Aspects of Bulgarian Economic Policy and Development During and After the First World War (1914- 1929)

Rumen Andreev *

Summary:

The wars for national unity of Bulgaria at the beginning of the 20th century had severe consequences for its economy. Just in the course of seven years, the country had participated in three devastating wars and the peace treaties had damaging impact on its economy. The present paper analyzes the changes that had occurred in the Bulgarian economy during and after the First World War and the imposition of economic policy of protectionism by the state for the economic recovery after the war.

Key words: First World War, economy, inflation, gold standard

JEL Classification: B19, N14, N44, N54

The continued economic development of Bulgaria at the beginning of the twentieth century was interrupted by the wars for national unity the country was involved in (First Balkan War 1912-13, Second Balkan War 1913, First World War). Before the beginning of the Balkan War in 1912, the country had preserved the stability of its national currency by sticking to the gold standard, by maintaining its production of agricultural output for both domestic consumption and export to foreign markets, and by making attempts at developing its industry. Bulgaria had good trade relations with the neighboring countries, and the state budget was balanced with small deficit. Notwithstanding the lost wars of 1912-13, with heavy death toll and incurred financial damage and territorial changes, the country's economic situation remained in relatively good shape.

The aim of this paper is to prove that the WWI had a considerable impact on all the branches of Bulgarian economy as the government pursued a policy of state intervention which continued well after the war. Being an ally of the Central Powers the Bulgarian economy was closely related to that of Germany - high-interest loans were obtained and export deals were signed which changed the structure of the Bulgarian economy. That had its impact on Bulgaria after the end of the war, the country lost its markets in Germany which resulted in heavy reparations hindering the restoration of its economy.

The policy led by the Bulgarian National Bank included denomination of the Bulgarian currency and the loans obtained by the government in order to finance the military actions led to the accumulation of huge internal and external debt. During the war the state budget was in deficit, which was financed by short-term loans from

* Senior assistant professor, PhD at UNWE; e-mail: randreev@mail.bg

BNB[1] . The issuance of banknotes by BNB increased nearly 14 times which devalued the Bulgarian lev. Prices of goods rose. A state monopoly was imposed on the supply of basic necessities for the population and trade in foreign currency was strictly controlled.

Bulgaria entered the First World War in October 1915 after joining the Central Powers which isolated it from its traditional markets and the country was forced to rely on its own production and trade with its allies. Agricultural production, which in the years of peace had satisfied the domestic needs and created a surplus to be exported, during the war could not produce the necessary quantities to provide for the population and the army. Twenty percent of the population was mobilized thus ranking the country among the top in the number of mobilized population. A large percentage of working cattle was requisitioned for the army.

1. Monetary and Fiscal Policy

1.1. Banknote Circulation without a Gold Standard

The countries involved in the First World War financed their costs by abandoning the gold standard (except for UK) and increased the banknotes in circulation. In late July 1914, banknotes in circulation in the UK, Germany, France, Russia, Austria-Hungary and Italy were worth 18 billion leva with gold reserve of 13 billion leva, while at the end of September 1918, banknotes in circulation were worth 130 billion leva with gold reserves of 15 billion leva. Banknotes in circulation increased by 662% and their gold holdings only by 11% (Kolev, 1919, p. 16).

Before the beginning of the Balkan War (1912), BNB managed to establish itself as a central bank that financed the state, the municipalities and the other commercial banks. The Bank endorsed the gold standard by removing the premium of exchange of gold and silver and kept the gold holdings, so that the banknotes in circulation did not exceed more than three times the gold reserve. The repeal of the gold standard in the same year, the increase in military spending and the government debt caused inflation that continued until the formal stabilization of the lev in 1924. The convertibility of the lev against gold was removed on October 10, 1912, only five days after the start of the Balkan War which made banknotes become discretionary paper money[2]. During the wars the banknotes in circulation in Bulgaria increased from 111 million leva in 1913 to 2 299 million leva in 1918, from the end of 1914 to the end of 1918 money circulation increased more

Table 1. Ratio of banknotes in circulation and gold and silver availability in cash in thousands at the end of 1920

Countries	Gold and Silver money in cash	Banknotes in circulation	% banknotes to the availability in cash
Netherlands	656,312	1,080,319	164.6
Germany	1,098,504	63,104938	5,774.6
England	124,112	127,965	103.1
France	5,756,553	38,806,733	674.1
U.S.A.	2,003,320	3,351,303	167.3
Bulgaria	54,001	2,803,706	5,242.0

Source: Chronicle,(1920). JBEC. XIX.9-10., p. 550

[1] Bulgarian National Bank- central bank of Bulgaria.
[2] Law on the termination of the exchange of banknotes for gold was adopted seven years later, on Jan 03, 1919.

than ten times while the debt of the country rose more than thirty times. Bulgaria was the second country after Germany that had issued a huge amount of banknotes. BNB tried to increase its gold and silver reserves by buying gold from people but that rise was significantly behind the rate of growth of banknotes in circulation (Russenov (ed), 1983, p. 770).

After the armistice in 1918, BNB continued to increase the banknotes in circulation thus causing inflation. Due to the poor harvest in 1919, the state imported from USA flour worth 27 million leva, paid in gold leva, thus BNB reserves dropped from 64 million leva to 37 million leva.[3] The depreciation of the German mark caused loss of assets that the bank had in Germany which were blocked after the war (Russenov(ed), 1983, p. 771).

On December 19, 1918 foreign exchange monopoly was established in Bulgaria called Headquarters of devises including BNB and 19 private banks.[4] The Headquarters set the exchange rate of buying and selling foreign currency, as foreign currency object of free trade was that remaining after the required to meet the needs of the state. In 1920 the Headquarters of devises was closed and BNB was entitled to buy 30% of foreign currency received from exports (Russenov(ed), 1983, p. 773).

The foreign exchange monopoly failed to reduce the depreciation of the lev and its introduction was an attempt to level out the fluctuations of its external exchange rate. In the years following the war the Headquarters of foreign currency acted as a fiscal institute buying one-third of the foreign currency imported in the country at a rate lower than the market one. The Headquarters of foreign currency was a precedent of monopoly right granted to BNB to buy and sell foreign currency of which the bank took advantage in the coming years too (Hristoforov, 2010, vol. I, p. 364).

Full monopoly on foreign currency trade was granted to BNB by Ordinance of

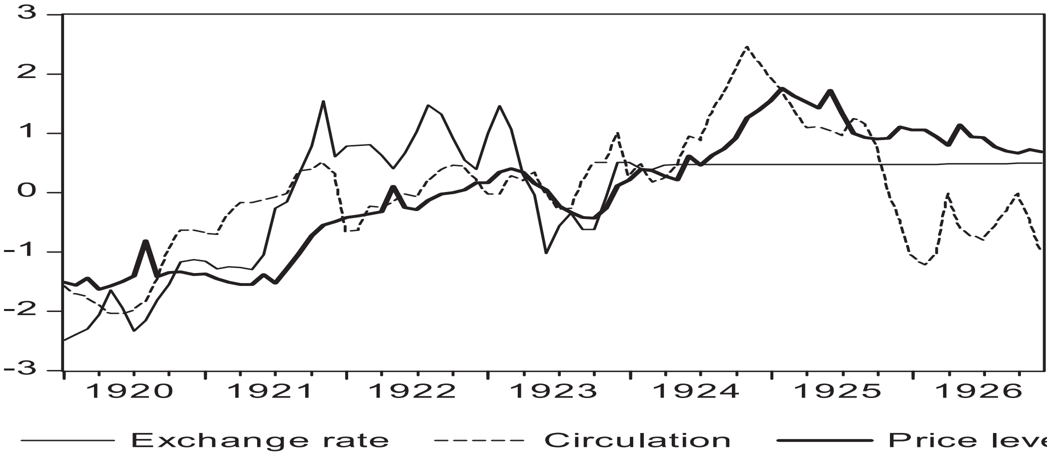

Fig.1. Bulgaria (1920–1926). Price level, money in circulation and exchange rate (lev-US dollar) (normal scale)
Source: Nenovski and Andreev, Bulgarian Economists about the Great Depression, Sofia, 2013.

[3] The Government tried to get wheat instead of flour by paying for imports against pledge of gold for a certain period, but the proposal was not accepted (Russenov(ed), 1983, p. 511).

[4] Law on trade in foreign means of payment, loans and receivables (State Gazette, issue 286 of Dec 19, 1918). The law was modeled by the foreign exchange monopoly in Germany, introduced in 1916 (Hristoforov, 2010, vol.I, p. 363).

December 1923, while in 1924[5] a Law was passed under which only BNB controlled entirely foreign currency trade, set the foreign exchange rates and prohibited the export of Bulgarian banknotes. The monopoly of BNB restored the confidence in the Bulgarian currency that formally stabilized as the exchange rate to the US dollar remained constant until the official stabilization of the lev in 1928 (Russenov(ed),1983, p. 771).

1.2. Post-war Attempts for Gold Standard Restoration

In 1922 a conference was held in Genoa with 34 participating countries that decided to partially restore the gold standard, abandoned during the First World War. The countries /including Bulgaria/ attending the conference assumed that this measure would facilitate international trade and restore their economic stability. Although most central banks wanted the return of the gold standard, they preferred a variety of gold foreign currency standard, where payments were made by banknotes not directly convertible into gold. A gold foreign currency standard was adopted where gold reserves did not leave the bank treasury.

One of the proposals made at the Genoa Conference was for the central countries to hold their currency reserves in gold, while the peripheral countries - partly in gold and the rest in short-term receivables from those from the center.

That proposal was designed in order to restore the gold standard, avoiding gold shortage. Monetary stability of the peripheral countries depended entirely on those in the center, so that once the countries from "the sterling area" had abandoned the gold standard they were followed by the peripheral countries. Once the global economy was on the rise, the demand for reserve currency by the peripheral countries increased, while the countries in the center were tempted to expand the money supply, increasing the liquidity of the reserve currency and risking the convertibility of the central currency against gold. Once one of the central countries had abandoned the gold standard, the peripheral countries, bound by its currency, were also forced to do it. That happened with the countries from "the sterling area" in 1931, when Great Britain gave up the gold standard that forced the countries (Australia, Denmark, Portugal, Sweden, etc.) holding their reserves in pounds to do the same (Nenovsky and Andreev, 2013, p. 79).

In 1924 reforms were carried out in Bulgaria aiming to transform BNB into a modern issuing bank. Gold foreign currency standard was introduced under which the banknotes issued by BNB should have had gold holdings of 1/3 gold reserve. Currencies of countries that adhered to the gold standard could also (according to Genoa Conference - 1922) function as reserve of the issued banknotes but the population could not actually exchange banknotes for gold under the gold exchange standard (Nenovsky and Andreev , 2013, p. 121).

BNB kept the gold standard in the coming years, as in 1928 the legal stabilization of the Bulgarian lev was performed by voting a law under which one gram of gold was exchanged for 92 leva. Bulgaria tried to pay its debts under the reparations after the beginning of the Great Depression too and it was one of the countries that abandoned the gold standard late (October 15, 1931) and devalued its currency.

The First World War proved that the reconstruction of money circulation was possible by removing the gold standard as well as acceptance of banknotes as a legal tender. Except for payments in the country, banknotes were already used for international payments as the exchange

[5] State Gazette issue 24, May 2 1924.

rate was not correlated with gold, but was the result of the economic and financial situation of the state.

1.3. Increase in Public Debt Banknotes in Circulation to Finance the War

War financing in Bulgaria was done mainly by foreign loans. Bulgarian government refrained from increasing taxes as during the war years (1912-1919) it reduced the collection of direct taxes, and the tax revenue in the budget came from indirect taxes (Todorov, 1921, p. 30). During the war period the country accrued unparalleled foreign debt.

Bulgaria was preparing for its participation in the war and in 1914 it took out a loan of 500 million gold francs from the Berlin bank trust "Diskontogezelsheft". The Bank held 50 million gold francs from the loan for the building of the railway line Haskovo – Porto Lagos and Porto Lagos Port (built by German companies) and 100 million francs for weapon supplies from German and Austrian companies. Under the agreement the bank was obliged to repay Bulgarian loans to French banks from 1913 amounting to 75 million francs (that remained outstanding and in 1921 Bulgaria was forced to repay this debt too). The loan was secured by revenues from tobacco excise duties, stamp duties and import duties. A contract for the formation of National Joint-Stock Company for Mines Exploitation /Bobov Dol and Pernik mines/ was signed at the time the debt agreement was reached. The money actually received by the Bulgarian government were two advances for the total value of 270 million gold francs (Russenov(ed), 1983, vol.II, p.210).

During the war, Bulgaria received weapons from Germany and Austria-Hungary, as its obligation at the end of the war reached 1 billion gold Swiss francs. Germany also received goods /mostly food/ without providing a guarantee from Bulgaria, as its debt was greater than that obtained for the weapons. Following the signing of the peace treaty the claims and obligations between the two countries were compensated (Russenov(ed), 1983, vol.II, p. 211).

In the last four months of 1915 /Bulgaria actually entered the war on October 14, 1915/ Germany and Austria-Hungary funded Bulgaria with an advance payment of 50 million leva per month. Initially the Central Powers intended that funding should be free, but after the refusal of the Bulgarian Minister of Finance to grant aid, that funding was in the form of a long-term loan with 6% interest rate. In September 1917 Germany started to finance Bulgaria again with monthly installments of 50 million leva, opening a Bulgarian account in "Diskontogezelsheft" in which it had made 27 installments totaling 1 billion 350 million leva by the end of the war. The Bulgarian government secured that amount by issuing treasury bills and then conceded it to BNB, which in practice disposed with the account in "Diskontogezelsheft". BNB used that account to back up the banknotes it issued by recording its amount as an asset. Germany reduced the amount in the account by 240 million leva through sold treasury bills and 120 million leva in banknotes for payment to German merchants trading on the Bulgarian market (Lyapchev, 1919, p.5-6).

BNB increased money in circulation by providing direct financing of the public debt. Other forms of financing such as raising taxes, borrowing from the population through the issuance of treasury bills, extending loans and open accounts by the commercial banks were less popular due to the weak development of the credit system.

During the war periods the government was funded by the Bank as its debt increased from 8 million leva before the Balkan War to 189 million leva after the Second Balkan War and 881 million leva at the end of the First World War (1918) (Team, 770). The increased rate of banknotes in circulation during the First World War was due to the loans that the government received from BNB. Throughout that period, the Bank granted relatively few loans to trade, industry and private banks, as most of the loans were needed to pay for the military supplies (Hristoforov, 2010, vol. I, p. 362).

After the war, the amount of banknotes in circulation increased a little compared to the war period, from 2 297 million leva in 1918 to 3 886 million leva in 1922. The public debt rose much more from 1 294 million leva in 1918 to 4 130 million leva in late 1922. That same year a Law was passed on restriction of banknote issue and the liabilities of the treasury to the Bulgarian National Bank[6], according to which the maximum amount which the Bank might grant the state was 4700 million, which was approximately the amount of the balance of the state to the bank at the time. The law prohibited granting the state loans exceeding that amount and obliged the bank to form a fund to repay the debt of the government to the bank, as the revenues in it had to be from the interests equal to 2% of the released debt to the state. The law determined the maximum amount of banknotes in circulation, which should not exceed twelve times the metal reserves of the bank of 57 million leva. The law aimed to establish independent lending policy of the bank, inflation termination and regulation of the amount of money in circulation . (Hristoforov, 2010,vol. I, p. 364).

After Bulgaria joined the First World War the assets of BNB in Germany increased, as the government transferred its receivables from Germany to repay its debt to the bank. Thus it pegged the stability of the Bulgarian lev to the German mark, which during the war was not exchanged for gold (Russnov(ed), 1983, vol.II, p. 770).

The Bulgarian economy supported its own army, as well as the three German divisions on the southern front, and exported raw materials to Germany. Bulgaria provided supplies for the three German divisions without obtaining from Germany the agreed goods in return. In practice, Bulgaria financed Germany, receiving assets in German marks - the amount reached one billion marks at the end of 1918 which due to the depreciation of the German mark amounted to zero, thus the Bulgarian economy suffered higher losses compared to all foreign debts it had received (Russenov(ed), 1983, vol.II, p. 510).

During the war, BNB maintained the exchange rate of the Bulgarian lev by fixing it to that of the German mark as 125 leva were equal to 100 marks and the depreciation of

Table 2. Public debts of countries participating in the First World War

	Public debt at the end of 1913 /billion of leva/	Public debt at the beginning of 1918 /billion of leva/
England	18	169
Germany	25,5	137
France	31	109
Russia	23,5	127
Austria-Hungary	15,5	82
Italy	13,5	37

Source: Kolev K.(1919), Monetary circulation during the war, JBEA, XIX. 1-2., p.16

[6] State Gazette, issue 70 of June 30, 1922

the lev and the mark did not have an effect on the domestic market. Ration system was introduced in Bulgaria to provide the basic commodities. Inflation continued after the war, and the government debt to BNB during the period 1918/23 increased five times (Russenov(ed), 1983, vol.II, p. 510).

In 1916-18, the budget deficit was 1.5 million gold leva, military expenditures were financed by BNB, thus the banknotes in circulation increased 14 times, and their holdings were reduced to 3.2% from

Table 3. Banknotes in circulation, public debt and gold reserve of Bulgaria (1912-1923)

Year	Banknotes in circu-lation	Public debt to BNB	Gold reserve	Assets abroad
1912	164,4	26,6	51,1	35,7
1913	188,7	142,9	55,3	13,8
1914	226,6	154,9	55,1	25,6
1915	369,8	146,9	61,4	253,2
1916	834,0	260,8	68,2	691,8
1917	1491,8	621,3	62,9	1239,8
1918	2298,6	881,3	64,0	1186,2
1919	2858,5	1771,3	87,0	1353,1
1920	3354,1	2964,3	37,1	1534,2
1921	3615,4	3702,3	38,0	1146,6
1922	3886,0	4130,4	38,4	764,6
1923	4139,0	4470,0	39,5	919,8

Source: Russenov(ed), 1983, History of Financial and Credit System of Bulgaria, vol. II, p.508

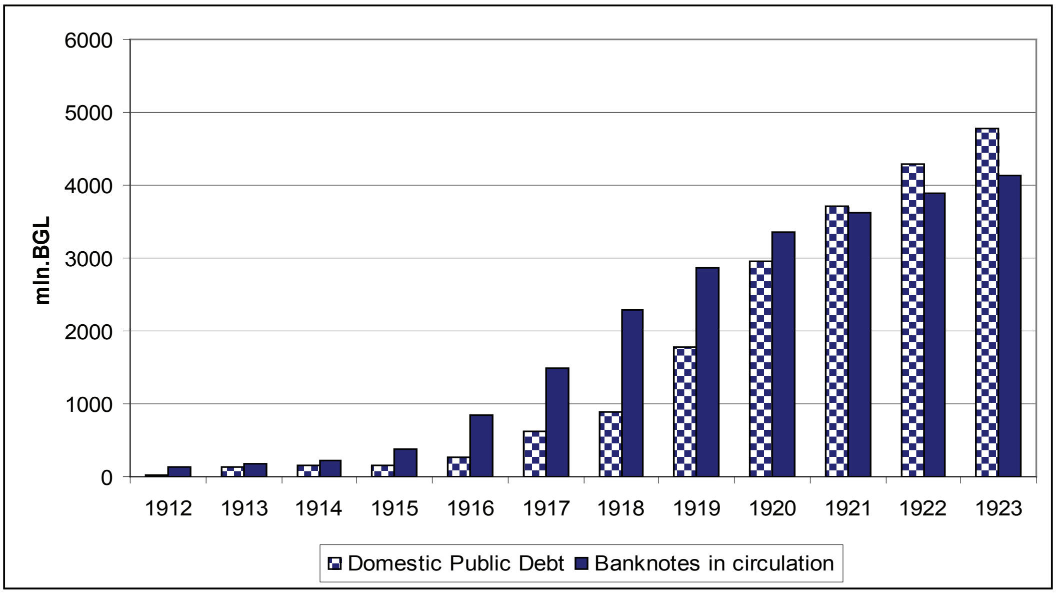

Fig. 2. Public debt and banknotes in circulation (1912–1923)
Source: Nenovski and Andreev (2013), Bulgarian Economists about the Great Depression, Sofia.

the gold and 5.9% from the silver lev. Between 1918 and 1922 before starting the payment of reparations, the payments on the external debt reached 112 million gold francs. After the imposed reparations and occupation debt (1919) the external debt reached 96% of public liabilities (Nenovsky and Andreev, 2013, p.9)

2. Changes in Sectors of the Bulgarian Economy: Agriculture and Industry

2.1. Restructuring of agriculture

The First World War held back the development of agricultural countries. Bulgaria was such a country, it was not possible for its inflexible farming to be transformed quickly. Extensive crops dependent on weather conditions were grown. The country exported agricultural products and raw materials (80% of total exports) and imported manufactured goods (70% of total imports). The Bulgarian economy is labour-intensive but requires less capital, as 75% of the labor force in the state was involved in the production of cereals. Agricultural production was of natural character, with more produce for the needs of households and less for the market, which did not create conditions for savings and capital accumulation (Popov, 1919, p. 146-147).

Before the Balkan War 1912-13, Bulgaria, produced primarily grains but after the Treaty of Bucharest (1913) the country lost its granary - Dobrudzha, which sustained 7.8% of the country's territory and 6.5% of its population. Farms in Dobrudzha were large (small farms were predominant in Bulgaria, not bigger than 100 dka), well equipped technically (in the region on Balchick every 100 ploughs hold the 532 ploughshares while the ration in the rest of the country was 27 ploughshares per 100 ploughs) and export orientated. That necessitated the restructuring of the national economy from cereal production to tobacco (Popov, 1919, p.142).

Grain production during the war had dropped as in 1917 wheat production was by 27.94% less compared to 1912 (Mollov, 1919, 63). The worst harvest was in 1918, when from 22,807,946 hectares the yield was 1,304,622 tons which was by 16.2% less than the weakest year before the wars in 1907 and by 58.5% less compared to the best harvest in 1911. For the first time the produced cereals in 1918-19 could not meet the needs of the country for consumption and sowing (N.M., 1919, p.115).

During the First World War Bulgaria was both politically and economically dependent on Germany, supplying the German war economy with raw materials. Exports of cereals, tobacco and other raw materials were directed to Germany, as the country did not have good transport links with the countries that had remained neutral. Bulgarian oriental tobacco, grown mainly in Aegean Thrace was bought out by German companies that processed and exported it (Chakalov, 1962, p. 34).

Table 4. Sown area and production of cereals within Bulgaria before 1913

Year	Sown area (hectares)	Production (tons)
1907	2,219,639	1,426,166
1911	2,523,738	2,876,305
1912	2,564,588	2,672,039
1917	2,099,021	1,861,001
1918	2,143,765	1,196,374

Source: Chronicle, JBEA, 1919., XIX. 1-2., p. 114

Aegean Thrace was annexed to Bulgaria after the Treaty of Bucharest of 1913. The region was favorable for the production of high quality oriental tobacco and in addition to the increased production the country acquired a trademark for this type of tobacco. During the war, the price of tobacco had gone up, and Bulgaria supplied tobacco to the Central Powers. The value of the exported tobacco from the total exports of the country, which until 1913 was 1.26% increased to 70.24% in 1917 and dropped down after the loss of Aegean Thrace to 55.46% in 1920. In 1914 the value of the exported tobacco increased, however grains still represented 75% of the total exports. The bad harvest of cereals in 1918-19, reduced their export, but the high tariffs imposed by the Bulgarian state on tobacco made it uncompetitive on the international markets as by the end of 1920 tobacco from harvests 1917, 1918 and 1919 had remained in the country (Duhovnikov, 1921, pp.192,195).

After signing the Treaty of Neuilly, according to which Bulgaria lost Aegean Thrace - where oriental tobacco was grown, cereals again became the most cultivated crop in Bulgarian. Because of the loss of Dobrudzha in 1913, production in the country of cereals decreased compared to the years before the Balkan wars. During the war years the Bulgarian agriculture restructured itself towards tobacco production and raw materials and the imposed peace treaty involved restoration of grain production. Bulgaria lost its big markets of tobacco and raw material and a big part of agriculture went towards payments of the reparations imposed.

2.2. Problems of Industry

Before the war, Bulgarian industry was underdeveloped, and larger enterprises enjoyed privileges under the Law on Local Industry Protection. About 15-16000 people were employed in the industry under protection in 345 factories, as 73% of the raw materials were locally produced. The war put the Bulgarian industry in a difficult situation because as early as the beginning of the war the reserves of raw materials ran out, forcing some factories to reduce or cease operation. The state intervened by militarizing the production for the army and procuring raw materials by requisition. By setting up a Committee, and then the Directorate of Economic Cares and Social Foresight, the state organized the production, collection and import of raw materials. However, the devaluation of the lev and the restrictions on international trade impeded the import of raw materials and equipment after the war as well. (Tsankov, 1921, p. 43).

Bulgaria, which after the liberation from the Ottoman Empire was trying to get industrialized, lost some of its small factories during the war. There was no capital for the establishment of new industries while the raw materials produced in the country were exported to Germany. Production facilities were destroyed, and their restoration was difficult, slow and expensive, and in some industries impossible. After the war and the imposition of reparations the industry had to be demilitarized, which again hampered the existing industries and slowed down the country's industrialization process. The state organized the supply of raw materials for the industry and the realization of the products, as it continued its protection over larger companies[7].

The war hindered the state industrialization and despite the policy directed towards industry encouragement which continued after its end, the Bulgarian industry did not achieve any significant growth. In 1924 the relative share of gross product was merely 3.7% compared to 2.6 % in 1900 and 1.7% in 1887 (Ivanov, 2012, p.57).

[7] The Law on Local Industry Protection was abandoned in 1936

3. Prices Regulation and Changes in Foreign Trade

3.1. Prices Regulation

Raising the prices of goods in Bulgaria was a result of the increase in the amount of banknotes in circulation, not only in terms of their absolute value, but also in terms of the rate at which they were rising. At base 100 of the index of commodity prices for the period 1901-1910, the 1913 index showed a rise of 130, while in 1920 the rise reached 2399. The average market price in 1913 increased more than eighteen times to 1921 (Burilkov, 1921, p.119).

The increase in food prices called for their regulation by the state. The War restructured the production, changed the distribution and disturbed the exchange that affected the warring countries and in particular the poor economic countries like Bulgaria. In neutral countries and developed economies like the USA and the UK the price increase was lower. (Mihaylov, 1919, p. 255).

During the war Bulgaria regulated market prices as well. The regulated prices were initially determined by the Committee on Economic Cares, and then by the Directorate of Economic Cares and Social Foresight, but actually no transactions were carried out under them and their role was only in regulating the distribution and sale of commodities by organizations to population[8] (Tsankov, 1921, p. 40).

At the beginning of the war, the state regulated the prices of the essential goods, which were purchased by the farmers and left the prices of other goods unregulated. Farmers were forced to sell their produce at low regulated prices and buy other goods at high speculative prices (Mollov, 1919, p. 58).

After the end of WWI a state monopoly on grain prices was established in Bulgaria, as well as a Law on trade with cereals[9], according to which the export and foreign trade with cereals was executed through a consortium, comprising BNB, Bulgarian Agriculture Bank, Bulgarian Cooperative bank and agriculture cooperatives. The law established a complicated mechanism aiming to eliminate intermediaries in trade and sales to the final consumers. According to the authors of the law, due to the deficiencies of cereals during and after the war, the European consumers were in a tough situation and would trust the Bulgarian consortium. The consortium existed from December 5th 1919 until January 28th 1922 purchasing for that period ca. 290 million kilograms of cereals, sold for 588 million leva. (Yanchulev, 1930, p.267) The consortium did not have any good financial results and could not influence the prices of cereals.

3.2. Changes in Foreign Trade

Between the years 1908-1914 Bulgaria had an unfavourable trade balance, as import exceeded export. During the war years the country had a favourable trade balance, with higher export than import. The rates of exports and imports decreased during the war, although their value rose due to the devaluation of the lev, the restrictions on international trade and the reduction of production. After the war, the trade balance was adverse again as a result of the policy of free trade led by the country (Tsankov, 1921, p. 44).

Before the war, Bulgaria's foreign trade was limited as it was trading with countries that were allies. While before the war Turkey was the most important trade partner of Bulgaria, during the war it came last while

[8] Tsankov cites the regulated sugar prices, as the regulated price increased 125.2% compared to 1914, while the market price was raised by 1251.3%.

[9] State Gazette 05, December, 1919.

Germany came first, followed by Austria-Hungary and Switzerland. The country's export to other countries amounted to 1250 leva, which was the value of 25 kg of cigarettes (Tsankov, 1919, p. 78).

Before and during the war Bulgaria exported agricultural products, but because of the bad harvests of cereals in 1916-18, the government prohibited their export. Raw tobacco became the most important Bulgarian export, representing 3/4 of it. In 1911, the exports of tobacco was only 9.93%, but the restriction on trade relations with Germany and Austria-Hungary presented an opportunity for Bulgaria to dominate on the tobacco market in these countries. Besides tobacco the quantities of sheepskin, wool and rose oil exported to the Central Powers went up too (Tsankov, 1919, p. 75).

The structure of import changed too. Before the war ¾ of imports comprised of fabrics, yarn, leather, machinery, sugar, etc. The reduced industrial production for export of the big countries restructured the country imports with colonial goods in the lead: sugar, salt, chocolate, paper, etc.., without changing significantly their ratio compared to that before the war. Before the war Bulgaria imported most goods from Austria-Hungary, during the war years the largest share of imports shifted to Germany and after the war to Austria-Hungary, Romania, Turkey (Tsankov, 1919, pp. 81, 87).

4. Economic Consequences of the Peace Treaties and the Imposed Reparations

The economic development of Bulgaria in the 1920s was the result of peace treaties that ended the First World War. Never before had the economic and financial issues been so important and had such a big share in the agenda of peace conferences. Bulgaria was deprived of South Dobrudja, the main grain producer and west Thracia, which was the main tobacco growing hub and there were options for export trade. (Ivanov at al, 2009, p.13).

The Treaty of Neuilly (1919) imposed on Bulgaria reparations amounting to 2 250 million gold francs payable over a period of 37 years with 2% interest rate for the first year and 5% thereafter. Bulgaria was bound by restitution to Greece, Romania and Yugoslavia which constituted: 37 825 heads of cattle, 33 000 sheep and 50 000 tons of coal for Yugoslavia. The reparations imposed on Bulgaria, represented 22.5% of the national wealth before the war, and for their repayment 55% of the state budget had to be allocated. Before suspending the payment of reparations in 1931[10] Bulgaria had to pay annually 270 million leva for reparations, 280 million leva for pre-war loans and 680 million for post-war loans, i.e. 1180 million leva in total, which was 32.8% from the estimated budget revenue. The country was experiencing difficulties in maintaining the balance of payments as revenues from exports of agricultural products decreased due to their low prices on world markets. Instead 500 million leva revenues per month in the previous years, revenues then dropped to 180 million leva (Nenovsky and Andreev, 2013, p. 118).

In 1923, Bulgaria reached an agreement with the Reparations Commission to divide the reparations into two parts: Part A amounting to 550 million gold francs to be paid over 60 years with growing annuities and Part B of 1700 million gold leva, payable after April 1, 1953. Bulgaria could deduct receivables from part B (Russenov(ed) 1983, p. 229).

The economic crisis marking the onset of the Great Depression that began in late 1929 impeded the payment of the

[10] In 1931, Bulgarian reparations were postponed initially for one year, and despite the strong opposition of Greece after severe and continuous efforts of the Bulgarian diplomacy they were cancelled in 1930s.

reparations imposed after the First World War, so the countries creditors agreed to ease the conditions for debt repayment.

At the Hague Conference, the average annual annuity payments of Bulgaria were reduced from 12.5 million gold francs to 11 million, while England, France and Italy waived the outstanding contributions to the Bulgarian occupation duty. The Bank for International Payments was established at the Conference whose main goal was to facilitate the payment of reparations[11] (Bobchev, 1930).

Post-war international business conferences were held, trying to restore the gold standard and balance the budgets of the European countries. The resolutions of the conferences in Brussels in 1920 and Genoa in 1922 were applied in practice, as the restoration of the gold standard was carried out with international loans agreed upon through the League of Nations. The Geneva Conference of 1927 attempted to reduce the existing restrictions on international trade, as the countries were joined by the idea of concluding a "customs truce" under which they were not allowed to raise tariffs for a certain period of time and thus not hampering foreign trade. After lengthy negotiations and another conference, again in Geneva in 1930, consensus was not reached on the initial draft of the "customs truce" as it was agreed the existing duties on commercial contracts not to be changed for a period of one year. The failure of the Geneva Conference in 1927 was due to the fact that it did not address the issues of reparations and the debts between the allies that had forced the states not to change their customs policy (Bobchev, 1930).

The economic crisis of 1929 caused a decline in international trade, which affected both the defeated countries and the winners in the First World War. The supported thesis maintained that an upswing in the economy was only possible if a moratorium on reparative payments was imposed. In 1931, U.S. President Herbert Hoover proposed a moratorium on payments, initially for one year, which was extended by six months, but then remained in force until the Second World War and the political debts continually dropped (Team, 1983, 239). The moratorium united 15 countries, but its adoption contributed little to the economic recovery as the financial crisis was already a fact and actually it became impossible for the defeated countries to repay their debts[12] (Nenovsky and Andreev, 2013, p. 86).

Bulgarian economists tend to share the opinion that the causes of the economic crisis in the 1920s, and then the Great Depression, were the peace treaties of 1919, when reparations were imposed on the defeated countries aiming to exhaust their economies and to reduce their political influence. The payment of reparations forced the defeated countries to seek foreign currency by reducing imports of goods and trying to increase exports. The consequences were: autarchy - where the countries seek to develop their own industries with high costs, reduced competitiveness, low purchasing power of the national currency, a decline in demand and consumption and economic crisis. The policy of the country winners from the First World War for enrichment at the expense of the

[11] The Bank accepted the rights and obligations of the inter-allied Reparations Commission by collecting reparation payments from Bulgaria and transmitting them to the benefit of the countries winners in I WW. Reparative obligations become political from commercial and Bulgaria did not have any more political reason for the reduction of the reparative obligations that were restructured in favor of Greece, Romania and Yugoslavia.

[12] At the Lausanne Conference, held in 1932, the victorious countries during the First World War signed a moratorium suspending the reparative payments from the defeated countries.

defeated states could not be achieved in the economic sphere because the ruin of one country would have an impact on the economy of other countries.

Conclusion

Before the First World War Bulgaria was an agricultural country growing extensive crops and trying to export them to international markets. The number of people employed in agriculture was great, the farms were small in size and the production was mainly for household consumption. This sector was influenced by weather conditions (hail, drought, etc.), the returns were decreasing and many times a good harvest in the year offset past losses. The wars in which the country was involved changed its territory, which restructured its agriculture sector too. The high prices of tobacco during the First World War made it the preferred commodity for Bulgarian farmers and despite the loss of territories suitable for its cultivation it remained the leading Bulgarian agricultural produce and export after the war too. The mobilization of the working population and the loss of people, livestock and farm equipment decreased the productivity of Bulgarian agriculture and at the end of the First World War even flour for the needs of the population had to be imported.

Bulgarian industry prior to the war was not well developed, lacking capital; production capacities were small and the profitability was low. The state tried to encourage industry by ensuring privileges for opening some enterprises. The First World War destroyed part of the small factories that could not adapt to military production, while the existence of the rest was only possible with the assistance of the state, which supplied the required raw materials and realized their production. The peace treaties and the imposed heavy reparations slowed down the country's industrialization and Bulgaria remained an agricultural country in which the greatest portion of the population remained working in the sector of agriculture.

The Bulgarian government financed the participation of Bulgaria in the war, receiving external loans from its allies and domestic loans from BNB. The increase of banknotes in circulation during the war years was enormous, causing inflation that continued after the war to the formal stabilization of the Bulgarian currency in 1924. The war proved that the state could issue money without gold holding, but the return to the gold standard was needed in order to restore the stability of the national currency. The instability of the exchange rate of the Bulgarian lev on the international markets created preconditions for monopolistic activities of BNB in determining the foreign exchange rate, a privilege that it would retain after the war.

The imposed reparations on Bulgaria hampered its economic recovery. In the post- World War One period (1914-1918) the country's solvency was greatly reduced, as there was a deficit in the balance of payments. The structure of the Bulgarian economy was such that a large part of the national income was natural, as only money income could be used to meet the state's financial commitments with regard to the payment of public debt and reparations. Nevertheless Bulgaria was an excellent performer with regard to the repayment of the imposed reparations until the latter were lifted during the Great Depression.

Abbreviations:

BNB – Bulgarian National Bank, the Central Bank of Bulgaria

JBEA – Journal of the Bulgarian Economic Association

References:

Bobchev, K. (1930), International Conference on Customs Truce, JBEA, XXIX.1, pp. 51-56

Burilkov, G. (1921), The Increase of Banknotes and its Impact on Prices and Currency, JBEA, XX.1-2-3, pp. 119- 125

Duhovnikov, D. (1921), Tobacco in our National Economy, Trade Balance and Government Finance, JBEA, XX, 6-7, Pp 188-214

Kolev, K. (1919), Monetary Circulation during the War, 1919, JBEA, XIX.1-2. pp. 15-34

Lyapchev, A. (1919), The War and Finance, JBEA, XIX. 1-2., pp.1-14.

Mihaylov, N.(1919), Rising Cost of Living in some European Countries during the War, JBEA XIX. 1-2-3, Pp. 255-261

Mollov J. (1919), Agricultural Production and the War, *JBEA*, XIX.1-2., pp 53-69.

Nenovski, N. and Andreev, R. (2013), The Bulgarian Economists about the Great Depression, University edition, Sofia

N. M. (1919), Chronicle, JBEA, XIX. 1-2., pp 114-115.

Ivanov, M., (2012), Bulgarian Gross Internal Product of 1878- 1945, Ciela, Sofia.

Ivanov, M., Todorova, Ts., Vachkov, D. (2009) History of External State Debt of Bulgaria, parts I, II, II, Bulgarian National Bank.

Popov, K. (1919), Economic Bulgaria and the Financial and Economic Clauses of the Draft Peace Treaty, JBEA, XIX.3-4-5, pp 129-175

Russenov, M. (ed.) (1983), History of Financial and Credit System of Bulgaria, volume II , Edition Georgy Bakalov, Varna

Chakalov, As. (1962), Forms, Size and Activity of Foreign Capital in Bulgaria (1919 – 1944), Sofia

Todorov, P. (1921), About the Government Finance, *JBEA*, XX.4-5, pp 1-22

Tsankov, Al. (1921), Bulgaria during the War and Afterwards, *JBEA* XX, 1-2-3, Pp. 36- 55

Tsankov, Al. (1919), Our Foreign Trade in 1917, *JBEA*, XIX.1-2, Pp. 71-90

Hristoforov, As.(2010), Selected Works, vol. I, Edition BNB, Sofia

Yanchulev, B. (1930). Agricultural Crisis and its international manifestations in Bulgaria, SBID, XXIX (5): 245 – 272.