



BANK OF GREECE  
EUROSYSTEM

# Working Paper

Banking performance in  
south-eastern Europe  
during the interwar period

Žarko Lazarević

SEEMHN

79

JULY 2008 KINKPAPERWORKKINKPAPERWORKKINKPAPERWORKKINKPAPERWORK

BANK OF GREECE  
Economic Research Department – Special Studies Division  
21, E. Venizelos Avenue  
GR-102 50 Athens  
Tel: +30210-320 3610  
Fax: +30210-320 2432

[www.bankofgreece.gr](http://www.bankofgreece.gr)

*Printed in Athens, Greece  
at the Bank of Greece Printing Works.  
All rights reserved. Reproduction for educational and non-commercial purposes is permitted provided  
that the source is acknowledged.*

ISSN 1109-6691

## Editorial

The South-Eastern European Monetary History Network (SEEMHN) is a community of financial historians, economists and statisticians, established in April 2006 at the initiation of the Bulgarian National Bank and the Bank of Greece. Its objective is to spread knowledge on the economic history of the region in the context of European experience with a specific focus on financial, monetary and banking history. The First and the Second Annual Conferences were held in Sofia (BNB) in 2006 and in Vienna (OeNB) in 2007. Additionally, the SEEMHN Data Collection Task Force aims at establishing a historical data base with 19<sup>th</sup> and 20<sup>th</sup> century financial and monetary data for countries in the region. A set of data has already been published as an annex to the 2007 conference proceedings, released by the OeNB (2008, Workshops, no 13).

On 13-14 March 2008, the Third Annual Conference was held in Athens, hosted by the Bank of Greece. The conference was dedicated to *Banking and Finance in South-Eastern Europe: Lessons of Historical Experience*. It was attended by representatives of the Albanian, Austrian, Belgian, Bulgarian, German, Greek, Romanian, Russian, Serbian and Turkish central banks, as well as participants from a number of universities and research institutions. Professor Michael Bordo delivered the key note speech on *Growing up to Financial Stability*. The participants presented, reviewed and assessed the experience of SE Europe with financial development, banking and central banking from a comparative and historical perspective.

The 4<sup>th</sup> Annual SEEMHN Conference will be hosted by the National Serbian Bank on 27<sup>th</sup> March 2009 in Belgrade. The topic of the Conference will be *Economic and Financial Stability in SE Europe in a Historical and Comparative Perspective*.

The papers presented at the 2008 SEEMHN Conference are being made available to a wider audience in the Working Paper Series of the Bank of Greece. Here we present the sixth of these papers, by Žarko Lazarević.

July, 2008

Sophia Lazaretou  
*SEEMHN Coordinator*  
*Member of the Scientific and Organizing Committee*



# **BANKING PERFORMANCE IN SOUTH-EASTERN EUROPE DURING THE INTERWAR PERIOD**

Žarko Lazarević  
Institute of Contemporary History

## **ABSTRACT**

In the framework of the broader political and economic development of the individual states on Balkan Peninsula the author has made the comparison between the performance of the banking sector in Yugoslavia, Romania, Greece and Bulgaria. The analysis was carried out on the sample of balance sheets for the most important joint stock banking companies in the respective countries in the years 1928 and 1929 which represent the peak of the activity and performance of banks in region. In the following years the whole region sank in the abyss of the Great Depression of the thirties when the issue of banking performance was considered on the different way. One of the common features of the banks in region is certainly the prevailing role of short-term resources and a huge imbalance in interest incomes and incomes from other bank transactions. This fact does not only testify to high margins and effective interest rates, but also to a limited portfolio in bank services and other transactions, which was the consequence of the social and economic environment that banks had to operate in.

*Keywords:* South-eastern Europe; Banks; Banking; Balance sheets.

*JEL classification:* G21; N24.

## **Correspondence:**

Žarko Lazarević  
Institute of Contemporary History  
Ljubljana, Slovenia  
*e-mail:* [zarko.lazarevic@inz.si](mailto:zarko.lazarevic@inz.si)



## **1. Introduction**

The subject defined in the title belongs to the area of a wider, long-term project entitled “The Banking Performance in Slovenia up to WWII in a European Context”. The fundamental purpose of this project is to show the business results of Slovene banking joint-stock companies in a European context. This way, we were planning to establish not only business results, but also the environment and conditions which lead to these results. The project has been carried out over two years and is now practically at its initial stage.

From a wider programme perspective, I would like to shed light on problems regarding the success of banking performance in individual states of South-eastern Europe and their interactive value relations. Through a comparative approach and in the cases of large or the most important banking joint-stock companies from the newly-established Yugoslavia, the substantially extended Romania as well as Greece and Bulgaria, I would like to present the preliminary results of the research on banking performance on the basis of financial statements. Unfortunately, the analysis did not include Albania, which was originally to be covered in the research, due to insufficient information. Before performing the analysis, it is necessary to present at least the basic distinctions of South-eastern Europe in the 1920s, since our analysis will be performed on the referential years of 1928 and 1929. This means we also have to ask the question about the general economic situation and especially the question about elementary development features in the banking of the countries in South-eastern Europe.

## **2. General economic condition of the region in the twenties**

The interwar period, which was the time of profound and turbulent changes for the states of South-eastern Europe, falls in two sections, which are different in their characteristics - the 1920s and 1930s. Herewith we shall focus on the 1920s, since this period is, after all, the period for which we are performing the analysis of banking performance.

At the end of WW I, the situation in the economy and politics in the Balkan Peninsula, and consequently also in social respect, was dramatic. The states had to

deal with material destruction, the organisation of economic processes inside the new ethnic-economic areas<sup>1</sup>, financial disorder, chronic budget deficits, inflation, problems with balances of payments with foreign countries, high rate of unemployment, high natural growth, agrarian reforms, political instability and inefficient state administrations, unbalanced economic structure, and great deficiency in consumer goods.

Problems were many, while on the other hand the possibilities and assets for overcoming the obstacles were extremely scarce. Moreover, during the 1920's, none of these countries experienced political stability, which was the prerequisite for economic and social development. After the war, they were more or less damaged in economic and social terms. With the exception of Bulgaria, which was troubled by reparations, Yugoslavia, Romania and Greece had to deal with the integration of their new territories in the common political and economic environment, which, when it came to Romania and Yugoslavia, introduced great tensions in the internal political situation due to their multi-ethnic structures.

In economic terms, these countries were at the verge of European economic modernisation processes, showing their agrarian character through the unbalanced property structure and agrarian over-population. It was obvious that small farms, which still had not entirely abandoned the autarkic principle of operation, were in the majority. Agrarian reforms, primarily as a political act, offered absolutely no contributions to market-oriented agriculture. Many times, the reforms were aimed against property owners of foreign nationalities, at least that was the case in Yugoslavia (against property owners of Hungarian and German nationality) and also in Romania, because of Transylvania. In Bulgaria and Greece, this issue was substantially less topical.

In the case of international exchange in the countries of South-eastern Europe, agricultural crops, which did not provide sufficient inflow of foreign assets for the stimulation of domestic non-agrarian sector, were prevalent. Dependence on foreign accumulation – foreign capital – was extensive, both in the area of industrial investments as well as the banking sector. Non-attachment to foreign capital centres of Vienna, Berlin, Paris, London or Rome was inevitable. The domestic financial

---

<sup>1</sup> Territorial expansion of Greece into Thrace and territorial expansion of Romania into Transylvania, as well as economic and political integration of multi-ethnic Yugoslav regions.



sector was a shallow, underdeveloped basin, while the role of foreign banks in national economies of the Balkans was more than substantial. The consequence of imbalance between the offer in capital and demand was non-proportionally high interest rates on national financial markets, which caused an excess in the financial flow from debtors to creditors, thus slowing down the already slow economic development even more.

To put it simply, we can say the countries of South-eastern Europe found themselves caught in some sort of a vicious circle. These countries by themselves did not have sufficient capital and, at the same time, it was hard for them to acquire foreign means of payment, since their export sector was normally a non-competitive one. In the first half of the 1920s, the agriculture failed to recover and did not provide a stable support. This way, there were no sufficient assets to finance the import of know-how and technology. The only remaining choice was the accumulation of debts or attracting foreign investment – however, these countries were limited even in this area. Their creditworthiness and interest in them showed by foreign investors were low. The readiness of investors to ignore the politically and socially unstable situation was, as always, also low.

After WWI, the East European countries thus shared the same need for industrialisation to avoid the imminent social problems. The pressure of overpopulated countryside was extensive, the door to immigration closed. All of these countries made efforts to develop agriculture in the direction of increased marketability and commercialisation in order to achieve, through export, the all too necessary financial assets needed for the import of consumer goods, and to acquire equipment for the planned industrialisation. This was almost a Sisyphean task, since agriculture, due to its weak points (structure, technology, tradition etc), was barely able to perform it. In most of these countries, the anti-capitalist ideology, which was the consequence of insufficient economic and social competitiveness in this region, embedded in the European environment, was socially relevant or, in other words, influential. For this reason it is only a small wonder that the principle of cooperatives, a wide economic-ideological mechanism, was on the increase in order to finally enable farmers and other participants in the small business sector to be able to follow the path of modernisation in economic and social foundations.

The improvement came only in the second half of the 1920s, after the economic and partly also political stabilisation was completed by the mid 1920s, and with a simultaneous economic growth in Western Europe. Then, a period of relative stability was followed in the second half of the 1920s. The agricultural sector was finally at least partly stabilised and the countries of South-eastern Europe even recorded improvement in the industrial area, which was the consequence of the following economic-nationalistic policies: hindering access to one's own market/protective customs policies, encouragement of domestic investments (also foreign investments in cooperation with domestic investors) as well as tax and financial benefits. Most of those countries experienced one of their first industrialisation waves and, in most cases, the leading sector in this process was the textile industry. The increase in economic growth was only one of the indicators. For a more balanced image, it is also necessary to include the growth of gross domestic product per capita. Here, the success was substantially smaller. This was partly due to a low starting point, which enabled high economic growth, and largely due to a great natural increase. The case of Romania even shows that, despite the rapid development in the late 1920s, the GDP per capita remained practically unchanged for the entire period of the 1920s.

To sum up, we can say that Eastern Europe was, prior to the great economic crisis, an underdeveloped and economically vulnerable region, despite its evident progress. The standard of living and agricultural and industrial efficiency were low. Although the strategy of economic nationalism was successful, enterprises were hardly competitive due to their substantially expensive manufacturing processes. The entire area was extremely sensitive to external impulses, since it largely depended on exporting to the west, mostly in agricultural crops, under relatively affordable prices. And in the opposite direction, the area depended on the import of capital. As long as this balance existed, South-eastern Europe was relatively well off.<sup>2</sup>

---

<sup>2</sup> Derek Aldcroft, *The European Economy 1914-2000*, Routledge, 2001, pp. ; John Lampe- Marvin Jackson, *Balkan Economic History, 1550 – 1950*, Indiana University Press, 1982, pp. 376-433.; Ivan Berend, *Decade of Crisis*, University of California Press, 1998, pp. 224-246; Alice Teichova, *Kleinstatten in der Spannungsfeld der Grossmachten*, Wien, 1988.

### **3. The features of the private banking sector**

Before moving on to the interpretation of comparative information from the balance sheets, we definitely have to take a quick yet closer look at the situation in the private banking system of the 1920s in the analysed states. From the first post-war years to the mid 1920s, all of the above-mentioned countries shared the same monetary instability with high or low inflation rates. In all these countries, the banking sector can be systematically divided into three groups showing both basic as well as historical-developmental characteristics of banking. Two fundamental motive powers for economic development in the interwar period were the state on one hand, and foreign capital on the other, which is already mentioned above. The state acted as a substitute for the insufficiently developed entrepreneurial environment and the insufficient accumulation of capital. For this reason, the role of the state in banking was, through national and quasi-national banking institutions, indispensable. Most of the time, the state provided long-term financing for agriculture as the most important sector, and encouraged industrialisation, while special mortgage banks with long-term loans were common.

As mentioned before, the countries of South-eastern Europe strongly depended on the inflow of foreign capital. However, this capital did not only flow to those countries through governmental arrangements, meaning the indirect loans or emissions of different issues and forms of government bonds, but also through a network of foreign private banks in South-eastern Europe. In all those states, foreign banks from West-European monetary capital held significant shares and made large investments in local economies, while industry was also an important factor. Their role became evident as their presence in the time of the great economic crisis – at the time when foreign banks were retreating to their parent establishments.

Foreign owned banks had the advantage over local banks, since they had the support of their parent banks, thus having access to more favourable sources of financing. In all respects, they definitely had an advantage over domestic private banks, which were, in accumulating their assets, normally relying on local inhabitants and entrepreneurs. Central banks, which fall into a completely different category, have been left out of this classification, despite the interwar period, when central banking in the East European countries was institutionally completely independent.

The central bank of Greece can be given as the most referential case (*Trapeza tis Ellados*, 1928).<sup>3</sup>

For banking, the 1920s were the years of progress and prosperity in terms of business. During the early post-war years, the rapid growth in the number of banks and the scope of business was typical of all referenced states. In Romania, the number increased by four, while the share capital and balance sheet totals increased ten or even twenty times by 1923 alone.<sup>4</sup> In Bulgaria, there were allegedly 31 times more banks prior to WWII than there had been prior to WWI.<sup>5</sup> Growth was also high in Greece<sup>6</sup> and Yugoslavia. It was not only the number of bank companies that were on the increase. Even more, it was the network of their subsidiaries that were on the rise, which included the widest classes of society in the mechanism of financial intermediation. Although banks had increased the intake of assets from the inhabitants, judging by the case in Greece, the structure was inadequate, since it was the case of small, short-term deposits.<sup>7</sup>

Besides, the networks of loan-granting cooperatives were also competition to domestic banking joint-stock companies when it came to the intake of savings, although they did not represent a serious threat to banking joint-stock companies. Slovenia was an exception, since loan-granting cooperatives collected most of the financial assets from the inhabitants out of all the monetary institutions.<sup>8</sup> The banking market was therefore competitive and functionally inter-complementary. The situation in Greece, where the bank *Ethniki Trapeza tis Ellados* had had a distinctive advantage, was the most extraordinary of all the countries in South-Eastern Europe. During the entire interwar period, this bank held an absolute monopoly, even in the loan market.<sup>9</sup> The major part of quantitative growth in banking was recorded in the first period. Later on came the period of the consolidation of banking sector. Namely, a number of

---

<sup>3</sup> Margarita Dritsas, The structure of the Greek commercial banking system 1840 - 1980. Handbook of the European Banks, 1994, pp. 491-532.

<sup>4</sup> Arnaldo Mauri - Claudia Gabriela Baicu, Storia della banca in Romania, Parte Prima. Working Paper n.18.2002 – luglio, Dipartimento di Economia Politica e Aziendale Università degli Studi di Milano.

<sup>5</sup> Ljuben Berov, Budgetary Policy, Money Supply and Banking in Bulgaria between the Wars. Charles H. Feinstein (ed.), Banking, Currency and Finance in Europe between the Wars, 1995, pp. 374-394.

<sup>6</sup> George B. Dertilis and Constantine Costis, Banking, Public Finance, and the Economy: Greece, 1919-1933. Charles H. Feinstein (ed.), Banking, Currency and Finance in Europe between the Wars, 1995, pp. 458-471.

<sup>7</sup> Žarko Lazarević – Jože Prinčič, Zgodovina slovenskega bančništva (History of Slovenian banks), 2000.

<sup>8</sup> Dritsas, op. cit.

<sup>9</sup> Lazarević –Prinčič, op. cit.

banks were not able to carry out the transition from monetary into the economic stability of the 2nd half of the 1920s. Malnourished in terms of capital and poorly managed, the banks were either liquidated through termination or taken over by more solid competitors.

In the 1920s, the prevailing banking model in the states of South-eastern Europe was copied from the model of German universal banks. In practice, this meant that banks were, through their business, uniting both the commercial-deposit and investment functions. In their investment function, domestic-owned banks were limited by the prevalence of short-term deposits, since these banks found it more difficult to change such deposits to long-term capital or industrial investments. Even in this area, foreign owned banks were at an advantage due to a more favourable structure of assets. The consequence of this type of business model was the so-called banking groups or banking consortiums, which included affiliated enterprises – banking joint-stock companies from different sectors.

#### **4. The way of comparison**

According to the systematic presentation of the environment and situation in South-eastern Europe banking in the 1920s, we can move on to the interpretation of the comparative analysis of success in banking performance. The direct comparison will be carried out for the periods of 1928 and 1929, since an adequate database supported by relevant supplements in reference to Greece is at this moment available only for these two periods. This type of database also provides roughly identical terminology and value bases for a comprehensive comparative valorisation and assessment on the level of individual institutions in financial intermediation.

The period selection of 1928 and 1929 was not accidental for another, equally important reason. This is the year when banking performance was still carried out under "normal" conditions, while at the same time it is the period when the economic activity reached its peak in all the states of South-eastern Europe. After this, the entire region succumbed to the great economic crisis, when the success in banking performance was shown in an entirely different light. Criteria of this success also changed. Namely, the existence of the private banking sector was under threat and the intervention of the state became an inevitable necessity.

The source of data for analysis was taken from the Compass magazine, which used to be published in Vienna, where the featured balance sheets of joint-stock companies for individual countries were, at least to some extent, organised by a common principle, which enables relevant comparison. The best quality data was published for Yugoslavia and Romania, where they could be seen in regular annual intervals over a longer period of time.<sup>10</sup> However, much greater difficulties emerge when it comes to other countries. Data about the situation in Bulgaria was taken from the Year 1930, where balance items of joint-stock companies from Yugoslavia, Bulgaria and Albania are presented in one place.<sup>11</sup> The part about Yugoslavia was sufficient, but there was practically no information regarding Albania. With the exception of the national bank, the information about Albania showed no published balance sheets of banking joint-stock companies. In the case of Bulgaria, only one, much narrowed selection of banking institutions was published, yet in such numbers that the relevancy of the referenced pattern was not questionable after all. It was possible to include Greece<sup>12</sup> only after the acquisition of balance sheets for most significant banks.<sup>13</sup>

After having studied the material that was collected, it was necessary to decide on individual elements for the comparison. The original idea was to bring the balance sheet data to a comparable level by converting it into relative ratios, which is enabled by the return-on-equity indices (ROE)<sup>14</sup>, net interest on the average balance sheet total<sup>15</sup>, margins in financial brokerage<sup>16</sup>, return on the bank's assets (ROA),<sup>17</sup> effective loan interest rates<sup>18</sup>, and effective loan interest rates for foreign assets<sup>19</sup> and assets on the average balance sheet total<sup>20</sup>.

---

<sup>10</sup> Compass, Finanzielles Jahrbuch 1930, Band Jugoslawien, Bulgarien, Albanien, Wien, 1930; Band Rumänien 1931, Wien, 1930.

<sup>11</sup> Compass, Finanzielles Jahrbuch 1930, Band Jugoslawien, Bulgarien, Albanien, Wien, 1930.

<sup>12</sup> Annuaire Statistique de la Grece 1930.

<sup>13</sup> Balance sheets for the Greek banks were kindly and generously submitted to me by colleagues Sophia Lazaretou and Martin Ivanov, for which I would like to express my gratitude.

<sup>14</sup> The revised net profit in one year/average amount of initial capital, reserves and net profit taken over from previous periods.

<sup>15</sup> The difference between interest incomes and interest payable/average balance sheet total

<sup>16</sup> Net interest and return on banking operation/average balance sheet total

<sup>17</sup> Net interest, return on banking operation, return on real-estate/average balance sheet total

<sup>18</sup> Interest incomes/average amount in return on investments

<sup>19</sup> Interest payable/average amount in foreign assets

<sup>20</sup> Administrative costs and salaries/average balance sheet total

The first attempts already showed that, due to differences in national accounting standards and the requirements classified by structure, a comparison in all categories would not be possible. The following categories were taken as the most undisputable - return on the bank's assets (ROA), return on equity (ROE) and costs. In addition to that, we have added a comparison in the amounts of remitted dividends. In itemising the balance sheets, we were interested in the structure of a bank's financial assets or, in other words, the relation between domestic and foreign assets as well as the structure of assets and liabilities in the balance sheet total.

The analysis was carried out on a certain pattern in banks for each state separately. The selection criteria were based on the amount of share capital and balance sheet totals, which was to provide relevance in the pattern. Moreover, we can also mention the fact that the structure of information enabled us to classify Yugoslavia in terms of regions. This way we will carry out a comparison on the level of a pattern banking joint-stock companies in Romania<sup>21</sup>, Bulgaria<sup>22</sup>, Greece<sup>23</sup> and Yugoslavia<sup>24</sup> or subsequent Yugoslav republics, which are today independent states (Slovenia<sup>25</sup>, Croatia<sup>26</sup>, Bosnia and Herzegovina<sup>27</sup>, Serbia<sup>28</sup>, Montenegro<sup>29</sup> and Macedonia<sup>30</sup>). The analysis of assets and liabilities in balance sheets will be performed with a regional classification for Yugoslavia.

The comparison will therefore be carried out on a limited segment of possible analytical assumptions. It will be done in line with the currently available database, which will continue to be supplemented in future, thus gaining relevance of future findings, and all its characteristics. At the moment, the analysis presented hereafter is certainly of a limited range. However, this analysis cannot be any different, since it only presents a fraction of the long-term research or preliminary results, on the basis of the current database. Nevertheless, it is certainly possible to establish some facts at this early stage. In the framework of defined limitations, these facts do not reflect all

---

<sup>21</sup> Balkanska banka (Balkanische bank), Banque Bulgare de Commerce (Bulgarische Handels bank), Banque Franco-Belge de Bulgarie, Banca Commerciale Italiana e Bulgara

<sup>22</sup> Banca Marmorosch, Blank & Co., Banca de Credit Roman, Banca de Scont a Romaniei, Banca Romaneasca

<sup>23</sup> Trapeza Athinion, Emboriki Trapeza, Ethniki Trapeza tis Ellados

<sup>24</sup> Jugoslovenska banka, Opšte jugoslovensko bankarsko društvo

<sup>25</sup> Ljubljanska kreditna banka

<sup>26</sup> Prva hrvatska štedionica, Hrvatska sveobča kreditna banka

<sup>27</sup> Srbska centralna privredna banka

<sup>28</sup> Beogradska trgovačka banka, Prometna banka

<sup>29</sup> Crnogorska banka

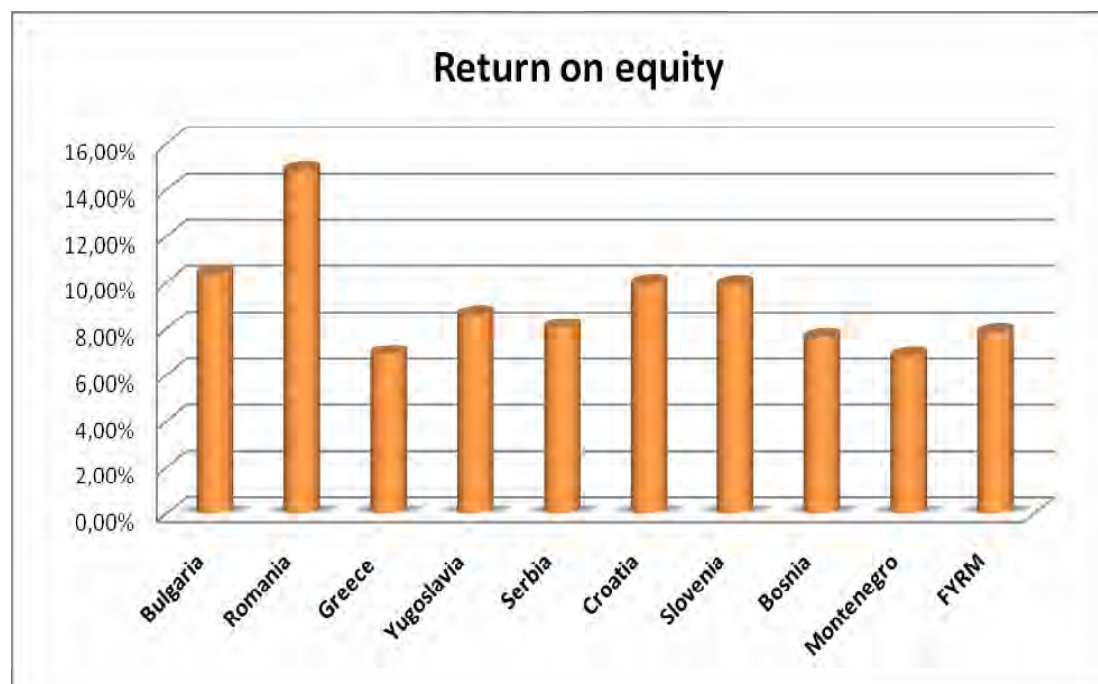
<sup>30</sup> Banka Stara Srbija

details, but they do present structural features and trends in the banking performance of South-eastern Europe at the end of the 1920s.

## 5. Banking performance

After presenting the basic questions regarding the contents and methodology, we can approach the interpretation of the acquired data. Let us approach the subject where the features of banking performance, and also the characteristics of the environment in which the banks were doing business, start to come out through the balance sheets. When we look at the issue of the return on equity (ROE), we can see that, in this category, Romanian banks, which had, for example, twice the return on equity ratio, if compared with Greek banks, strongly stand out. The Romanian banks were followed by Bulgarian banks whose profitability was lower by one third. On average, Yugoslav banks had a slight advantage over Greek banks, but many differences still existed amongst individual Yugoslav regions. When evaluating profitability, Slovene and Croatian banks were at the top. They substantially surpassed banks from other parts of Yugoslavia, which were below the Yugoslav average.

**Figure 1: Return on equity**

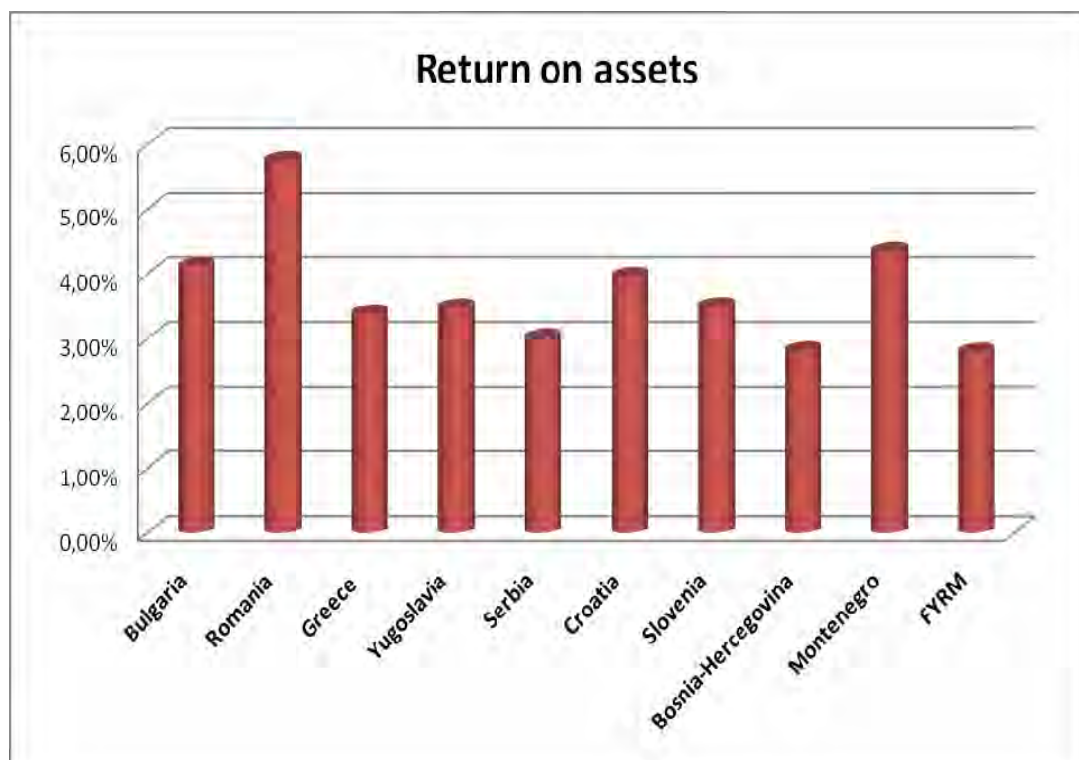


Source: Compass, Finanzielles Jahrbuch 1930, Band Jugoslavien, Bulgarien, Albanien, Wien, 1930; Band Rumänien 1931, Wien, 1930; Annuaire Statistique de la Grece 1930.



Evaluating the efficiency of banking performance through the element of the return on a bank's assets (ROA) does not change the established ratios – only the differences are no longer as obvious as they were in the case detailed in the previous section. It is no doubt that Romanian bankers were the most successful in introducing and performing bank services. In this respect, they were closely followed by their Bulgarian colleagues with a one third setback. All these facts undoubtedly testify to relatively high margins in financial brokerage and subsequently also effective interest rates in Romania and Bulgaria. If the Greek bankers in the previous category of return on equity still showed setback, in this case they were completely equal with the Yugoslav level. Within Yugoslavia, banks from Montenegro persuasively conquer the leading position, being followed by Croatian and Slovene banks.

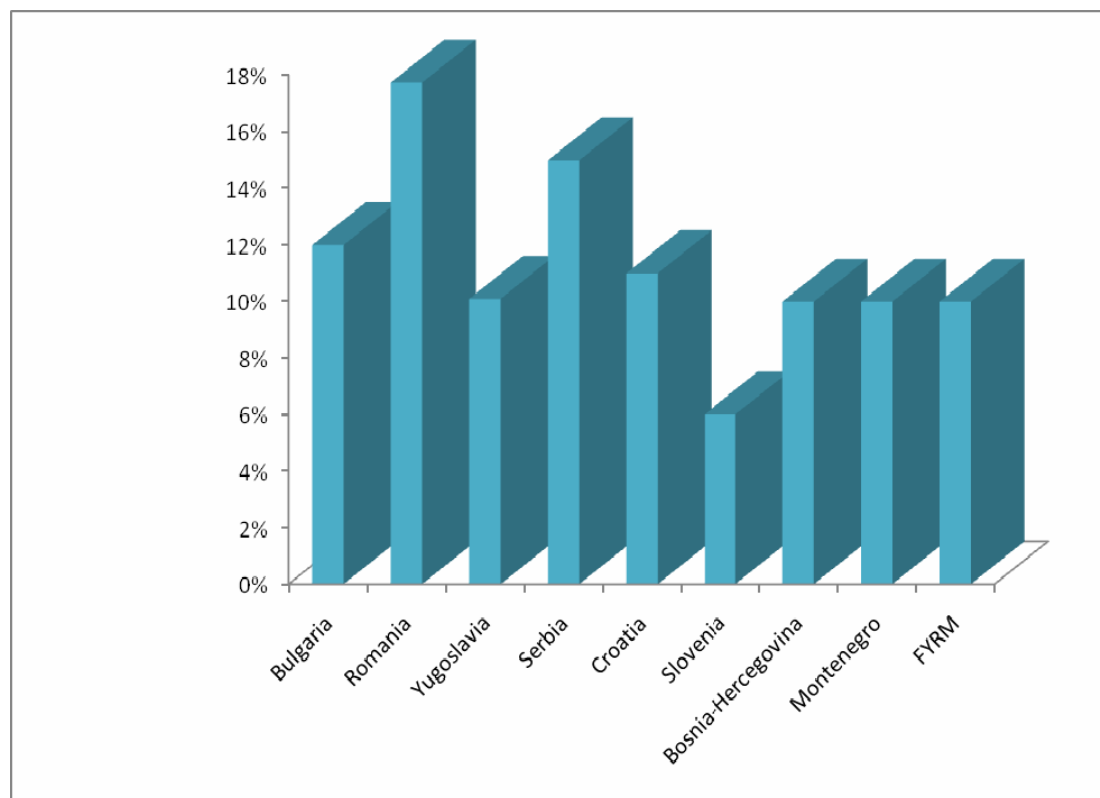
**Figure 2: Return on the bank's assets**



Source: Compass, Finanzielles Jahrbuch 1930, Band Jugoslavien, Bulgarien, Albanien, Wien, 1930; Band Rumänien 1931, Wien, 1930; Annuaire Statistique de la Grece 1930.

The possibility of paying dividends also depended on profitability. Thus we will only present the numerical rate of dividends and their ratios<sup>31</sup>. However, we won't be able to interpret them in terms of contents, since we are not familiar with the principles of business strategy in the referenced banks and decisions brought at each of the general shareholder's meetings. Similarly, we cannot claim that high profitability generates high dividends. This assumption is always being questioned. Namely, this assumption is made relative by the conduct of a substantial number of banks, where it is impossible to find the correlation between the amount in dividends and the rate of profitability. Romanian banks stand out in this case as well, having a distinct advantage over other banks, in which the level in Slovene banks is surprisingly low.

**Figure 3: The amount of paid dividends**

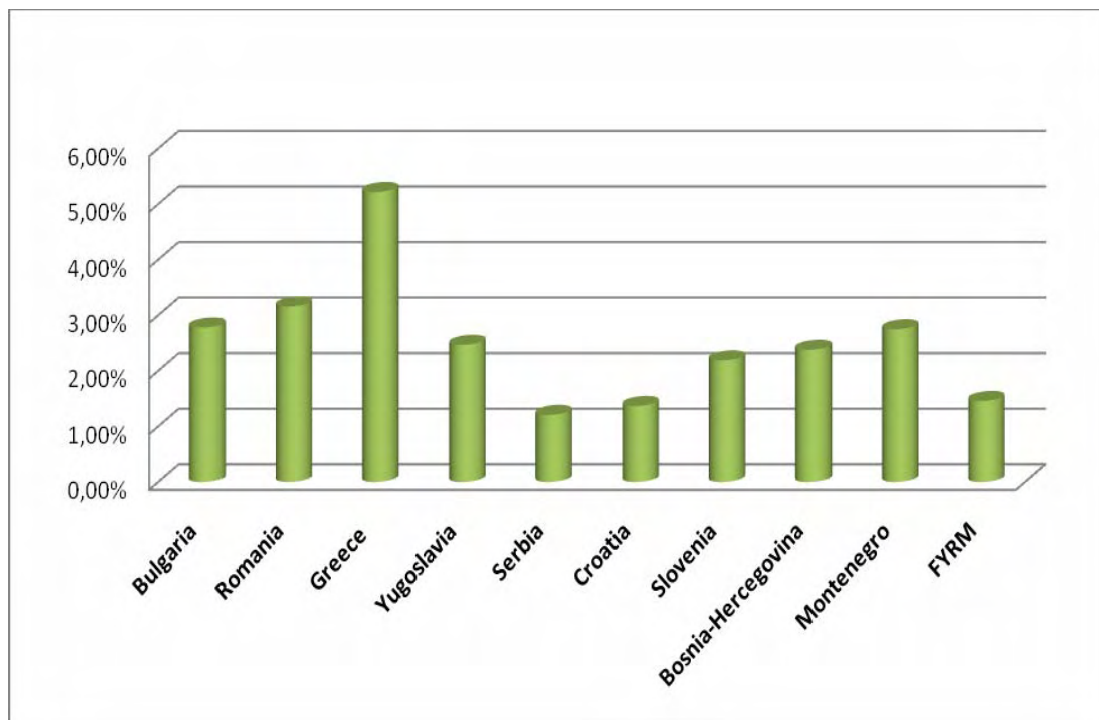


Source: Compass, Finanzielles Jahrbuch 1930, Band Jugoslawien, Bulgarien, Albanien, Wien, 1930; Band Rumänien 1931, Wien, 1930; Annuaire Statistique de la Grèce 1930.

<sup>31</sup> Unfortunately, this assumption cannot be given for Greek banks, since we have, for the time being, not been presented with referential data.

The established ratios can also be proved by the indicators of cost effectiveness – but in reversed order. It may be true that profitability in Romanian and Bulgarian banks was above average, but this profitability was reached through lower cost efficiency, comparing to the banks of other states in South-eastern Europe. It is certainly not too early to make an assumption that this was the consequence of higher margins in financial intermediation and consequently higher effective loan interest rates.

**Figure 4: Cost efficiency**

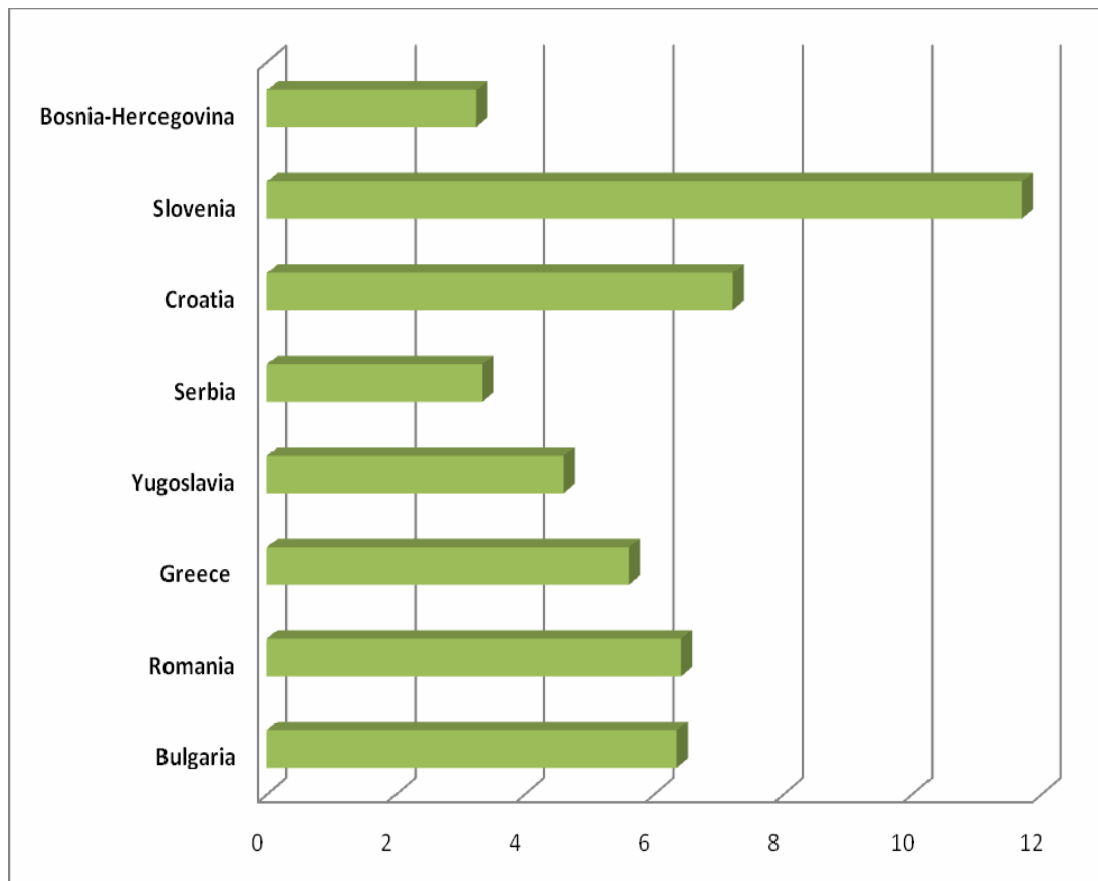


Source: Compass, Finanzielles Jahrbuch 1930, Band Jugoslawien, Bulgarien, Albanien, Wien, 1930; Band Rumänien 1931, Wien, 1930; Annuaire Statistique de la Grèce 1930.

The presented relation in the return on equity and bank assets as well as the amount of dividends was certainly also affected by the ratio between internal and foreign assets in the analysed banks. Here, the situation changes drastically. As it turns out, Slovene banks had by far the widest ratio – per one unit of their own assets they acquired more than eleven foreign units. Slovene banks were followed by Croatian banks with a two thirds setback. In Yugoslavia, banks from the eastern Yugoslav regions had relatively high shares in their own assets. The ratio in those parts of the state was between 1:3 or 1:4. In Romania, Bulgaria and Greece, the

situation was almost equal, with the ratio being around 16 times higher than the value of foreign assets per one unit of a bank's own assets. The high share in foreign assets in Croatia and, especially, in Slovenia was certainly the consequence of a thick network in all sorts of banking institutions, which covered the widest classes of citizens through their financial intermediation network.

**Figure 5: The ratio between foreign assets and assets possessed by the banks**

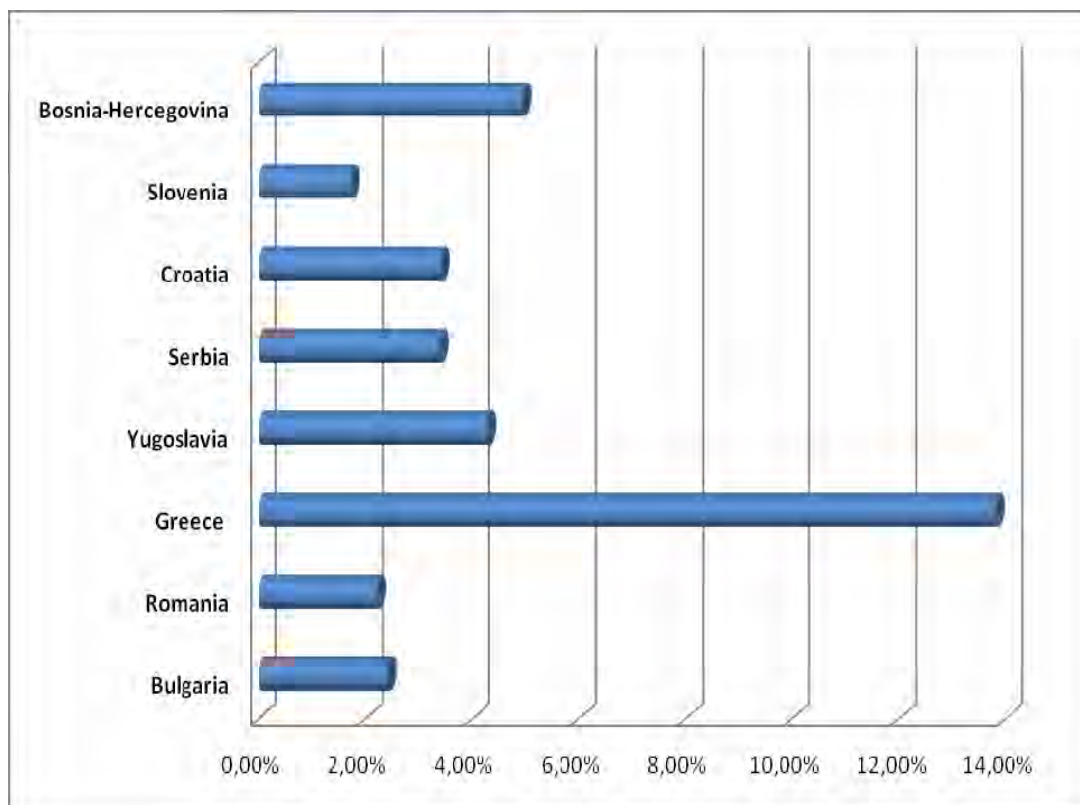


Source: Compass, Finanzielles Jahrbuch 1930, Band Jugoslawien, Bulgarien, Albanien, Wien, 1930; Band Rumänien 1931, Wien, 1930; Annuaire Statistique de la Grece 1930.

The profitability and costs in Greek banks, which were below and over average, certainly gets a clearer image by including both assets and liabilities from balance sheets in the analysis. Surprisingly, the balance sheets of Greek banks show a non-proportionally high relative shares in reserves. This is especially true when Greek banks are compared with banks from the remaining states. The average relative value of reserves in the balance sheets of Greek banks amounted to nearly 14%, which exceeded the Romanian and Bulgarian average 17 times. The mean value in

Yugoslavia was double the Bulgarian or Romanian mean value. This is mostly the result of a relatively high level of reserves in the banks of Bosnia and Herzegovina. By far the lowest level in reserves, which can also be proved by a great difference in the ratio between banks' own and foreign assets, was held by Slovene banks.

**Figure 6: The share of reserves in the balance sheet total**



Source: Compass, Finanzielles Jahrbuch 1930, Band Jugoslavien, Bulgarien, Albanien, Wien, 1930; Band Rumänien 1931, Wien, 1930; Annuaire Statistique de la Grece 1930.

An insight in the structural character of balance sheets reveals interesting details. Bulgarian banks collected most of the assets from local population, while the corporative sector and other forms of asset acquisition, such as rediscount, and represented a substantially lower contribution to assets. The situation in Greece was similar. However, this cannot be said about Romanian banks. The intake of financial assets from the local population was relatively less important, since more assets were taken in at the corporative sector and through rediscount. Regarding these types of features, Yugoslavia united both the emphasised characteristics, but they were conditioned in terms of regional position. Banks in the western part of the state, those

in Slovenia, Bosnia and Herzegovina, and Croatia, were evenly acquiring assets both from the local population and through rediscount. In the south-eastern part of the state, the share of the local population in resources was high, yet the rediscount share was low, since the banks took in more short-term deposits on the correspondent accounts. The structure of financial resources shows a fact unfavourable for the entire region, namely that banks had mostly short-term resources to operate with.

The asset parts of the balance sheets also show an interesting situation, since they reveal substantial differences in the structure of the asset balance items. This way, banks for the eastern part of Yugoslavia are on a strong lead when it comes to operating through bills of exchange, as operation through bills of exchange in those parts of the state represented over as much as 40 % of investments. These were closely followed by Bulgarian banks, which had a one third share in the bills of exchange in balance sheet totals. A high share in the operation through bills of exchange, on the other hand, meant the share in direct crediting, if individuals or commercial establishment was lower, which consequently reduced the share of indirect shares in the capital of other enterprises. In this respect, Romania and Greece were closer to the western parts of Yugoslavia, where Slovenia, with a low share in bills-of-exchange operation, had a strong lead. The latter countries thus enjoyed a more balanced structure in investments, with direct crediting of commercial establishments through current account (correspondent accounts) being in the first place. In the case of banks from western Yugoslavia, one can also notice a relatively higher value in the share of direct ownership of other enterprises.

At the end, we can say that the analysed banks had primarily one thing in common and that is the fact that they both shared the same geographical area in the region of South-eastern Europe. However, a common pattern is nowhere to be found, although common patterns do exist in some segments of a certain shared feature. One of those features is certainly the prevailing role of short-term resources and a huge imbalance in interest incomes and incomes from other bank transactions. This fact does not only testify to high margins and effective interest rates, but also to a limited portfolio in bank services and other transactions, which was the consequence of the social and economic environment that banks had to operate in.

## References

Derek Aldcroft, (2006). *Europe's third world- the European periphery in the interwar years*, Aldershot.

Derek Aldcroft, (2001). *The European Economy 1914-2000*, Routledge.

Ivan Berend, (1998). *Decade of Crisis*, University of California Press.

Ljuben Berov, (1995). Budgetary Policy, Money Supply and Banking in Bulgaria between the Wars, in Charles H. Feinstein (ed.), *Banking, Currency and Finance in Europe between the Wars*, pp. 374-394.

N.N. Constantinescu (ed.), (1994), *Romania's Economic History*.

George B. Dertilis and Constantine Costis, (1995). Banking, Public Finance, and the Economy: Greece, 1919–1933, in Charles H. Feinstein (ed.), *Banking, Currency and Finance in Europe between the Wars*, pp. 458-471.

Margarita Dritsas, (1994). The structure of the Greek commercial banking system 1840 – 1980, *Handbook of the European Banks*, pp. 491-532.

The Economic History of Eastern Europe 1919 – 1975, Clarendon Press, 1986.

Robert Gerwarth (ed.) (2007). *Twisted Path. Europe 1914-1945*, Oxford University Press.

John Lampe- Marvin Jackson, (1982). *Balkan Economic History, 1550–1950*, Indiana University Press.

Arnaldo Mauri - Claudia Gabriela Baicu, (2002), *Storia della banca in Romania, Parte Prima. Working Paper n.18.*– luglio, Dipartimento di Economia Politica e Aziendale. Università degli Studi di Milano.

Žarko Lazarević – Jože Prinčič, (2000). *Zgodovina slovenskega bančništva* (History of Slovenian banks).

Joseph Rothschild, (1998), *East Central Europe between the Two World Wars*, University of Washington Press.

Alice Teichova, (1988). *Kleinstatten in der Spannungsfeld der Grossmaechten*, Wien.

David Turnock, (2006). *The Economy of East Central Europe 1815-1989*, Routledge.

Markus Wien, (2007). *Markt und Modernisierung*, Oldenburg Verlag, München.





## BANK OF GREECE WORKING PAPERS

51. Brissimis, S. N. and T. S. Kosma, "Market Conduct, Price Interdependence and Exchange Rate Pass-Through", December 2006.
52. Anastasatos, T. G. and I. R. Davidson, "How Homogenous are Currency Crises? A Panel Study Using Multiple Response Models", December, 2006.
53. Angelopoulou, E. and H. D. Gibson, "The Balance Sheet Channel of Monetary Policy Transmission: Evidence from the UK", January, 2007.
54. Brissimis, S. N. and M. D. Delis, "Identification of a Loan Supply Function: A Cross-Country Test for the Existence of a Bank Lending Channel", January, 2007.
55. Angelopoulou, E., "The Narrative Approach for the Identification of Monetary Policy Shocks in a Small Open Economy", February, 2007.
56. Sideris, D. A., "Foreign Exchange Intervention and Equilibrium Real Exchange Rates", February 2007.
57. Hondroyiannis, G., P.A.V.B. Swamy and G. S. Tavlas, "The New Keynesian Phillips Curve and Lagged Inflation: A Case of Spurious Correlation?", March 2007.
58. Brissimis, S. N. and T. Vlassopoulos, "The Interaction between Mortgage Financing and Housing Prices in Greece", March 2007.
59. Mylonidis, N. and D. Sideris, "Home Bias and Purchasing Power Parity: Evidence from the G-7 Countries", April 2007.
60. Petroulas, P., "Short-Term Capital Flows and Growth in Developed and Emerging Markets", May 2007.
61. Hall, S. G., G. Hondroyiannis, P.A.V.B. Swamy and G. S. Tavlas, "A Portfolio Balance Approach to Euro-area Money Demand in a Time-Varying Environment", October 2007.
62. Brissimis, S. N. and I. Skotida, "Optimal Monetary Policy in the Euro Area in the Presence of Heterogeneity", November 2007.
63. Gibson, H. D. and J. Malley, "The Contribution of Sector Productivity Differentials to Inflation in Greece", November 2007.
64. Sideris, D., "Wagner's Law in 19<sup>th</sup> Century Greece: A Cointegration and Causality Analysis", November 2007.
65. Kalyvitis, S. and I. Skotida, "Some Empirical Evidence on the Effects of U.S. Monetary Policy Shocks on Cross Exchange Rates", January 2008.

66. Sideris, D., “Real Exchange Rates over a Century: The Case of Drachma/Sterling Rate”, January 2008.
67. Petroulas, P. and S. G. Hall, “Spatial Interdependencies of FDI Locations: A Lessening of the Tyranny of Distance?”, February 2008.
68. Matsaganis, M., T. Mitrakos and P. Tsakloglou, “Modelling Household Expenditure on Health Care in Greece”, March 2008.
69. Athanasoglou, P. P. and I. C. Bardaka, “Price and Non-Price Competitiveness of Exports of Manufactures”, April 2008.
70. Tavlas, G., “The Benefits and Costs of Monetary Union in Southern Africa: A Critical Survey of the Literature”, April 2008.
71. Chronis, P. and A. Strantzalou, “Monetary and Fiscal Policy Interaction: What is the Role of the Transaction Cost of the Tax System in Stabilisation Policies?”, May 2008.
72. Balfoussia, H., “An Affine Factor Model of the Greek Term Structure”, May 2008.
73. Brissimis, S. N., D. D. Delis and N. I Papanikolaou “Exploring the Nexus between Banking Sector Reform and Performance: Evidence from Newly Acceded EU Countries”, June 2008.
74. Bernholz, P., “Government Bankruptcy of Balkan Nations and their Consequences for Money and Inflation before 1914: A Comparative Analysis”, June 2008.
75. Oosterlinck, K. and U. R. Loredana “Multiple Potential Payers and Sovereign Bond Prices”, June 2008.
76. Kossev, K. D., “The Banking Sector and the Great Depression in Bulgaria, 1924-1938: Interlocking and Financial Sector Profitability”, June 2008.
77. Buyst, E. and I. Maes, “The Regulation and Supervision of the Belgian Financial System (1830-2005)”, June 2008.
78. Barisitz, S. “Banking Transformation (1989-2006) in Central and Eastern Europe – with Special Reference to Balkans”, June 2008.