

Popular banks in Bulgaria in the Interwar period (1918-1939): leading social institutions for economic development

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Abstract: *Social finance in Bulgaria emerged primarily from the long traditions of mutualism and solidarity among the Bulgarians and from the political and economic conditions in the country. The cooperative credit had a leading role in establishing Bulgaria's financial and economic system in the Interwar period (1918-1939). The popular banks became the most developed cooperative form in Bulgaria at the beginning of the 1930s.*

The main goal of the paper is to examine the development of popular banks in the Interwar period and their impact on the economy.

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Introduction

Cooperative banks in Europe have played an important role in the European banking system since the 19th century onwards. Most of them have increased their market share and position in the national financial systems. Bulgaria enjoyed a longstanding tradition in the cooperative movement, and particularly in cooperative banks, after the Liberation in 1878. These institutions had strong contribution to the development of the Bulgarian economy in the Interwar period (1919-1938). During the socialist governance they were controlled and nationalised by the state. For this reason, during the post-socialist transition to market economy, they were not active economic agents.

The Interwar period was characterised by an accelerated development of social finance. The cooperative banks provided the biggest amount of the total credit in the country and became a powerful means of social and economic progress. The popular banks had a leading role in the financial system in that period. This trend reflected the European experience and national economic and social specificity.

The main goal of the paper is to analyse the development of popular banks and their role in setting up a modern financial system and promoting economic growth during the Interwar period.

The first part of the paper focuses on the evolution of cooperative credit institutions in Bulgarian towns in a historical perspective. The second part examines popular banks' impact on economic development. The third section of this paper presents the attempt to make a periodization and theoretical interpretation of their proliferation with regard to the political regimes and the respective regulations imposed on the cooperative movement.

1. Birth and evolution of the cooperative credit institutions in the Bulgarian cities

Providing mutual aid and showing solidarity is a characteristic feature of the Bulgarian psychological makeup. During the Ottoman period, the main forms of collective labour in the towns were bands and guilds (*esnafi*). These guilds emerged in the 16th century in different places across the world (Bucher 1901 [1893]). The guild was a craftsmen association representing specific artisanry during the Ottoman period. It was a social and economic organisation which existed in the 18th and 19th century and it gained official recognition by

virtue of a sultan's firman in 1773. The guilds aimed at abolishing the competition amongst producers from the same craft and protecting their interests. They organised the delivery of raw materials or the resale of goods in order to support the competitiveness of the Bulgarian producers. Unlike the credit cooperatives in the villages, a limited number of people participated in the urban forms of mutual aid and that is why their economic importance was insignificant. The urban mutual credit associations were the predecessor of the cooperative credit in the cities before the Liberation³. The first urban mutual credit association was "*Bratsko zaematelno druhestvo*" in Panagyurishte. This association was established in 1871. It attracted savings and the annual interest rate it offered was 6%. It provided loans at 8% annual interest rate. The association functioned until 1876 when the money was given to the rebels in Panagyurishte who took part in fight for the Bulgarian Liberation. Some authors consider that this association represented the first cooperative in Bulgaria (Kanev 1943).

Before the Liberation, the Bulgarian artisans faced significant difficulties in reaching big markets of craft products in the Ottoman Empire. After the Liberation, their production was subject to the strong competition of the imports coming from Europe. The development of transport and communications led to the establishment of new economic areas and changes in the craft centres. Some crafts faded away and new artisans emerged that were rapidly mushrooming in the villages. The first craft cooperative in Bulgaria was established in 1895. It was a producer's cooperative. This was the Progress [*Napredak*] sewing association in Gabrovo. It contributed to raising its members' qualification level and to reducing production costs.

The cooperative credit primarily emerged in the Bulgarian villages in the late 19th century. The first rural credit cooperative was established in 1890 in the village of Mirkovo, Pirdop district. It was also the first cooperative on the Balkan Peninsula created on the principles of saving and credit associations of Raiffeisen. The urban cooperative credit developed after the

³ Bulgarian state was established in the seventh century in the heart of the Balkan Peninsula. The Bulgarian territories remained part of the Ottoman Empire from 1396 to 1878, when at the termination of the Russo-Turkish war Bulgaria once more emerged as a national state. In 1885 by means of coup-d'état, Bulgaria effected the fusion between the autonomous principality and Eastern Rumelia, which were separated by the Treaty of Berlin. In 1908 Bulgaria declared herself a fully independent state. During 1885-1912 Bulgaria laid the foundations of a modern state, with parliamentary government, a system of education, a well-organized army, and the basic economic facilities of statehood (Pasvolsky 1930, Iaranoff 1919).

beginning of the 20th century. Before the establishment of the first popular bank in 1903, the craft credit was concentrated at the Bulgarian National Bank (BNB)⁴.

Table 1. Craft credit provided by the Bulgarian National Bank, m leva.

| Year | Total loans |
|------|-------------|
| 1890 | 0.3 |
| 1892 | 0.3 |
| 1894 | 1.6 |
| 1896 | 0.4 |
| 1898 | 0.6 |
| 1900 | 0.2 |
| 1902 | 0.2 |
| 1904 | 0.3 |
| 1906 | 0.4 |
| 1908 | 1.0 |
| 1910 | 1.5 |
| 1912 | 2.2 |

Data were obtained by Kurklisiyski (1941).

The loans provided by the BNB to craftsmen represented a very small amount of the total credit the bank extended (about 1%). The reasons were to be found in artisans' inability of repay their debts, and in the small number of bigger craft enterprises that needed financing in the country. After 1911 the BNB stopped direct financing of craftsmen and that became the purpose of the newly established state-run bank - the Bulgarian Central and Cooperative Bank (BCCB) in 1910. The Bulgarian Central Cooperative Bank was set up in order to promote, develop and control cooperatives, to satisfy their demand for credit, to support craft production and cooperative insurance. The bank was granted the rights of control and supervision over its member cooperatives. It performed all types of bank operations. It assisted collective purchases and sales of its members. The initial capital of the BCCB was 50 m leva, provided by the Bulgarian Agricultural Bank and the BNB as well as by share payments of cooperatives (Central Cooperative Union 1986).

At the beginning, the BCCB did not have sufficient funds in place to meet cooperatives' demands because of Bulgaria's participation in the Balkan wars and in the First World War later on. Thus the bank did not play an important role in the national economy.

⁴ The Bulgarian National bank was established in 1879 as a state credit institution aiming at regulating trade and credit relations in the country. (Nedelchev 1940)

The first popular bank in Bulgaria was the Popular Bank of Sofia created under the guidance and upon the initiative of former BNB Governor Asen Ivanov. In drafting its statute, the bank drew on the popular bank in Milan and that in Menton, France. This comes to show that popular banks in Bulgaria developed on the experience of the credit cooperatives with limited liability in Italy (Palazov 2005 [1947]).

The Bulgarian popular banks appeared much later than those in Western Europe⁵ because of the poor development of urban crafts during the Ottoman period. The popular banks were established on the principles of mutual aid of their members, democracy and self-governance. They brought together mainly small artisans and tradesmen. These banks gradually became a powerful tool to combat money-lending and the shortage of capital among artisans who needed cheap and accessible credit. In 1910, the state started conducting an artisan-related policy by the adoption of the Law on organizing and supporting crafts.

Different social groups were represented in the popular banks. In the bigger cities they were dominated by tradesmen, industrial entrepreneurs, officials and, in the smaller cities and villages, by small tradesmen, rural rich men and artisans (Central Cooperative Union 1986). These social credit institutions served the interests and accordingly enjoyed the confidence of all the social strata and economic groups in the Bulgarian society.

Table 2. Cooperators in the popular banks at the Union of Popular Banks, (%)

| Cooperators | 1919 | 1920 | 1925 | 1930 | 1935 | 1937 | 1938 |
|-----------------------------|------|------|------|------|------|------|------|
| Farmers | 10 | 9 | 14 | 24.7 | 37.7 | 29 | 29 |
| Artisans and industrialists | 28 | 28 | 25 | 20.4 | 19.3 | 19 | 19 |
| Tradesmen | 24 | 28 | 21 | 15.9 | 11.8 | 11 | 11 |
| Liberal profession | .... | .... | 17.7 | 14.6 | 3.3 | 3 | 3 |
| Officials | 14 | 13 | 17 | 17.7 | 18.5 | 20 | 20 |
| Workers | .... | .... | ... | 6.1 | 5 | 5 | 5 |

Data were obtained by the Central State Archives, file 286K, archive unit 1, N71.

⁵ First credit cooperatives Schulze-Delitsch were established in Germany in 1850.

Just like the credit head offices and unions in Germany and other European countries, the Union of Popular Banks (UPB) was established in Bulgaria (1915). It was the oldest and most developed credit union in the country operating in the Interwar period. Its equity included the membership payments of each popular bank accounting for 10% of its equity capital together with 10% on the increase in the amount of each member's capital at the end of the year. Every popular bank or credit association with limited liability was entitled to membership in the union. Its members were obliged to: deposit their unused funds at the Union; apply for loans provided by other people or institutions only after an official approval by the Union; submit their tariffs and draft budget to the Union for review and opinion before the date of the General assembly. The Union performed the following main operations: provided loans to its members; borrowed money from other credit institutions; accepted savings by its members and third parties; transferred money throughout the country and abroad; audited and made investigations on its members.

Table 3. Popular banks, members of the Union of Popular Banks, number of cooperators, equity capital and funds, average capital and credit per member

| years | Number of popular banks | Number of cooperators | Capital, thousand leva | Funds ⁶ , thousand leva | Average amount of capital per member, leva | Average amount of credit per member, leva |
|-------|-------------------------|-----------------------|------------------------|------------------------------------|--|---|
| 1915 | 14 | 3 137 | 2184 | 396 | .... | .... |
| 1917 | ..... | .... | ..... | ..... | ..... | .... |
| 1919 | 49 | 21 600 | 14 549 | 800 | ..... | .... |
| 1921 | 61 | 33 321 | 38 869 | 2 816 | 1185 | .... |
| 1923 | 60 | 31 838 | 56 410 | 6 822 | 1766 | .... |
| 1925 | 83 | 45 704 | 127 670 | 20 278 | 2701 | 9105 |
| 1927 | 112 | 67 309 | 212 187 | 44 407 | 3152 | ..... |

⁶ Funds consisted of: reserve fund, cultural fund and allowances for depreciation.

| | | | | | | |
|------|-----|---------|---------|---------|------|--------|
| 1929 | 150 | 96 017 | 328 268 | 77 042 | 3429 | 11 790 |
| 1931 | 162 | 103 351 | 352 405 | 113 437 | 3411 | 11 492 |
| 1933 | 172 | 106 182 | 317 816 | 133 323 | 2994 | 9 657 |
| 1935 | 184 | 109 827 | 315 897 | 163 477 | 2888 | 6 610 |
| 1937 | 205 | 125 480 | 326 666 | 200 526 | 2620 | 6 140 |
| 1939 | 207 | 142 949 | 345 645 | 232 434 | 2424 | 9 054 |

Data were obtained by the Central State Archives, file 286K, archive unit 1, N71.

The equity of popular banks consisted of their members' payments and its borrowed capital covered savings and different loans provided by credit unions, state credit institutions and private money market. Each member of a popular bank was obliged to deposit a fixed minimum of shares. Each share amounted to 100 leva. A continuous and significant increase in equity capital and funds of popular banks after the WWI was observed. Similarly to the rural credit institutions, the goal of urban cooperative banks was not to gain profit but the provision of cheap and easily accessible credit for their members. The individual member's dividend was legally limited to a maximum of 8% after approval by all the cooperators. Unlike the rural credit cooperatives, the popular banks operated in a wide area.

The rapid development of popular banks began after the WWI when the need for mutual aid and solidarity increased because of the limited funding opportunities of economic agents and exhausted state resources. During that period, the Bulgarian Agricultural Bank (BAB) terminated individual lending to small tradesmen and artisans. This bank was the only state owned institution for financing the agriculture in the country at that time. In such a situation artisans and tradesmen were able to obtain more easily accessible loans directly from the popular banks. In 1918, there were 790 credit cooperatives in the country, 43 of them being popular banks and 738 rural credit cooperatives (CCU, 1986). An upward trend in the number of popular banks in the villages was registered. In many villages the popular banks encountered the competition of rural credit cooperatives.

Table 4. Number of popular banks in the cities and villages

| | 1924. | 1925 | 1926 | 1927 | 1928 | 1929 |
|----------|-------|------|------|------|------|------|
| Cities | 84 | 91 | 101 | 106 | 118 | 168 |
| Villages | 16 | 22 | 37 | 42 | 46 | --- |

Data were obtained by Sprostranov (1930).

After 1923, the BCCB established itself as a credit and supervisory institution only for the urban cooperative associations and the rural credit cooperatives borrowed money again from the BAB.

The number of popular banks was continuously rising after the mid 1920s. In 1925, there were 83 popular banks in the country, while in 1939 their number reached 207. The same trend was registered in the number of cooperators. In 1915, their number was 3,137, while in 1939 it soared to almost 143,000 members who represented about 20% of the whole Bulgarian population at that time.

In the beginning of the third decade of the 20th century the popular banks possessed almost 50% of the equity capital of the Bulgarian cooperatives though they represented about one eighth of all the cooperatives. Similarly to the rural agricultural cooperatives, the popular banks performed not only credit activities but also business operations (supporting the opening of shops and providing collective sales and delivery of products) (Palazov 2005 [1947]).

The popular banks provided financial aid mainly to craft cooperatives. The craft cooperatives were mostly represented in the following economic sectors: carpentry, furniture and shoemaking, smithery, tailoring, furriery, etc. They were divided into: producer cooperatives and cooperatives for collective delivery and sales. Their purpose was to contribute to the price regulation of artisan products and prevent excessive price increase.

In 1934, the BAB and BCCB merged into a new state owned bank (the Bulgarian Agricultural and Cooperative Bank, BACB). It opened branches in almost all the cities and its agencies operated in the bigger villages and smaller cities. The bank was under the control of the Agriculture Ministry and the minister had the right to appoint its governor. The governor and deputy governors were designated by a czar's ordinance and the administrators by the minister of agriculture with the approval of the prime minister. The main task of the BACB was to lend money and offer other measures to promote the development of agriculture, crafts, labour and all other forms of economic activity mainly to small and medium economic entities, mostly cooperatives, as well as to facilitate the exchange of their economic goods. Unlike its predecessor, the new bank was fully governed and controlled by the state. The participation of cooperatives in the bank's capital as well as the involvement of the congress of cooperatives was abolished. The bank's governing council had the right to perform temporary control over the

cooperatives' management and their operations and, if it found it necessary, to suspend it and to appoint a new council (Palazov 2005 [1947]).

The BACB had three lending departments for rural, urban and craft cooperatives. The bank performed also insurance activities: on cattle, against hailstorm and fire. It operated also as a saving institution. It had the right to lend money to municipalities, water syndicates, etc. The BACB was authorised to purchase agricultural tools, machines, seeds, composts, craft and inventory materials on behalf of and the expense of the central government and municipal institutions.

The BACB took the control over the cooperatives as it approved the establishment of new cooperatives before their registration by the local court. The bank became the main auditor of cooperatives and their unions and it had the right to issue a decree for deficiency of officials. It asked the regional court to wind up and to liquidate a cooperative or a union when it found that its interests or those of other creditors were at risk. Furthermore, it was entitled to take such action when the share capital was reduced to such an extent that the cooperative was not able to perform its tasks or when it performed an activity running counter to the mission of the cooperative movement. The bank had the right to wind up a cooperative upon its resolution in the following cases: when the cooperative united people who threatened national security; when it became harmful for the cooperative cause or jeopardized the property rights of its members; it was harmful or unuseful for the economy or the state. The bank appointed its own representatives in the cooperatives. It decided on the area in which a cooperative operated and, if there were more cooperatives in the same region, it had the right to order the merger or liquidation of some of them.

The BACB had the following rights on the financed cooperatives:

- i) They were not allowed to obtain loans from other people or institutions or deposit their surplus anywhere;
- ii) The bank had the right to suspend the loan of an incorrect cooperative at any time on its discretion and after a notice;
- iii) The appointment and dismissal of people who held management or accounting position was decided by the cooperative's governing council upon the bank's preliminary approval;
- iv) The cooperatives' budgets had to be approved by the bank.

In 1935 the law on bank deposits' control was adopted. It obliged the cooperatives to dispose of significant coverage of deposits in cash money that impeded their economic activity and urged them to borrow more from the BACB. The new bank turned into their main creditor. Furthermore, the cooperatives were treated as trade organisations per se, and were forced to become members and pay membership fees to the Trade union.

During 1934-1939, a second credit cooperative union was created as a rival of the Union of Popular Banks. That was the Union of National Cooperative Banks (UNCB). The UCB governing council comprised representatives of the ruling party whose policy favored the wealthier part of the population. Thus it was not accidental that the biggest and most financially stable popular banks such as that in Sofia, Varna, Pazardjik, Gabrovo, Pleven, and other towns, were members of the UCB. The union's capital was much smaller than that of the UCB, though in the period 1933-1939, it saw an almost fourfold increase.

Table 5. Capital of the Union of Cooperative Banks, the Union of National Cooperative Banks and the General Union of Popular Banks

| year | Union of Cooperative Banks | Union of National Cooperative Banks | General Union of Popular Banks |
|------|----------------------------|-------------------------------------|--------------------------------|
| 1919 | 50 050 | .... | .... |
| 1921 | 1 438 010 | ..... | ... |
| 1923 | 3 857 376 | ..... | ..... |
| 1925 | 8 560 470 | ..... | ..... |
| 1927 | 21 064 006 | ..... | ..... |
| 1929 | 34 152 000 | ..... | ..... |
| 1931 | 36 416 000 | ..... | ..... |
| 1933 | 33 943 000 | 2 832 000 | 39 775 000 |
| 1935 | 34 730 000 | 4 606 000 | 36 336 000 |
| 1937 | 36 385 000 | 6 163 000 | 42 548 000 |
| 1939 | 38 887 000 | 8 077 000 | 46 964 000 |

Data were obtained by the Central State Archives, file 286K, archive unit 1, N74.

The institutional competition between the two credit unions continued until their unification in the General Union of Popular Banks in the mid 1930s. The main goal was to

overcome opposition and to guarantee that accessible loans were extended to all popular banks in Bulgaria.

2. Activities of popular banks and economic development during the Interwar period

The period 1920-1938 was characterised by the intensive development of the Bulgarian financial system. The banks played the major role in it. In this regard the national financial system did not differ from those in the other European countries from the second half of the 19th century. The universal banking was a common feature of the financial systems in the Continental Europe in which banks accepted savings and provided short term and long term loans. The banks had a primordial role for the economic development. At the same time, in countries where capital was scarce and diffused, the government should act in order to redirect investments (Gerschenkron 1962). Universal banks were functioning as substitutes for preconditions of economic modernization in less developed countries (Sylla 2005).

Similarly to other European countries, the Bulgarian banking system developed rapidly from the beginning of the 20th century. In the very beginning of the century it was dominated by the three state banks - BNB, BAB and BCCB. Private banks practically were missing. The state cooperative banks (BAB, BCCB) together with the popular banks became the key saving institutions in the country. At the beginning of the second decade of the 20th century they accumulated between 20% and 30% of all deposits reaching up 60%-70% of their total amount in the mid 30s. The rise in the number of the Bulgarian population coincided with the increase in the amount of deposit per person. Furthermore, the savings rose sixfold during the period 1920-1938. The cooperative banks contributed strongly to the upward trend.

Table 6. Bank deposits, m leva.

| Years | BAB | BCCB | Popular banks | Total deposits | Population | Deposit per person, leva |
|-------|---------|-------|---------------|----------------|------------|--------------------------|
| 1920 | 375.4 | 28.2 | 55.2 | 2 155.7 | 4 825 400 | 446.7 |
| 1922 | 892.1 | 21.4 | 116.8 | 3 347.1 | 4 998 000 | 669.6 |
| 1924 | 1 660.8 | 69.9 | 287.0 | 5 456.3 | 5 206 300 | 1 048.0 |
| 1926 | 2157.1 | 94.9 | 551.8 | 7 002.1 | 4 423 400 | 1 291.1 |
| 1928 | 3398.6 | 220.2 | 1 195.6 | 11 377.0 | 5 593 200 | 2 034.0 |

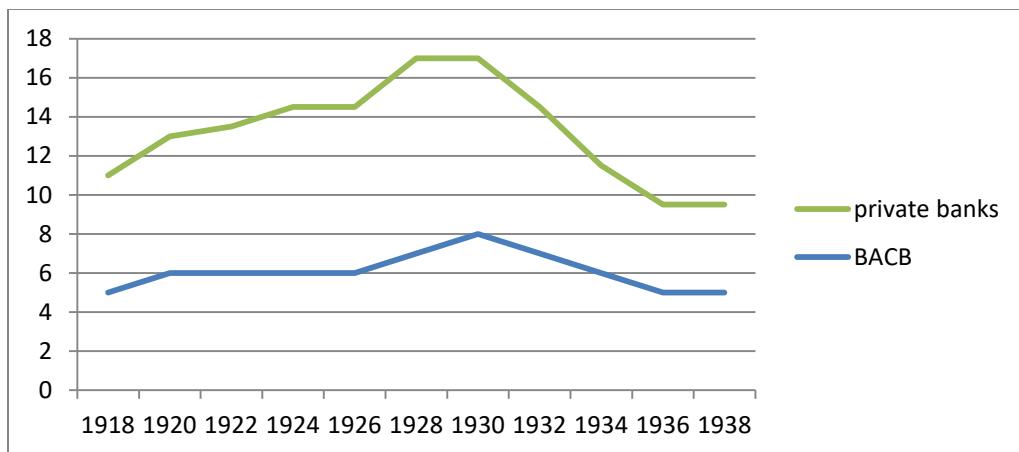
| | | | | | | |
|------|--------|-------|---------|----------|------------|---------|
| 1930 | 4176.8 | 307.6 | 1 695.7 | 12 067.6 | 5 750 800 | 2 098.4 |
| 1932 | 5292.6 | 391.4 | 2 075.7 | 11 756.5 | 5 911 800 | 1 988.6 |
| 1934 | 6580.8 | 905.3 | 2 156.1 | 12 920.2 | 6 038. 800 | 2 139.5 |
| 1936 | 7382.2 | -- | 2 458.9 | 13 256.3 | 6 197.500 | 2 139.0 |
| 1938 | 8 818 | -- | 3 098 | 15 754 | 6 270 000 | 2 477 |

Data were obtained by Palazov (1940).

Just before the outbreak of the WWII the deposits at the popular banks reached about 20% of the total amount in the country. The main reasons were that popular banks enjoyed trust and prestige among the Bulgarians.

The interest rate policy of the BCCB/BACB had an important role with regard to stimulating savings. The bank sustained relatively high interest rates on the deposits of individual and municipalities (7%), on those of cooperatives (5%), and orphans (7.5%), as well as on savings accounts (8.5%) (Central State Archives, file 289K, a.unit 3). The Bulgarians saved more money than before. The interest rates on deposits at BCCB/BACB were lower than those offered by the private banks in the country. Nevertheless the amount of attracted deposits by the BACB showed a rapid increase during the Interwar period.

Figure 1 Interest rates on deposits in the banks, %



Data were obtained by Chakalov (1962).

Cooperative banks were the sources of lending to the population. They provided more than 60% of total loans in the country. The amount of bank credit increased by more than 20 times, by far outstripping the increase in savings. The cooperative banks played the major role in the country's credit development. The cooperative credit was accessible to small tradesmen, farmers, artisans in comparison with that offered by the private banks. These social groups

became the main debtors of the BACB. The private banks pursued quite different interest rate policy. What is more, they entered into the national financial system at a later stage (after the WWI) compared to the cooperative banks. The private commercial credit was much more expensive (at an annual interest rate of 20-30%) than the cooperative credit (Sprostranov 1930).

Table 7. Bank loans, m leva

| Year | BAB | BCCB/BACB | Popular banks | Private banks | Total loans | Population | Loans per person, leva. |
|------|--------|-----------|---------------|---------------|--------------|------------|-------------------------|
| 1920 | 390.7 | 21.13 | ..... | ..... | ..... | 4 825 400 | ..... |
| 1922 | 1069.4 | 42.54 | .... | .... | .... | 4 998 000 | .... |
| 1924 | 1881.9 | 126.71 | ..... | .... | .... | 5 206 300 | .... |
| 1926 | 2483.6 | 156.77 | 817 | .... | .... | 4 423 400 | .... |
| 1928 | 3351.4 | 195.92 | 1536 | ..... | .... | 5 593 200 | .... |
| 1930 | 4694.1 | 316.66 | 1997 | 5782 | 12 789.66 | 5 750 800 | 2223.97 |
| 1932 | 5314.8 | 263.38 | 1487 | 4046 | 11 111.18 | 5 911 800 | 1879.49 |
| 1934 | 5518.6 | 318.68 | 2534 | 3343 | 11 714.28 | 6 038. 800 | 1939.83 |
| 1936 | .... | 5957 | 2744 | 3065 | 11766.0 | 6 197.500 | 1898.50 |
| 1938 | ..... | 6018.4 | 2980 | 3232 | 12230.4 | 6 270 000 | 1960.52 |

Data were obtained by Kurklisiiski (1941); Palazov (1940).

In the period 1920-1934 the BCCB provided almost 100% of the loans to popular banks and craft cooperatives. Significant changes in its lending policy started since 1934. The craft credit passed from state financing to social self-financing.

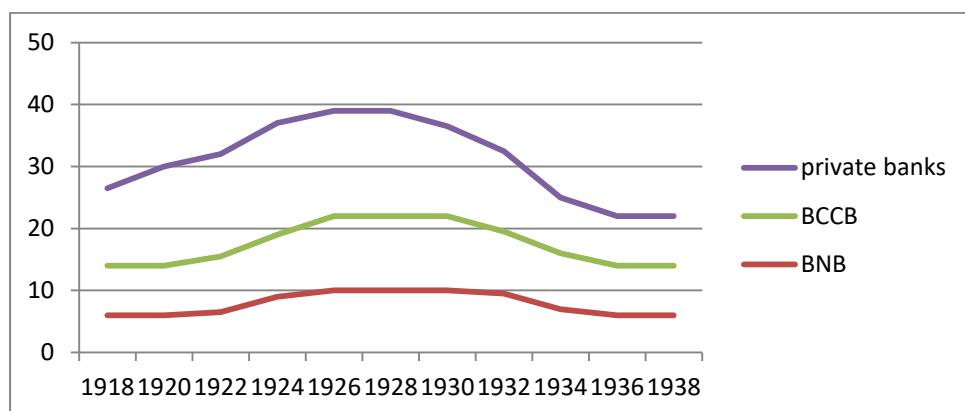
Table 8. Loans extended by the BCCB to craft cooperatives and popular banks, m leva.

| Years | Popular banks | Craft cooperatives |
|-------|---------------|--------------------|
| 1920 | 19.8 | 1.3 |
| 1922 | 37.1 | 5.4 |
| 1924 | 111.7 | 14.9 |
| 1926 | 115.3 | 41.5 |
| 1928 | 160.8 | 35.1 |
| 1930 | 262.9 | 53.7 |
| 1932 | 197.4 | 65.9 |
| 1934 | 257.9 | 60.7 |
| 1937 | 67.2 | 83.0 |
| 1939 | 55.0 | 121.9 |

Data were obtained by Kurklisiiski (1941).

The popular banks provided between 13% and 25% of total loans in the country in the period 1930-1938, thus encouraging the development of crafts and trade (including foreign trade) in the cities as well as in the villages. The loans extended by the popular banks bore the lowest interest rate, after that of the state banks. The BNB remained the only state institution that provided loans at the lowest interest rate during the period and it used differentiated rates for the popular and private banks. The interest rates on loans offered by the BCCB during the third decade of the 20th century were within the 7% - 12% range. The popular banks paid to BCCB an interest rate of 10% and obtained from their members an interest rate of 11-12% together with the commission of 2% stipulated by the law. Thus the interest rate reached about 15% on annual basis (BACB, file 289K).

Figure 2. Interest rates on loans provided by the BNB, BCCB and private banks, %



Data were obtained by Chakalov (1962).

Popular banks' capital showed a trend of continued rise, marking more than a threefold increase. In 1926, 817 m leva were extended as loans, and in 1938 their amount reached 2 980 m leva. The artisans' loans held a share between 14% and 32% of all the loans during the period.

Tradesmen and farmers owned the greatest part of the capital of the popular banks. All the social groups participated in the capital formation. At the beginning of the period, tradesmen owned the biggest part of share capital (35% of the total), while in 1939 the capital of tradesmen and farmers represented about 50% share in it. The artisans' share capital reached 18% before the outbreak of the WWII.

Bank financing played a crucial role in Bulgaria's economic development. This is revealed by the continued upward trend in bank lending, as well as by the growing share of agricultural output, industry and crafts in the gross domestic product (GDP) as well as in the per

capita GDP in the Interwar period. Gerschenkron's hypothesis was also applicable to Bulgaria (Sylla and Toniolo 1991). The Bulgarian industry underwent rapid development during the Interwar period. In the years between 1921 and 1929, the total volume index of the country's industrial production increased more than twofold (1921=100, 1929=209)⁷. This trend was mainly a result of the credit provided by the popular banks. These banks performed all the functions of the private banks in the country. At the start of the third decade of the 20th century, popular banks positioned themselves as the best developed cooperative institutions in Bulgaria. Unlike other countries, they were not only urban but rural institutions for social credit (Totomianz 1935).

Table 9. GDP and per capita GDP in Bulgaria

| Year | GDP at prices as from 1939, bn leva. | Agriculture, bn leva. | Industry and crafts, bn leva. | Trade, bnleva. | GDP per capita, leva. |
|------|--------------------------------------|-----------------------|-------------------------------|----------------|-----------------------|
| 1919 | 28.8 | 14.7 | 4.2 | 0.9 | 6002.6 |
| 1921 | 32.1 | 16.7 | 5.1 | 1.4 | 6495.5 |
| 1923 | 36.1 | 19.0 | 6.1 | 1.9 | 6998.2 |
| 1925 | 38.5 | 21.3 | 5.6 | 2.1 | 7165.8 |
| 1927 | 38.3 | 20.5 | 6.0 | 2.3 | 6892.2 |
| 1929 | 39.4 | 20.6 | 6.3 | 2.3 | 6909.8 |
| 1931 | 44.9 | 25.6 | 6.7 | 2.5 | 7675.8 |
| 1933 | 43.5 | 25.0 | 6.7 | 2.0 | 7253.3 |
| 1935 | 44.7 | 24.8 | 6.3 | 2.6 | 7294.3 |
| 1937 | 52.9 | 28.1 | 7.8 | 4.5 | 8498.1 |
| 1939 | 59.4 | 31.0 | 8.9 | 6.0 | 9405.1 |

Data were obtained by Ivanov (2012).

The expansion of the domestic market led to the industrial growth during the period⁸.

⁷ The Bulgarian economy was predominantly based on the light industries (food, tobacco and textile industry) (Berov 1989)

⁸ The domestic market developed as a result of the increase in rural income and nominal wages. Another factor was the decrease in the import of some industrial goods for mass consumption due to the rise in duties in 1926 as well as the BNB's protectionist policy. After the WWI, Bulgaria entered a stage of monetary and financial stabilisation. From 1918 the BNB restricted the allocation of foreign currency as a result of the introduction of a state monopoly on foreign currency trade (Nenovsky 2006)

The government established an Institute on Foreign Currency Trade that concentrated the inflow of foreign currency and aimed at curbing the volatility of the exchange rate. Nevertheless the Bulgarian lev was unstable and new measures for foreign exchange regulation were adopted. The Foreign Exchange Act was amended in 1923 and this granted the BNB monopolistic powers to trade on the foreign exchange market. An additional measure was introduced in 1929 when the Bulgarian lev was pegged to the dollar (139 leva=1 dollar) and the coverage of the banknote was determined to one third. Import restrictions were often imposed. The government increased the tariffs by 80% in the period 1926-1927 due to administrative interventions in the exchange rate (Nenovsky *et al.* 1997).

The rapid development of the industry and crafts in the Bulgarian towns in the Interwar period resulted in an sustainable increase in the purchasing power of the urban population. Meanwhile the opposite trend was observed in the villages.

Table 9. Money income and purchasing power of urban and rural population in Bulgaria, bln leva

| Year | Money income of rural population | Money income of urban population. | Purchasing power of rural population | Purchasing power of urban population |
|------|----------------------------------|-----------------------------------|--------------------------------------|--------------------------------------|
| 1926 | 12.5 | 19.8 | 12.7 | 20.4 |
| 1927 | 13.6 | 21.6 | 14.0 | 21.0 |
| 1928 | 13.9 | 22.9 | 13.5 | 21.6 |
| 1929 | 13.9 | 24.0 | 13.8 | 22.2 |
| 1930 | 11.5 | 21.5 | 12.5 | 21.7 |
| 1931 | 10.3 | 20.2 | 12.9 | 23.5 |
| 1932 | 7.8 | 19.3 | 10.7 | 24.4 |
| 1933 | 6.9 | 17.9 | 9.7 | 23.2 |
| 1934 | 7.2 | 17.0 | 10.4 | 24.6 |
| 1935 | 8.2 | 17.0 | 11.5 | 26.6 |

Data were obtained by the Statistical institute for economic research (1938).

The popular banks financed many social projects in the field of setting up the electricity grid and the water supply system, the construction of cooperative wineries, among other projects. (Sprostranov 1930).

The data above revealed the efficiency of the popular banks. There was a strong correlation between the activities of these financial institutions and Bulgaria's economic development of in the Interwar period. Through the decrease in information and transaction costs these banks had strong impact on savings, investment decisions and long-term growth. The relation between financial development and economic growth is very strong (Levine 1997).

3. Cooperative policy during the Interwar period

The Interwar period was "the time of the great change and transformations of the institutional forms" in the developed capitalist countries such as the United States, France, other European countries and Japan. It was characterised by the domination of the regime of intensive accumulation of capital without mass consumption (Boyer 2015). In this context, the cooperative movement in Europe enjoyed rapid development and expansion. The proliferation of cooperative

societies in different sectors and organisational forms was the natural result of different social groups's reaction (peasants, tradesmen, artisans, other) to the capitalist relations in the context of an increasing inequality and wealth distribution to a small part of the people. A typical example in this respect was France where the cooperative movement was in upsurge. The banks of the social economy increased their efficiency and their role in the national economy (even though they did not play the leading role in the country's banking sector). This was due to the legal (institutional) changes and the reinforcement of government intervention in the cooperative sector. The state interventions had a positive impact on the popular banks' financial health. Meanwhile these institutions were estranged by their nature - the banking mutual aid (*mutualisme bancaire*). This model of the cooperative banks' development may be referred to as the model of partial banking mutual aid (*semi-mutualiste*), considering that it could not possibly function without the state intervention (Gueslin 2002).

The Interwar period was marked by the accelerated development and establishment of capitalist relations in the Bulgarian economy. The Bulgarian peripheral capitalism had its specific features such as: the accelerated inflow of foreign capital in leading sectors of the economy; the lagging behind of the industrial production in comparison with the developed capitalist countries; the prevalent agrarian nature of the national economy. Unlike the industrially developed capitalist countries, Bulgaria remained a predominantly an agrarian state. More than two thirds of the national income was generated in the agriculture sector, and the people employed in the sector comprised about 80% of the active population. The small ownership and the primitive character of agriculture remained unchanged almost throughout the Interwar period.

The proliferation of the banks of the social economy in Bulgaria in the Interwar period was part of the boom in the cooperative movement in the country. In its role of key actor and regulator of the financial system, the government determined the trends of development in the cooperative banking sector. Government intervention aimed at controlling the savings, which was in turn an integral part of the financial centralisation and concentration was taking place in the country (Reis 2007).

On the basis of the different patterns of economic regulation during the the Interwar period, the following periodization of the cooperative banks' development in Bulgaria was made:

The first period covered the regime of the Bulgarian Agrarian National Union (BANU) (1919-1923) during which the power belonged to the peasants⁹. The most serious attempt to reform agriculture was made by the adoption of the Law on the increase of state lands (1920) and the Law on the functional property (1921). The cornerstone of BANU's agrarian policy was the concept of "property based on personal labour". Property based on personal labour was defined as a property that was directly used by its owners to meet their family's needs. The purpose of the law was to provide land to those who cultivated it, that is, to provide land to the landless people and small farmers (Berov 1989). The agrarian reform restricted the land property of a four-member family to thirty hectares. For bigger families, five hectares were provided to each individual. There was a legal provision whereby farm lands were to be cultivated only by family members. The owners who did not conform to this were entitled to the ownership of between four and ten hectares. The lands that exceeded the legally fixed size were expropriated. The expropriated lands were paid with interest-bearing bonds from the Bulgarian Agricultural Bank based on the average market price in the period 1905-1915. Furthermore a 10-percent discount was imposed on expropriated lands between ten and thirty hectares in size, and a 50-percent discount if the latter exceeded 200 hectares in size. A State Land Fund was established to provide land to the landless people and small farmers.

Similar to other countries, the political powers of peasants and small business was connected with the establishment of non-profit financial institutions such as saving banks and cooperative institutions supported by the state (Sylla 2005). The BANU encouraged the dissemination of consumer, producer and credit cooperatives, which in turn opened up opportunities to the Bulgarian small farmers to take the advantage of the technologies, market knowledge and economies of scale. The government's goal was to unite all Bulgarian farmers in a national cooperative network (Bell 1977). The most important measures taken by the government to develop the cooperative movement in the country were:

- It ordered the three state banks (BNB, BAB and BCCB) to relieve the terms and conditions for extending loans to cooperatives. The BAB granted loans primarily to farmers and rural cooperatives¹⁰. Thus the bank supported them in the fight against the

⁹ The leader of the Bulgarian Agrarian National Union, Alexander Stamboliisky argued that the political power should be in peasants' hands because they represented the biggest social group in Bulgaria (Bozhilov *et al.* 1998)

¹⁰ During this period, the BAB increased the number of its operations three times (from 2,5 m to 7,5 m) and their amount rose from 1,8 m leva to 18, 3 m leva.

exploitation of private capital. At the same time, the BCCB provided credit mostly to the urban cooperative communities and popular banks¹¹.

- The state established a national cooperative for grain sale - the Consortium for the export of crops. The purchase of crops from the producers became an exclusive right of rural cooperatives. The consortium was established in 1919 as an autonomous state-run enterprise financed by the BNB and BAB. In 1920 the Consortium became a state-run cooperative monopoly. It determined common and higher prices to the cereals. The gained profit was distributed as following: 60% of it among the farmers and 25% for the creation of grain-elevators and hoists.
- The government provided the internal migrants (farmers, mountain inhabitants, small and landless sergeants and soldiers) free timber and gave them free access to the Bulgarian state railways, while legally binding them to create cooperatives (Deyanova 1935).
- A progressive tax system was introduced for families, which in practice freed most farmers from taxation.
- The government stimulated the creation of fishing, forest and other labour cooperatives in the country.

The second period in the development of the cooperative movement and particularly the cooperative banks in Bulgaria lasted from the 9th of June 1923 until 1934. The state governance was based on the idea of the administered (controlled) economy in which the economic policy was aimed at stimulating production and arming (Tsankov 1942). The greatest defender of state control (etatism) was professor Alexander Tsankov who believed that the state should act as a director and officer and participate in the establishment and creation of a new social order (Encyclopedia, vol.1 2012). Together with Todor Vladigerov he was among the Bulgarian economists who were the strongest champions of the administered economy. Tsankov revised most of the measures of the agrarian reform of the BANU but strictly adhered to the principle of providing land to those who cultivated it. Alexander Tsankov (1879-1959) was among the most sophisticated leading figures during the 20th century in Bulgaria. He formed the first government after the coup of the 9th of June 1923 when the BANU regime was broken up. (Nedev 2015). Tsankov was chairman of the Union of Popular Banks. He regarded the cooperative as an economic entity that was an integral part of the capitalist order that promoted the social welfare.

¹¹ The number of its operations increased from 1.21 m in 1919 to 124. 13 m in 1924.

Both governments of Tsankov and Andrey Liyapchev (1926-1931) focused on the promotion of the domestic industry. Liyapchev initiated the establishment of the BCCB (Vladigerov 1937). He was one of the founders of the Union of rural cooperatives and member of the Governing council of the General union of rural cooperatives. Liyapchev was also chairman of the Union of popular banks during the period 1923 - 1926. He considered the cooperative as a form of enterprise whose purpose was to bring greater social justice in the capitalist economic system. Liyapchev believed that self-help and mutual aid should be developed only through the cooperative movement.

The main reasons for the rapid development of the cooperative movement until 1930 were: the predominantly small production and small ownership in both agriculture and industry; the encouraging role of the state-owned banks and that of the unions that promoted the cooperative idea throughout the country (Mishaykov 1930).

During the world economic crisis (1929 - 1934) the government constantly intervened in domestic trade through the pricing policy with regard to grains and some basic consumer goods, etc. In domestic trade the state monopoly on the majority of agricultural products was introduced by setting up the Food export (*Hranoiznos*) Directorate. The primary goal of the directorate was to establish subsidised prices for the cereals at a level significantly higher than the average world prices. The main beneficiaries from these prices were the wealthy peasants and tradesmen that bought goods from poor farmers at low prices and then resell them to the directorate at higher prices. The BACB purchased the tobacco harvest, the cotton and the hemp in the country.

The State Budget Acts in 1932 and 1933 stipulated that the first 10 hectares land of each farm were freed from the state land tax. In 1932, the Law for the protection of farmers was adopted which introduced concessions on the debt of the biggest part of the farmers. A Repayment fund was established as a state-owned credit institution to play the role of intermediary between private creditors and debtors. The creditors were mainly rural moneylenders, private banks and other institutions, who were issued against their claims interest-bearing bonds from the Repayment fund. The debtors who wanted concessions were obliged to pay their debt to the fund even though they benefited from installments and lower interest rate.

The different agricultural credit cooperatives and producer cooperatives played a significant role in buying up several agricultural products as they made significant general

supplies of industrial and other goods to their members. A major role in this regard had also the urban producer cooperatives and primarily the cooperative "Napred" which possessed several industrial enterprises. The relative weight of cooperatives in the domestic trade gradually reached one tenth of the total amount of the turnover by the end of the crisis.

The third period in the development of the cooperative movement and cooperative banks in the country covered the period of the "personal regime" of Tzar Boris III (1934-1941) (Bozhilov *et al.* 1998). The regulation of the economy was practiced in almost all the economic sectors. The cooperative sector was strongly regulated and restricted by the state authorities. In April 1938 the National Assembly adopted the Law on state supervision of companies and associations which limited the autonomy of the cooperatives in the country. The Minister of Interior gained the right to approve the statuary act of each cooperative. He was given the right to remove each person from a cooperative who was an adherent to communist, anarchist and oppressive methods of social and political fight or who was a member of illegal organisations. The minister had the right to ask the local court to break up an association whose members of the governing council belonged to illegal organizations or who were followers of communist, anarchist or oppressive methods for social and political fight.

The big state owned banks started financing private banks, capitalists and companies. The powers of the BACB proved the strong intervention of state authorities in the establishment, management, control and development of cooperative banks in the country. The autonomy and self governance of cooperatives were abolished.

Conclusion

The cooperative credit underwent an accelerated development during the Interwar period in Bulgaria. Our study shows that popular banks played a major role in social credit and they contributed to the economic and financial progress of the country. These social credit and deposit institutions gained confidence and prestige among the Bulgarians. They embodied, to the greatest extent, the principles of mutualism and solidarity among the population, upon which the Bulgarian cooperative movement rested. Popular banks became the major institutions in the Bulgarian cities and in most of the villages. This was their main distinctive feature compared to such banks in the other European countries. They financed all the sectors of the national economy while performing all the functions of private banks.

The state cooperative policy determined the conditions and trends in cooperative credit during the Interwar period. The constant government intervention and restrictions imposed on the social credit institutions failed to bring to a halt the development of credit cooperatives and popular banks in the country. At the same time political management and control over the social credit institutions comprised a powerful instrument to ensure their growing influence in the economy.

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