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Finance and Banking in Southeastern Europe to 1939

Part 2: The Costs of War and the Trials of Interwar Financial Recovery (with Bibliographical Essay)

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Introduction

Over the next decade, from the Balkan Wars of 1912/1913 to the First World War and then to postwar conflicts over the borders of the successor states, the region's financial systems faced unprecedented disruptions. They extended from their inflated or insulated currencies to the fractured framework of the prewar gold standard. Following this disruptive decade, with its swollen state budgets, the governments of the independent states nonetheless faced the obligation of servicing not only prewar but also wartime debts. Bulgaria was also burdened with reparations. The victorious Allies failed to extend any significant postwar aid and initially refused any debt or reparations relief. Despite debt settlements in the mid-1920s, the promise of renewed pre-1914 lending was not kept until the eve of the Great Depression, and then only after the region's regimes and central banks had stabilized their note issue and fixed much reduced exchange rates. Their currencies could service new loans under the new gold exchange standard, now based on reserves in pounds or other convertible currencies as well as gold. But staying on the new standard soon gave way to departure and devaluation as the Depression halved exports. After the British decision to abandon gold in 1931, a series of bank failures in Central Europe compounded the region's financial crisis. The region's governments stepped in to negotiate debt reduction and to promote what became a modest economic recovery by the late 1930s. But lost in the process were political independence for domestic financial institutions, the free movement of capital, and convertible currencies.

From Wartime Disjuncture to the Burden of New Borders, 1913–1923

Once Bulgaria had failed to reverse the loss of Vardar Macedonia to Serbia in the Second Balkan War in 1913, its state budget faced the financial strain of an expanding deficit. The other four governments that had joined to expel Ottoman rule from the region in the First Balkan War of 1912 were briefly spared until the First World War. Serbia obtained a large new French loan of 250 million francs and Montenegro two small ones to cover war expenses. Greece received a French loan promising 500 million francs under the International Financial Commission, realizing 335 million francs in 1914. Bulgaria was forced to turn to the rival Central Powers. Only after prolonged negotiations with the German Disconto Gesellschaft was an advance of 120 million marks received in return for servicing from tobacco revenues. But reserves from under a new National Bank syndicate for foreign exchange allowed the lev to return to par with the franc by mid-1914.[1]

Then the outbreak of general war in August started a decade of currency depreciation and price inflation across the region. Until 1918, occupied Serbia's dinar and Greece's drachma had at least been insulated from depreciation by French or British war credits that supported their engagement on the Salonika Front. But Greece's budget deficit approached 200 percent and price inflation of 400 percent. In Romania, comparable deficits and inflation was accompanied by a sharp fall in exchange value, from par with the French franc to 3.5 lei for one by 1918. The issue of alternative lei from a collaborating Bucharest bank during the German occupation accelerated the depreciation. In Bulgaria, German and Austro-Hungarian war credits supported a lesser decline to 1.67 francs for one lev, but the budget deficit exceeded 100 percent for 1918 and price inflation touched 800 percent. Uncovered National Bank note issue on German war credits, peasant hoarding of coins, and unrecorded German purchases of Bulgarian food supplies all contributed to the inflation. Then the war ended in defeat and German default. As may be seen in Table 1, worse was yet to come. Only an emergency delivery of American grain in 1919, worth $4.8 million in return for $2 million from Bulgaria's gold reserve, prevented starvation.[2] The other governments and financial systems also faced postwar trials, but at least without the reparations levied on Bulgaria.

The new Kingdom of Serbs, Croats and Slovenes, proclaimed in Belgrade in December 1918, was confronted not only by war damage, primarily in Serbia. Beyond the repair of its infrastructure, there were the inflationary obligations of servicing Serbia's prewar and wartime debts, a share of Austria-Hungary's debt and converting the mass of Austro-Hungarian crowns in what now became the larger part of its territory.[3] The obligation to service 10 primarily French prewar Serbian state debts and 3 from Montenegro, amounting to 830 million gold dinars (pre-1914 francs), was spelled out in the wartime agreement that provided 486 million francs for Serbian army expenses between 1916 and 1919. The United States had extended a wartime loan of $62.5 million whose repayment was expected. In addition, there were 154 million crowns owed as the new state's share of Austrian and Hungarian debts (2 percent and 14 percent) and another 336 million in crowns from the pre-1914 Habsburg provinces, primarily from Bosnia-Herzegovina. Then came the challenge of converting crowns in those territories to dinars. Amid enduring controversy, the Serbian side pressed for 10-1 and the Croatian side for 2-1 or 1-1. The decision from Belgrade for 4-1 and eventually

1 Oleg Nedyalkov/Lyudmila Dimova, The Bulgarian National Bank and its Role in Bulgarian Economic Development (1879–2009), Sofia 2009, 26f.; Adam Tooze/Martin Ivanov, Disciplining "the Black Sheep of the Balkans". Financial Supervision and Sovereignty in Bulgaria, 1902–38, *The Economic History Review* 64 (2011), no. 1, 30–51, 35f. On Serbia: Ivan M. Becić, Ministarstvo finansija Kraljevine Jugoslavije 1918–1941. Beograd 2012, 308.

2 Other US food shipments were sent as aid at no cost to Romania and the Yugoslav Kingdom, each receiving $50 million worth. Curiously, Greece got only $1 million. Frank Macy Surface, American Food in the World War and Reconstruction Period. Operations of the Organizations under the Dir. of Herbert Hoover 1914–24. Stanford 1931, 164–235.

3 Becić, Ministarstvo finansija, 309–323.

Table 1. State Budget Balances and Financial Indicators, 1913–1923 (millions in national currency).

	Bulgaria	*Greece*	*Romania*	*Yugoslavia*
Budget rev|exp in millions of national currency				
1911	199|203	136|181	575|465[b]	120|120
1913	169|359	174|282	609|512[b]	131|131
1916	193|491	226|233	384|831[b]	–
1919–20	844|1,313	725|1,683[a]	2,003|5,205	261|2,013
1922–23	4,437|4,512	3,712|5,000[a]	14,904|6,448	6,634|6,125
Note Issue|Exchange Rate Indeces				
(1911=100)				
1913	168|128	100|100	100|100	100|100
1916	751|137	215|101	332|200	–
1919	2,575|434	569|173[a]	1,456|363	678|317
1922–23	3,501|2,797	1,760|1,129[a]	3,470|2,727	– |1,409
Seigniorage|Budget Revenue				
1912–18	24.0%	17.8%[c]	57.30%	–
1916–23	40.9%	7.8%[c]	16.32%[d]	–

[a] 1920 and 1930; [b] 1911–12|1913–14|1916–17; [c] 1912–22 and 1923–26; [d] 1919–26. Sources: John R. Lampe/Marvin R. Jackson, Balkan Economic History, 1550−1950. From Imperial Borderlands to Developing Nations. Bloomington/Ind. 1982, Table 11.1, 380–381; Matthias Morys, Any Lessons for Today? Exchange-rate Stabilisation in Greece and South-East Europe between Economic and Political Objectives and Fiscal Reality. *EHES Working Papers in Economic History*, no. 84 (2015), Table 6.

5-1 did match the ongoing conversion rate accepted elsewhere. But the immediate effect was to add inflationary pressure on the dinar. Reigning in the new state's huge budget deficit by 1921 did not damp the flow of the crown conversions and demands for servicing the various debts. Reparations due from Bulgaria and Germany failed to go beyond the delivery of livestock, coal and a few locomotives. All of this fed the inflation of retail prices and the devaluation of the dinar. Both had soared past 1,400 from the prewar 100 by 1923, accompanied, as also seen in Table 1, by a ten-fold increase in note issue from what was now the National Bank of Yugoslavia, directly transformed from the National Bank of Serbia.

Romania provided the clearer case for the inflationary burden of wartime debt and crown conversions. To fund the belated Romanian entry into the war on the side of the Entente in 1916, the government turned to the National Bank of Romania for one billion lei in requisition notes and then to treasury bonds, in exchange for French and finally American loans. This new borrowing totaled 1.6 billion lei by 1918, when the German occupiers of Wallachia forced the printing of lei as well. By 1919 the postwar government of the enlarged state faced the obligation of its fraction of the prewar Hungarian foreign debt for Transylvania. Further pressure on Romanian exchange rates and prices followed. The ruling Liberal government converted crowns to lei at the attractive rate of 2-1. The Bucharest banks had already bought up large amounts of crowns to secure financial leverage in a framework previously tied to Budapest. Their inroads proved a political success. But by 1923, the flood of 8.7 million crowns converted to 4.4 billion lei, plus 1.2 billion lei from Russian or Ukrainian ruble conversions, had doubled retail prices from their tenfold increase since 1918 and driven the lei down to 2.5 percent of its prewar par with the franc.[4] As indicated in Table 1, this was the region's most severe postwar inflation and the largest infusion of uncovered banknotes.

Only the Greek drachma was still at prewar parity in 1918, despite the budget expenditures twice the value of revenues and retail prices nearly four times the level in 1914. Temporary British and French war credits in 1915 and a German bank loan in 1916 allowed the National Bank of Greece to issue half a billion drachmas of new notes. Then the Entente covered another 850 million in 1918, with the US joining Britain and France in providing advances on postwar credit. The promise of an easier financial transition with postwar credit coming from the winning side did not last long. By 1919, the Venizelos government had moved into the Anatolian coastal areas originally assigned to Italy, renewing the military strain on the state budget. Then in 1920, the fateful decision to move inland from Smyrna under the new government of the previously pro-German King Constantine lost Athens its access to the promised British credit. The franc's freefall forfeited any French promise. Forced loans from the National Bank and a forced banknote exchange from the public financed the further advance into Anatolia. Then the disastrous retreat, abandoning even Smyrna in 1922, pushed the exchange value of the drachma down to 9 percent of the 1918 level. Note issue swelled to three times that level and retail prices four times.[5] According to Table 1, the state budget deficit for 1921 peaked at one and a half times revenue, supported by uncovered note issue that continued until 1923. Thus Greece joined the region's other two winners in facing the interwar period with the same reputation for a devalued currency, price inflation and persisting budget deficits.

Bulgaria as the only Austro-German ally faced the earliest pressure from the victorious Entente, led by France. Already in March 1919, when Bulgaria resumed payment on three largely French financed loans of the prewar decade, the lev had fallen to less than one quarter of its prewar par with the franc. Only partial payments could be made. Then the immense reparations demanded under September's Neuilly peace treaty accelerated the lev's decline. The 2.25 billion francs also included British occupation costs and a share of the Ottoman debt. The total was twice the value of Bulgaria's national product for 1921. When the new

[4] George Virgil Stoenescu et al., Romania. From 1880 to 1947, in: South-Eastern European Monetary and Economic Statistics from the Nineteenth Century to World War II. Athens et al. 2014, 243–289, 272–287; Costin C. Kirițescu, Sistemul bănesc al leului și precursorii lui, vol. 2. București 1967, 2nd ed. 1997, 272–287.

[5] Sophia Lazaretou, Greece. From 1833 to 1949, in: South-Eastern European Monetary and Economic Statistics, 101–170, 128–152; Mark Mazower, Greece and the Inter-War Economic Crisis. Oxford 1991, 60–72.

Agrarian government under Aleksandăr Stambolijski failed to make the first semi-annual payment due in January 1921, the Colonel representing France in Sofia threatened trade sanctions if payments were not made.[6] Despite the success of the Agrarian government in raising budget revenues by 150 percent and making reparation payments at least in kind, the lev continued its downward spiral to less than 4 percent of prewar par by 1923. Price inflation and the rise in note issue from the Bulgarian National Bank, 41 percent uncovered, was even more precipitous (see Table 1). After French and Italian efforts to promote a military intervention had failed, the League's British-led Reparations Commission stepped in. It pressed for legislation to limit note issue and reduce state debt to the National Bank. After prolonged Agrarian resistance, its government's agreement in March 1923 to service the reparations debt with customs revenues persuaded the Commission to cut the Bulgarian obligation by three quarters, down to the conceivably serviceable sum of 550 million francs. Ironically, the disputed concession contributed to Stambolijski's assassination and his Agrarian government's overthrow only a few months later. The lev's exchange value then rose under a less contentious and less democratic government.

Stability and Investment in the 1920s: the Gold Exchange Standard and Domestic Banks

After the League of Nations at the conference in Brussels in 1920 had failed to agree on postwar finances, a larger conference representing 34 countries was convened at Genoa in 1922. There the Governor of the Bank of England Montague Norman and his Austrian colleague Sir Henry Strakosch presented their draft proposal, which was promptly accepted. Independent central banks were to take the lead in supporting stable exchange rates by which their currencies could service foreign debts while avoiding inflationary deficits.[7] Only the US was flush with gold and ready to return to the gold standard in 1919. By 1922, it was agreed at the Genoa conference that the major convertible currencies should be added to gold if reserve holdings sufficient for stable exchange rates were to be established for other European currencies. Norman could not convene a subsequent conference of central banks.

6 Tooze/Ivanov, Disciplining "the Black Sheep of the Balkans", 37f.; John R. Lampe, The Bulgarian Economy in the Twentieth Century. London 1986, 60–62; William H. Wynne, State Insolvency and Foreign Bondholders, vol. 2: Selected Case Histories of Governmental Foreign Bond Defaults and Debt Readjustments. New Haven/CT 1951, 549–551.

7 P.[hilip] L. Cottrell, Norman, Strakosch and the Development of Central Banking. From Conception to Practice, 1919–1924, in: Idem (ed.), Rebuilding the Financial System in Central and Eastern Europe, 1918–1994. Aldershot 1997, 29–73. On the more successful imposition of Norman's framework on defeated Hungary than Poland or Czechoslovakia, see Miklós Lojkó, Meddling in Middle Europe. Britain and the "Lands between" 1919–1925. Budapest 2006. Still useful as an overview plus bibliography for the entire interwar period, omitting only Greece, is R.[udolf] Nötel, International Credit and Finance, in: M.[ichael] C.[arles] Kaser and E.[dward] A.[lbert] Radice (eds), The Economic History of Eastern Europe 1919–1975, vol. 2: Interwar Policy, the War and Reconstruction. Oxford 1986, 170–295.

But his emphasis on their political independence would inform British initiatives in Bulgaria and Greece and inspire a domestic Yugoslav initiative. Reordering Romanian finances was left to the Bank of France only the new state of Albania was largely free of these burdens and initiatives, facing instead the one major Italian intervention.

The outbreak of the First World War cut short the brief Austro-Italian creation of a Bank of Albania in order to issue banknotes, conduct limited commercial operations, and act as the government's fiscal agent. The population was left to continue its practice of hoarding gold as the only financial asset. The various foreign occupations and the circulation of their currencies also continued into the immediate postwar period until independence was established in 1920. Thereafter, despite the absence of prior foreign debt, the new state could obtain only two small short-term foreign loans, one from the Albanian diaspora in the US. European and US interest concentrated instead on bidding for concessions, primarily for oil deposits discovered during the war. Meanwhile, the state budget of 1921 recorded a 14 percent deficit but exports were only 12 percent of imports.[8]

Finally in 1922, the League of Nations commissioned a Luxembourg economist, Albert Calmes, to prepare a report on creating a single national currency. To pursue his recommendation for a new national bank with powers of note issue, the League of Nations dispatched a Dutch colonial official as Financial Advisor to Tirana in May, 1923. His specific proposal gave equal one quarter shares in the new bank's founding capital to British, French and Italian interests. It left Albania the last quarter and the right to appoint a supervising commissioner based in Tirana. But failing to secure a new loan and proposing new land taxes, his contract was cut short in 1924 under the brief regime of Fan Noli. Noli's refusal to honor an earlier concession to the Anglo-Persian Oil Company then cut short British Interest.[9] The way to a special relationship with Italy under the successor regime of Ahmed Zogu now lay open, as followed into the Second World War by the one detailed scholarly study.[10]

Before they founded the National Bank of Albania in Rome 1925, a group of Italian banks and Mussolini's Investment Institute joined to create the SVEA. This Society for the Economic Development of Albania provided an effective 50 million franc loan, equivalent to 40 percent of state budget revenues. An Italian chaired the new National Bank, with two Albanians joining two Italians on the governing board. Italian capital held 75 percent of the capital, with small shares allotted to Yugoslav, Swiss and Belgian interests. The issue of gold or silver franc coins and banknotes was authorized, with one third held in reserve according to the gold exchange standard. But the new bank was limited to short- and medium-term loans. With no other banks in the shallow new financial system, the SVEA had a clear field. As the only Albanian equivalent of an investment bank, its ventures soon included oil minerals.

8 Arta Pisha/Besa Vorpsi/Neraida Hoxhaj, Albania. From 1920 to 1944, in: South-Eastern European Monetary and Economic Statistics, 355–377, 355f.; Bernd Jürgen Fischer, King Zog and the Struggle for Stability in Albania. New York 1982, 48–51.

9 Robert C. Austin, Founding a Balkan State. Albania's Experiment with Democracy, 1920–1925. Toronto 2012, 113–135.

10 Alessandro Roselli, Italy and Albania. Financial Relations in the Fascist Period. London et al. 2006.

Table 2. Note Issue, State Budgets and Debt Indexes, 1911 and 1920–1930 (constant millions in 1911 national currency).

	Bulgaria	*Greece*	*Romania*	*Yugoslavia*
		Budget rev|exp		
1911	46|47	51|67	81|66	41|41[a]
1920	35|35	84|195	27|47	74|88
1926–1930	47|57	103|121	56|58	83|79
		Banknote Issue		
1911	25	59	63	22[a]
1920	59	17.4	67	54
1926–1930	25	56	35	39
		Foreign Debt		
1911	137	319	226	233[a]
1920	732	937	355	267
1926–1930	142	324	276	172

[a] Serbia only for 1911. Source: Lampe/Jackson, Balkan Economic History, Tables 11.2, 11.3, 384–387.

The Albanian capital account grew along with income from services to Italian enterprises during the rest of the decade. It covered deficits from growing a foreign trade turnover that was twice its 1921 value by 1929.[11] But the price was the sacrifice of more economic sovereignty than given up by any other state in Southeastern Europe.

The more controversial sacrifice was the Bulgarian experience with reparations and the monetary restriction dictated by the gold exchange standard. Recent Bulgarian scholarship has emphasized the sacrifice of sovereignty to British oversight that barred the National Bank of Bulgaria from state loans. It restricted note issue in general as a condition for the aforementioned reduction in reparations in 1924. The restriction did fix the exchange rate for the lev by 1924 at 3.8 percent of prewar parity, set above the still lower market rate to make past debt or future loan repayment more attractive. But the restriction on note issue kept its real per capita level below 1911 through the 1920s, as may be seen in Table 2. According to Rumen Avramov, this was capitalism without capital.[12] Efforts to reduce the continuing budget deficits were confined to protective tariff increases. Their duties served repayment on the only two foreign loans obtained in return. Even at par, the two League loans sponsored by its International Financial Committee in 1926 and 1928 yielded less than 200 million in pre-1914 francs. Their total was well under even the effective total of 464 million for

11 Ibidem, 33–52.

12 Rumen Avramov, Komunalnijat kapitalizăm. Iz bălgarskoto stopansko minalo, vol. 1–3. Sofija 2007; vol. 1: Bălgarskoto stopansko minalo. Razmernost i edri štrichi; Kapitalizăm bez kapitala; Dopirăt s vănšnija svjat, 260–293.

1901–1911. Neither of the new loans provided much for the promised purpose of refugee resettlement. The first went largely to repay a Balkan War debt to a Paris bank, and most of the second to repaying the Disconto Gesellschaft loan of 1914.[13]

The Bulgarian debt burden, still including reparations, was only slightly increased, from 21 to 24 percent of the state budget, but the National Bank's discount rates stayed high, averaging nearly 10 percent like Greece's as noted in Table 3 below. Its share of bank loans had shrunk from 30 to 10 percent between 1911 and 1928, in part because the new Hipotekarna Banka had taken over mortgage loans. And in 1928, the National Bank abandoned all commercial activities and became solely a central bank of note issue and discounting. Its leadership, still limited by two-year terms for Governors, nonetheless aimed to assert independence from the Finance Ministry and foreign oversight. It succeeded in resisting British pressure to become a joint stock bank open to foreign shareholders and thus more foreign capital.

Meanwhile, some 13 foreign bank affiliates, most of them new arrivals from Western Europe, took the lead in doubling the share of private bank loans to account for almost one half of the Bulgarian total. Seven of them joined three private Bulgarian banks in supporting investment in the "encouraged" industrial or trading enterprises, also benefitting from a newly stable exchange rate. But the bulk of this support was short-term credit on current account rather than stock purchases or investment. It was largely directed to food or tobacco processing. The Bulgarian Agricultural Bank used its option to continue lending to rural cooperatives, whose real loan value stayed at the prewar level.[14]

In the absence of reparations, the burden of prewar and wartime debts nonetheless limited the access to foreign loans for the three Allied supporters. Like Bulgaria, they all reestablished exchange rates well below prewar par for the British, Dutch and Swiss currencies but not far from the 15–20 percent range for France, Belgium and Czechoslovakia and well ahead of Germany, Austria and Hungary. The Yugoslav dinar was stabilized at 8.9 percent in 1925, the Romanian lei at 3.1 percent and the Greek drachma at 6.7 percent in 1927.[15]

13 Wynne, State Insolvency, vol. 2, 544–560; John R. Lampe/Marvin R. Jackson, Balkan Economic History, 1550–1950. From Imperial Borderlands to Developing Nations. Bloomington/Ind. 1982, Table 7.7, 233.

14 For an overview of the Agricultural Bank and a critique of its limitations, see Avramov, Komunalnijat kapitalizăm, vol. 2, 347–401. On the limitations of foreign bank activity, Ljuben Berov, Foreign Capital in the Bulgarian Banking System 1878–1947–1997, in: Kostin P. Kostis (ed.), Modern Banking in the Balkans and West European Capital in the Nineteenth and Twentieth Centuries. Aldershot 1999, 15–33 and for a critique of the limited access to foreign lending despite reduced reparations and the good-housekeeping seal of a monetary system operating under the gold exchange standard, Daniel Vačkov, Chs 4 and 5, in: Martin Ivanov/Cvetana Todorova/Daniel Vačkov, Istorija na vănšnija dăržaven dălg na Bălgarija, 1878–1990. Sofija 2009, vol. 2 of 3; Daniel Vačkov/Martin Ivanov, Bălgarskijat vănšen dălg meždu dvete svetovni vojni. Sofija 2008, 9–120. On the National Bank's reconstitution in 1928, Nedyalkov/Dimova, Bulgarian National Bank, 37–39.

15 Charles H. Feinstein/Peter Temin/Gianni Toniolo, The European Economy Between the Wars. Oxford 1997 compare the European stabilizations as prewar percentages, Table 3.2, 46, and conclude that gold exchange reserves served until the Depression to buffer adopting countries from external credit shocks but not domestic ones, 52.

Table 3. Money Supply, Currency, Discount Rates, and Debt Service, 1928–1938 (in millions of national currency 1911=100).

	1928	*1930*	*1932*	*1934*	*1936*	*1938*
Albania						
Broad money[a]	15	23	33	26	29	–
Currency[b]	11	15	15	13	14	–
Discount rate	9.0%	9.0%	8.0%	7.5%	7.2%	6.0%
Bulgaria						
Broad money[a]	18,852	17,860	18,111	19,389	20,453	24,336
Currency[b]	4,309	3,528	3,520	3,736	3,811	4,082
Discount rate	9.0%	10.0%	8.0%	7.0%	6.0%	6.0%
Debt service/Budget rev	24.9%	32.8%	32.3%	27.0%	26.6%	20.0%
Greece						
Broad money[a]	17,053	22,343	20,716	24,499	25,665	31,387
Currency[b]	5,219	4,226	4,281	5,123	5,666	6,654
Discount rate	9.0%	8–10%	11–12%	7.0%	7.0%	6.0%
Debt service/Budget rev	2.8%	31.4%	13.5%	–	30.92%	–
Romania						
Broad Money[a]	59,758	68,562	53,394	49,474	55,613	67,064
Currency[b]	21,631	19,604	21,593	22,306	25,665	34,901
Discount rate	6.0%	9.0%	7.0%	4.5%	4.5%	5.5%
Debt service/Budget rev	17.7%	20.1%	35.3%	24.7%	12.1%	11.7%
Yugoslavia						
Monetary base[c]	6,617.0	6,249.4	5,949.8	6,243.7	7,902.4	9,792.4
Currency[c]	5,528.0	5,396.5	5,338.8	5,251.0	5,377.9	7,699.1
Discount rate	6.0%	5.5%	7.5%	6.8%	5.0%	5.0%
Debt service/Budget rev	7.8%	8.1%	16.3%	–	6.5%	8.1%

[a] Currency in circulation and all bank or cooperative deposits; [b] all banknotes and coins in circulation; [c] currency in circulation plus bank deposits at the central bank and central bank liabilities. Sources: South-Eastern European Monetary and Economic Statistics, Tables AL 1.3, 374, BG 1.3, 235, GR 1.2, 1.4, 153f., RO 1.2, 282, YU 1.2, 348.

Furthermore, as may be seen in Table 2, their convertible note issue and reduced state budget deficits did bring down the large foreign debt by 1930. In aspiring to the gold exchange standard, their discount and interest rates stayed high at 8 percent and exchange rates erred on the side of overvaluation in hopes of attracting new loans. Budget revenues were boosted by protective tariffs and the domestic indirect taxes, on which they all continued to rely. At least for the Yugoslav Kingdom and Romania, their largely domestic banks did take advantage of this stability. In the absence of foreign loans, they provided some of the investment capital for industry, if not agriculture.

The Yugoslav initiative to join the new standard began in 1922 on the initiative of a new Finance Minister rather than Montague Norman, Dr. Milan Stojadinović was nonetheless imbued with the prevailing monetarist orthodoxy of the Bank of England. From 1919, he already spent three post-doctoral years of work/study at a London bank and the French Ministry of Finance. As Finance Minister between 1924 and 1926, he eliminated the state budget deficit and obliged the understaffed and politically weaker National Bank of Yugoslavia to cut its note issue by one third. The bank's discount rate stayed over 10 percent as a result, boosting interest rates higher and hitting peasant agriculture hard during the bad harvest of 1926. But the restriction did succeed in the informal stabilization of the dinar's exchange value in 1925 and the settlement of US war debts in 1926. Only in the following year did the Belgrade government finally receive the second tranche of its 1922 loan from Blair & Co in New York. Projected at $100 million mainly for railroad construction, the $30 million received at 7 percent interest in 1927 was at least an improvement on the $15.25 million at 8 percent received in 1922. Servicing was secured by income from the monopolies administration. The two tranches, worth 225 million pre-1914 francs and another 100 million again in tranches from the Swedish match monopoly was all that was received until the belated billion franc French Stability Loan in 1931. Only its 200 million in pre-1914 francs brought the decade's total past the effective total of 464 million francs for 1901–1911.[16] Such was the belated support gained for an exchange rate held at the highest prewar percentage in the region and budget revenues supported by protective tariffs.

Romania's lowest exchange rate followed from the region's highest post-1918 inflation and the sharpest reduction real budget revenues and export earnings, as recorded in Tables 3 and 4. The rise in petroleum earnings could not make up for the collapse of grain exports, more the result of new competition in reduced European markets than the 1921 land reforms breakup of large estates.[17] In 1924, the Liberal government authorized a threefold increase in the capitalization of the National Bank of Romania in return for reasserting the shareholding rights it had given up in 1880. The authorization obliged the bank to halt the uncovered note issue noted in Table 1. After good harvests in 1926/27, the government was able to come to terms with its US and French debts and stabilize the lei at a rate still slightly above its free market value Here the prodding came from the Bank of France and its Governor Emile Moreau. Still, sales of National Bank reserves were needed by 1928 to support what

16 Becić, Ministarstvo finansija, 336–344 and on Stojadinović and his successors, all holding doctoral degrees until 1935 and not all Serbs, 45–83, and on the stabilization of the dinar from 1923 forward to 1931: Goran Nikolić, Kurs dinara i devizna politika Kraljevine Jugoslavije, 1918–1941. Beograd 2003, 94–112; Lampe/Jackson, Balkan Economic History, Table 7.7, 233.

17 Recent Romanian scholarship on these two major exports is summarized in Bogdan Murgescu, România şi Europa. Acumularea decalajelor economice (1500–2010). Iaşi 2010, 233–247. The standard work on petroleum remains Maurice Pearton, Oil and the Romanian State. Oxford 1971, 10–50.

was or had become the overvalued rate. Only in 1929, with a large French, British and US Stabilization loan of 235 million in pre-1914 francs, plus the belated Soviet return of Romania's gold reserve taken in the First World War, could Romania formally adhere to the gold exchange standard in 1929.[18]

For the Yugoslav Kingdom, the monetary stability of the late 1920s did however allow private banks to invest in industrial and trade enterprises as well as supply them with short-term credit below the otherwise high rates of interest. Unlike Bulgaria, these were almost all domestic banks but were concentrated in Croatia-Slavonia. Already in late 1921, the half dozen Zagreb banks attracting Austrian, Hungarian and especially Czech capital had assets that were five times the largest set in Belgrade. The imbalance was still greater elsewhere in the new Yugoslav Kingdom, with the exception of Slovenia. Its network of cooperative banks bought assets up to one third of the Zagreb figure. Their credits did indeed provide support to agriculture missing elsewhere until the establishment of an Agricultural Bank in 1929. Zagreb's universal banks moved instead into stock purchases and credit lines for 41 industrial enterprises. Their industrial shares plus those of several Prague banks predominated in the Zagreb stock exchange, its traffic half again Belgrade's. These entrepreneurial banks had no need of the high discount rates charged by Belgrade's National Bank of Yugoslavia, the main source of bank credit in Serbia. But this indifference would turn to resentment when Croatian banks, struggling to survive in the 1930s, were forced to turn back to the National Bank.[19]

Romania provided the other success story for entrepreneurial banking in the 1920s. Against the cautious lending in the majority of the nine large Bucharest banks dominated by French and Belgian capital, the two major domestic banks, the Liberal-backed Banca Românească and the Jewish-owned Banca Marmorosch Blank, concentrated on long-term lending and stock purchases. Their networks of 15–20 branches across the enlarged interwar state and their direct investment through their industrial institutes made a significant contribution to founding or expanding the manufacturing sector during the first half of the decade. The Banca Românească favored timber, petroleum and metallurgy to build up a domestically owned industrial sector under the Liberal mandate "through ourselves alone". After the nationalization of the German-Austrian Steaua Română, the largest oil producer before 1914, the mining Law of 1924 further restricted foreign ownership. Drawing on French capital to replace German and Hungarian support, the larger Banca Marmorosch Blank ranged more widely. Its stock purchases extended from cement, sugar refining, flour milling and timber

18 Stoenescu et al., Romania, 243–289, 246, 253–264; Lampe/Jackson, Balkan Economic History, 390 and Table 7.7, 233 where even another 265 million pre-1914 francs from a French Development loan in 1931 left postwar Romanian borrowing at less than two thirds of the effective total of 880 million for 1901–1911.

19 Becić, Ministarstvo finansija, 450–473; and on the six Yugoslav stock exchanges of the 1920s, dominated by Zagreb and Belgrade 415–441; Lampe/Jackson, Balkan Economic History, 397, 425. Czech bank interests and joint-stock investments are summarized in Milan Balaban, Yugoslav-Czechoslovak Economic Relations between 1918 and 1938 year. PhD thesis, University of Brno, 2016, 181–193.

processing to petroleum as well. But both banks and a few other universal banks in Bucharest stepped back after providing 16 percent of the capital for joint-stock enterprises in 1925. As their share fell to 8 percent by 1929, the state's own corporation for industrial credit doubled its contribution to 12 percent. At the same time, the share of the two banks in total bank assets fell from over half in 1919 to 24 percent by 1929, along with a comparable decline in foreign bank's share to 13.5 percent. It was left to the National Bank of Romania, its growing network of branches, and over a thousand small unregulated banks to account for over half of bank assets. Only in 1929 was a state Agricultural Bank finally established to relieve peasant small holders.[20]

Still lacking a central bank, the universal National Bank of Greece allowed its uncovered note issue to feed further inflation in support of the Anatolian debacle and then the Liberals return to power. After peaking at 80 percent in 1923, inflation resumed rising at 15 percent a year in 1925. With wartime war debts still unsettled, the drachma's exchange rate continued to decline. The still predominant National Bank with its network of branches discouraged domestic competition from the four larger Greek banks and the four foreign banks continuing from the prewar period. Some 40 new smaller banks were founded in the 1920s to support the many new small enterprises with short-term credit. With illiquid state debt accounting for nearly half of its assets, the National Bank showed little interest in industrial investment beyond mergers or cartels of existing firms.[21] Nor, as it turned out, was the bank's leadership ready to give up its profitable commercial lending, supported by its liabilities in low-interest deposits, in return for keeping its exclusive powers of note issue.

This was the initial concession demanded by the League's Financial Committee in response to the Greek request for a second refugee loan in 1927. The US-led Refugee Settlement Commission had raised a first British and US loan at par of 12.4 million pounds (310 million pre-1914 francs) in 1924, which did settle almost half of the 1.4 million refugees that had streamed in from Anatolia and Bulgaria. But to settle the rest of them, the Liberal government was first asked to settle its obligations from prewar and wartime debts under a stabilized drachma. Convened in Geneva, the League's six-person subcommittee, headed by Sir Henry Strakosch with one Greek representative, Emmanouil Tsouderos from the National Bank of Greece, focused on binding note issue to the reserve requirements of the gold exchange standard.[22] It was Tsouderos who turned away from the reluctance of his own bank to confine its operations and suggested a separate bank of note issue. As the new Bank of Greece opened in 1928, with the state restricted to 10 percent of its joint stock, the

20 Christian Biche, Foreign Banks in Romania. A Historical Perspective, in: Kostin P. Kostis (ed.), Modern Banking, 38–42, Lampe/Jackson, Balkan Economic History, 430; Banque Marmorosch, Blank & Cie, Les forces économique de la Roumanie en 1929. Bucarest 1929 and 1930, 132.

21 Mazower, Greece and the Inter-War Economic Crisis, 73–79, 97–112.

22 Details of the subcommittee's bargaining and of the final agreement may be found in Olga Christodoulaki, Central Banking in Greece in the 1920s. A Domestic Twist on League of Nations Norms. Warwick University Summer Workshop 2002. On the monetary struggles of the 1920s, see A. F. Ferris, The Greek Economy in the Twentieth Century. New York 1986, 53–67.

League-sponsored Stabilization Loan of 9 million pounds at par (220 million in pre-1914 francs) went ahead. A drachma stabilized at 6.9 percent of prewar par did indeed facilitate British and US debt settlements. As well as completing refugee settlement by 1930, the loan quickly provided the convertible foreign exchange needed for the Bank of Greece to meet its 40 percent reserve requirement under the gold exchange standard. But to make the drachma attractive in foreign exchange, recent Greek scholarship has argued that the stabilization rate was at least 10 percent over the free market rate in 1926, an overvaluation, albeit short of the "golden fetters" on export prices from the famously overvalued British pound.[23]
Resistance to the authority of the Bank of Greece as a true central bank requiring reserve deposits from other banks continued until 1931. Only then were they obliged to place even a small share of their deposits with the new bank, making it a central bank. The Bank of Greece needed a high discount rate of 10 percent or more from 1929 onwards in order to maintain the needed reserves in the face of currency trading against a drachma which was initially or subsequently overvalued. Debt service under the gold exchange standard jumped hugely ahead as a share of budget revenues by 1930. As seen in Table 3, similar, if lesser, increases awaited its neighbors. Thus constrained by a European monetary framework based on fixed, reserve-backed currencies and unforgiven debt service, Greece and the rest of the region confronted the shock of the Great Depression.

Financial Retreat and Limited Recovery in the 1930s

The sudden drop in export earnings as a result of the Depression threatened the region's capacity to continue servicing foreign debts. Only Albania, with no past debts, was exempt. Its SVEA lending with repayment deferred and the earnings from its local management covered the continuing deficits on current account and in primarily Italian trade. The National Bank of Albania had begun issuing banknotes at gold parity in 1925. By 1932, the franc notes in circulation had risen ten-fold, but to maintain their exchange rate in the face of mounting state budget deficits, their convertibility to gold was suspended. With SVEA loans also suspended in 1933, banknotes in circulation fell by one third by 1934. Only with the resumption of SVEA lending in 1936 did the National Bank relax its deflationary policy, aided by a new Italian-financed Agricultural Bank.[24]

23 Nicos Christodoulakis, Currency Crisis and Collapse in Interwar Greece. Predicament or Policy Failure?, *European Review of Economic History* 17 (2013), no. 3, 272–293, 275–278; Lazaretou, Greece, 105–122. The influential study coining the phrase, Barry J. Eichengreen, The Golden Fetters. The Gold Standard and the Great Depression, 1919–1939. New York et al. 1992 concentrates on the British experience and the 1930s but 155–211 critically reviews the wider European struggles with deflation and trade imbalances under the standard in the 1920s. For an argument for subsequent but not initial overvaluation given the previous Greek history of seignior age, see Matthias Morys, Financial Supervision to Fight Fiscal Dominance? The Gold Standard in Greece and South-East Europe Between Economic and Political Objectives and Fiscal Reality, 1841–1939, *Discussion Papers in Economics* (University of York), 2016, no. 5.
24 Pisha/Vorpsi/Hoxhaj, Albania, 358f., 373–337; Roselli, Italy and Albania, 34–70.

Elsewhere in the region, falling budget and trade revenue from 1930 pushed the other governments off the gold exchange standard by 1932 but left them the greater difficulty of servicing their debts with devalued currencies. A rise in direct taxation as consumption tax revenue fell helped to relieve budget deficits. Greece's bargaining primarily with Britain went better than Bulgaria's trials with France before both economies showed signs of recovery. For Romania and Yugoslavia, initial French support did not help until state investment in rearmament led to their belated recoveries, bringing banknotes up with it for Romania. But for Bulgaria, it is particularly difficult to sustain the argument familiar from recent debates over the Euro that post-standard devaluations were themselves responsible for recovery. Its currency in circulation had not yet returned to 1928 levels by 1938 despite the rising money supply and falling discount rates also seen in Table 3.

The Greek departure from the gold exchange standard was delayed until 1932 by the political determination from Prime Minister Venizelos and his Liberal government to stand by it even after the British departure from gold in 1931. Greek gold reserves plummeted, and capital controls failed to halt capital flight. When both the new Bank of International Settlements and the League of Nations refused its request for a new loan, the Liberal government was forced to abandon the standard in April 1932. When the decline in the drachma's exchange value approached 40 percent, default could not be avoided. Failure to pay drastically reduced the share of debt service in the state budget for 1932 (see Table 3). Long an advocate of departure from the standard, the new Finance Minister, Kyriakos Varvaressos, began prolonged bargaining with British and French bond holders. A German-trained economist outside the party framework and fresh from a high position in the Bank of Greece, Varvaressos was wary of foreign oversight, as he would be again after the Second World War. The eventual agreement was to forego principal payments and make good on only 30 percent of service due stretched out until 1936. Greece then joined the Sterling Bloc with the drachma stabilized under a managed float and exchange controls removed. But only a temporary agreement to pay 40 percent of interest due since 1935 could be negotiated before the Second World War. Still, the Bank of Greece had continued its steady increase in note issue, up by one half by 1935 from 1938. Rising deposits in the still predominant National Bank of Greece prevented the decline in commercial bank assets seen elsewhere in the region (see Table 4).[25]

The recovery of the economy to a pre-crisis annual growth rate of 5 percent and the reduction of the trade and budget deficits for 1933–1936 quieted international concern at the time about the Greek history of nineteenth century defaults. And in 1936, the Bank of Greece received the same formal authority over foreign exchange and trade common, as we shall see, in the rest of the region. Controversy remains in current Greek and international scholarship over leaving the gold exchange standard. Budgetary savings did follow from default in 1933/34. But the annual 8 percent jump in industrial production and a wheat harvest that had more than doubled by 1937 came several years later. This delay questions

[25] Mazower, Greece and the Inter-War Economic Crisis, 179–201; Lampe/Jackson, Balkan Economic History, Tables 12.10, 12.11 and 12.12, 371–377.

Table 4. Structure of Bank Assets, 1928–1938 (millions in national currency).

	National Banks	*State Savings & Mortgage Bank*	*Agriculture Bank*	*Commercial Banks*
Bulgaria				
1929	8,386	1,318	6,820	8,442
1932	6,373	2,311	7,533	5,861
1935	7,271	3,140	9,072	4,885
1938	8,839	4,028	11,017	5,375
Greece				
1929	9,130	3,419	–	20,195
1932	9,111	4,958	1,798.9	20,427
1935	12,750	6,139	2,875.3	22,612
1938	18,651	–	–	–
Romania				
1929	34,903	4,365[a]	15,355	84,280
1932	37,492	4,703[a]	5,203	56,201
1935	41,292	6,912[a]	390	44,021
1938	59,285	11,105[a]	1,584	37,707
Yugoslavia				
1929	9,958	4,349	–	18,419
1932	7,233	5,596	831	15,587
1935	6,976	7,291	822	13,125
1938	9,731	9,348	918	13,063

[a] State Savings Bank only. Sources: Lampe/ Jackson, Balkan Economic History, Tables 12.6 and 12.12, 453–544, 476f.

applying the general argument that leaving the golden fetters of the standard led directly to the Greek recovery.[26] Financial deepening surely played a part, doubling the number of joint-stock incorporations for industry and tripling the short-term loans for farmers from the Agricultural Bank. Raising doubts about the recovery itself was the failure of textile and

[26] The argument dates from Barry Eichengreen/Jeffrey Sachs, Exchange Rates and Economic Recovery in the 1930s, *Journal of Economic History* 45 (1985), no. 4, 925–946. Making the argument for Greece is Michael M. Psalidapoulos/Konstantin I. Loizos, Monetary Management and Economic Crisis. The Bank of Greece Policy, 1929–1941. Athens 2011 (Bank of Greece Bulletin [in Greek]), http://www.bankofgreece.gr/Pages/el/Publications/msd.aspx?Filter_By=2. Tracking the debate and raising doubts about any consistent linkage of departure and recovery are Albrecht Ritschl/Tobias Straumann, Business Cycles and Economic Policy, 1914–1945, in: Stephen Broadberry/Kevin H. O'Rourke (eds), The Cambridge Economic History of Modern Europe, vol. 2: 1870 to the Present. Cambridge 2010, 156–181, 162–172.

other industrial enterprises to invest in new machinery or increase the industry's share of national product beyond 10 percent. Instead, they added hours and depressed real wages that stirred labor unrest.[27] As Bulgaria's economic recovery, similar to Greece's, pushed annual growth rates back to 5 percent for 1936/37, its financial system also deepened with the doubling of joint stock incorporations. As reflected in Table 3, the money supply rose by one third. Small industrial enterprises grew up to produce substitutes for higher-priced or reduced imports. But there the comparable experiences end. Formally holding on to the gold exchange standard after the Greek departure in 1932, the exchange rate for leva nonetheless fell by 60 percent. The deflationary drain on the gold reserves of the National Bank of Bulgaria was so severe that it used new authority to impose capital controls on foreign exchange and foreign trade. Premiums on the pre-1914 pattern averaging 25 percent were required for foreign exchange. Defaulting on full debt service in April 1932, Bulgaria had gained initial relief at the Lausanne conference earlier that year, both from the moratorium on reparation payments to Greece and a 50 percent cut in interest payments on the two League loans. That left the pre-1914 debts, half of them owed to Paris bondholders and a French government insisting on full payment in convertible currency. Only League arbitration and finally the turn of Tsar Boris's royal dictatorship in 1935 away from the Soviet Union forced reductions in service for the French debt. But under the previous, properly elected government, the Financial Committee's oversight, already established in supervisory committees for the National Bank, extended to nominating its Governor, and into the Finance Ministry. These restraints appeared in the face of the region's most severe and prolonged deflation, cutting budget revenues by one third by 1935. This was the international regulatory framework that recent Bulgarian scholarship has criticized as being more restrictive than were the golden fetters of the exchange standard.[28]

The Bulgarian recovery did owe some impetus to a region-leading surge in exports, doubling in value from 1932/1933 to 1937/1938 on the strength of the German clearing agreement. It offered higher prices for agricultural exports priced lower than elsewhere in the region due to the prolonged deflation. Yet for industry, the German share of direct foreign investment grew modestly to 9 percent from a small base of 5 percent. Instead, state-supported import substitution, especially in textiles, and the consolidation of the domestic financial system seen to have been decisive.[29] The National Bank with its large and professional staff did receive the authority to oversee the new grain export agency Hranoiznos and the distribution

27 These qualifications about the recovery and doubts about the role of the default are marshaled in: Christodoulakis, Currency Crisis and Collapse.

28 Tooze/Ivanov, Disciplining "the Black Sheep of the Balkans", 39–46. Table 3 contrasts real effective exchange values for the lev which fell below the 1927 level until 1937 with Greece's 32 percent rise by 1932, Romania's 18 percent, and Yugoslavia's, 15 percent followed by its 50 percent by 1935. Also see Martin Ivanov, Ch. 6 in: Ivanov/Todorova/Vačkov, Istorija na vănšnija dăržaven dălg na Bălgarija, vol. 2: Vačkov/Ivanov, Bălgarskijat vănšen dălg, 121–156.

29 On foreign trade, import substitution and foreign direct investment, see respectively Tables 12.8, 12.16 and 12.23 in Lampe/Jackson, Balkan Economic History, 462f., 486, 509–511. On the financial statistics that follow, Tables 12.10, 12.11 and 12.12, 471–477.

of foreign exchange for imports. It also enforced modern accounting standards on domestic banks, keeping its own note issue below the 1930 level by 1938. But as also seen in Table 3, broad money swelled by 1938 with bank deposits from a Finance Ministry borrowing to cover budget deficits.

The region's largest Agricultural Bank meanwhile increased its share of bank assets past those of the National Bank by 1938. Its share rose from one third to one half. Most went to the extensive cooperative network. Commercial joint stock banks fell back. As noted in Table 4, their assets had matched the National Bank's in 1929 but were less than one half by 1937. Foreign banks held only 7 percent. Still, in industry as well as in agriculture, recent Bulgarian scholarship sees no entrepreneurial role for credit from this enlarged state sector. It swelled still further with the government's merger of some dozen joint-stock banks in 1934 under the supervision of the National Bank.[30] Here, in any case, was a precedent for post-1945 consolidation under state control, rather than the private precedent maintained by the National Bank of Greece.

The financial systems of Romania and Yugoslavia enjoyed one major advantage over Greece's and Bulgaria's in the early years of the Great Depression and faced one major disadvantage. Against their better standing in the European capital market, we must balance the threat of domestic bank failure following the collapse of Vienna's Creditanstalt in 1931. Let us address these threats before turning to the later features shared with the rest of the region during their limited recoveries.

Romania received a French Development Loan in 1931 for 265 million in pre-1914 francs. It was intended to reduce the budget deficits, continuing like Bulgaria's from the 1920s, and keep servicing a foreign debt still the size of Greece's in 1930. But only more note issue, boosting the currency total in Table 3, covered the new budget deficits. State revenues fell with less taxes from agricultural income. Wider losses mounted from non-preforming bank loans or investment in industry and infrastructure. Here the large Banca Marmorosch Blank experienced the largest losses. With the failure of the Creditanstalt as its main foreign creditor in May 1931, the survival of the great Romanian universal bank would have required state intervention. With prejudice suspected against its Jewish ownership, the rival and Liberal-encouraged Banca Românească refused to join in providing support for more than the formal reconstruction that also allowed for the Creditanstalt to continue as a shadow of its former self. Commercial bank assets dropped by one third by 1933. As may be seen in Table 4, this was the region's sharpest decline. By then the lei had lost a third of its exchange value as the default on foreign debt payments the year before had ended the connection to the gold exchange standard. The resulting premium on the major currencies was fixed at 38 percent in 1935, the region's highest. Under a 1934 law and led by the National Bank, a new Consul Superieur Bancaire received the authority to audit or reform accounting and

30 For two informed perspectives on the 1930s, see Vačkov/Ivanov, Ch. 7, in: Ivanov/Todorova/Vačkov, Istorija na vănšnija dăržaven dălg na Bălgarija, vol. 2: Vačkov/Ivanov, Bălgarskijat vănšen dălg, 157–187, and Avramov, Komunalnijat kapitalizăm, vol. 2, 625–671, and for an overview, Nedyalkov/Dimova, Bulgarian National Bank, 38–56.

financial practice in all domestic banks, soon closing half of them. The Consul then negotiated with the League's Financial Committee to suspend payment on debt principal until 1937, but with only a 25 percent reduction in service.[31]

Nor did the reduced presence of foreign banks as in Bulgaria, here reduced to one Italian bank in Bucharest, open the way for German bank or other investment. Berlin's credit to the state's iron mining enterprise Rimma Ferrotaal served only to liquidate the German clearing debt for grain and oil imports. German investment in Romanian industry was still less than 2 percent in 1938 despite industry's annual growth of 6 percent since 1936.[32] Meanwhile, accounting for the one half rise of currency in circulation between 1934 and 1938, noted in Table 3, the National Bank had increased its note issue. They supported loans primarily to large manufacturers, especially to a metallurgical sector expanding for rearmament and missing its former support from foreign banks. This was the same sort of stimulus to domestic credit provided earlier in the decade by the rising note issue from the Bank of Greece. For Romania, both stimulus and growth came too late to be ascribed to the devaluation after departing the gold exchange standard.

The same may be said for the case of Yugoslavia, where the belated boom in industrial production, growing 10 percent annually, came only by 1936–1938. Metallurgy primarily in Serbia and Bosnia, again boosted by rearmament, led the way. And again, despite the Krupp steel works in Bosnian Zenica, German investment rose only to 6 percent of a foreign total dominated by British and French non-ferrous mining and Czech and Austrian interests in cement, sugar and electricity. While the latter passed into German hands by 1939, Anglo-French investment in mining grew more rapidly in these last prewar years. The only major sector responsive to import substitution after devaluation was textile manufacture. These enterprises were concentrated in Croatia and Slovenia where the credit needed to respond was in shortest supply.[33]

By then the financial disadvantage from the early 1930s to Croatia and Slovenia was well established. The billion franc loan from France in June 1931 (200 million in pre-1914 francs) had soon failed to smooth Yugoslavia's formal adherence to the gold exchange standard, arriving only a few months before Britain's departure from the gold standard itself and one month after the failure of the Creditanstalt. Its demise cost the large universal banks of Zagreb, which were the center of private finance in Yugoslavia, 10 percent of their deposits. Their assets would fall even further as the Depression made industrial loans non-performing and investments unprofitable. No relief came from the National Bank in Belgrade which

31 Stoenescu et al., Romania, 264–273. For budget balances across the region, see Lampe/Jackson, Balkan Economic History, Table 12.24, 380.

32 On the limited German connection with Romanian industry and the complex relations of a clearing agreement in which the oil exports gave the advantage to Romanian government and a National Bank whose director favored a French connection, see William S. Grenzebach, Germany's Informal Empire in East-Central Europe. German Economic Policy toward Yugoslavia and Romania, 1933–1939. Stuttgart 1988, 71–95. On German industrial investment, see Lampe/Jackson, Balkan Economic History, 509–519 including Table 12.23.

33 Lampe/Jackson, Balkan Economic History, Table 12.16, 493–495.

raised its discount rate to 20 percent in order to maintain the exchange value of the dinar nor from the royal dictatorship in Belgrade which decreed a moratorium on the repayment of peasant debt in 1932. The largest Zagreb banks avoided bankruptcy only by drawing on so-called "iron reserves". The number of banks in Croatia plummeted from 121 in 1930 to 21 by 1936. The boom that started then did benefit from a second, stabilizing devaluation of the dinar by 20 percent in 1935, after a 22.5 percent devaluation in 1932. But the greater stimulus came from the aforementioned financial support for rearmament. Also helping was the 1936 decision of the Agricultural Bank to absorb from domestic banks and then write off half of existing peasant debts, significantly delaying the repayment of the rest. The National Bank of Yugoslavia, now supported by a well-qualified staff of 700, became the major source of credit for domestic banks. It promoted the same modern accounting standards as in Bulgaria, Foreign bank credit, largely French and Czech and now short-term, remained in place. The Belgrade stock market also revived. Trade in French and English mining shares and PRIZAD, the state's new joint-stock organization monopolizing agricultural trade, reversed Zagreb's predominance from the 1920s.[34] But the National Bank continued to favor Serbia and the Vojvodina, as it had in the 1920s when the private Zagreb and Ljubljana banks had no need for it. Now, although the Croatian share of this credit doubled to 26 percent of the total, the Serbian share stayed at one half. Lending to state suppliers was boosted by rearmament. Recent Croatian scholarship resists the earlier temptation to blame Serbian political motives for this disadvantage, ascribing it more to the transition to centralized state control; the Depression heightened the challenge of coordinating what was supposed to be a single economy.[35] This was a common challenge across Southeastern Europe, making it more difficult to operate in a European financial system that was struggling with its own belated transition.

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Five sovereign states had emerged from the First World War, facing the burdens of postwar recovery but free from prewar Balkan divisions between imperial rule and Great Power dependency. They all spent the next twenty years pursuing the economic growth and financial independence that would confirm their new territorial credentials as Southeastern Europe. But the Central European financial framework for modern economic growth in the nineteenth century, led by risk-taking universal banks operating in a low-risk framework pro-

34 Becić, Ministarstvo finansija, 442–448.

35 Ivo Bićanić/Željko Ivanković, Croatian Banking During the 1926–36 Depression, in: Edwin Green/John Lampe/Franjo Štiblar (eds), Crisis and Renewal in Twentieth Century Banking. Exploring the History and Archives of Banking at Times of Political and Social Stress. Aldershot 2004, 64–83. On the survival of Slovenian banking thanks to savings in the huge cooperative network, see, Žarko Lazarević, Slovenian Banks during the Great Depression, in: Fourth Conference of Southeast Europe Monetary History Network (SEEMHN). Belgrade 2009 (Conference proceedings). Serbian scholarship from Becić, Ministarstvo finansija, 478–481 emphasizes the overall advance from 1936 without attention to regional distinctions.

vided by a stable currency and a strong central bank, could not sustain its promise for Southeastern Europe even in the 1920s. A reduced capital market in Europe and the United States would not respond with new loans until late in the 1920s. This renewed access was to reward stable and initially or soon overvalued exchange rates for domestic currencies supported by balanced state budgets and independent central banks. Only Albania received significant external funding but at the cost of economic dependence on Italy. Elsewhere, joint-stock investment and credit from private banks, whether domestic or foreign, had contributed to the late 1920s growth of small industrial sectors.

Then with the Great Depression, private bank funding retreated and some of the banks failed. The spread of accounting standards from central to commercial banks, the advance of agricultural banks, belatedly founded except in Bulgaria, and the survival of active stock markets provided some financial deepening to aid the limited recovery of the later 1930s. So did the rise in budget revenue from direct taxation. But European monetary stability disintegrated from deflation into competitive devaluations away from the gold exchange standard. In Southeastern Europe, its devaluations encouraged the turn to the German clearing agreements for trade outside a standard exchange rate. Long infamous as instruments of Nazi economic penetration, significant German investment did not in fact follow. Instead, domestic military or West European mining investment provided support for limited industrial recovery. State leverage over central banks and the agricultural or new savings banks also grew as joint stock commercial or universal banks retreated. The League of Nations Financial Committee kept its leverage but without the politically independent domestic partners that had appeared only briefly in the National Bank of Bulgaria and the new Bank of Greece in the late 1920s. The region stood little chance by the 1930s of returning to an international monetary standard with a leading role for private, bank-led investment. Then the Second World War swept away a set of financial systems whose European aspirations would emerge again after 1989. So would their struggles with international oversight.

Bibliographic Essay

Recent scholarship on the financial and bank history of Southeastern Europe now joins the substantial publication from the pre-1989 decades. This earlier work covered the entire period from the mid-nineteenth century to start of the Second World War, but concentrated on the pre-1914 emergence of investment banking on the German pattern as well as the spread of financial institutions on the Anglo-French pattern. Influencing US, British and West European approaches were works by Alexander Gerschenkron on investment banks and by Raymond Goldsmith on financial deepening into money and stock markets. Gerschenkron saw entrepreneurial investment on the pattern of the German Great Banks as a substitute for Goldsmith's deeper, English style financial market. Both institutional frameworks had proved successful in mobilizing the capital for the sustained industrial growth presumed essential to modern economic development. The Marxist framework applied everywhere in the region, except Greece, also focused after 1945 on capital as essential to modern industry.

This scholarship pursued the start of the money-goods relationship and earliest signs of the industrial investment needed to employ a politically conscious working class. Useful financial history emerged from this concentration on capitalist origins, as in the work of Danica Milić on the early money-goods relationship in Serbia, and in research from Bulgaria's Liuben Berov and Romania's N. N. Constantinescu on the role of domestic fiscal policy and foreign banking across the entire period.

Since 1989, regional and European/US attention has turned away from banking and industry of the pre-1914 period to interwar monetary policy and related problems. New research has addressed domestic central banks and the makeup of the money supply, foreign exchange rates and the gold standard, and the role of international loans, debt and oversight. Starting with Barry Eichengreen's work (1992) on the difficult British experience with reviving the prewar gold standard in the 1920s, the wider European experience with an expanded standard including hard currency reserves to its abandonment in the 1930s has received considerable attention. For our region, articles assembled by Patrice Baubeau and Anders Ogren (eds) in *Convergence and Divergence of National Financial Systems. Evidence from the Gold Standards, 1871–1971* (London 2010) include Kalina Dimitrova and Luca Fantacci, *The Establishment of the Gold Standard in Southeastern Europe. Convergence to a New System or Divergence from an Old One?*, 179–196. The same authors concentrate on the Bulgarian experience in *Monetary Policy in Southeastern Europe on the Road to the Gold Standard* in Anders Ögren and Lars Fredrik Øksendal (eds), *The Gold Standard Peripheries. Monetary Policy, Adjustment and Flexibility in a Global Setting* (London, 2010), 174–187.

The chapter above draws heavily on a new volume of analysis prepared by teams of specialists from the region. Their combined chapters, including extensive statistical appendices, have been published by a group of their central banks, *South-Eastern European Monetary and Economic Statistics from the Nineteenth Century to World War II* (Athens et al. 2014). After an introductory overview by Matthias Morys, chapters on Austria-Hungary and the Ottoman Empire are followed by ones on Greece, Bulgaria, Romania, Serbia/Yugoslavia, Albania, and Turkey. Still relevant for reference in the chapter above is the earlier analysis and statistical tables in John R. Lampe and Marvin R. Jackson, *Balkan Economic History, 1550–1950, From Imperial Borderlands to developing Nations* (Bloomington/Ind. 1982). Its financial history includes state banks, budgets and borrowings, but pays considerable attention to the role of private investment banking as emphasized by Gershenkron.

This emphasis continues in publication on Habsburg economic history from the same period, starting with the study of the Austrian Great Bank, the Credit-Anstalt in Eduard März, *Österreichische Industrie- und Bankpolitik in der Zeit Franz Josephs I. Am Beispiel der k.k. priv. Österreichischen Credit-Anstalt für Handel und Gewerbe* (Vienna, Frankfurt, Zürich 1968) and the full Volume I on economic development in Alois Brusatti (ed.), *Die Habsburgermonarchie, 1848–1918, vol. 1: Die wirtschaftliche Entwicklung* (Vienna 1973). The range of such Central European scholarship is summarized in David F. Good, *The Economic Rise of the Habsburg Monarchy, 1750–1914* (Cambridge 1984). Representing the recent Austrian turn to central bank and international monetary history is Clemens Jobst, Market Leader.

The Austro-Hungarian Bank and the Making of Foreign Exchange Intervention, *European Review of Economic History* 13 (2009), 263–318.
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More detailed focus on international lending and debt appeared in R.[udolf] Nötel's lengthy chapter and statistical appendix in M.[ichael] C.[arles] 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). While the publication covers all of Cold War Eastern Europe, Greece is excluded, as in much of the pre-1989 economic historiography. After 1989, a series of conferences organized by the European Association for Banking History with the central banks of Hungary, Greece and Slovenia, generated three volumes with chapters from scholars from across the entire region and beyond. Their financial case studies, also ranging from Bulgaria, Croatia, Greece, Romania, Serbia, Slovenia and Yugoslavia to Central and Western Europe, are collected in Philip L. Cottrell (ed.), *Building the Financial System in Central and Eastern Europe, 1918–1994* (1997), Kostas P. Kostis (ed.), *Modern Banking the Balkans and West-European Capital in the Nineteenth and Twentieth Centuries* (1999) and Edwin Green, John R. Lampe and Franjo Štiblar (eds), *Crisis and Renewal in Twentieth Century Banking. Exploring the History and Archives of Banking at Times of Political and Social Stress* (2004), all published by Ashgate in Aldershot, UK.
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First World War, a summary of findings in the multi-authored study of the Bulgarian state debt in Daniel Vačkov and Martin Ivanov, *Istorija na vănšnija dăržaven dălg na Bălgarija 1878–1990,* vol. 2: *Bălgarskijat vănšen dălg meždu dvete svetovni vojni* (Sofia 2009) may also be found in Adam Tooze and Martin Ivanov, Disciplining the "Black Sheep of the Balkans". Financial Supervision and Sovereignty in Bulgaria, 1902–38, *The Economic History Review* 64 (2011), no. 1, 30–51. Drawing on the extensive archives of the National Bank of Bulgaria are not only the three-volume work of Rumen Avramov, *Komunalnijat kapitalizăm. Iz bălgarskoto stopansko minalo,* vol. 1–3 (Sofia 2007) but also the bank's own history in English and Bulgarian, *The Bulgarian National Bank and its Role in Bulgarian Economic Development 1879–2009,* (Sofia 2009).
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Zitierempfehlung und Nutzungsbedingungen für diesen Artikel

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