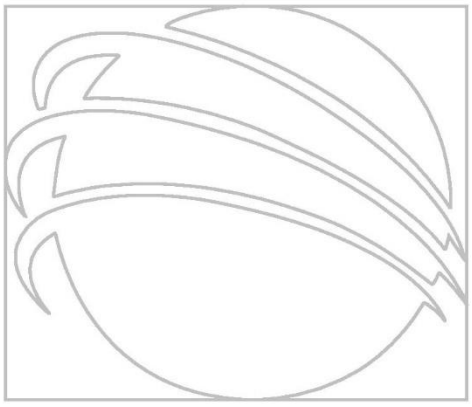
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Bulgarian Economic Policy during and after the End of First World War

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Bulgarian economic policy during and after the end of First World War

Abstract

The wars for national uniting of Bulgaria in 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 wars that were unsuccessful for it and the concluded treaties of peace had grave 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.

Keywords: First World War, Economy, Inflation, Gold Standard

The rising economic development of Bulgaria at the beginning of the twentieth century was interrupted by the wars the country was involved in for national uniting. By the beginning of the Balkan War in 1912, the country kept the stability of its national currency by sticking to the gold standard, produced agricultural products for consumption and exports and tried to develop its industry. Bulgaria had good trade relations with the neighboring countries, and the state budget was balanced with small deficit. Notwithstanding the wars that country waged in 1912-13, the losses of people, money and change of territory, the economic situation of the state had remained relatively in good condition.

Bulgaria entered the First World War in October 1915 on the side of 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 food needs and created a surplus to be exported, during the war it could not produce the demanded quantities to feed the population and the army. Twenty percent of the population was mobilized that ranked the country among the top in the number of mobilized. A large percentage of working cattle was requisitioned for the army.

Problems occurred in the public finances too. During the war the state budget had deficit, which was financed by short-term loans from BNB[2]. The emission of banknotes by BNB had increased about 14 times that devalued the Bulgarian lev. Prices of goods were raised. A state monopoly was imposed on the supply of the population with essential products and control on trade in foreign currency. The internal and external debt had increased. Unfavorable for the country loans were concluded with Germany and Austria-Hungary.

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 levs with gold reserve of 13 billion levs, while at end of September 1918, banknotes in circulation were worth 130 billion levs with gold reserve of 15 billion levs. Banknotes in circulation had increased by 662% and their gold holding 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, municipalities and other commercial banks. The Bank endorsed the gold

[2] Bulgarian National Bank- central bank of Bulgaria.

standard by removing the premium of exchange between gold and silver and kept the gold holding, 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 of military spending and state debt caused inflation that continued to the formal stabilization of lev in 1924. The convertibility of 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[3]. During the wars the banknotes in circulation in Bulgaria increased from 111 million levs in 1913 to 2 299 million levs in 1918 as from the end of 1914 to the end of 1918 banknote circulation increased more than ten times while the debt of the country 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 however that rise was significantly behind the rate of growth of banknotes in circulation (Russenov(ed), 1983, p. 770).

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*

After the armistice in 1918, BNB continued to increase the banknotes in circulation and creating inflation. Due to the poor harvest in 1919, the state imported from U.S.A. flour worth 27 million levs, paid in gold levs, thus BNB reserves had dropped down from 64 million levs to 37 million

[3] 1 Law on the termination of the exchange of banknotes for gold was adopted seven years later, on Jan 03, 1919.

levs.[4] Depreciation of the German mark caused loss of assets that the bank had in Germany and which were blocked after the war (Russenov(ed), 1983, p. 771).

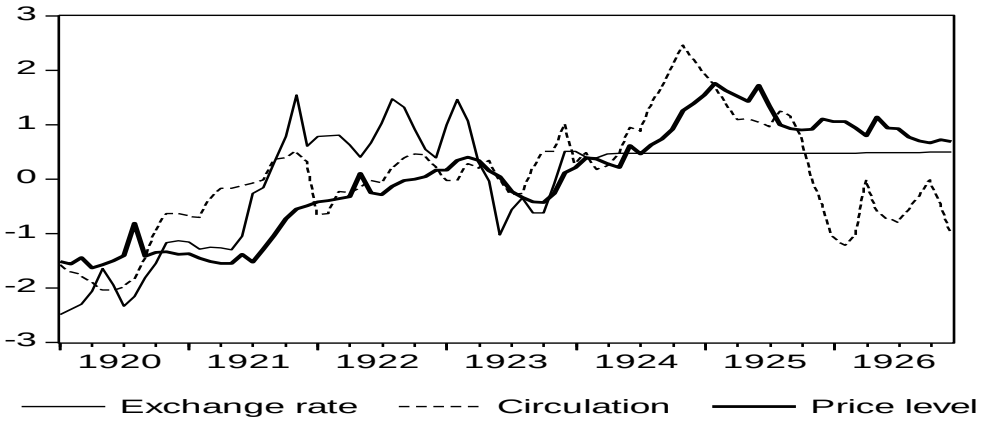
On December 19, 1918 foreign exchange monopoly was established in Bulgaria called Headquarters of devises including BNB and 19 private banks.[53] The Headquarters determined the exchange rate of buying and selling foreign currency, as foreign currency object of free trade was that remaining after the 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).

Foreign exchange monopoly failed to reduce the depreciation of lev and the point of its introduction was an attempt for reducing the amplitudes 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 December 1923, while in 1924[6] a Law was passed under which only BNB controlled entirely foreign currency trade, determined the foreign exchange rates and prohibited the export of Bulgarian banknotes. The monopoly of BNB restored the confidence in Bulgarian lev that formally stabilized it as the exchange rate to US dollar remained constant until the official stabilization of lev in 1928 (Russenov(ed),1983, p. 771).

[4] 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),1983,511).
[5] 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, 363).
[6] State Gazette issue 24, May 2 1924.

Figure 1. Bulgaria (1920–1926). Price level, money in circulation and exchange rate (lev-US dollar) (normalized scale)



Source*: Nenovski and Andreev, Bulgarian Economists about the Great Depression, Sofia, 2013.*

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 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, wherein payments were made by the banknotes not directly convertible to gold. It was accepted gold foreign currency standard where gold reserves did not leave the bank safety-vault.

It was proposed at Genoa Conference the central countries to hold their currency reserves in gold, while the periphery countries - partly in gold and the rest in short-term receivables from those in the center.

That proposal was designed so as to restore the gold standard, avoiding a shortage of gold. Monetary stability of the peripheral countries depended entirely on those in the center, so that once the countries from "the bloc of the pound" 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 was 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 bloc of the

pound" 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 emission bank. Gold foreign currency standard was introduced under which the issued banknotes by BNB should have had gold holding of 1/3 gold reserve. Currencies of countries that adhered to the gold standard could also (according to Genoa Conference - 1922) be reserve of the issued banknotes however population could not actually exchange banknotes for gold as in 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 Bulgarian lev was performed by voting a law under which one gram of gold was exchanged for 92 levs. 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 it was possible reconstruction of monetary circulation by removing the gold standard and banknote to be accepted as the main payment means. Except for payments in the country, banknotes were already taken for international payments as the exchange rate was not correlated with gold, but was the result of the economic and financial situation of the state (Kolev, 1919, Pp. 20, 23).

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

Wars financing in Bulgaria was 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).

Bulgaria was preparing for its participation in the war and in 1914 it took 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. The agreement obliged the bank to repay loans of Bulgaria from 1913 amounted to 75 million francs to French banks (that remained unfulfilled and in 1921 Bulgaria was forced to repay this obligation also). The loan was secured by revenues from tobacco excise stamps, stamps 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 same time with the execution of the loan agreement. Amounts actually received from 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 on trust 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/ on trust from Bulgaria, as its debt was greater than that obtained for the weapon. 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 began fighting on October 14, 1915/ Germany and Austria-Hungary funded Bulgaria with an advance of 50 million levs per month. Initially the Central Powers intended that funding to be free, but after the refusal of the Bulgarian Minister of Finance for grant aid, that funding was formed as long-term loan at an interest rate of 6%. In September 1917 Germany again started to finance Bulgaria with monthly installments of 50 million levs, opening a Bulgarian account in "Diskontogezelsheft" in which by the end of the war it made 27 contributions totaling 1 billion 350 million levs. 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 utilized that account as amount available for the banknotes issued by the bank as it entered that amount in its asset. Germany reduced the account by 240 million levs from sold treasury bills and 120 million levs in banknotes for payment to German merchants trading on the Bulgarian market (Lyapchev, 1919, p.5-6).

BNB increased monetary circulation by direct financing the public debt. Other forms of financing by taxes rising, borrowing from the population through the issuance of treasury bills, loans and open accounts from the commercial banks were used less due to the weak development of the credit system.

During the period of the wars the government was funded by the Bank as its debt increased from 8 million levs before the Balkan War to 189 million levs after the Second Balkan War and 881 million levs 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 had granted relatively few loans to trade, industry and private banks, as most of the loans were for payment of the military supplies (Hristoforov, 2010, vol. I, p. 362).

After the war, banknotes in circulation were increased less compared to the war period, from 2 297 million levs in 1918 to 3 886 million levs in 1922. The public debt had raised much more from 1 294 million levs in 1918 to 4 130 million levs in late 1922. That same year a Law was passed on

restriction of banknote issue and the liabilities of the treasure to the Bulgarian National Bank[7], according to which the maximum amount which the Bank might grant the state was 4700 million that was approximately the amount of the balance of the state to the bank at the time. The law prohibited granting of other loans to the state over 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 levs. By voting that law, an independent credit policy of the bank, inflation termination and regulating of money in circulation were achieved. (Hristoforov, 2010,vol. I, p. 364).

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

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

	Public debt at the end of 1913 /billion of levs/	Public debt at the beginning of 1918 billion of levs/
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*

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, that at the end of 1918 reached one billion marks, which due to the depreciation of the German mark reached zero, thus the Bulgarian economy suffered higher losses compared to all concluded foreign loans (Russenov(ed), 1983, vol.II, p. 510).

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

During the war, the exchange rate of the Bulgarian lev was maintained by BNB to that of the German mark as 125 levs were equal to 100 marks and the depreciation of the lev and the mark did not have an effect on the domestic market. Ration system was introduced in Bulgaria for supply with 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).

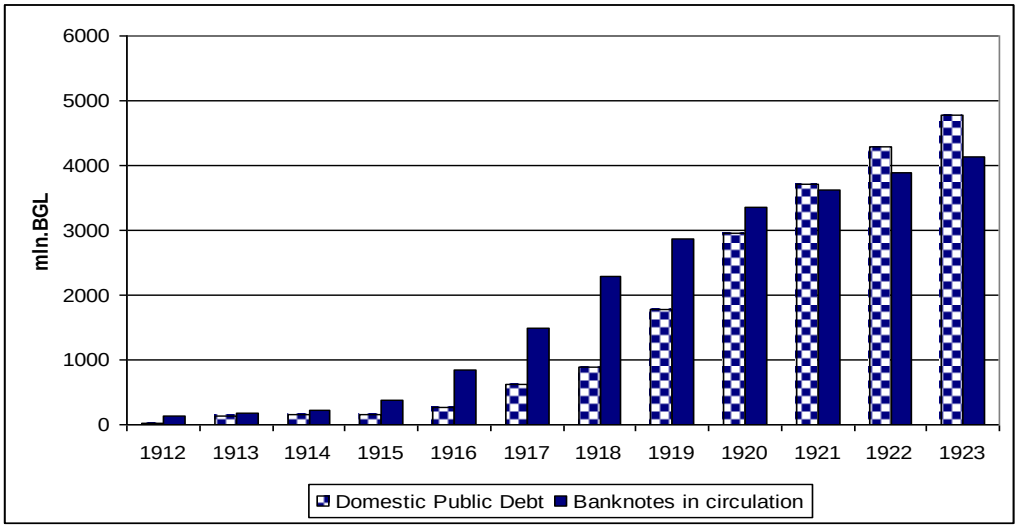
Table 3. Banknotes in circulation, public debt and gold reserve of Bulgaria (1912-1923)

Year	Banknotes in circulation	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*

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

Figure 2 Public debt and banknotes in circulation (1912–1923)



Source*: Nenovski and Andreev (2013), Bulgarian Economists about the Great Depression, Sofia*

2. Sectors of the Bulgarian Economy: Agriculture and Industry

2.1. Restructuring of agriculture

The duration of the First World War held back agricultural countries. Bulgaria was an agricultural country with not flexible farming impossible 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 used more labor and 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 own needs 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, as after the Treaty of Bucharest (1913) the country lost its granary - Dobrudzha, which represented 7.8% of the country's territory and 6.5% of its population. Farms in Dobrudzha were large (while small farms up to 100 decars were prevailing in Bulgaria), well technically equipped (near Balchik per 100 wooden ploughs[86] there were 532 ploughs, while in the country that ratio was 27 ploughs per 100 wooden plough) and

[8] In Bulgaria "ralo" (wooden plough) is called a farming tool, which preceded the metal plough, made of wood with or without a metal tip (ploughshare) for immediate soil loosening.

they produced for export. That imposed the need of restructuring of the national economy from cereal production to tobacco (Popov, 1919, p. 142).

The grains production during the war had dropped down as in 1917 wheat production was 27. 94% less compared to 1912 (Mollov, 1919, 63). The worst crop was in 1918, when from 22,807,946 hectares the yield was 1,304,622 tons that was 16.2% less than the weakest year before the wars in 1907 and 58.5% less compared to the best harvest in 1911. The produced cereals in 1918-19 for the first time were insufficient for the needs of the country for consumption and sowing (N.M., 1919, p.115).

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*

During the First World War Bulgaria was in full political and economic dependence 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).

Aegean Thrace was annexed to Bulgaria after the Treaty of Bucharest of 1913. The region was favorable for the production of oriental tobacco with high quality, as in addition to the raised production, the country acquired a trademark for this type of tobacco. During the war, the price of tobacco had gone up, and Bulgaria delivered 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 exports, 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 1918 had remained in the country (Duhovnikov, 1921, Pp.192,195).

Following the signing of the Treaty of Neuilly, according to which Bulgaria lost Aegean Thrace - where oriental tobacco was grown, cereals again became the most cultivated crop by the Bulgarian agriculture. Because of the loss of Dobrudzha in 1913, production in the country of cereals decreased compared to the years before the Balkan wars.

2.2. Problems of the Industry

Before the war, Bulgarian industry was underdeveloped, so that 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 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 the 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 too (Tsankov, 1921, p. 43).

Bulgaria, that 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[97].

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 banknotes in circulation, as not only their absolute value, but the rate at which they were raising was impressive. At base 100 of the index of commodity prices for the period 1901-1910, the 1913 index showed a rise of 130,

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

while in 1920 - 2399. The average market price of 1913 had increased more than eighteen times to 1921 (Burilkov, 1921, p.119).

The raise of the food prices caused their consumption to be regulated by the state. 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 U.S.A. and UK the price increase was less (Mihaylov, 1919, p. 255).

Bulgaria had regulated and market prices. The regulated prices were first 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 when these state organizations distributed and sold commodities to the population[10] (Tsankov, 1921, p. 40).

At the beginning of the war, the state regulated the prices of the essential goods, which it bought out from the farmers as the prices of other goods remained free. Farmers were forced to sell their produce at low regulated prices and buy other goods at high speculative prices (Mollov, 1919, p. 58).

3.2. Changes in Foreign Trade

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

Before the war, the foreign trade of Bulgaria was limited as it was trading with countries that were allies. While before the war, Turkey was the first of the countries with which Bulgaria traded, during the war it was at the last place while the first one became Germany, followed by Austria-Hungary and Switzerland. The country export to other countries was 1250 levs, which was the value of 25 kg of cigarettes (Tsankov, 1919, p. 78).

The exports of Bulgaria during the war and before it were agricultural products, but because of the bad harvests of cereals in 1916-18, the government prohibited their export. Raw tobacco acquired the greatest importance for Bulgarian exports, representing 3/4 of it. In 1911, the exports of tobacco was only 9.93%, but the restriction of trade relations of Germany and Austria-Hungary

[10] 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%.

created an opportunity for Bulgaria to be imposed on the tobacco market in these countries. Besides tobacco the quantities of exported to the Central Powers sheepskin, wool and rose oil had gone up too (Tsankov, 1919, p. 75).

The structure of import was changed also. Before the war ¾ of imports were: fabrics, yarn, leather, machinery, sugar, etc. The reduced industrial production for export of the big countries restructured the country imports as first place was taken already by colonial goods: 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 belonged to Germany and after the war from 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. The Treaty of Neuilly (1919) imposed on Bulgaria reparations amounting to 2 250 million gold francs payable for 37 years with an interest rate of 2% for the first year and 5% thereafter. Bulgaria was bound by restitution to Greece, Romania and Yugoslavia that included: 37 825 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[11] Bulgaria had to pay annually 270 million levs for reparations, 280 million levs for pre-war loans and 680 million for post-war loans, or totally 1180 million levs, 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 levs revenues per month in the previous years, revenues then dropped to 180 million levs (Nenovsky and Andreev, 2013, p. 118).

In 1923, Bulgaria reached an agreement with the Reparations Commission, the reparations to be divided into two parts: Part A in the amount of 550 million gold francs to be paid over 60 years with growing annuities and Part B of 1700 million gold levs, 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 countries to pay the reparations imposed after the First World War, thus the countries creditors accepted relieving conditions for their debts.

[11] 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.

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 of the outstanding contributions to the Bulgarian occupation duty. Bank for International Payments was established at the Conference with purpose to facilitate the payment of reparations[12] (Bobchev, 1930).

The Bulgarian economists were united around the thesis that the causes of the economic crisis in the twenties of the XX century, and then the Great Depression were the peace treaties of 1919, when the defeated countries were imposed reparations aiming to exhaust their economy and to reduce their political influence. 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 defeated states could not be achieved in the economic sphere because the ruin of a country would have an impact on the economy of other countries. (Nenovsky and Andreev, 2013,85).

Post-war international business conferences were held out 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 contracted through the League of Nations. The Geneva Conference of 1927 attempted to reduce the existing restrictions on international trade, as the countries were united by the idea of concluding a “customs truce” obliging them not 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 on “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 of the First World War. The thesis was supported that upswing in the economy was only possible if a moratorium on reparative payments was imposed. In 1931, U.S.

[12] 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.

President Herbert Hoover proposed moratorium on payments initially for one year, which was extended by six months, but then remained until the Second World War and the political debts tacitly dropped off (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 the defeated countries to repay their debts[1311] (Nenovsky and Andreev, 2013, p. 86).

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 own 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 too. The high prices of tobacco during the First World War made that crop to be preferred by the Bulgarian farmers and despite the loss of territories suitable for its cultivation it remained the leading Bulgarian agricultural production and export, after the war also. The mobilization of the working population and the loss of people, livestock and farm equipment decreased the productivity of Bulgarian agriculture as at the end of the First World War it had to be imported even flour needed to feed the population.

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 at the opening of 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 industrialization of the country and Bulgaria remained an agricultural country that continued to keep the employment of its population from the agricultural sector.

Bulgarian government financed the participation of Bulgaria in the war, receiving external loans from its allies and domestic loans by 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 Bulgarian lev in 1924. The war proved that the state could issue money without gold holding, but it was required the return to the gold standard for restoring the stability of the national currency. The

[13] 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.

instability of the exchange rate of the Bulgarian lev on the international markets created preconditions for monopoly activities of BNB in determining the foreign exchange rate, a privilege that it would also retain after the war.

The imposed reparations on Bulgaria hampered its economic recovery. Solvency of the country after the First World War (1914-1918) was greatly reduced, as there was a deficit in the balance of payments. The structure of the Bulgarian economy was such that much of the national income was natural, as only monetary income could be used to meet the financial needs of the state and for the payment of public loans and reparations. However, Bulgaria was a perfect payer of the imposed reparations until their termination during the Great Depression.

Abbreviations:

BNB – Bulgarian National Bank, the Central Bank of Bulgaria

JBEA – Journal of the Bulgarian Economic Association

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