ROUTLEDGE REVIVALS

Modern Banking in the Balkans and West European Capital in the Nineteenth and Twentieth Centuries

Edited by
Kostas P. Kostis

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Preface

This volume originated in the Athens conference on Modern Banking in the Balkans and West-European Capital, organized in January 1997 by the Hellenic Bank Association and the European Association for Banking History on the occasion of the 70th anniversary of the Hellenic Bank Association.

Some of the papers published here were presented at the conference, while others were written especially for this publication. I owe an important debt to all the volume's contributors, as well as to G. Alogoskoufis, Philip Cottrell, G. Dertilis, C. Holtfrerich, and Alice Teichova who, as commentators during the conference, greatly enriched its proceedings and results.

I would like also to thank Prof. Dr Manfred Pohl, Executive Member and Deputy Chairman of the European Association for Banking History, for his invaluable support in organizing the conference and the publishing of this volume, and Ms Emma Johnston for her assistance in coping with many practical problems. Many thanks are also due to Caroline Cornish for her help with the editing of this volume.

To John Manos, General Secretary of the Hellenic Bank Association, we owe the initial idea of the Athens conference; he supported the venture by all means at his disposal and, most especially, by his deep conviction that the history of banking is an integral part of banks' activities.

Finally, I would like to thank the Hellenic Bank Association and its President Th. Karatzas, Governor of the National Bank of Greece, for sponsoring the conference.

Kostas P. Kostis

Introduction

Kostas P. Kostis

> A specter is haunting Western culture – the specter of Balkans. All the powers have entered into a holy alliance to exorcise this specter: politicians and journalists, conservative academics and radical intellectuals, moralists of all kinds, gender, and fashion. Where is the adversarial group that has not been decried as 'Balkan' and 'balkanizing' by its opponents? Where the accused have not hurled back the branding reproach of 'balkanism'? (M. Todorova)[1]

In search of foes, as well as of fields in which to develop its crusading spirit, following the role it considers its own on the stage of international politics, the West was to discover, after the collapse of the so-called socialist regimes, with mixed feelings of fear, surprise and contempt, that the Balkans were still in place.

The 50 years that have elapsed since the Peninsula last appeared in the European scene as the 'Balkans' have been no more than an interlude in a long-term attempt to describe and understand this corner of Europe, which somehow failed to meet any of the stereotypes descriptive of 'the European'. The politically correct attempts to rename this world South-east Europe instead of the Balkans, in the hope that a change of name would bring about a change of reality, failed; the governments of the countries in this area continue to hold 'Inter-Balkan' conferences and its academic community still publishes 'Balkan studies', without shame.

Meanwhile, and following 1989, the West was to realize that the Balkans constituted yet another potential field of glory, since the newly formed states were in need of financial assistance in order to survive and of political counselling if they were, in turn, to benefit from the 'end of history'. An 'end of history', however, that was to prove closer to an apocalypse, as Bosnia and Albania demonstrate, than to the paradise promised by the advocates of neo-liberalism.

Nevertheless, there have been many attempts to find ways out of this predicament: international meetings have succeeded one another and many European and American projects have been suggested to help solve the political and financial problems of the area and to support the best ways to achieve Europeanization. In good faith, notwithstanding the political returns and economic benefits, the West, with its protean presence, has left no stone unturned in striving to banish from its borders a problem that irritates by its very refusal to be contained by its locale of birth.

In strategies for the economic recovery of the Balkan states, the banking factor is seen as, and undoubtedly is, fundamental. Most Balkan countries' economies are disorganized and the living standards are extremely low. Hopes of improvement are based on an influx of western capital and on a banking financing of the economy that will allow these countries' integration in the international labour division, benefiting from their comparative advantages, whatever these may be. Even in the case of the most developed of the Balkan countries, Greece, the problem remains the same: to meet the requirements for its participation in the European Economic and Monetary Union, the country needs foreign capital and the increasing number of West-European banks working in Greece shows that the interest in such ventures is mutual.

Taken as a whole, these are hardly new problems: almost a century ago, for Balkan countries struggling to survive in a world that was becoming increasingly competitive as it marched towards the First World War, foreign capital and West-European banks appeared to be the only means to ensure rapid modernization, seen, at the time, as the building of an elementary economic infrastructure and powerful armies.[2]

Things may be different today, but, just as one cannot imagine pre-First World War Balkan antagonisms without considering the oppositions of the banking groups of West-European countries, so one cannot understand actual Balkan reality without taking into consideration the choices implemented in the well-guarded offices of western banks in the Balkan capitals. This becomes obvious in countries like Greece, for example, where, while the policy of a 'strong' drachma constituted the cornerstone of the convergence policy of the country's governments towards the European Economic and Monetary Union, the pressure exercised by foreign banks and foreign capital movements has recently resulted in the abandonment of this policy and in the drachma's devaluation. The situation is far more critical for the other Balkan countries, where the economy is far from meeting even the elementary needs of their populations: the transition to a stable and modern financial system demands conditions that are unattainable without the contribution of foreign capital.[3] However, the latter does not seem very willing to assume such a role unless the Balkan governments adopt certain measures, which cannot easily be implemented owing to the domestic political situation.

This volume attempts to follow the role of western, and especially West-European, capital in the constitution of modern banking systems in Balkan countries and in the economic development of these countries. Its contents, which cover a wide range of subjects and sometimes express diverging opinions, can be seen to raise five kinds of issue, namely:

1. The extent to which West-European capital has penetrated the different Balkan countries.
2. The strategic choices of this capital regarding the banking sector.
3. The new techniques and ideas introduced or imposed by West-European banks.
4. The existence of an inter-Balkan integration facilitated by the penetration of West-European capital and the creation of inter-Balkan financial networks.
5. The impact of West-European banking on the economic development of the area.

The papers published here offer answers to almost all the questions and certainly raise new issues for discussion. Nevertheless, none of the contributions explicitly approaches a problem raised by the title of the volume, although all of them seem to deal with it with an astonishing conformity; the concept of modern banking is considered by all contributors as self-evident and thus requiring no definition or clarification.

There is no need to insist on this question. I only wish to point out that none of the papers deals with the pre-1860 period and I believe this is no coincidence. Modern banking in the Balkans emerged during the last decades of the nineteenth century and it has to be related to the increasing internationalization of the Balkan economies, one aspect of which is the increasing presence of West-European capital.[4]

I believe that an important turning point for the Balkan economies was the year 1863, when the Ottoman Imperial Bank was created by a group of English bankers to play the role of a bank of issue, but also to fulfill a key role in the penetration of West-European capital in the fertile and still unexploited territories of the Ottomans, which then included a great part of the Balkans.[5] As by then the financing of the imperial needs was in the hands of the Greek, Armenian and Jewish bankers of Istanbul[6] who, using West-European capital, realized high profits from the endless need of the Ottoman government for funds, the establishment of the Ottoman Imperial Bank marked the first efforts towards some kind of rationalization of the financial and monetary system. Although, in the short term, the Ottoman Imperial Bank's success in achieving this goal is doubtful, it nevertheless succeeded by its presence to introduce some rules of the game and if not to eliminate certainly to control, to a certain degree, the role of local bankers in Ottoman finances. In addition, new financial techniques, accompanying the public borrowing and the financing of public works, especially railroads, were introduced which very soon spread to all the Balkan states.[7]

The neutralization of the Black Sea and the internationalization of the Danube after the Treaty of Paris (1856) also contributed to the opening of the Balkan peninsula to West-European interests and began to render its markets attractive. From this point onwards changes in the banking reality of almost all the Balkan countries become more and more important and this is why I think we should keep the year 1863 as the starting point of our investigations. Although the same changes in some other Balkan areas came much later and at a slower pace than in the Ottoman Empire it seems that these changes were heavily dependent on the management of the public debt.[8]

However, if we take the 1860s as the upper limit of our chronological horizon, we should also add that the turning point of the banking sectors of the different Balkan countries, with the emergence of the 'new bank', comes later. This bank, with an extended branch network which tried to attract national savings and make them productive, made its appearance in the Greek case, for example, only in the last years of the nineteenth century and became an important factor in the economic life of the country, under the tutelage of French capital, in the first decades of the twentieth century.[9] And as far as I can judge from the studies published in this volume, this holds for the other Balkan countries too, national differences considered, of course.

By proposing a kind of periodization, I do not mean that we should deal with the Balkans as an entity. On the contrary, I strongly believe that such an entity has never existed and I doubt whether it will now. In his contribution (Chapter 11), Professor Lampe underlines the fact that 'Neither of two Yugoslavias formed during the twentieth century was able to integrate its previously disparate regions into a single, modern economy.'[10] If this holds for the separate countries, what could we say of the whole Peninsula? And what was the role played by banks and foreign capital? The Greek experience of the early twentieth century shows that the Greek banks, and especially the 'enfant gâté' of the French Haute Banque, the Bank of Athens, avoided investments in Greece and oriented themselves towards the Middle East, where the possibilities for high profits were greater than in Greece and the other Balkan countries.[10]

Of course, no one could deny the existence of a division of labour, even in an elementary form, in the Balkan regions occupied by the Ottoman Empire. But this reality breaks down, first with the creation of the Balkan national states and then with the penetration of West-European capital which disorganized the economies and, profiting from this, incorporated different areas into its orbit to various degrees. Professor Jacques Thobie has demonstrated in a way that leaves little margin for doubt the political and economic fragmentation caused by foreign capital in the Ottoman Empire in the early twentieth century.[11]

Some thirty years ago, Professor Ljuben Berov impressively mapped out all the intersecting West-European banking networks in the

Balkans.[12] This mapping merely showed, in my opinion, the sophisticated business methods used by the West-European bankers to make the Balkan economies dependent on western economies, not the existence of an inter-Balkan economic space, which could support the idea of elementary economic integration among the national economies of the area. On the contrary, the East-Mediterranean area, as Professor Hadziiossif demonstrates convincingly in his contribution (Chapter 9), formed a rather unified economic space with free movement of people and capital; however, this was so because the area was part of the Ottoman Empire.

The Balkans as an economic entity has never existed, unless during the period of Ottoman domination. Even the use of the word Balkans, with its pejorative connotations, appears with the penetration of West-European capital; the subsequent emergence of this world on the European horizon was treated sometimes with sympathy, sometimes with curiosity and most of the time with arrogance and contempt. Perhaps today, when the term Balkans carries, once more, the same connotations as in the early twentieth century, we could for the first time see some attempts towards an increasing economic cohesion in the Balkans. This view is built upon the increasing penetration of Greek banking and other enterprises in contiguous Balkan countries as well as on the timid intentions declared by some governments of the area. But the political rivalries, so intense in the area, convince me that all these efforts and good intentions cannot lead to the creation of a common Balkan destiny.

If it is true – as Ludwig von Mises, cited by Professor Lampe, states – that the socialist states of the Balkan peninsula broke down because of their inability to allocate capital rationally,[13] then it is just as true that none of the contemporary Balkan economies, whatever name we wish to give them, can allocate resources rationally either. The extreme example of Albania underlines this reality.[14] Besides, it would be a great mistake to ignore the fact that there is no pure sphere called economy, separated by a live-wire fence from the domain of politics. The history of the Balkans has made this sufficiently clear for anyone to argue that the foreign financing of the national economies was more a matter of bargaining between banks and ministries of foreign affairs than a purely economic transaction. H. Feis, a pioneer in the study of the political dimensions of European foreign investments, used to say of railway building in the Balkans: 'in such a world even the laying of a mile of track is an action disputed in a dozen Foreign Offices'.[15]

No doubt the relations between banks and ministries of foreign affairs were never simple and uniform, thus offering space for manoeuvre for national governments whenever competition between West-European states was revealed.[16] But as we approach the First World War these possibilities decrease and raising a loan in the international capital market becomes more and more a matter of foreign policy. Almost all the papers in this volume converge in emphasizing the importance of the political factor in foreign capital's penetration in the Balkan countries; Dr G. Kronenbitter's contribution (Chapter 10) in particular is invaluable in underlining this political-financial aspect of Balkan history in all its complexity.[17]

If we cannot find an economic entity called the Balkans, we should not forget that the economies of the Peninsula do have features in common. All of them are latecomers to economic development and they share common experiences. And if the direct presence of West-European banks varies according to the economy, their indirect presence is almost the same everywhere. The public debt and its administration for unproductive purposes constitutes a common element in their histories, in addition to the state bankruptcies, formal or informal, which, in turn, fostered the contempt of West Europeans for the people living in this part of Europe. Behind the public borrowing we can see the West-European banks and the high interest rates of public loans, which were 4 and 5 per cent higher than those of public loans in the so-called developed countries.[18] And a major part of these important sums was directed toward West-European industries for military orders, especially in the years which preceded the First World War.[19]

The capital exported by West-European countries to the Balkans before the First World War is estimated at 1 250 million dollars, a far from negligible sum.[20] We know, however, that the economic development of the Balkan countries did not profit proportionally to the possibilities offered by the influx of such a sum. What happened is very accurately described by H. Feis when he wrote of the public debt of Serbia: 'Any independent state can buy enough rope to hang itself, if it will pay enough.'[21] Only Romania among the pre-war Balkan countries avoided insolvency and foreign financial supervision, probably because of its oil industry which offered the possibility for a faster development and a more equilibrated foreign balance. All the other countries were forced, though in different ways and through different means, to submit to the limitation of their sovereignty by some kind of international financial control: the Ottoman Empire in 1881, Greece in 1893, Serbia in 1896 and Bulgaria in 1902.

Modern banking in the Balkan countries, with the possible exception of Romania, undoubtedly emerged through the management of their public debt; it is thus undeniable that the so-called modernization of the banking sector in the Balkans owes a lot to West-European capital. Professor Edhem Eldem's contribution (Chapter 3) supports this view for the Ottoman Empire and the role played in it by the Ottoman Imperial Bank and Dr A. Kostov (Chapter 4) is of the same opinion for the Bulgarian banking system. We could add the example of the inter-war period when the re-incorporation of Bulgaria, Greece, Romania and Yugoslavia in the international capital markets required them to reorganize their central banks according to contemporary central banking standards defined by the experts of the Financial Committee of the League of Nations and representatives of the West-European central banks.[22] In my opinion, however, all these examples underscore the fact that modernization is not an inherent element of Balkan societies and economies: it occurs under pressure from the international environment and cannot be considered identical to economic development. M. Palairet's recent book on the economic development of some Balkan countries during the nineteenth century emphasizes the economic stagnation observed during the institutional transformation of these countries following West-European standards.[23]

But if we agree, with some reservations of course, on the modernizing role of West-European capital, we should immediately add that the cost of this modernization was extremely high and for this reason weighed heavily on the economic development of the area. This is not a moral issue but one of the contradictions common to all the states of the Balkan peninsula, a contradiction that has now become evident.

If the activity of West–European banking in the financing of public debt is well known and more or less uniform for all Balkan countries, its capacity to penetrate Balkan economies directly, that is by creating branches or subsidiaries, varied according to the resistance and the power of the domestic financial and social structures. Christian Bichi's contribution (Chapter 2) emphasizes this point by presenting the social conflicts aroused by the competition between foreign and domestic investors for the creation of a bank of issue in nineteenth-century Romania. And the strategies of the West-European banks were adapted to these realities. In some cases, the weight of the West-European banks in a country's banking sector was important as in the cases of Romania and the Ottoman Empire. In other cases it was, at least in terms of percentages, minor, as in Greece. In the latter, the appearance of the Banque de l'Union Parisienne was realized only in a period when the National Bank of Greece's position was weak, because of the employment of the major part of its assets in public loans, which thus left space for the activities of other banking institutions.[24] And, of course, the Greek economy held no particular interest for French capital. However, a Greek bank was always a very efficient tool for West-European penetration into areas inhabited by orthodox populations such as the Middle East and the Ottoman Empire. We could make the same observation concerning the attitude of the German banks and the non-Muslim bankers of the Ottoman Empire in order to underscore the extreme adaptability of the West-European banks in their efforts to conquer the market.

This adaptability is extremely well described by Professor Giannitsis in his paper on the changing nature of the internationalization of the postwar Greek financial system (Chapter 8). In some cases the penetration of foreign banks in the Balkan economies met with strong resistance, and unpredictable results: the efforts of the foreign banks, first American then West European, to establish branches in Greece in the 1960s were very badly received by the Greek banks. The final result of the negotiations between domestic and foreign banks and governments was the near elimination of competition between the two groups of banks, with the foreign banks working in conditions of high profitability offering their services to the foreign enterprises working in Greece, and the domestic banks keeping their positions in the domestic market more or less unchallenged and continuing to profit from their high oligopolistic structure.[25]

In contrast to these different forms which the West-European banks adopted in order to establish themselves in South-east Europe, their attitudes towards direct investments were uniform. According to some estimates, the West-European capital invested in Serbian industry before the First World War did not exceed 3–5 per cent of government loans. Of this low percentage, 5–6 million dollars were invested in copper and iron-ore mines and in the logging of chemical industries. In Bulgaria and Greece the situation was much the same, except that there were no profitable mines to invest in; in the Ottoman Empire at the end of 1913 direct investments in industry represented £3 959 000 while the total presence of foreign capital is estimated at some £216 505 000.[26] Romania was the sole exception because of its oil industry which was very attractive to foreign investors. It seems that pre-war Romania profited from this advantage to achieve a more rapid industrialization than that of the other Balkan countries.[27] The situation during the 1920s seemed to have changed, as Table 1 shows us, but not in ways that would indicate any particular interest of West-European capital in investing in the industrial sectors of the Balkan countries.

In all these cases, West-European banks or their domestic agents showed a natural preference for monopolistic situations which could guarantee them high profits and low risks. An example of this attitude was the financing of the railways. The impact of railways on national economies was unexpected. Railway construction was quite independent of the economies' overall level of development: this is clear for the Greek and Ottoman/Turkish cases, but it is true also for Serbia and

Table 0.1 Distribution of foreign capital in the Balkan countries according to occupation, late 1920s (percentage)

Country	Public finances	Trade	Banking	Insurances	Public works	Industry	Other
Yugoslavia	67.7	3.3	6.4	0.1	1.9	20.2	0.4
Romania	74.6	0.8	1.8	0.3	0.8	22.1	0.2
Bulgaria	82.6	2.0	2.8	0.1	—	12.2	0.3
Greece	70.7	7.7	7.1	—	7.3	3.5	3.5
Turkey	54.0	3.0	7.2	4.0	23.0	5.0	3.8

Source: L. Berov, 'Le capital financier occidental et les pays Balkaniques pendant les années vingt', *Etudes balkaniques*, 2–3, 1965, p. 142.

Bulgaria whose core railway system was the famous Berlin–Bagdad line built to support the German Drang nach Osten.[28]

The Balkan economies today face up to almost the same kinds of problem, in a far more difficult context than before the First World War: I am not among the optimists and I do not believe that the presence of West-European banks, even in the case of Greece which has the advantage of belonging to the European Union, ensures the achievement of the economic targets of every country. Especially in periods of crisis, their presence tends to be very disturbing for the maintenance of the sensitive equilibrium of balances of payments. The Greek example of the last years and the failure of the strong drachma policy is indicative. Fortunately, most of us are historians and we are not under any obligation to propose economic policy measures. But I believe that everybody would agree, and all the contributions indicate it in their own ways, that the relation of West-European capital and banking with the Balkan countries has been extremely ambiguous. Although its presence was identified with periods of economic development, it is at the same time very doubtful whether West-European capital supported or obstructed such development.

Notes

1. M. Todorova, *Imagining the Balkans*, New York and Oxford: Oxford University Press, 1997, p. 3.
2. J.R. Lampe and M.R. Jackson, *Balkan Economic History, 1550–1950. From Imperial Borderlands to Developing Nations*, Bloomington, Ind.: Indiana University Press, 1982, pp. 159 ff.
3. R.W. Anderson and Ch. Kegel, *Transition Banking. Financial Develop-*

ment of Central and Eastern Europe, Oxford: Clarendon Press, 1998, pp. 1–30.

4. I.T. Berendt and G. Ranki, *The European Periphery and Industrialization, 1780–1914*, Cambridge: Cambridge University Press, 1982, p. 101. The same phenomenon can be seen in the major changes observed during the same period in West-European banking structures, R. Cameron, *La France et le développement économique de l'Europe, 1800–1914*, Paris: Seuil, 1971 (1st American edition 1961); D. Landes, 'Vieille banque et banque nouvelle: La Révolution Financière du dix-neuvième siècle', *Revue d'Histoire Moderne et Contemporaine*, 3, 1956, pp. 204–22.
5. On the Ottoman Imperial Bank see the most recent publication of A. Autheman, *La Banque Impériale Ottomane*, Paris, 1996.
6. On the role played by Greek bankers of Istanbul and the influence of the Ottoman Imperial Bank on their activities see H.A. Exertzoglou, 'Greek banking in Constantinople, 1850–1881', thesis submitted for a Ph.D. degree, King's College, London University, 1986.
7. Cameron, op. cit., pp. 169–71.
8. For reasons of accuracy we should add that the first joint-stock bank was established in the Ionian islands, then under British protectorate, in 1839. Two years later the National Bank of Greece was created to assume the role of a bank of issue for the Greek Kingdom. The Ionian Bank was a purely English bank and part of the share capital of the National Bank of Greece belonged to West-European investors, although very soon, when the fashion of philhellenism was extinguished, they pulled out of participation in the bank.
9. K. Kostis, V. Tsokopoulos, *The Banks in Greece, 1898–1928*, Athens, 1988, pp. 42–51 (in Greek).
10. The main reason for the collaboration between the Bank of Athens and the Banque de l'Union Parisienne was, according to the French Ambassador in Athens, the high yields of the Egyptian stock market, while the interest for doing business in Greece was very limited, see Kostis and Tsokopoulos, op. cit., p.135. See also the remarks made by J. Bouvier, *Un siècle de banque française*, Paris: Hachette, 1973, pp. 235–6.
11. J. Thobie, *Intérêts et impérialisme français dans l'Empire Ottoman (1895–1914)*, Paris 1977, pp. 704ff.
12. L. Berov, 'Le capital financier occidental et les pays Balkaniques pendant les années vingt', *Etudes balkaniques*, 2–3, 1965, pp.139–69.
13. J.R. Lampe, p. 186, this volume.
14. The first foreign banks, for example, which hastened to establish branches in Albania after the collapse of the communist regime were suspected of money laundering as well as those that arrived in the country later, see M. Vickers and J. Pettifer, *Albania. From Anarchy to a Balkan Identity*, London: Hurst and Co., 1997, p. 240. The same phenomenon is also observed in other countries.
15. H. Feis, *Europe. The World's Banker 1870–1914. An Account of European Foreign Investment and the Connection of World Finance with Diplomacy before the War*, New York and London, 1930, p. 293.
16. R. Poidevin, 'Les intérêts financiers français et allemands en Serbie de 1895 à 1914', *Revue historique*, 232, July–September 1964, pp. 49–66.
17. See also the contribution of A. Kostov, Chapter 4 in this volume.
18. See, for example, Kostov, op. cit.

19. According to one estimate, from 1879 to 1893 when Greece went bankrupt, the Greek state had borrowed 755 million francs which were approximately spent in the following way: 389 million for servicing the foreign debt, 121.7 million to pay off past debts, 100 million for war furnitures, 120 million for public works and 25 million for commissions, currency exchange differences, etc., see D. Georgiadès, *La Grèce économique et financière en 1893*, Paris, 1893.
20. Berendt and Ranki, op. cit., pp. 82–3.
21. Feis, op. cit., p. 263.
22. C. Evelpidis, *Les Etats Balkaniques. Etude comparée politique, sociale, économique et financière*, Paris, 1930, pp. 346–7 and A. Plessis and O. Feiertag, Chapter 13 in this volume. On the problem of modernization see also G. Pagoulatos, Chapter 6 in this volume.
23. M. Palairet, *The Balkan Economies c.1800–1914. Evolution without Development*, Cambridge: Cambridge University Press, 1997.
24. Kostis and Tsokopoulos, op. cit., pp. 37ff.
25. K. Kostis, *Collaboration and Competition. The 70 Years of the Hellenic Bank Association*, Athens, 1997, pp. 99ff. (in Greek).
26. S. Pamuk, *The Ottoman Empire and European Capitalism, 1820–1913. Trade, Investment and Production*, Cambridge: Cambridge University Press, 1987, p. 66.
27. Berendt and Ranki, op. cit.
28. L. Papagiannakis, *The Greek Railways (1882–1910). Geopolitical, Economic and Social Dimensions*, Athens, 1982 (in Greek); B.C. Gounaris, *Steam over Macedonia, 1870–1912. Socio-economic Change and the Railway Factor*, East European Monographs, New York: Columbia University Press, 1993; D. Quataert, 'The age of reforms, 1812–1914', in H. İnalcık and D. Quataert, *An Economic and Social History of the Ottoman Empire, 1300–1914*, Cambridge: Cambridge University Press, 1994, pp. 804–15; I.T. Berendt and G. Ranki, *Economic Development in East-Central Europe in the 19th and 20th Centuries*, New York and London: Columbia University Press, 1974, pp. 75–8.

PART I
National Experiences and West-European Capital

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CHAPTER ONE

Foreign Capital in the Bulgarian Banking System, 1878–1944–1997

Ljuben Berov

Before the First World War

The first steps taken by foreign capital to penetrate the credit relations of some Bulgarian regions took place on the eve of Bulgarian liberation from Turkish domination. The first bank actually to achieve this penetration was the Ottoman Bank. This bank, created by English-French capital, apart from its central office in Istanbul, also founded a branch in Plovdiv, a town in South Bulgaria, at the beginning of the 1870s. It was a branch operating with a maximum of 1–200 000 French francs, which at first financed the export trade in this region. From 1882 onwards it also began practising mortgage credit. After a temporary lull in its activities (1885–89), the Ottoman Bank created four new branches and two 'correspondents' offices', which usually had at their disposition 10–15 million francs, a capital mainly originating from their own resources. The activity of these branches by the end of the 1880s outmatched the scale of operations of the Bulgarian National Bank.[1] This development though did not last long, since during 1895–96 the Ottoman Bank after speculation with Turkish and South-African securities suffered great losses and therefore oriented itself towards liquidation, which was completed in 1899. That was, for Bulgaria, the first edifying example of a bank that collapsed because it deviated from its basic functions of financing and reimbursing, and occupied itself with speculation with securities.

Shortly after the founding of the first branch of the Ottoman Bank, many attempts were made to create banks with foreign capital in Bulgaria. Table 1.1 shows the attempts made in the years 1878–95.

These, though, were mere attempts. The first successful step, apart from the one by the Ottoman Bank, was taken in 1901 in Sofia, and was the founding of the Targovska banka (Commercial Bank) with Austro-Hungarian capital. Three branches were also founded in the country. In December 1905 the bank was renamed Banque Générale de Bulgarie, now having established five branches in the country, and possessing a share capital of only 2 million golden leva or golden francs. This capital was raised to 5 million leva in 1905.

Table 1.1 Attempts made to create banks with foreign capital in Bulgaria, 1878–95

Year	Capital
1878	Austrian
1880	German
1881	Banque de Paris et de Pays-Bas
1884	French and Russian
1889	French
1891	Austrian
1892	English, German and Russian
1895	Russian

A similar case was the founding of the Kreditna banka (Credit Bank) in Sofia, with German capital which mainly originated from shareholders of Diskonto Gesellschaft and the Bleichröder banking house. This German capital amounted initially to 3 million golden leva. Two branches were also established in the towns of Varna and Rousse.

The Balkanska banka (Balkan Bank) appeared in Sofia at the beginning of 1906, and also founded seven branches and agencies around the country. Its capital initially amounted to 3 million Bulgarian leva and was raised to 6 million leva during 1911. Its shareholders were mainly the Wiener Bankverein, the Crédit Anversois and the Banque de l'Union Parisienne.

The interest rate in Bulgaria at the time was two to three times higher than the interest rate in Western Europe. During that period the three large commercial banks with foreign capital in Sofia were able to profit from large credits granted by their central offices in Paris, Vienna, Berlin, Anvers, and so on. These credits surpassed by two to three times the amount of their own capital. Also, during 1911, three banks with a paid capital plus reserves of 15 million golden leva had in their disposal 52 million leva from local deposits and foreign credits. They accounted for a profit of 1.29 million francs, and distributed annual dividends of 5–8.5 per cent.

It should be mentioned here that up to 1912, the leva as the Bulgarian national currency, which contained 0.29g of gold, belonged to the Latin Monetary Union and was completely equal to the French golden franc which was the basic currency in Europe at the time. According to its actual purchasing power in 1911, the Bulgarian leva (or the French franc), equalled approximately 1.7 of today's US dollars.