founded by French investors in 1894 to support their Levant trade. After borrowing more than its other Balkan neighbors except Romania in the 1880s, Greece received far less foreign capital during the rest of the pre-1914 period.[19]

Romania's Cereal Standard, Foreign Investment, and Domestic Banks

While Greece had a smaller population (2.7 million in 1910 and less arable land (20 percent)) than the other Balkan states save Montenegro, Romania had the most people (7 million by 1910) on territory that was nearly 50 percent arable and well suited to grain cultivation. With grain shipments to Central and increasingly Western Europe, real export value and also state budget revenue doubled between 1899 and 1910. Budget surpluses also climbed after 1900. Meanwhile, the exploitation of petroleum from the 1890s brought the region's one large flow of investment funds from the European Great Banks. Dubbed a "cereal stand-

17 Wynne, State Insolvency, vol. 2, 307–334.

18 John R. Lampe/Marvin R. Jackson, Balkan Economic History, 1550–1950. From Imperial Borderlands to Developing Nations. Bloomington/Ind. 1982, 218f.

19 Ibidem, Table 7.7, 233, reflects effective Greek borrowing prior to 1890 equal to the leading sum for Romania, just over 500 million francs versus less than 200 million francs for 1890–1911 while Romania borrowed 1.6 billion francs effective, Serbia almost 750 million and Bulgaria over 600 million.

ard", Romania maintained a stable, gold-backed currency from 1890 to 1914. By 1892, the statutes for note issue were amended to require a reserve ratio of 40 percent in gold specie or gold-backed foreign exchange. The National Bank of Romania had been established in 1880 as a joint stock bank with the sole right of note issue. The state held a one third interest until giving it up in 1901. Export surpluses continued to service the sizable foreign debt without the European access to domestic tax revenues or limitations on note issue applied in Greece or, as noted below, elsewhere in the region. And unlike Greece, post-1945 Romanian scholarship working from the aforementioned Marxist interest in capitalist origins paid considerable attention to its pre-1914 monetary system and the role of the central bank.[20]

Before 1900, a series of sizable railway loans had funded construction projects that opened the way for grain exports to Central Europe or out through the Black Sea. By 1889, state loans for 723 million francs but yielding only an effective 519 million francs, also expensive at 7.8 percent interest, had put over 1,000 kilometers in service. From 1890, the lead in trackage over its Balkan neighbors continued to grow, reaching 3,553 kilometers or half again Bulgaria's next largest total by 1910. Aided by the elimination of silver-backed notes in favor of gold, the state had borrowed another 1.65 billion francs, at effective rates that rose to 93 percent after 1900.[21] Debt service as a burden on state budget revenues did stay at 36 percent throughout the 1890s. But by 1911 it had declined to 17 percent, well below the 33 percent still being paid by Greece or Serbia at 27 percent (see Table 2).

Overall, the monetary base of the Romanian economy surged ahead in the last prewar decade, led by banknotes in circulation that jumped from 175 million lei in 1901 to 410 million by 1911, falling short only of the almost fourfold increase for Bulgaria noted in Table 1. The belated Greek note issue in 1910 barely brought its 158 million drachma back to the 1900 level. Romanian interest rates had fallen to an average of 5–6 percent by this time. Domestic banks took advantage of low rates from the National Bank for discounting their domestic loans at higher rates. The Romanian Treasury bonds could now be sold close to par for further foreign financing. The majority of total foreign lending had continued to come from Germany, 55 percent, with 30 percent from France. Austria-Hungary was left with a small share and little political leverage.

Also supporting the growing monetary base were large deposits in the region's largest sector of private domestic and foreign banks. These deposits stayed well ahead of the totals available for Greece and Bulgaria (Table 2). By 1911, total bank assets amounted to 512 million lei for 144 domestic banks and 295 million for four foreign banks. On a per capita basis, only Serbia could match the high domestic figure.[22] Like Serbia, there were many small commercial or savings banks but also a half dozen larger ones that operated as universal banks, sup-

20 See the citations in George Virgil Stoenescu et al., Romania. From 1880 to 1947, in: South-Eastern European Monetary and Economic Statistics, 243–289. The most comprehensive pre-1989 study remains Costin C. Kirițescu, Sistemul bănesc al leului şi precursorii lui, vol. 1–3. Bucureşti 1964–1971, 2nd ed. 1997.

21 Lampe/Jackson, Balkan Economic History, Table 7.7, 233.

22 Ibidem, Table 7.4, 223.

porting industrial enterprises by buying shares or extending short-term credit. Comparable details in the Romanian case are obscured by the absence of uniform balance sheets.
For the most enterprising of the domestic banks, we do at least have a company history.[23] Founded in 1864 by Jacob Marmorosch and joined in 1874 by Mauriciu Blank in a limited liability partnership, the young Jewish Romanians used their European training and contacts to advance modernizing ambitions for the Romanian economy. By 1879, they had assembled the funding for the first of the Romanian railway lines built by a Romanian-trained engineer. Under Blank's leadership, the bank went on to support virtually every industry in Romania, with shares purchased in the new Romanian Stock Exchange, opened in 1882, as well as current account credit. These investments ranged from paper, timber, cement and sugar refining to the major new petroleum enterprise, Steaua Română; it formed foreign partnerships with the Hungarian Commercial Bank and two German banks from 1894 forward. The several German banks from 1895 forward were primarily attracted to petroleum production, where nearly half of the fixed capital in the sector was German with Dutch, French and US interests trailing. This investment took the form of stock purchases and lines of current account credit rather than direct management. To counter this one major commitment of foreign capital to a Balkan economy, first the Conservative Party and then the Liberal Party used alternate terms in office to set up their own state banks, rather than rely on the less partisan National Bank. By 1911, their combined assets nearly matched the total for the four largest foreign banks and were two thirds of the National Bank's assets.[24]
Joining this growing financial system centered on the capital city and its diverse population was a belated set of cooperative banks to serve at least some of the Romanian peasant majority. Unlike its Bulgarian counterpart (see below), it was sponsored by the ruling political party. In 1902, the Liberal Party based in Wallachia and Oltenia won the limited franchise election that allowed it to replace a Conservative Party based in Moldova with its large sharecropping estates. To favor the larger number of peasant smallholders especially in Oltenia, the Liberals introduced legislation in 1903 to create local Popular Banks in support of the many existing cooperative societies. Favoring middle smallholders, a wager on the strong as in Stolypin's Russia, these Schulze-Delitzsch credit cooperatives required members investment in return for secured loans, some for mortgages, at interest rates of 10 percent still high enough to earn a profit. The number of these Popular banks swelled to 2,900 by 1912.[25] Yet the impact of these typically small, secured loans to smallholders may be doubted in comparison to the more accessible loans to a wider membership offered by the predominant Raiffeisen societies noted in Slovene Carniola and, as seen below, in Bulgaria.

23 Ioan Boambă (ed.), Banca Marmorosch Blank & Co. Societate anonimă, 1848–1923. Bucharest 1924.
24 Lampe/Jackson, Balkan Economic History, Table 7.4, 223, 262–264.
25 Philip Gabriel Eidelberg, The Great Romanian Peasant Revolt of 1907. Origins of a Modern Jacquerie. Leiden 1974, 66–96.

Comparing Bulgaria and Serbia to Greece and Romania

The Bulgarian Agricultural Bank's practice of supporting credit cooperatives and Serbia's domestic banks of promoting industrial development, like the Banca Marmorosch Blank, invite comparison to the Romanian experience. For both Bulgaria and Serbia, their government defaults on paying foreign debt service and subsequent European access to domestic tax revenues for repayment can be compared to the experience of Greece. Both had opened stock markets, in 1876 for Greece and 1882 for Romania, ahead of Serbia in 1894 and finally Bulgaria in 1907. The previous sections contrasted Greece's recurring debt problems and Romania's advantages in avoiding default. But all four state budgets drew a majority of their revenue from indirect taxes, customs duties and state monopoly income that provided the predictable access desired by European creditors for debt service. And all of them, led by Romania, were able to borrow abroad at higher effective rates after 1900.

The Bulgarian and Serbian National Banks were founded as central banks in the early 1880s like the Romanian National Bank. They both limped slowly toward a European-style gold standard. Unlike Romania, the fluctuating gold premium on silver-backed note issues continued even after 1900. Bulgarian scholarship has criticized the attendant struggle over servicing early French and German loans, while Serbian scholarship has celebrated its later French loans for their economic leverage in allowing Belgrade to bargain with its main trading partner, Austria-Hungary.[26]

Both central banks began operation in the shadow of a large neighboring economy and its existing currencies, respectively the Russian ruble and the Austrian florin. Founded in 1879 only as a state-owned commercial bank under the authority of the Russian Provisional Government, the new Bulgarian government, but not the bank, received monopoly rights for gold and silver coinage. The Monetary Law of 1880 accepted the silver/gold ratio of the Latin Monetary Union. But the state minted no gold coins until 1894, while monetary chaos[27] had prevailed with variety of foreign silver coins in circulation. Banning the overvalued Russian silver ruble in 1887 helped, but the debt incurred for occupation costs by the Russian army in 1879 would remain through the 1890s. By then the state-owned Bulgarian National Bank had been granted monopoly rights to issue banknotes, but it was still frustrated by the government's unlimited minting of silver coins to cover its growing budget deficits. The bank's first gold notes, backed by a reserve ratio of one third, quickly vanished from circulation. The premium for converting them into specie exceeded 10 percent of their face value. The bank finally received the right to issue silver-backed notes in 1899, while suspending its recent effort with gold notes. Only when the premium for specie was sufficiently reduced by

26 Cvetana Todorova, Istorija na vănšnija dăržaven dălg na Bălgarija 1878–1990 g., vol. 1: Dramatičnoto načalo (1878–1918 g.), Sofija 2009, updated from 1971; Dimitrije Đorđević, Carinski rat Austro-Ugarske i Srbije, 1906–1911. Beograd 1962.

27 Ninel Nesheva-K'oseva, Istorija na paričnite krizi v Bălgarija (1879–1912 g.). Sofija 2000, as cited by Kalina Dimitrova/Martin Ivanov, Bulgaria. From 1879 to 1947, in: South-Eastern European Monetary and Economic Statistics, 199–242.

1906 could the National Bank resume issuing gold-backed notes. Their stable exchange rates (one lev for one franc) then justified speaking of Bulgaria's invisible gold standard that stayed in place until the Balkan Wars of 1912/1913.[28]

The Serbian government had started minting its own dinar coinage earlier, tentatively in 1867 and then after independence was formally recognized in 1878. But it was not until 1884 that the Privileged National Bank of the Kingdom of Serbia opened. While the government kept veto rights on its decisions, the bank was a private joint-stock company. The absence of a concerted Austrian effort to become a major shareholder helped the Belgrade merchant opposition to any foreign ownership to prevail. But the National Bank's initial issue of gold-backed notes in large denominations was quickly converted to the competing Austrian currency or specie in return for a premium passing 15 percent. Its unlimited issue of silver-backed notes accounted for 95 percent of domestic circulation by 1893, when it was finally restricted. Interest rates had climbed with gold premium rates to 10 percent in Belgrade and 12 percent in the interior. The inability to sustain the service of its recently acquired foreign debt had descended on Serbia before 1900, just as the same challenge was confronting Greece and would face Bulgaria soon after 1900.

Like the others, these debt burdens had their origins in railway loans. Starting with the ill-fated project of the French financier Eugène Bontoux in 1881, the Serbian government contracted some 14 foreign loans for railway construction and then public administration seeking a nominal total of 431 million francs by 1895. The Bontoux affair was followed by state budget deficits that kept the effective sale of these loans to 304 million francs, barely 70 percent of their face value, still repayable in gold franc equivalents. Debt service reached one third of state revenues by 1896 (see Table 2), when a threatened tariff war with Austria-Hungary reduced export earnings from its leading trade partner. Already in 1895, the Ottoman Bank had joined a Vienna and Berlin bank in replacing the bonds that were due repayment at 5 percent nominal, 6–7 effective, with longer-maturing 4 percent nominal bonds, an early parallel with the US-led extension of Yugoslavia's debt obligation in the 1980s. Here the extension was given only in return for the creation of an Independent Monopoly Commission to provide reliable debt payments directly from the state monopolies' income. Unlike the Ottoman Public Debt Administration, the Commission consisted of four members from the Serbian government and only two representatives from its foreign creditors. But only after a new government under the new Karađorđević King Petar I. brought in a team of French budgetary advisors in 1903 did Serbia's access to foreign capital markets reopen. Then rising exports were followed by diplomatic French support in the 1906–1911 tariff war with Austria-Hungary. Paris provided two large new loans totaling 495 million dinars nominal, now at an effective rate of 85 percent. Still the premium on gold-backed banknotes continued until the National Bank was forced to suspend their issue in the 1908 crisis over the Austro-Hungarian annexation of Bosnia-Herzegovina. For the rest of the pre-1914

28 Rumen Avramov, Komunalnijat kapitalizăm. Iz bălgarskoto stopansko minalo, vol. 1–3. Sofija 2007; vol. 2: Dviženieto na parite, 73–119.

period, Serbian currency would remain further away from the gold standard than any of its neighbors.

For Bulgaria, railway construction created less foreign debt but more controversy. Disputes into the 1890s over Bulgaria's share of the Ottoman debt became entangled with rivalry over the rail route across Bulgaria toward Constantinople. Bonds for the three European loans contracted between 1888 and 1893 had yielded a high 83 percent of face value but amounted to an effective total of only 203 million francs. But then the Austrian-owned Oriental Railway Company, buoyed by Berlin's Deutsche Bank from 1896, refused to lower the higher freight rates charged on the line across southern Bulgaria, its territory still Ottoman Eastern Rumelia when its rights were granted. The Bulgarian government failed to launch the new loan needed for its own construction of a parallel line to reach the Black Sea coast at Bourgas. As a prolonged drought descended, trade and budget deficits deepened from 1897 forward.[29]

At the same time, the effort of the Bulgarian National Bank to issue new gold-backed notes unsurprisingly foundered. As the premium passed 15 percent, gold notes were converted to specie. The bank began issuing silver-backed notes in 1899, and Bulgaria found itself on a virtual silver standard until 1902. Then a new French loan promised 106 million francs and raised an effective 86 million francs. Royal intervention from Ferdinand forced its acceptance, despite objections from parliament over French servicing rights to revenues from the state's lucrative tobacco monopoly. From this point forward, buoyed by several good harvests and trade surpluses, Bulgaria regained access to the international capital market. There were two more Paris-backed loans in 1904 and 1907, both requiring rights to stamp and tobacco revenues. Two loans in 1909 provided the full nominal sum, reflecting their political motivations. First came Russia's Independence Loan to support Bulgaria's 1908 full political separation from Ottoman oversight and the 1878 obligation to the Ottoman debt. Joining its 82 million francs worth was another 100 million from the Wiener Bankverein. The Austrian loan served Vienna's desire to keep Bulgaria free from the French financial connection already established in Serbia as we have seen. Altogether, foreign capital combined for the last prewar decade to provide an effective 461 million francs, 86 percent of the nominal total of 533 million, an effective rate of 86 percent.[30] The largest part of the three French loans went towards consolidating the state's floating debt and to redeem at par the 1888/1889 loans. Military equipment now divided the rest with railway construction.[31]

But as the National Bank expanded its gold note issue from 1906, its assets continued to dwarf those of the 53 private domestic banks and the five foreign banks. As may be seen in Table 2 above, the private sector accounted for less than 30 percent of the total bank assets, well below Romania's next lowest 40 percent. The five foreign banks that appeared from 1905 onwards did little for their promise to support industrial enterprises. The largest one, the German Kreditna Banka, finally backed a new cement plant in 1911. Only in the

29 Richard J. Crampton, Bulgaria. Oxford 2007, 154–157.
30 Lampe/Jackson, Balkan Economic History, Table 7.7, 233.
31 Wynne, State Insolvency, vol. 2, 533–544.

French-backed, Austrian administered Generalna Banka in Sofia supported a number of enterprises, from wood processing to glue and match manufacture.[32]

The monetary base of the Bulgarian economy nonetheless grew significantly in the last pre-war decade. The aforementioned increase in note issue from the National Bank was the region's most rapid, up from 27 million leva for 1901 to 111 million by 1911. From 1906 to 1911, gold banknotes climbed to three times the value of silver notes still in circulation, also accounting for 44 percent of the money supply.[33] As a state bank, its credits to the government helped to push the share of debt service in the state budget back down from its peak of 27 percent in 1901 to 18 percent by 1911 (Table 1).

Also deepening Bulgaria's financial structure was the region's pioneer Agricultural Bank. The Bulgarska Zemedelska Banka opened in 1904 and drew on the experience of agricultural counters (*zemedelski kasi)* already operating in the National Bank. The assets of the Agricultural Bank rose to 32 percent of the Bulgarian total by 1911.[34] They grew with the new agricultural cooperative banks, surging from 24 in 1904 to 721 by 1911. Sponsored by the new opposition political party, the Bulgarian Agrarian National Union (BZNS), almost all were set up on the more accessible Raiffeisen model favored in the Slovene lands, if not in Romania. Here the Agrarian Bank provided both secured loans and mortgage loans directly to members at 6–7 percent interest or to the cooperatives society at 3 percent. By 1911, the Agricultural and the National Bank had combined to form a Central Cooperative Bank that extended assistance to struggling individual cooperatives as well as crop insurance to members.[35]

For Serbia, the semi-official Hipotekarna Banka, founded in 1868, had failed to provide the promised volume of new mortgage loans. But a set of small savings banks did offer some support to the huge rural majority in the interior. Too small to offer mortgage loans, they did discount bills of exchange for the export trade in the absence of any branches from the National Bank. There were already 60 of these private interior banks by 1900, and the total doubled by 1910. Soon the largest domestic bank after the National Bank, the Hipotekarna Banka never devoted more than half of its assets to mortgage loans, concentrated in any case on public buildings or private residences in Belgrade.[36]

The more positive feature of the pre-1914 Serbian financial structure was instead the domestic joint-stock commercial bank. Some 20 were flourishing in Belgrade by 1911. With some 150 mainly provincial savings banks, their combined assets per capita exceeded the totals for Croatia/Slavonia and Bulgaria, nearly matching Romania and exceeded only by the Greek

32 Lampe/Jackson, Balkan Economic History, 327f.

33 Kalina Dimitrova/Luca Fantacci, The Establishment of the Gold Standard in Southeast Europe. Convergence to a New System or Divergence from an Old One?, in: Patrice Baubeau/Anders Ogren (eds), Convergence and Divergence of National Financial Systems. Evidence from the Gold Standards, 1871–1971. London 2010, 179–196, 180–183.

34 Lampe/Jackson, Balkan Economic History, Table 7.4, 223.

35 Avramov, Komunalnijat kapitalizăm, vol. 3: Cennosti i intelektualna sreda, 28–30.

36 Lampe/Jackson, Balkan Economic History, 221f.

figure.[37] Free of Vienna's financial leverage, the Belgrade banks played an essential part, moreover, in the Serbian economy's survival and eventual success in the 1906–1911 tariff war with Austria-Hungary. The two new aforementioned French loans opened the way to the purchase of French rather than Austrian arms and artillery. Free from Vienna's financial leverage, the National Bank and the other domestic Belgrade banks provided ready credit for exports to alternate markets, Germany included.

After initially holding back from universal functions, the Belgrade commercial banks began crediting or investing directly in the new industrial enterprises which either produced new exports or reduced the need for imports. Their several packing enterprises accounted for one fifth of Serbian exports by 1911, much of the processed meat going to Germany. Some 10 Belgrade banks were largely responsible for doubling the fixed investment in Serbian industry from 1906 to 1910. Short-term credit to industry rose fourfold. The total paid-in capital and savings deposits in Serbian banks also doubled. In the process, interest rates for discounting bills of exchange fell by 1–2 points to 7 percent.[38] Here was one instance where a domestic set of financial institutions served political and economic sovereignty even when state revenues were tied to foreign debt service.

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The broadly based commercial capacity and investment initiative of Serbian domestic banks completes a patchwork of financial structures across the independent Balkan states. Each of them, like the later Ottoman Empire, had met one or another of contemporary standards for a modern European financial system. None could match the banking nexus of the Dual Monarchy centered on Vienna, Prague and Budapest, a nexus that did not fully include its southern borderlands. But taken together, the independent Balkan states had met them all. Defaulting on the largest initial foreign debt, Greece had by 1898 faced a ban on uncovered note issue and supervision by the European Financial Commission largely administered by its creditors. But by 1910, favorable trade and budget balances allowed the Greek government to pass its own legislation authorizing a new issue of gold backed banknotes under the prevailing gold standard. Since 1890, Romania had covered its National Bank's issue of gold-backed banknotes thanks to a budget and trade surplus from grain exports under its so-called "cereal standard". Romania faced no default on foreign debt service, as had Greece, Serbia and then Bulgaria, but note that Serbian representatives outnumbered their creditors on the Monopolies Commission responsible for their debt service after 1895 and only a single French representative monitored access to Bulgarian tobacco revenues after 1902.

For Belgrade and Sofia, subsequent budget and trade surpluses reopened access to European capital markets during the last prewar decade, and at the higher effective rates of 85 percent.

37 Ibidem, Table 9.8, 304, which records 263 franc equivalents per capita for Serbia, 223 for Croatia/Slavonia, 167 for Bulgaria, 290 for Romania and 331 for Greece.

38 Branko Hinić/Liljana Đurđević/Milan Šojić, Serbia/Yugoslavia. From 1884 to 1940, in: South-Eastern European Monetary and Economic Statistics, 291–354, 309–315.

The burden of debt service on Bulgarian state budget revenues declined like Romania's to only 18 percent. While Serbia's debt burden remained at 27 percent, its National Bank like Bulgaria's and Romania's was free to increase note issue accordingly, with none of the European restriction still confining Greece until 1910. Serbian savings banks joined a network of cooperative banks in Bulgaria and Romania to provide their peasant majorities at least with affordable short-term credit. The branch network of the National Bank of Greece worked to provide a similar range of support in the absence of a comparable range of domestic banks. The region's monetary and fiscal frameworks were less subordinate and more comparable to the contemporary European financial system by the last prewar decade than had seemed likely even late in the nineteenth century. But only continued access to European trade and capital markets would justify their efforts to maintain a stable currency and debt burden, even at the still debated cost or benefit of European supervision.

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