

**PROVINCIAL BANKING
IN THE AUSTRO-HUNGARIAN MONARCHY AND SUCCESSOR STATES
1913 / 1925**

Thesis submitted for the degree of Doctor of
Philosophy at the University of Leicester

by

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Abstract

Provincial banking in the Austro-Hungarian Monarchy prior to the First World War was well developed. It fulfilled important economic and social functions as well as holding a significant share of the banking sector. In the successor states, after the collapse of the Monarchy, provincial banking lost some of its strength, but remained an important factor.

However, the historiography of provincial banking remained underdeveloped due to the limits of archive material, the small number of case studies and a generally low level of knowledge about provincial banking. This thesis aims to fill the gap by reconstructing the broad structure of provincial banking and its place in the overall banking systems of several selected regions of the Austro-Hungarian Monarchy and successor states for the sample years 1913 and 1925. General knowledge and understanding of provincial banking can be improved by analysing the business structure of the provincial banks based on the analysis of balance sheets and the reaction of provincial banking to economic, monetary and political disturbances caused by the collapse of the Austro-Hungarian Monarchy.

This dissertation has two parts. The first part presents the general framework of the research, through a survey of the existing historiography and an outline of the methodology of the research. It also offers some necessary introductory information about credit cooperatives, provincial banking and the economic and financial framework in which provincial banks operated. The second part consists of an analysis of the database containing information on all financial institutions within the assessed territory and information from the balance sheets of provincial banks.

The Appendix to the thesis contains a glossary of the terminology used in balance sheets, and the main database. The database and thesis is designed to serve as a useful foundation for future case studies of the historiography of provincial banking in the Austro-Hungarian Monarchy.

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Balance sheets items

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Slovakia 1913/1925

Vojvodina 1913/1925

Croatia 1913/1925

Bosnia and Herzegovina 1913/1925

Bohemia 1913/1925

Moravia and Silesia 1913/1925

Appendix III – balance sheets database

Hungary 1913/1925

Slovakia 1913/1925

Vojvodina 1913/1925

Croatia 1913/1925

Bosnia and Herzegovina 1913/1925

Bohemia 1913/1925

Moravia and Silesia 1913/1925

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Abbreviations

K – Austro-Hungarian crowns

Kč. –Czechoslovak crowns

Din – dinars

P – pengos

m. – million

b. – billion

K m. – millions of crowns

P m. – millions of pengos

Din m. – millions of dinars

Kingdom S.H.S. – Kingdom of Serbs, Croatsians and Slovenes

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My supervisor, Prof. Philip Cottrell, has a technique similar to Zen teachers. He has never attempted to offer me a shorter or easier way out, but he has always had an appropriate question or answer at the right moment. Should I ever develop into a good historian, he will certainly have the lion's share of the credit. Thanks.

This work is dedicated to my friends and colleagues who tried to revive the past during the academic year 1998/1999 in the Tardis, the study room of the former Department of Economic and Social History at Leicester University. Unfortunately, the past is irreversible.

‘A bank is like a large river which is useful beyond limits. Once a bank is established and money given a chance to circulate, hoarded money will be brought in circulation and act like a large river carrying trade, enlarging production, stimulating industry, promoting sciences and spreading the truth, facilitating road building and traffic expansion...

Hence a bank will become an establishment that cannot be missed from the life of the people even for a single day.’¹

¹ Dai Ichi Ginkyō (ed.), *Dai ichi ginkōshi (History of the Dai Ichi Bank)* (Tokyo, 1957), p. 84, quoted from Yohannes Hirschmeier and Tsunehiko Yui, *The Development of Japanese Business 1600-1973* (London, 1974).

Introduction

At the beginning of the twentieth century, there were thousands of provincial financial institutions in the Austro-Hungarian Monarchy. They comprised provincial banks and credit cooperatives that had various names, legal forms and financial capacities. They could be found in almost every marketplace, small town and larger village, where they fulfilled various business, economic and social functions. They were active for a long period of time. Having started operations during the nineteenth century, mostly after 1850, these financial institutions flourished at the beginning of the twentieth century, the majority continuing to remain active when the successor states were created, following the First World War and the collapse of the Austro-Hungarian Empire. Many lasted almost until the Second World War. Any historian undertaking research into the economic history of this region has to take notice of its very rich provincial banking.¹

Provincial financial institutions flourished almost everywhere else in Europe in the late nineteenth and early twentieth century, in the form of credit cooperatives, Sparkassen or joint stock banks. In 1913 there were 3,133 savings banks with 7,000 branches in Germany. At the same time there were 19,300 credit cooperatives.² They received reasonable attention in historiography.³ In the nineteenth century provincial banking flourished in England and Scotland, based on Ltd.[?limited] and joint stock banking. It also aroused the interest of historiographers.⁴ The Norwegian banking system on the eve of the First World War consisted of 111 commercial banks and 487 local savings banks and could

¹ See definition of the term 'provincial banking' in the methodology chapter, p. 26.

² Paul Thomes, "German Savings Banks as Instrument of Regional Development up to the Second World War" in Youssef Cassis, Gerald D. Feldman and Ulf Olsson (eds), *The Evolution of Financial Institutions and Markets in Twentieth-century Europe* (Aldershot, 1996), p. 145.

³ Literature about German Sparkassen is extensive, thanks to numerous case studies on still existing Sparkassen and Volksbanks. Interested readers could start with Trende, A. *Geschichte der deutschen Sparkassen bis zum Anfang des 20. Jahrhunderts* (Stuttgart, 1957); Jürgen Mura, "Zur Geschichte des deutschen Sparkassenrechts von den Anfängen bis 1945" in *Bankhistorisches Archiv* 1/1983, *Zeitschrift für Bankengeschichte*, Frankfurt am Main; Hans Pohl / Bernd Rudolph / Günther Schulz, *Wirtschafts- und Sozialgeschichte der deutschen Sparkassen im 20. (Stuttgart 2005)*.

⁴ Collins, Michael, *Money and banking in the UK : a history* (London, 1988); Pressnell, Leslie Sedden, *Country Banking in the Industrial Revolution* (Oxford, 1956); C.W. Munn, *Scottish Provincial Banking Companies 1747-1864* (Edinburgh, 1981), Cheryl Bailey, *Provincial banking in nineteenth century England* (unpublished PhD thesis, Leicester University). See also recent Lucy A. Newton articles.

be characterised, according to Knutsen, as decentralised and fragmented.⁵ Provincial banking also spread to other parts of western Europe, and historians began to assess provincial banking in Spain, Belgium⁶, France⁷ and Italy⁸. Provincial banking was also well developed in the first half of the twentieth century in Romania and Bulgaria. However, central European provincial banking has received little attention from historians.⁹ Although overviews of the banking history of both the Austro-Hungarian Monarchy and the successor states note the importance of provincial banking, these rarely contain an in-depth analysis of this financial activity. Similarly, contemporary writers concerned with the economy usually commented on and debated general economic and financial problems and, consequently, are only a limited source of information.¹⁰ As a result, Transleithenian provincial banking historiography is almost virgin territory.¹¹ The literature for

⁵ Sverre Knutsen, "Phases in the Development of the Norwegian Banking System, 1880-1980" in Youssef Cassis, Gerald D. Feldman and Ulf Olsson (eds), *The Evolution of Financial Institutions and Markets in Twentieth-Century Europe* (Aldershot : EABH and Scholar Press, 1995).

⁶ See Deraviaux, R., *La banque mixte, origine et soutien de l'expansion économique de la Belgique* (Bruxelles, 1947); Hamande, L and Bzrny, F., *Histoire, expose des operations et statistiques des caisses d'épargne en Belgique* (Louvain, 1902); Van Molle, L. *Chacun pour tous. Le Boerenbond belge 1890-1990* (Louvain, 1990); Van Put, A. at all (eds) *Les banques d'épargne belges. Histoire, Droit, Fonction économique et Institutions* (Tielt, 1986).

⁷ Oger, Benoit, *Histoire de la Caisse nationale d'épargne : une institution au service du public et de l'État, 1881-1914* (Paris, 2006); Priouret, R. *La Caisse des Dépôts. 150 ans d'histoire financière* (Paris, 1966); Gueslin, A. *Les origines du Crédit Agricole 1840-1914* (Nancy, 1978).

⁸ For Banche popolari see Luzzatti, Luigi, (Pecorari, Paolo, ed), *La diffusione del credito e le banche popolari* (Venezia, 1997); Pecorari, Paolo (ed.), *Le banche popolari nella storia d'Italia : atti della quinta Giornata di studio "Luigi Luzzatti" per la storia dell'Italia contemporanea* (Venezia, 1997). Literature about credit cooperatives is extensive, owing to the existence of numerous case studies. Interested readers could start with De Rosa Luigi, *Storia delle Casse di Risparmio e della loro Associazione 1822-1950* (Roma, 2003).

⁹ Things have not changed since the time Lampe recognised this problem. Lampe, R. John and Jackson, R. Marvin, *Balkan Economic History, 1550-1950. From Imperial Borderlands to Developing Nations* (Bloomington, 1982), p. 305.

¹⁰ As an example see Kosier, St. Ljubomir i Ristić, Vasa, *Vodeće institucije u nacionalnom bankarstvu Bosne* (Zagreb, 1924).

¹¹ Two works deserve attention. The first one is a joint research project on the banking history of Vojvodina, which offers quality material and good analysis of the provincial banking of this specific region. See, Gaćeša, L. Nikola (ed.), *Istorija bankarstva u Vojvodini* (Novi Sad, 2001). Recently, Gal Zoltán has provided interesting and original methodological models for the analysis of provincial banking, especially for regional banking, but he unfortunately has moved his focus to other subjects. See Gal, Zoltán, 'The golden age of local-regional banking. The spatial structure of the Hungarian banking system at the turn of the 19/20 century', *EABH bulletin*, 2/2005, pp. 19-30.

Cisleithenia is somewhat greater as the Sparkassen¹² as a specific form of banking have attracted the attention of researchers.¹³ Local histories of Yugoslavia, which sometimes provide interesting and illustrative examples of provincial banks and credit cooperatives, usually do not offer enough material to enhance a general understanding of provincial banking.¹⁴ However, Slovenian provincial banking has been studied in detail. For this reason, Slovenia has been excluded from the following analysis.¹⁵

The impact of economic nationalism on the financial sector has been the subject of several articles, all of which will be of great use for anyone interested in small-scale banking.¹⁶ Furthermore, a recent research project at Europa-Universität Viadrina Frankfurt (Oder),

¹² About Sparkassen see pp. 64-65.

¹³ Albrecht, Catherine, *Savings Banks in Bohemia, 1852-1914: The Politics of Credit*, (unpublished PhD dissertation, Indiana University, 1986). See also Wixforth, Harald (ed.), *Sparkassen in Mitteleuropa im 19. und 20. Jahrhundert – Geld und Kapital. Jahrbuch der Gesellschaft für mitteleuropäische Banken- und Sparkassengeschichte* (Vienna, 1998).

¹⁴ Feletar, Dragutin, *110 godina koprivničkog bankarstva* (Koprivnica, 1982); Kudlek, Drago and Matovina, Miroslav, *Bankarstvo Siska* (Sisak, 1990); Galijašević, Alija, *Ekonomske prilike i bankarstvo u Tešanjskom kraju kroz historiju* (Tešanj, 1999); Petković, Živan, *Nastanak i razvoj bankarstva na tlu Maglaja sa pregledom razvoja privrednih i drugih organizacija* (Tuzla, 1990); Mažuran, Ive, 'Novčani zavodi u Osijeku' in *20 godina Komunalne banke i štedionice* (Osijek, 1975); Bobik, Aleksandar, *Vršačko bankarstvo* (Vršac, 1994).

¹⁵ During the 1980s, Slovenian banks stimulated banking history research. Stemming from that time, there are numerous micro-regional and case studies available: Koser, Vojteh, *Mestna hranilnica v Mariboru*, (Maribor, 1989); Kramar, Janez, *Hranilnice in posojilnice v slovenski Istri*, (Koper, 1985); Luin, Slavko, 'Denarne ustanove v Kranju do druge svetovne Vojne' in *Kranjski zbornik* (1980), pp. 194-204; Nečak, Dušan, *Sto let mestne hranilnice Ljubljanske 1898-1989* (Ljubljana, 1989); Pahor, Milan, *Slovensko denarništvo v Trstu : denarne zadruge, hranilnice, posojilnice in banke v letih 1880-1918*, (Trst, 1989); Skrabl, Zorka, *Hranilnice in posojilnice na Dolenjskem in v Beli krajini od srede 19. stoletja do leta 1947. Hranilništvo v Škofji Loki v času od 1896 do 1947*, *Zgodovinski arhiv*, 1983; Slokar, I., 'Valutne razmere, devizna politika in bankarstvo' in Mal, J. (ed.), *Slovenci v desetletju 1918-1928* (Ljubljana, 1928); Tosti, Avgus, *Denarni zavodi v Sloveniji po prvi svetovni vojni* (Ljubljana, 1989); Videčnik, Aleksander, *Denarništvo v Šaleški in Zgornji Savinjski dolini* (Titovo Velenje, 1989); Videčnik, Aleksander, *Denarništvo v Celju : od hranilnice do banke* (Celje, 1989); Waltritsch, Marko, *Slovensko bančništvo in posojilništvo na Goriškem* (Gorica, 1982).

¹⁶ Lazarević, Žarko, 'Razvoj institucij finansičnega posredništva v Celju do konca prve svetovne vojne' in Počivavšek, Marija (ed.) *Iz zgodovine Celja* (Celje, 2004), pp. 127-154; Hájek, Jan, 'Zur Entwicklung der Sparkassen in der böhmischen Ländern bis 1914' in Wixforth, Harald (ed.), *Sparkassen in Mitteleuropa*, pp. 61-84; Jelić, Damir, 'Sailing with the Nationalist wind – The case of the Serbian Bank in Zagreb, 1895-1918' in: Kostas P. Kostis (ed.), *The Creators and the Creation of Banking Enterprises in Europe from the 18th to the 20th Century* (Athens, 2002); Tkáč, Marián, *Slovenské banky v Uhorsku: tak vznikala hornouhorská Banka Tatry* (Bratislava, 1997).

2003-2006, considered the importance of economic nationalism for provincial banking.¹⁷ Nonetheless, these articles and the project have only opened up a broad topic. To claim that the historiography of provincial banking is underdeveloped is certainly not an overstatement.

There is a well-developed historiography for metropolitan banking¹⁸ and finance in the Austro-Hungarian Monarchy and the successor states. Overviews of the banking history of most parts of the region have been published.¹⁹ However, they usually concentrate on big business or politically important aspects thereby omitting to provide a detailed analysis of provincial banking. There is a long established literature concerned with the most important or the most distinctive banks of the region.²⁰ These works are paralleled by those concerned with central banking.²¹ Furthermore, the relationship between banking and economic development (and some other interesting aspects of banking) have been assessed in some important studies.²² The main overviews of the economic history of the

¹⁷ See *EABH bulletin*, 2/2006, pp. 6-11.

¹⁸ The term 'metropolitan banking' is defined in the methodology chapter, p. 24.

¹⁹ Vencovský, František, et al, *Dejiny bankovníctví v českých zemích* (Prague, 1999); Kršev, Boris, *Bankarstvo u Dunavskoj banovini* (Novi Sad, 1998); Gaćeša, *Istorija bankarstva u Vojvodini*; Lazarević, Žarko and Prinčič, Jože, *Zgodovina slovenskega bančinstva* (Ljubljana, 2000); Tomka, Béla, *A magyarországi pénzintézetek rövid története 1836-1947* (Budapest, 1996).

²⁰ Schubert, Aurel, *The Credit-Anstalt crisis of 1931* (Cambridge, 1991); März, Eduard, *Austrian Banking and Financial Policy: Credit-Anstalt at a Turning Point, 1913-1923* (London, 1984); Ránki, György, 'A magyar Általános Hitelbank a 20-as években' in: Ránki, György, *Mozgasterek és kényszerpályák* (Budapest 1983); Kövér, György, *A brit tokőpiec és Magyarország, az Angol-Magyar Bank, 1867-1897* (Századok, 1984); Tallós, György, *A Magyar Általános Hitelbank 1867-1984* (Budapest, 1995); Novotný, Jiri and Sousa, Jiri, *Banka ve znamení zeleného čtyřlístku: Agrární Banka, 1911-1938* (Prague, 1996); Novotný, Jiri and Sousa, Jiri, *Živnostenská Banka in the Czech Business 1868-1950* (manuscript, 1993); Kosier, Ljubomir, *Prva Hrvatska Štedionica 1846-1921. Jedan prilog historiji jugoslavenskog novčarstva* (Karlovac, 1921); Kolar-Dimitrijević, Mira, *Kratka povjesnica Prve hrvatske štedionice* (Koprivnica, 1994); Gaćeša, Nikola, *Poštanska štedionica Kraljevine Jugoslavije: njezina organizacija, rad i uloga u privrednom životu* (Zagreb, 1934); Banović, Luka, 'Privilegovana agrarna i komercijalna banka za BiH', *Glasnik arhiva i Društva arhivskih radnika BiH*, Vol. 6 (Sarajevo 1996).

²¹ Pressburger, Siegfried, *Österreichische Notenbank, 1816-1966: Geschichte des Österreichischen Noteninstituts* (Vienna, 1966); Stanarević, Nikola, *Narodna banka Kraljevstva S.H.S.* (Zagreb, 1920); Kosier, St. Ljubomir, *Narodna banka Kraljevine Srba, Hrvata i Slovenaca* (Zagreb, 1924); Bognar, Karoly and Forgacs, Andras, *National Bank of Hungary – 70 Years of Existence 1924-1994* (Budapest, 1994).

²² Rudolph, Richard L., *Banking and Industrialisation in Austro-Hungary* (Cambridge, 1976); Cottrell, Philip L., (ed.), *Rebuilding the Financial System in Central & Eastern Europe, 1918-1994* (Aldershot, 1997).

region consider banking development as well.²³ Moreover, most books on European banking history have detailed chapters on banking in the Austro-Hungarian Monarchy although they often pay more attention to Cisleithenia.²⁴

There is an abundant literature on monetary and financial matters as well as general economic conditions, which present the framework in which the banking system developed and operated.²⁵ The monetary turbulence caused by the collapse of the Austro-Hungarian Monarchy has been well assessed in both contemporary literature and the historiography.²⁶ Considering all of this, even a specialist on Central European banking history would have difficulties finding a dimension of big business or of major financial networks that has not been considered.

The cooperative movement in Europe and in the assessed region has been the subject of numerous historical and contemporary works.²⁷ The political importance of the credit

²³ Lampe and Jackson, *Balkan Economic History*; Hočevar, Toussaint, *The Structure of the Slovenian Economy, 1848-1963* (New York, 1965); Faltus, Jozef and Průcha, Václav, *Prehľad hospodárskeho vývoja na Slovensku v r. 1918-1945* (Bratislava, 1969); Berend I.T. and Ránki, György, *Hungary. A Century of Economic Development* (Newton Abbot, 1974); Komlos, John, (ed.), *Economic Development in the Habsburg Monarchy in the Nineteenth Century. Essays* (New York, 1983); Komlos, John, (ed.), *Economic Development in the Habsburg Monarchy and in the Successor States. Essays* (New York, 1990); Teichová, A., *An Economic History of Czechoslovakia 1918-1980* (London, 1988); Mirković Mijo, *Ekonomika Historija Jugoslavije*, Vol. 2 (Pula, Rijeka, 1985).

²⁴ Cameron, E. Rondo (ed.), *Banking in the Early Stages of Industrialization: A Study in Comparative Economic History* (New York, 1967); Cameron, E. Rondo, *Banking and Economic Development: Some Lessons of History* (New York, 1972); Cottrell, P.L., Lindgren, Håkan, Teichová, Alice (eds), *European Industry and Banking Between the Wars: A Review of Bank-Industry Relations* (Leicester, 1992); H. Pohl (ed.), *Europäische Bankgeschichte* (Frankfurt am Main, 1993), Teichová, Alice, Gourvish, Terry, Pogány, Ágnes (eds), *Universal Banking in the Twentieth Century: Finance, Industry and State in North and Central Europe* (Aldershot, 1994).

²⁵ Interested readers could start with Kaser, M.C., and Radice, E.A. (eds), *The Economic History of Eastern Europe 1919-1975* (Oxford 1985, 1986) and works of Ivan Berend/Ránki György, David Good, John Lampe, Peter Sugar and Alice Teichová, not forgetting Hugh Seton-Watson and very useful publications prepared for the British Foreign Office.

²⁶ The amount of literature dealing with these problems is huge, and some of the works are listed in the bibliography. Interested readers should remember early works, such as Tomašević, Jozo, *Novac i kredit* (reprint Zagreb, 2004); Rašin A., *Financial policy of Czecho-Slovakia During the First Years of its History* (Oxford, 1923), and publications of the League of Nations.

²⁷ A good starting point is Balawyder, Aloysius (ed.), *Cooperative Movements in Eastern Europe* (London, 1980); Tchayanov, Alexander, *The Theory of Peasant Cooperatives* (Columbus, 1991); Coffey, Diarmid, *The Cooperative Movement in Yugoslavia, Rumania and North Italy during and after the World War* (New York, 1922); Faust, Helmut (ed.), *Genossenschaftliches Lesebuch. Zeugnisse aus hundert Jahren*

cooperative movement and its role in economic nationalism triggered much interest.²⁸ Furthermore, a recently held conference considering the credit cooperative movement in East-Central Europe raised many new questions about the credit cooperative movement.²⁹ However, the ultimate financial consequences of the credit cooperative movement have generated limited interest.

All in all, much is known about the banking and financial framework in which provincial banking operated but this is not the case for provincial banking itself. Banking and economic histories fail to provide a systematic and in-depth overview of provincial banking in the Austro-Hungarian Monarchy and the successor states. There are good reasons for this.

(Frankfurt am Main, 1967); Mladenatz, Gromoslav, *Histoire des doctrines coopeartifs* (Paris, 1933); Seraphim, Peter-Heinz, *Das Genossenschaftswesen in Osteuropa* (Neuwied, 1951); Worsley, Peter (ed.), *Two Blades of Grass. Rural Cooperatives in Agricultural Modernisation* (Manchester, 1971); Patara, Mario, *Handbuch der österreichischen Genossenschaftswesens* (Vienna, 1986); Dvorak, Ladislav František, *Das tschechoslowakische Genossenschaftswesen* (Prague, 1922); Feierabend, Ladislav, *Agricultural Cooperatives in Czechoslovakia* (New York, 1952); Peyer, Karl, *Die Gewerkschafts- und Genossenschaftsbewegung in Ungarn* (Budapest, 1930); Seidl, Ambrus, *The Hungarian Central Cooperative Society. Its Organisation and Work* (Budapest, 1904); Čuješ, Rudolf, *Slovenia – Land of Cooperators* (Willowdale, 1985). There is a huge literature on European credit cooperative movement. See also recent articles of Timothy W. Guinnane.

²⁸ Holec, Roman, 'Economic aspects of Slovak national development in the twentieth century' in Teichová, Alice, Matis, Herbert and Patek, Jaroslav (eds) *Economic Change and National Question in Twentieth-Century Europe* (Cambridge, 2000), pp. 277-294; Nagel, Lambert, *Raiffeisen im Sudetenland* (Neustadt, 1952); Albrecht, Catherine, 'Economic Nationalism among German Bohemians', *Nationalities Papers*, Vol. 24 (1996), pp. 17-30; Albrecht, Catherine, 'Rural Banks and Czech Nationalism in Bohemia, 1948-1914', *Agricultural History*, Vol. 78 (2004), pp. 317-345; Kubů, Eduard, 'Die Kreditanstalt der Deutschen 1911-1945', *Jahrbuch für Unternehmensgeschichte*, Vol. 20 (2000), pp. 3-29; Gaćeša, L. Nikola, 'Srpske novčane ustanove u drugoj polovini XIX i početkom XX veka u Hrvatskoj i Slavoniji' in Krestić Vasilije (ed.), *Zbornik o Srbima u Hrvatskoj*, Vol. 4 (Belgrade, 1999); Krajčović, Milan, 'Die Verstärkung der Solidarität der nichtmagyarischen Völker Ungarns durch die Wirtschaftstätigkeit bis im Jahr 1914. Die rumänisch-slowakische Zusammenarbeit' in Drecin, Mihai D. (ed.), *Istorie financiar-bancara. Studii asupra bancilor sasesti, romanesti, maghiare si slovaci din Austro-Ungaria 1867-1918* (Cluj-Napoca, 2001), pp. 98-122; Szász Zoltán, 'Banking and nationality in Hungary 1867-1914' in Teichová, Alice, Matis, Herbert and Patek, Jaroslav (eds) *Economic Change and National Question in Twentieth-Century Europe* (Cambridge, 2000), pp. 32-43.

²⁹ Conference 'Cooperatives and National Building in East Central Europe (19th and 20th Centuries)' was held at the European University Viadrina in Frankfurt am Oder. Papers were published in Lorenz, Torsten (ed.), *Credit Cooperatives in Ethnic Struggles. Eastern Europe from the Late 19th until the Mid 20th Century* (Berlin, 2006).

Research on provincial banking has been limited because, despite the large numbers of provincial institutions, the related extant archival material is sparse. In addition, the available archival material is of questionable value since connecting data are often missing or unsorted. A clear illustration of this is that the Croatian State Archive holds material for only 53 banks and savings banks and two private banking houses for the period 1913-1925 whereas the database of this study contains 160 banks and savings banks and 28 private banking houses. The result of little primary material surviving is that there are satisfactory sources for not more than a Croatian dozen banks, mostly those located in Zagreb. There is a similar situation in archives in Hungary and Slovakia.

Provincial banks, being small, generated far fewer business papers than the large metropolitan banks. The historiography of the major banks has utilised numerous reports, minutes of meetings, in-house business analysis and similar sources. Provincial banks rarely produced such documents because their business, as well as their managements and ownership structures, were much simpler. Balance sheets, eventually annual reports, a few account books and lists of shareholders are usually the most we can find in well-preserved archive material of some provincial banks.

Živan Petković, when analysing banking in Maglaj, wrote about the Hrvatska Trgovačka Banka i Štedionica:

I was not able to find out exactly the date of formation of our first bank long ago in 1905. We do not know who were the shareholders or the details of its formation and closure. The annexation of Bosnia and Herzegovina in 1908 and the consequent crisis, together with the Balkan Wars of 1912/13 and the First World War 1914-1918 were political disturbances which caused data about this bank to be lost. The oldest people from Maglaj do not remember the bank.

With regard to the archive of Privredna Banka in Maglaj, he similarly commented that:

Most of the inventory was lost in the fire during the Second World War, while the rest was lost later on. The family Uzeirbeg (one of main shareholders in whose house the bank had its office) does not have any archive material except a few pieces of the bank's furniture.³⁰

³⁰ Petković, Živan, *Nastanak i razvoj bankarstva na tlu Maglaja*, pp. 16, 26.

Even the few case studies and chapters on provincial banks are mostly based on published material rather than archival sources.³¹

There are other serious obstacles in the way of developing and writing detailed case studies of provincial banks. To date local historians with an interest in banking have shown a lack of understanding regarding accounting and business practices which are so necessary for a comprehensive study of any provincial bank. In addition the provincial banking of the period was a complex. There was a multitude of banks and credit cooperatives, all of which had various legal backgrounds and names and which, as a result of regional differences, did not necessarily have similar business or economic or social objectives. It is not surprising that the best contributions to the historical study of provincial banking are mostly of small territories, such as provincial banking in Slovenia and Vojvodina, or are limited to a specific form of provincial banking, such as Albrecht's thesis on the Sparkassen in Bohemia.

Taking into account the weaknesses of provincial banking historiography, the very large number of provincial banks and, as is subsequently considered, their distinctive financial, economic and social functions, it becomes quite clear that there is a need for a comprehensive study of the topic. In order to establish a foundation for future developments in the field of provincial banking historiography, this research aims to fill this gap.

Creating a basis has been undertaken by reconstructing the broad structure of provincial banking, and its place in the overall banking systems of a region. In order to undertake this, some initial questions had to be determined. Information on provincial banking needs to cover issues such as: how many provincial financial institutions can be identified and where were they located? What were the financial capacities of provincial banks and what was their legal status? Furthermore, research would have to provide answers to questions such as: how, and in what form, did provincial banks attract financial resources? Where, and under what conditions, did they invest their financial resources? The study also had to address the question: to what extent were the provincial banks integrated into the financial system and major financial networks? Finally, the study would have to provide some indications regarding the variety of business activities undertaken by provincial banks.

³¹ The detailed study of the development of banking in the regional centre Vršac in Vojvodina is almost completely based on printed sources. See Bobik, *Vršačko bankarstvo*, pp. 17-88.

This research study provides an analysis for the reference years 1913 and 1925. These years were chosen because they allow an assessment of both the changes and continuities in the banking experience. The political framework and the main economic and financial flows changed following the First World War. On the other hand, the common problem of how to provide financial resources and banking services to provincial economies remained. This means that provincial banking during the period covered is indicative of the turbulence caused by the collapse of the Austro-Hungarian Monarchy and the resultant economic, monetary and political disturbances.

This research could have been made easier by choosing some other reference years. For example, there are published statistics for the banking system of Transleithenia in 1909.³² 1913 was chosen because it was when the development of the provincial banking peaked in the Austro-Hungarian Monarchy, while 1925 was when the economies of all the selected regions for analysis were stabilised to a great extent after the post-war inflation. The more easily available data for 1929, for example, are influenced by concentration and etatist tendencies in the banking sector during the late 1920s. Analysing a longer time period would have meant that the findings would have been influenced by changes that took place within all banking systems as a result of secular economic developments. Choosing 1913 and 1925 as reference years makes it possible to observe almost the same banks (even though there were newcomers and liquidations during the period), in two different monetary and market situations.

This research does not assess provincial banking across all the territories of the Austro-Hungarian Monarchy and of the successor states. Provincial banking is a very broad topic and, thus, some limits had to be imposed. The chapter on methodology explains how and why the research was restricted to seven case-studies – seven regions variously located in Czechoslovakia, Hungary and the western parts of the Kingdom of Serbs, Croats and Slovenes. The analysis of provincial banking and the role it played in the financial systems of the seven distinct and carefully selected regions will provide an understanding of the phenomenon of provincial banking in East-Central Europe.

Since the archival material was often very limited, fragmented and multilingual, research on provincial banking was based on high-quality contemporary printed sources. First of all, there were the financial *Compasses*, which offer a considerable amount of detailed

³² Kon. Ungarischen Statistischen Zentralamt, *Die Kreditanstalten der Länder der Ungarischen Heil. Krone in der Jahren 1894-1909* (Budapest, 1913).

information on all aspects of banking, including the provincial banks. Also, the research has utilised other contemporary economic publications. Data from the financial *Compasses* and economic publications provided the possibility of establishing a broad picture of provincial banking in the Austro-Hungarian Monarchy and the successor states. These sources are discussed in greater detail in the following chapter.

The first stage of the research was to identify all the provincial banks and their branches as well as the branches of other banks active in the provincial financial market. Thus, a broad outline of the structure of provincial financial services was reconstructed. Since balance sheet data were included in *Compasses*, it was possible to re-calculate certain values, thus enabling some conclusions to be drawn about the financial resources and business structure of provincial banks. This thesis presents the findings which resulted from the reconstruction of the structure of the banking system, and the balance sheet analysis of provincial banks.

This thesis comprises two parts. The first presents the general framework of the research and is composed of three chapters. The first chapter outlines the methodology used in the research. The second offers some introductory information on the credit cooperative movement, provincial banking and economic nationalism. The third attempts to explain briefly the main economic and banking frameworks in which provincial banking operated before and after the First World War.

In the chapter on methodology, all sources of data relating to provincial banking are described. The methodology employed in collecting and analysing the records is also explained. For each region and each reference year the research generated two types of database. The 'identification database' presents data about all financial institutions found in a region. The 'balance sheet database' concentrates solely on provincial banks and the specific information contained in their balance sheets. The glossary of balance sheets and banking terminology in the appendix will hopefully assist potential researchers undertaking similar research in the future.

Before presenting the detailed results of the analysis of provincial banking, it is necessary to provide some introductory comments on the practical problems associated with provincial banking. These are dealt with in the second chapter. Here, the difference between provincial banking in Cisleithenia and in Transleithenia is highlighted. Provincial banking developed somewhere between the credit cooperative movement at the bottom and high finance at the top, so it is necessary to introduce the reader to the credit cooperative

movement of the Monarchy. During the marked expansion of the credit cooperative movement at the end of the nineteenth and the beginning of the twentieth century, these institutions tried to meet different demands for micro-credits and underwent various organisational metamorphoses. Many financial innovations within provincial banking were connected with the credit cooperative movement. However, the credit cooperative movement lost most of its economic importance during the interwar period. Nonetheless, the cooperatives managed to remain in the local financial market, thanks to their flexibility and adaptability, and sometimes because of their political importance at the local level. The problem of economic nationalism, which was often related to the credit cooperative movement, as well as to provincial banking – and in some cases to metropolitan banking – is dealt with in a separate section of this chapter. This presents a mainly theoretical background to the problem of economic nationalism, while its regional variations are included in the regional analysis in Part two.

The third chapter is divided into two sections: one concerned with the framework of the Austro-Hungarian Monarchy and the other with the situation after the collapse of the Monarchy. Provincial banking in the Austro-Hungarian Monarchy and the successor states developed within a broader framework and was influenced by metropolitan banking and business networks, and by economic and political changes in the course of the establishment of the successor states. The section concerned with the Austro-Hungarian framework is an attempt to explain the background against which provincial banking developed. Economic life in the Monarchy prior to the First World War was characterised by the dominance of a few major financial centres and the radiating networks of commercial banks. However, the importance of the central bank and its network for monetisation, credit distribution and the economic integration of the Monarchy is not to be underestimated. In addition, there were the banking networks of the postal savings banks, which assisted the payment systems of the provincial economies. Since it was decided to undertake a comparative analysis of the years 1913 and 1925, it is necessary to provide some information about the changes unfolding in both the financial sector and economic structure. The transformation of the stable and huge market of the Austro-Hungarian Monarchy into the smaller markets of Czechoslovakia, Hungary and Yugoslavia resulted in many changes in the banking sector. The problems related to monetary instability, the nostrification of the banks and the re-integration of financial markets are assessed in the section addressing the consequences of the First World War.

Part two consists of seven case studies. It is divided into two chapters considering Transleithenia and Cisleithenia individually. These two regional chapters contain the results of the analysis of the provincial banking in seven regions of the successor states. This analysis draws from a database which comprises information on all financial institutions in these regions and the balance sheets of the provincial banks. The analytical model applied for Cisleithenia differed from that for Transleithenia as a result of differences in provincial banking and accounting practices. The chapter on Cisleithenia contains an analysis of provincial banking in Bohemia and Moravia with Silesia, and the chapter on Transleithenia comprises the analysis of Hungary, Slovakia, Croatia, Vojvodina and Bosnia and Herzegovina. The final section of each chapter is a comparative analysis of the regional results for Transleithenia and Cisleithenia.

Banking to a great extent reflects the economic life of provincial economies. Provincial banking can be an excellent indicator of the problems related to the economic development of the region. Thus, the last chapter is an attempt to recognise the role played by provincial banks in the process of the economic development of the region.

The database information is valuable in itself because of the quantity of data collected. It contains information on all financial institutions within the assessed territory for the reference years, and balance sheet information for provincial banks. It is presented in a separate volume of the thesis as an appendix.

Part one

CHAPTER 1 – METHODOLOGY

When dealing with the economic history of Central and South Eastern Europe, there are some specific obstacles. The main problem for researchers of the economic history of the region is the instability of borders and territorial units. The formation of the successor states after the collapse of the Monarchy entailed the formation of new statistical units. New state borders, as well as the administrative division of the successor states, failed to adhere to the previous county and district borders of the Austro-Hungarian Monarchy.¹ As for Yugoslavia, the changes regarding its administrative units during the interwar period make the available statistical data almost useless for any analysis that aims to examine the country's economic changes. This lack of continuity acts as a hindrance to precise comparison between statistical data collected before and after the First World War. Therefore, for this research, methodological models were developed which could avoid these problems. This chapter presents these models and indicates specific problems that had to be resolved.

Sources of information about provincial banking consisted of *Compasses* and other printed material which are discussed in the first section of this chapter. Two databases were created from the information available in the printed sources. The first contains information on all the identified banking institutions and their branches, and includes most private banking houses and credit cooperatives. This database covered the banking system of every assessed region, including metropolitan banking. The second database consists of the balance sheets of only the provincial banks. It holds information on both their assets and their liabilities. For the purposes of analysis, a distinction was made between metropolitan, regional and local banking with additional sub-categories. The methodology behind these divisions is explained in the second section of this chapter. Sections three and four are devoted to the analysis of the identification and balance sheet databases. The final section of this chapter introduces the maps produced in the course of this research.

¹ As a result of those changes, Gal's interesting model for the calculation of the financial capacity of regional financial centres could not be applied in this research. See Gal, 'The golden age of local-regional banking', p. 19.

PRINTED SOURCES

The research relied heavily on printed sources. The balance sheets that banks had to publish offered much valuable financial information. Annually published financial directories included balance sheets and other pieces of information about most companies and banks in Central and South-Eastern Europe. The data on financial institutions in Czechoslovakia, Hungary and the western parts of the Kingdom of Serbs, Croats and Slovenes are standardised to some extent, and allowed the comparison of results from the balance sheet analysis. This printed material made up the main body of sources for this research.

Information about the enterprises and banks of the Austro-Hungarian Monarchy and the successor states was presented systematically in directories called *Compasses*. These annual, biennial and occasional publications, which are well-known to economic historians of the region, offer important information about nearly all the enterprises of any significance that existed in the territory of the Austro-Hungarian Monarchy and the successor states. By collecting data from various *Compasses* and other publications, a comprehensive database of banking institutions for the assessed regions was compiled.

The best known directory of banking and enterprises for the territory of the Austro-Hungarian Monarchy is the *Finanzielles Compass, Finanzielles Jahrbuch für Österreich – Ungarn*, annually published in German by the Compass Verlag in Vienna during the period 1868-1944.² The main advantage of the *Finanzielles Compass* as a historical source is its standardised financial terminology and the availability of data for a wide territory. After the collapse of the Monarchy, *Finanzielles Compasses* were published separately for each of the successor states: Czechoslovakia, Austria, Hungary, Yugoslavia and Romania. In *Finanzielles Compass*, data about smaller banks are sometimes limited because the quantity of data about each enterprise corresponded with its respective financial

² See Kolar-Dimitrijević, Mira, 'Ekonomski podaci o gospodarstvu Hrvatske do 1945' in: *Acta Historico-Oeconomica*, Vol. 22 (1), (Zagreb, 1995), p. 343.

importance.³ Most of the time, however, *Finanzielles Compasses* provided the key data about all the banks they described, including balance sheets or at least the significant elements of balance sheets. The data for Czechoslovakia and Hungary in the *Finanzielles Compass* are generally satisfactory, but for Yugoslavia the data are more frequently incomplete.

Data from Compass Verlag publications were supported with data from other *Compasses* and directories. There are two valuable *Compasses*, published in Budapest, which contain information about the territory of Transleithenia prior to the First World War. In the post-war period, these publications were devoted solely to the territory of Trianon Hungary. The *Magyar Compass*, a biannual directory published in Budapest from 1874, is the most important complementary research source. Available in both German and Hungarian, it provides even higher quality information than Vienna's *Finanzielles Compass*, and has been invaluable for analysing the situation of Hungary, Slovakia, Croatia, Vojvodina and Bosnia and Herzegovina in 1913. Another Hungarian directory, the *Pénzügyi Compass*, was published in Budapest with a similar content to the *Magyar Compass*.

For the balance sheet database, the main source was *Magyar Compass*. This was supplemented by the *Pénzügyi Compass* when balance sheets were missing in the other *Compasses* and for the purpose of cross-checking the identification database. Furthermore, the *Pénzügyi Compass* is a useful source of information on credit cooperatives. In the years immediately following the end of the War, the *Pénzügyi Compass* included data about Slovakia and Vojvodina. By examining and compiling data from all three *Compasses*, the 1913 banking system of Transleithenia and that of 1925 Trianon Hungary were reconstructed as accurately as possible.

For research on the territory of Yugoslavia, there are several useful publications. Three are worth mentioning in particular: the *Croatian Compass*,⁴ the *Yugoslav Compass*⁵ and the

³ The 1915 *Finanzielles Compass*, for example, devoted three whole pages to the most important bank of Croatia, the Prva Hrvatska Štedionica, while the Hrvatska Poljodjelska Banka, a medium-sized but important bank in the Catholic capital was given a bit more than half a page, and the small, very local Croatian Savings Bank of Klanjec – a small market-town with a population of about 1,150 – is mentioned in only a few lines.

⁴ There were three different publications using the name *Croatian Compass*. One is *Hrvatski Kompas. Financijalni ljetopis za Hrvatsku, Slavoniju, Dalmaciju, Bosnu i Hercegovinu*, published in Požega in 1900. This publication was edited and published by Schwartz, Bernardo and consists of four volumes.

Serbian Compass.⁶ Although these *Compasses* offer only incomplete information, they have been crucial for identifying some minor provincial banks, and for acting as a control to the missing data. They have also been useful for verifying printing errors. Banking associations in Zagreb and Novi Sad regularly published annual reports.⁷ These include a list of banks and the main balance sheets items. Annual reports of banking associations have been useful additional sources for the balance sheets database. Yet a further set of data sources was required for the identification of banks in Yugoslavia. These included *Spisak Novčanih zavoda Kraljevine SHS*,⁸ and financial magazines, such as *Bankarstvo* (Zagreb), *Jugoslavenski Lloyd* (Zagreb), *Bilanca* (Zagreb) and *Privredni Pregled* (Belgrade). The latter are necessary for anybody who wants to understand banking practices in interwar Yugoslavia. By combining all of these sources, it was possible to obtain a reasonably comprehensive set of data for banking systems in Croatia, Vojvodina and Bosnia and Herzegovina during the post-war years.

Research on Czechoslovakia had to follow two separate threads: the situation in Slovakia on one hand, and that in the Czech Lands on the other. Taking the Czech Lands first, most of the identification data for these were available in the *Finanzielles Compass*, while the balance sheets data for 1913 were combined with more reliable data from the *Statistik der Sparkassen in Österreich*.⁹ The *Finanzielles Compass* was used for the 1925 data collection on Czech Lands. Regarding Slovakia, research on the period before the First World War could rely on the largely accurate *Finanzielles Compass*, *Magyar Compass* and

Another publication is *Hrvatski Kompas za 1909-1910, Financijalni i trgovački ljetopis* (Zagreb, 1909), edited by Hermann, Daniel. A third independent edition is *Hrvatski Kompas za 1913-1914* (Zagreb, 1913), edited by Kunst, Adalbert and Strozzi, M. Donat. This one was used for the analysis of the year 1913.

⁵ *Jugoslavenski Kompas* (Zagreb), published in three issues in 1920, 1921 and 1922 and was edited by Vladimir, Pavlaković-Steiner.

⁶ Vučković, J., *Srpski Kompas 1911-1912* (Zemun, 1911).

⁷ *Izveštaj Saveza novčanih i osiguravajućih zavoda Kraljevine Srba, Hrvata i Slovenaca* (Zagreb, 1926); *Izveštaj udruženja vojvođanskih banaka Srema, Banata, Bačke i Baranje* (Petrovaradin, 1927).

⁸ A list of the banks of the Kingdom of Serbs, Croats and Slovenes published in *Alamanah Kraljevine SHS* (Zagreb, 1921).

⁹ *Statistik der Sparkassen in Österreich fuer das Jahr 1913* in: *Österreichische Statistik, Neue Folge* (Vienna, 1916).

Pénzügyi Compass while the *Finanzielles Compass* and *Banky a pénészni ústavy na Slovensk* was used for the 1925 dataset.¹⁰

In the Austro-Hungarian Monarchy, statistical offices published a considerable amount of high-quality data. The 1910 census of the Austro-Hungarian Monarchy provided data about the population of each town where a banking institution was located. For the Cisleithenia, data regarding population figures for each town or village are available in *Spezialortsrepertorien der österreichischen Länder* published separately for Bohemia, Silesia, Moravia and other provinces.¹¹ *Magyar* and *Pénzügyi Compass* and some other sources contains the census material for Transleithenia.¹²

Thanks to the *Compasses* and other sources of information referred to above, it was possible to build up a highly detailed database of the banking system. The composition and rationale behind the two databases are explained in greater depth in the following sections.

COMPILING THE DATABASE

Printed sources provided a variety of information on provincial banking. However, to set up an analytically useful and historically precise database a number of problems had to be resolved. The following section explains how this information on provincial banking was managed.

Regional division

The banking structures, traditions and legislation of provincial banking differed from region to region, necessitating a territorial subdivision of the database. Because provincial banking in the Austro-Hungarian Monarchy and its successor states turned out to be a huge topic, the research is limited to seven case studies based on seven geographical regions

¹⁰ Skorbankovský, Jaroslav (ed.), *Banky a peněžni ústavy na Slovensku a Podkarpatské Rusi* (Prague, 1926).

¹¹ *Österreichische Statistik. Neue Folge*, Band 1-2, 1912-1919.

¹² Nagy, Ferenc (ed.), *A magyar városi jog: kiadja a r.t. városok polgármestereinek orsz. egyesülte* (Budapest, 1912); *Mayers Handlexicon des allgemeinen Wissens* (Leipzig and Vienna, 1912, 1913).

which each had different economic and banking structures. The selection of the regions was also based on political and legal traditions and economic structure. The following sub-regions were chosen:

Czechoslovakia: Bohemia, Moravia and Silesia, Slovakia

Hungary: the Danube region, the Danube-Tisza region, the Tisza region

Yugoslavia: Croatia¹³, Bosnia and Herzegovina, Vojvodina

By selecting these regions, it was possible to assess provincial banking in highly marketised areas (Bohemia, Vojvodina), less developed regions (Bosnia and Herzegovina, Slovakia), in a nationally homogenous region (Hungary), and in heterogeneous regions (Bohemia, Croatia, Vojvodina, Bosnia and Herzegovina). In addition, the Cisleithenian (Bohemia, Moravia and Silesia) and Transleithenian (Hungary, Slovakia, Croatia, Bosnia and Herzegovina, Vojvodina) legal models of provincial banking were assessed.

Some regions of the Monarchy were excluded from this research. They were Austria and Galicia, and some borderland and specific regions, such as Dalmatia, Transylvania, Ruthenia and Istria. Galicia and Transylvania were excluded because of the lack of high quality information for the interwar period, while Dalmatia, Istria and Ruthenia did not have consistent provincial banking systems. Austrian provincial banking turned out to be a very large topic because of interesting differences among Lower Austria, Upper Austria, and the other provinces that eventually made up the interwar Austria. In addition, there was also a change in the Austrian banking system between 1913 and 1925. Consequently it could not be assessed in depth as part of this thesis but it may be possible to expand the research to these regions in the future.

Although the seven regions were selected because they possessed different economic and provincial banking structures, they did, however, clearly indicate common characteristics and typical problems related to provincial banking.

¹³ For economic-historical reasons Srijem, a specific borderland region, was analysed separately in the section about Croatia.

Levels of financial importance

In order to analyse the structure of the financial system, the available data had to be put into groups. In making comparisons between big banks it is common practice to group banks according to their financial capacity.¹⁴ In the case of the research relating to provincial banks, which deals with a multitude of towns and banks, it was found that grouping towns and locations according to the types of places where those banks were sited generated the best results. Banking business varies between metropolitan towns, big provincial towns and small provincial towns, and these differences needed to be identified in the analysis.

The main characteristic of the metropolitan bank is its central position in some country or region. Research into the metropolis identified several big banks, specialised institutions and private banking houses and there were usually numerous credit cooperatives. Metropolitan banks operated on a national and sometimes an international level. Due to their significant financial capacity and human capital, these banks often provided financial services to big companies and numerous other banks. They also played an important role in financing the national economy. Furthermore, because of the considerable level of economic activity and sophistication of metropolitan banking, a number of small banks or private banking houses operated alongside the larger banks in the metropolitan areas. Specialised institutions included mortgage houses and umbrella banking institutions.¹⁵

Regional economic centres functioned as intermediate points between the provincial and metropolitan economy. Regional economic centres were usually sited in the centre of an urban network. Regional banks operated in economically stronger provincial towns, across a large territory, and often acted as financial connection points between metropolitan banks and the provincial economy. Typically in these regional centres one or perhaps even a few strong, regional banks might develop their own regional branches or affiliation networks. Links with metropolitan banks existed in the form either of branches of metropolitan banks or of regional banks affiliating with metropolitan ones. Several small banks or private

¹⁴ For an example see Kosier, St. Ljubomir, *Problem štednje i naši uložni kapitali* (Zagreb, 1923), pp. 80-102.

¹⁵ See PROVBANK database – identification summaries.

banking houses could also be found at this level and reflected a higher degree of financial activity. Such towns typically had a number of urban credit cooperatives.¹⁶

By contrast with the above two groups of banks, local banking was restricted to a small territory with limited links outside its immediate economic area. One or two banks or branches and one or two credit cooperatives were considered to be sufficient for these areas.¹⁷ The local banking group is therefore characterised by a relative absence of banking competition and of financial links to metropolitan banking. In summary, its banking activity was focused on a small urban town and a dozen or so surrounding villages.

Classification of levels of financial importance

For a town to be included in the metropolitan group, it had to have a central financial position in some country or region plus the existence of a network of branches. Vienna, Budapest and Prague were the centres of financial networks. Brunn, Zagreb, and Bratislava were centres of regional financial networks. A few towns, such as Rijeka (Fiume), Debrecen and Subotica, have also been included in the metropolitan group. Although these towns did not build strong networks, they possessed a considerable level of financial activity and had a sophisticated banking business which was characteristic of metropolitan banking.

In order further to refine the research on regional banking, a distinction was made between regional and sub-regional financial centres. The Austro-Hungarian Bank branch network has been used as a classification indicator for regional and sub-regional centres. It had branches in all towns which it considered to be of significant economic importance. For this research these have been classified as 'regional economic centres'. However, in addition to these, the Austro-Hungarian Bank had agencies (sub-branches) in all smaller towns of some economic importance. Such agencies were sometimes independent institutions, but more often a provincial bank acted as an agent of the central bank. These towns and areas with such links to the central bank were therefore assigned to the group of

¹⁶ Ibid.

¹⁷ Ibid.

‘sub-regional economic centres’. As the analysis in part two of the thesis will demonstrate, this decision to divide towns according to their links with central banks, proves useful. Analysis will demonstrate that all regional, and many sub-regional centres, had connections and close relationships with metropolitan banking through their bank branches, affiliations, or by virtue of close business relations. The economically advanced positions of the towns which had a branch or agency of the central bank were also highlighted by Zoltán Gal.¹⁸

Local provincial banking

As with the metropolitan, regional and sub-regional areas, the classification of towns in which ‘local’ banking was identified also generated dilemmas. Local banking mostly occurred in small towns with populations of less than 10,000. As a result of the multitude of towns and financial institutions that belonged to the category of ‘local’ banking, it was necessary to make an additional distinction between very small towns or bigger villages and other small towns still considered to be provincial towns, but which were not important enough to be classified as ‘sub-regional’ centres.

It was difficult to find a criterion to distinguish small towns from very small towns. Attempts to use data related to financial capacity or banking structure proved to be ineffective. Another way of establishing this important distinction was found by working with cartographic symbols on the maps of Czechoslovakia, Hungary and Yugoslavia.¹⁹ In order to compensate for some errors in maps of the period, classification of the level of urbanisation was re-assessed using the results of 1910 Austro-Hungarian census. Finally, the most important criterion used to distinguish between small and very small towns was population figures.

¹⁸ Gal, ‘The golden age of local-regional banking’, p. 30.

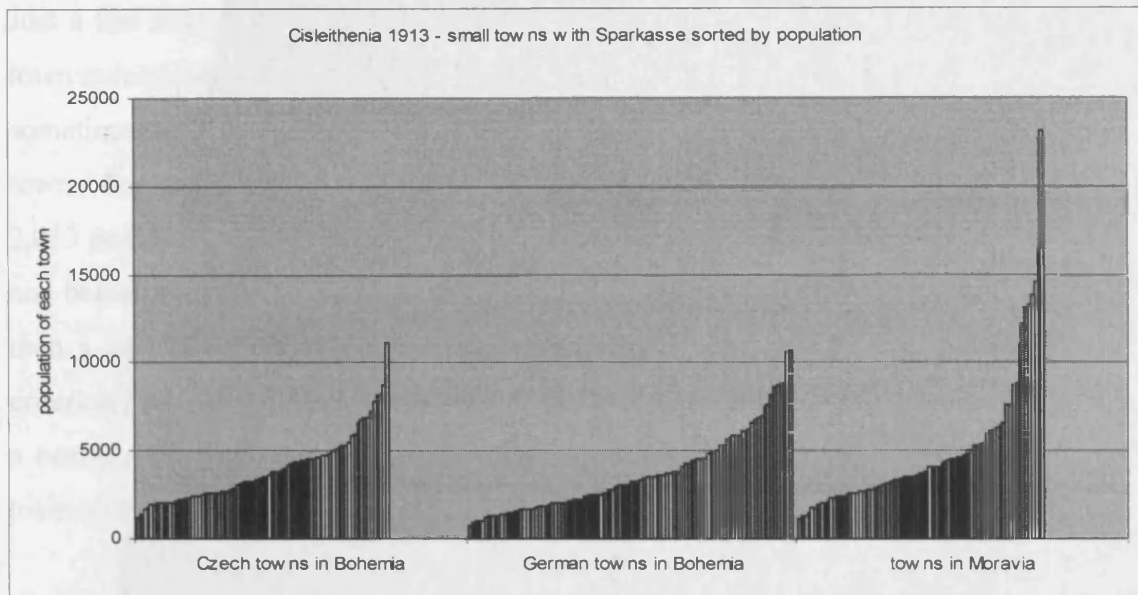
¹⁹ Prof. Dr. Haack, H., *Stiedlers Hand-Atlas* (Gotha, 1925). The following maps were used: No. 46 (Bohemia), No. 47 (Moravia – Slovakia), No. 48 (Donaustaaten), No. 49 (Hungary) and No. 50 (Yugoslavia). This atlas presents all assessed countries with the same level of detail, with the help of cartographic symbols depicting the levels of urbanisation. Compared to other atlases published in the 1920s, *Stiedlers Hand-Atlas* was the most detailed and reliable source of required information. (*Hand-Atlas* might be a misleading name for an almost 15-kilogram-heavy publication).

The distribution of small towns according to their population is presented in Figure 1 below. Each bar represents the population of one town which had banking institutions identified for 1913. Each chart represents the regional distribution of the population of such small towns.

By trying to include approximately one third of all local banking settlements in the category 'small towns', and assigning the rest to the category 'very small towns', it was found that the criteria used to distinguish 'small' from 'very small' towns were slightly different for each region. The distribution of population in small towns indicates a difference between agriculturally advanced, industrialised regions and non-marketised regions with small-scale landholdings. In less marketised regions such as Slovakia, Croatia, Bosnia and Herzegovina, the records indicate that a population of over 4,000 constituted a small as opposed to a very small town. In agriculturally advanced regions such as the Danube Tisza region and Tisza region in Hungary and Vojvodina where large villages predominated, a population of over 6,000 was deemed to constitute a small town. In Bohemia, Moravia and Silesia, the division between small and very small was set at 4,600.

The level of urbanisation of some towns changed during the period covered by this research. Thus, the information about population drawn from the 1910 census had to be compared with data from post-war censuses.²⁰ Some major changes regarding the level of urbanisation occurred in the biggest towns – after the First World War they grew as a result of their favourable administrative or strategic positions. These are outside the scope of a study on provincial banking. Some towns in borderland regions, on the other hand, declined in size. It is, however, worth noting that they usually just appeared to decline when compared to the growth rate of the new administrative centres. For example Subotica, a town where there was no decline in population figures after the First World War, lost its competitiveness while the growing Novi Sad benefited from its strategic position within the new borders of the Kingdom of Serbs, Croats and Slovenes. According to data from 1910 and 1925, there was no absolute decline in the population in these towns. The post-war situation was assessed in cases that indicated a shift in the level of urbanisation. However, these were rather rare.

²⁰ Post war census information was available in *Magyar Compass*, *Pénzügyi Compass* and less known *Rječnik mjesta Kraljevine Srba, Hrvata i Slovenaca* (Belgrade, 1925).



The final step in categorising the urban settlements analysed in the research consisted of a combination of two further criteria: firstly, their level of urbanisation, and secondly the town's financial importance for the central bank. Data from the main financial centres, such as Prague or Budapest, the regional economic centres and the sub-regional economic centres were analysed separately. All other places where provincial banks were identified were classified as 'small towns' and 'very small towns'. Throughout the thesis, the terminology and symbols listed in Table 1 have been used in the databases, the financial calculations and in the presentation of the results.

Table 1 Criteria for grouping of the towns

Type of banking	Local banking		Regional banking		Metropolitan banking
Type of town	Very small town	Small town	Sub-regional centre	Regional centre	Main regional centre
Symbol in database	D	C	B	A	Aax
Slovakia, Croatia, Srijem, Bosnia and Herzegovina, Danube region in Hungary	Less than 4,000 people	More than 4,000 people	Agency of the Austro-Hungarian Bank	Branch of the Austro-Hungarian Bank	Bratislava, Zagreb, Sarajevo
Danube Tisza region and Tisza region in Hungary, Vojvodina	Less than 6,000 people	More than 6,000 people			Budapest, Debrecen, Subotica
Bohemia, Moravia, Silesia	Less than 4,600 people	More than 4,600 people			Prague, Brnn

In certain cases the financial importance of a town did not correspond to its level of urbanisation. Consequently, the financial resources of a town depended less on its population and more on its strategic position, its economic quality and its surrounding area.

Just a few industrial enterprises, a railway station or a marketplace can turn a very small town quickly into an economically and financially active environment. Therefore, it was sometimes necessary to switch categories when assessing the financial importance of a town. For example, in 1913, Tornala was a town in Slovakia with a population of only 2,033 people but it had distinctive banking activities (two banks with sizeable capitals and one branch of a regional bank). For these reasons Tornala was classified as a small, rather than a very small town. Similarly, Sušak, a town in Croatia, satisfied the population criterion for a small town. However, although it did not have a branch of or relations with a central bank, banking was very important due to Sušak's position as the main export town of Croatia. Accordingly, it was analysed as a sub-regional centre.

The division of provincial towns into sub-groups enables a comparison of the banking structures and banking business at different levels of urbanisation. Results of this analysis in Part two indicate that there were significant differences between regional and local banking, as well as among very small towns, small towns, sub-regional centres and regional centres. Thus a more refined view of the world of provincial banking was made possible by this detailed level of categorisation.

One could easily be confused with terminology used in the text of this thesis. The term 'metropolitan banking' in the text is used to describe banking activities in metropoli. The term 'metropolitan bank' is used to describe a bank which is sited in the metropolis. The term 'regional banking' in the text of the thesis describes banking activities in regional and sub-regional centres. 'Local banking' is used to describe banking activities in small and very small towns. The term 'banking institution' describes banks, their branches and specialised banks. The term 'financial institution' includes banking institutions, credit cooperatives and private banking houses. The term 'provincial banking' in this thesis includes all forms of banking activities outside the metropoli, including branches of metropolitan banks. In Cisleithenia there existed several specialised regional banks called 'Landes banken' for which the English translation could be 'provincial bank' – these banks were just some of the institutions analysed under term 'provincial banking'.

THE IDENTIFICATION DATABASE

The identification of banks and towns where banking institutions existed

The first step was to identify all financial institutions operating in the territories of interwar Czechoslovakia, Hungary and Yugoslavia in the period 1913-1925.²² To undertake this, some specific problems had to be resolved.

Attempting to compare the years 1913 and 1925 meant having to discover which financial institutions belonged to which successor state in the respective years. One basic technical problem occurred because certain towns changed their name after the First World War. For example, places and settlements in Slovakia and Vojvodina presented a serious problem because pre-war issues of the *Finanzielles Compass* had used German names for towns in Bohemia and Moravia, and Hungarian names for towns in Slovakia and Vojvodina. After the collapse of the Monarchy, the *Finanzielles Compass* used names in the respective languages of the successor states. Various maps and specialised literature were used in order to ensure that towns with different names before and after the First World War could be identified.²³ Moreover, sometimes it was a problem even to find out the exact geographical position of very small places, in particular those in the borderland regions. Fortunately, *Compasses* published in the first years after the First World War usually provided the information about pre-war and post-war names of towns which aided their identification.

The next step in building up the identification database was to recognise each banking institution that existed in the selected regions. By using *Compasses* and other sources of information, as detailed above, it was possible to identify all banks, including their branches, and add them to the database.²⁴ Some very small, crisis-ridden provincial banks as well as some credit cooperatives, were not recorded in the database because their financial and economic functions were too insignificant and they were not mentioned in

²² The banks that were liquidated in 1913 or 1914 are excluded from the database.

²³ For Vojvodina see Marković, Milica, *Geografsko-istorijski imenik mesta u Vojvodini* (Novi Sad, 1966).

²⁴ Since many bank names had to be entered into the database in German, Hungarian, Czech, Slovak, Croatian and Slovenian, abbreviations or symbols were used for the most common words contained in the names of banks (e.g. bank, joint-stock company, savings bank) and later replaced with complete words.

Compasses. The category 'private banking houses' is likely to contain some mistakes because information was available only in the *Bankiersbuch*, an appendix in *Finanzielles Compasses*. A cross-check was impossible as the *Bankiersbuch* was the only source of information. This has, however, only a limited impact on the results of the research on provincial banking since private banking houses were predominantly sited in major financial centres.

The main problem in the identification phase was caused by banks that had changed their names during the period. After the First World War, banks in Slovakia often changed their names and this occasionally occurred in Hungary. Numerous banks were liquidated or merged during the years following the First World War in Slovakia, Hungary, Vojvodina and Croatia and this factor has caused similar difficulties.

The identification database is important to the study because an analysis of the structure of the banking systems and consequent conclusions depended mainly on this list of banks and branches. Throughout the research, the data were always cross-checked with other sources and additional or new information was added when necessary.

Elements of the identification database

In order to understand provincial banking, all types of banking in the selected regions had to be analysed. The very first step was to identify all the banking institutions of each region – banks, branches and agencies. The identification database includes branches of foreign banks and foreign branches of domestic banks. The identification and classification of all credit cooperatives was difficult because of their number and diversity, and so research had to be limited to credit cooperatives in the main, regional and sub-regional centres.²⁵ Urban cooperatives in small towns were identified, too, but not the numerous rural credit cooperatives (Raiffeisen credit cooperatives). Approximately 2,000 banks, Sparkassen, branches, agencies, private banking houses and credit cooperatives

²⁵ See section on credit cooperatives in Chapter 2, p. 40.

were identified in Czechoslovakia, 1,500 in Hungary and less than 1,000 in the selected regions of Yugoslavia.

All data for the identification database were entered into EXCEL worksheets. Table 2 lists the data that was collected about each financial institution:

Table 2 Data fields for the identification database

Data about the location of the financial institution	Data about the financial institution
Town	Name of the financial institution ²⁶
Other names of the town (in other languages)	Year of establishment ²⁷
Geographical coordinates of the town	Legal background of financial institution ²⁸
Population of the town in 1910	Analytical group ²⁹
Population in 1925, if available	Type of bank's name ³⁰
Financial level	List of branches and agencies
County	Information about industrial undertakings and affiliation links
	Comments ³¹

²⁶ For the main database, the name that the bank had in 1925 was used (as it appeared in the *Finanzielles Compass* 1927). Names that had been used earlier or were used later were entered in the 'Comments' field.

²⁷ The year of establishment was an important date both for the analysis (it allows us to retrace the development of the banking system) and for the administration of the database since it was a useful identification indicator (it was very helpful when searching for a bank when the name or language of the name had been changed).

²⁸ Provincial banking institutions used various legal forms, such as joint-stock company, credit cooperative, company with limited liability and regulated savings bank.

²⁹ In the analysis, distinctions are drawn between banks with and without branches.

³⁰ It is very interesting to retrace the metamorphoses of names used by banks in various regions, legal systems and over time. Banks mainly incorporated national or regional indicators into their names. As for the type of institution, apart from the term bank, terms such as 'savings bank' and 'popular bank' were generally used – of course with extreme regional differences.

³¹ In this field information was stored about changed names or relocated headquarters of banks and about liquidation or financial difficulties.

The analysis of the identification database

The identification database allows us to reconstruct the architecture of the banking system. The aim of the analysis was to outline the main differences in the structures of the financial service providers with respect to regions and levels of urbanisation.

Firstly, banking institutions were divided into analytical categories, such as 'banks with, and without, branches', 'municipal banks' and 'branches of metropolitan, regional and local banks'. These groups differ slightly between regions. Secondly, the number of each type of institution in each town was calculated. Finally, the results of the second step were grouped, and average values for each region and financial sub-group of the towns were calculated. This resulted in a number of significant indicators such as the number of banks or branches per town and the ratio between banks and branches.

The most interesting indicators are those relating to the average number of banking institutions per town which indicate the level of competition in the provincial financial markets. The average number of branches per town indicates the penetration of external banks in the provincial financial market. Banks with branches suggest the presence of strong provincial banking. There were significant differences in the banking architecture between the regions covered by the research. For example in 1913, the Danube-Tisza region in Hungary had on average 1.67 banks with branches per regional centre whereas the Danube region had only on average 0.33.

One area of research concerned the integration of provincial banking within the whole banking system. In order to measure this process several indicators were developed. As those indicators are based on information about the structure of the banking system the term 'structural integration indicators' was used. For each of the five case study regions in Transleithenia, structural integration indicators for regional centres, sub-regional centres, small towns and very small towns were calculated. The structural integration indicators are based on the relationship which certain types of banking institutions have to the total number of banking institutions in the group of towns analysed. Structural integration indicators are of limited use in assessing the integration of the banking system, since they do not indicate affiliations and business links between banks.

There are two types of structural integration indicators: an indicator of independence and a vertical integration indicator. The indicator of independence measures the ability of the provincial financial market to develop its own independent banks. The vertical integration indicator displays the penetration of branch networks of big commercial banks into the provincial financial market. Structural integration indicators were developed in a such way to present the values from 0 to 1.

The indicator of independence was calculated by dividing the number of independent banks by the total number of banks and branches in a region. However, as all provincial banks did not have the same financial importance, the number of banks with branches was multiplied by a coefficient 1.5. This is because banks with branches resulted from a higher level of independence of a provincial market. Using the formula below, the indicator of independence varies between 0 to 1.

$$I = (P + 1.5 P_b) / n$$

I – Indicator of independence

P – number of provincial banks without branches

P_b – number of provincial banks with branches

n – total number of banks and branches

For example, in 1913 in small towns in Slovakia there were 75 banking outlets, of which 42 were local independent banks without branches and 13 local banks with branches. Using the formula above the coefficient of independence is 0.82, which indicates a high level of independence. Twelve years later, in 1925, in small towns in Slovakia there were 80 banking outlets of which 15 were local independent banks without branches and 8 local banks with branches. Using the formula above the coefficient of independence was 0.34, which indicates a low level of independence. Between 1913 and 1925 local banking in small towns in Slovakia had lost a lot of its independence. The coefficient therefore also permits change between the two periods to be clearly presented.

The vertical integration indicator is measured by the appearance of branches of metropolitan banks in the banking of assessed group of towns. Because of the financial importance for the provincial financial market of branches of metropolitan banks, their number was multiplied by 1.5. Using the formula below the vertical integration indicator varies between 0 and 1.

$$V_i = 1.5 B_M / n$$

V_i – Vertical integration indicator in regional and sub-regional centres

B_M – number of branches of metropolitan banks

n – total number of banks and branches

In regional centres in Slovakia 1925 there were 33 banking outlets of which 22 were branches of metropolitan banks, resulting in a vertical indicator 0.95 by using formula above. It indicate very high level of vertical integration. In Slovakia in 1925 the vertical integration indicator was 0.95 for regional centres, 0.72 for sub-regional centres, 0.62 for small towns and 0.48 for a very small towns. The coefficient therefore also permits comparison between towns with different levels of financial importance to be clearly presented.

THE BALANCE SHEET DATABASE

Since the identification database only provides broad information about the structure of the banking systems, more detailed information was collected from balance sheet sources. This ensured greater understanding of the way provincial banks operated and meant that their financial capacity and business structures could be compared.

Unfortunately, balance sheets were unavailable for some of the banks identified. When it came to very small banking establishments, the *Compasses* often published merely the name of the bank, the year of its establishment, the names of some board members and/or some of the most important balance sheet figures. This most often applied to the banks in Transleithenia. In 1913, however, there were comparable printed sources available, resulting in a very high rate of analytically useful balance sheets.³² For 1925, data collection was more complex. The *Finanzielles Compass*, published in Vienna, was comprehensive, but there were no locally published *Compasses* for the territories of Czechoslovakia and Yugoslavia.³³ The *Magyar Compass* and the *Pénzügyi Compass*, both published in Budapest, contained almost complete data for Hungary in 1925. Table 3 below displays the quality of the data that was available for the balance sheets database.

³² Except for the *Finanzielles Compass* (published by the Compass Verlag), two Hungarian *Compasses* (both the *Magyar Compass* and the *Pénzügyi Compass*) were used for the territory of Transleithenia.

³³ The high quality of the data on banking in Vojvodina, which had been collected by the Association of Banks in Vojvodina, has to be recognised.

Table 3 Quality of balance sheets

	Total number of provincial banks in analysis	Analytically useful balance sheets	Incomplete or missing balance sheets	Percentage of satisfactory balance sheets
1913				
Bohemia	247	217	30	87.85 %
Moravia and Silesia	124	115	9	92.74 %
Hungary	575	568	7	98.78 %
Slovakia	223	220	3	98.65 %
Vojvodina	162	148	14	91.36 %
Croatia	195	183	12	93.85 %
Bosnia	31	29	2	93.55 %
1925				
Bohemia	248	196	52	79.03 %
Moravia and Silesia	120	99	21	82.50 %
Hungary	557	519	38	93.18 %
Slovakia	80	68	12	85.00 %
Vojvodina	141	99	42	70.21 %
Croatia	123	104	19	84.55 %
Bosnia	61	55	6	90.12 %

Source: PROVBANK DATABASE.

It was impossible completely to reconstruct all information from the balance sheets. Nevertheless, a statistically reliable quantity of data was collected. Thus, it is possible to draw important conclusions about the business structure of provincial banks and the turbulent changes that characterised the financial sector during the period of study.

There were some other obstacles encountered in the course of this research project. It was difficult to read the balance sheets. The main problem was the lack of international, or at least national, standardisation of accounting. To overcome this problem, Vienna financial *Compasses* were used as the main source, while locally published directories were used only as complementary sources. In order to ensure a high quality of information, data were entered into the database using the following strict technical guidelines:

- First and foremost, balance sheet information was extracted from issues of the *Finanzielles Compass*.³⁴ If balance sheets were missing, or if there were unclear balance sheet items or printing errors, the data were cross-checked with other *Compasses*.
- Information about the page on which a balance sheet was published in a *Compass* was added to the database, thus enabling better and faster identification.
- The most common balance sheets items were sorted into separate columns.
- All unusual or unclear balance sheets items with a value bigger than one per cent of the balance sum were entered under the heading 'others'.
- Unusual balance sheet items smaller than one per cent of the balance sum were ignored.

In order to make the database statistically reliable, disaggregated data constituted at least 86 per cent of the total value of each balance sheet. While adding the data, it was possible to see whether the sum of compiled data on the assets and liability side corresponded to the balance sheets total.³⁵ Thus, typing errors were avoided and incomplete balance sheets easily identified.³⁶ Most balance sheets used for the analysis have more than 95 per cent of the balance sum calculated in the structure of the balance.

As a result of different legal and business structures in Transleithenia and Cisleithenia, provincial banks had different assets and liability structures – a fact that influenced the information selected from the balance sheets. This is clarified in Tables 4 and 5.

³⁴ The balance sheets were published with a two-year delay, e.g. the balance sheets for 1925 were published in the 1927 *Finanzielles Compass*).

³⁵ Since the databases, with their numerous rows and columns, became quite large, it was necessary for each cell to contain the title of the value which had to be typed in. In order to form cells so they would be suitable for calculations, including some cells containing typed numbers, and others with the title of the column, advanced knowledge of Excel was necessary.

³⁶ In about five per cent of the typed balance sheets, it was possible to recognise typing or printing errors, which were then easily corrected.

Table 4 Balance sheets inputs for provincial banks in Transleithenia

Liabilities		Assets	
Own resources	Capital	Liquid assets	Cash
	Reserves ³⁷		Giro account
	Pension funds		Loans and deposits at other banks ³⁸
Deposits ³⁹	Savings deposits		Bills of exchange
	Giro account deposits		Securities ⁴⁰
Borrowed resources	Deposits of financial institutions		Giro account loans
	Other credits		Lombard loans
	Lombard credits ⁴¹		Debtors ⁴²
	Re-discounts ⁴³		Schuldscheine ⁴⁴
			Covered credits (gedeckte Kredite) ⁴⁵
Profit ⁴⁷		Long-term assets	Mortgage loans ⁴⁶
			Communal loans ⁴⁸
			Properties
			Amortisation accounts ⁴⁹
			Goods and undertakings ⁵⁰

³⁷ Various types of reserves were typed in three columns of the database. For the calculation of the liability structure, the differences between the types of reserves was not recorded.

³⁸ In order to keep liquid resources, provincial banks as a rule kept some resources deposited in some commercial metropolitan bank, central bank or post office bank. These resources could be found in almost every balance sheet.

³⁹ Very often, savings and current-account deposits were not presented separately.

⁴⁰ It was impossible to get any information from balance sheets about the structure of the securities portfolio. Did the bank invest in state obligations, state shares, municipal stocks and securities on international stock markets, or did it support the provincial industry? Only case studies based on archive material could answer these problems, but such case studies were limited by the available archive material.

⁴¹ Separate headings for various sources of credits to the bank were only created for typing reasons, while, statistically, they were calculated only under the single heading 'creditors'.

⁴² Some accounting practices used the heading 'debtors' to indicate current-account overdrafts. However, very often it was impossible to retrace the structure of credits accurately as they had just been 'thrown' into the debtors' column. Therefore, columns such as 'c/c loans', 'lombard loans' and 'schuldscheine' were impossible to separate from the debtors' column.

Table 5 Balance sheets inputs for Cisleithenian Sparkassen

Liabilities		Assets
Reserves	Liquid assets	Cash
Pension funds		Deposits at other banks
Savings deposits		Bills of exchange
Other liabilities		Securities
		Curs difference of securities
		Lombard loans
		Debtors
		Covered credits
	Long-term assets	Properties
		Communal loans
		Amortisation accounts
		Mortgage loans

⁴³ Re-discount (i.e. the discounting of bills of exchange for other, bigger banks) was a very common business practice among small banks.

⁴⁴ A common financial instrument, the precise nature of which is unclear. It was, possibly, a loan against shares of the enterprise.

⁴⁵ A common balance sheet item, the precise nature of which is unclear.

⁴⁶ Mortgage loans were difficult to analyse; it was hard to find out whether an entry represented a long-term investment credit, a building loan or just a short-term credit covered with mortgage security. Since mortgage loans had an important place in the assets structure, this question had to be answered with complementary archive material about the banks.

⁴⁷ Profit was an important financial indicator, but attention had to be paid to which values were included in this column. Basically, it was the absolute profit after having deducted the bank's expenditures, losses and 'stimulants' for the leaders of the bank, but it also included dividends for shareholders.

⁴⁸ This column presents loans to municipal or county authorities or investments in municipal infrastructure (sometimes important undertakings for the community, such as the financing of new school buildings, water networks or electric plants, were presented separately).

⁴⁹ The 'amortisation account' is a heading under which more significant business losses are presented. This is an important indicator of the financial situation of banks that went through economically turbulent times e.g. after the First World War.

⁵⁰ Some banks used to have their own trade department, industrial plants or hotels. This fact points to a certain lack of specialisation of the banks. Banking magazines reported that such undertakings or goods were typical of Hungary and some less developed regions of Yugoslavia.

Statistical analysis of the balance sheet database

The objective of the statistical analysis of the balance sheets was to draw up a typical balance sheet structure and calculate some financial indicators. Calculations of this sort were carried out for the different groups of banks for each of the two reference years. Adding up the balance sheet situation of very different banks, of course, does not generate reliable results because, banks with a higher rate of turnover significantly influence the outcome. In order to take into account profound differences between Cisleithenian and Transleithenian provincial banking, different models of analysis were used.

In Transleithenia, data were categorised using aggregate town financial structure as an analytical model. This was possible for two main reasons. Firstly, although there were often several banks in one town, all Transleithenian provincial banks were joint-stock banks.⁵¹ Secondly, the lack of specialisation in Transleithenian provincial banking, and the character of provincial banks in general, allowed the merging of financial information at the provincial level.⁵² Consequently the items on the balance sheets of all banks in one town could be merged and the result was used to calculate the aggregate town financial structure. The next step was to find out average ratios for groups of the towns.

This aggregate town financial structure model could not be applied to Cisleithenia. In Cisleithenia credit cooperatives had a more important role than in Transleithenia, but unfortunately the data about credit cooperatives were of a limited character. Consequently this threw up an interesting research problem in relation to provincial banking in Cisleithenia: what was the distribution of savings and credit resources between credit cooperatives, Sparkassen and branches of commercial banks? Comparative analysis of this problem in all Cisleithenian provinces would be very interesting but also a very difficult task. Thus, analysis of balance sheets is limited to Sparkassen only.

⁵¹ Credit cooperatives in provincial towns in Transleithenia were not well established and could be excluded from aggregate town financial analysis.

⁵² Specialisation in Transleithenian banking occurred eventually in metropolitan banking.

When it came to calculating the balance sum of banks, different regions generated different analytical problems. Banks in Transleithenia sometimes included different guarantee deposits or commissions, such as mortgage loans which they were only commissioning, in their balance sum. Such a balance sum makes a bank appear 'bigger'. The practice of including different guarantee deposits (deposited securities, lombard guarantee goods) in the balance calculation was very typical of banks in Serbia, and to some extent of smaller banks in Yugoslavia, too. Similar cases of commissioned mortgage loans existed in Hungary. Such values could be recognised because in such cases there were the same or similar values of 'deposits' or 'guarantee' items in both the assets and liability sides of the balance sheets. To avoid analytical deviations a new value, the pure balance sum, was created. The pure balance sum is calculated by deducting such values from the balance sum. It is important to bear in mind that the difference between the pure balance sum and the balance sum can be significant.⁵³ The pure balance sum represents the real turnover of a bank. In the final calculation, the pure balance sum of a town indicates the level of its economic activity and can thus be compared with other towns. In the following text and tables the term 'total' indicates the pure balance sheet sum.

Because of the variations in the items on the balance sheets, their number, and the lack of an accounting standardisation, it was necessary to merge balance sheet items and combine the values based on the similarities. For liabilities, three analytical categories were set up: own resources, deposits and borrowed resources. The category own resources is the sum of capital, reserves and pension funds. Savings and giro account deposits were combined to form the category deposits and the category borrowed resources comprises money from creditors and re-discounts. The item 're-discounts' was kept clearly in the balance sheets of most banks. The assets sides were more complicated and unreliable, but the main asset indicators such as cash and giro/total, securities/total, bills of exchange/total, mortgage loans/total, property/total and other loans/total could nevertheless be calculated. General indicators, such as balance sum totals, profits/capital, profits/total, long-term assets/total and liquidity, were interesting and relevant. The liquidity was calculated by dividing the assets which the bank could easily, or at least at short-notice, turn into liquidity (cash, giro resources, bills of exchange, lombard, securities) with the external resources of the bank (deposits and borrowed resources).

⁵³ It is quite usual to find that a balance sum is almost double the pure balance sum. This is typical of banks in Serbia.

Having calculated the ratio of each group value to the pure balance sum, it became possible to compare the balance structures of banks or groups of banks. The process of calculating an average structure of balance sheets was performed using the following steps:

1. Calculate the pure balance sum.
2. Exclude liabilities or assets balance sheets from the calculations if the sum of entered values if they do not correspond to at least 86 per cent of the pure balance sum.
3. Calculate the sum of balance sheet items for each town.
4. Calculate group values such as own resources, deposits or borrowed resources for each town.
5. Calculate the percentage of each group's position in relation to the pure total sum for each town.
6. Calculate the average percentage of group values for all towns of one group.

Results of the analysis allow comparison between the different financial business practices of provincial banks in different regions and between different levels of urbanisation. The most valuable results of the statistical analysis are presented in the tables at the end of each regional section and discussed in the respective texts about the regions.

The intention behind undertaking a financial analysis was to answer the following questions:

- To what extent did a provincial bank depend upon resources from their customers? A response can be drawn from looking at the ratio of savings/balance total. Savings include resources from savings books as well as those on giro accounts.⁵⁴
- To what extent did provincial banks rely on their own capital and the capital of its shareholders? An answer is given by the ratio own capital/balance sum. Own

capital is the sum of capital, reserves and pension funds.⁵⁵ If provincial banks were not affiliated to big banks, this value indicates the strength of a local economy and local financial elites in accumulating financial means.

- To what extent did provincial banks rely on the banking system as a source of working capital? An answer to this question is indicated by the borrowed resources/balance sum ratio. Borrowed resources are loans from other banking institutions, other types of credits, lombard credits and re-discounts.
- Was provincial banking profit-oriented and to what extent? The profit/capital ratio answers this question quite emphatically.⁵⁶ The profit/total ratio indicates to what extent a bank was expensive for its customers and to what extent a bank emerged to be an 'institutionalised usurer'.
- The bills of exchange/total ratio point towards trade-oriented banking. A considerable level of long-term loans is a sign of a bank's involvement in the support of investments in industry, building and infrastructure, but it also indicates that there is financial stability in a region.
- The securities/total ratio indicates the integration of provincial banks in the wider banking system as the securities market was typically a metropolitan business. However, under pressure of the state, even small provincial banks could purchase securities.
- A problem to be discussed in regional analysis is the liquidity of the banks. Liquidity indicates the extent to which a bank is able to pay-off external resources. External resources are savings, deposits on the giro account and resources

⁵⁴ Most balance sheets did not indicate a difference between giro account deposits (which are short-term resources of various enterprises) and savings (which are usually long-term deposits of individuals). They were merged, since giro account deposits usually constitute 10 to 15 per cent of all savings deposits.

⁵⁵ Pension funds are resources that bank employees keep in their bank, though they had to be treated as a specific sort of savings and not as a bank's own resources.

⁵⁶ It is a better indicator than dividends. While dividends present only the 'public' part of the profit, the ratio profit/capital indicates all profits available to be divided amongst owners and management.

borrowed by the bank in different forms. In the case of seasonal demand or a run on the bank, the bank is able to pay-off external resources only by that part of the assets kept in the bank and invested in some short-term credit. For analysis a simplified model was used. Easily available assets were calculated as cash, money in other banks, bills, securities,⁵⁷ and different short-term loans but not as mortgages, property and industrial undertakings or goods. Liquidity is the ratio between liquid assets and all external resources.⁵⁸

The structure of the bank's revenue could be useful and even statistically analysed.⁵⁹ Consideration of the revenue's reliance on simple interest charges, provisions for banking operations, and dividends of the securities, would provide information about the business of the bank. However, the quality of revenue structure data was not equally satisfactory for all the banks analysed. If research was limited to only regional banking in some of the regions, a reliable analytical series could be derived. Such results could be strengthened with annual reports, which were published by most of the bigger banks, or by balance sheet analyses in contemporary literature.

The limitations of the assets analysis have already been mentioned. From the balance sheets, it is not possible to conclude who got the credit, what kind of credit it was, and what other businesses the bank was involved in. For such answers, future research will have to rely on case studies.

MAPS

The database provided the opportunity to produce maps. Maps display, in a detailed way, spatial differences in the banking systems. Maps can represent financial indicators which have been calculated from the balance sheet database, such as savings per head, profit/balance sum ratio and assets and liability structures. However, even the spatial

⁵⁷ In calculations of liquidity, securities are usually calculated only with part of their value (usually 70 per cent), but as provincial banks did not keep a significant quantity of securities, they are calculated as whole in this simplified analysis.

⁵⁸ Apart from average liquidity, there are also the minimum and maximum values for every analytical group in the table in order to display how pronounced the local variations were.

⁵⁹ Suggested by Lazarević Žarko.

representation of networks of branches and agencies or spatial distribution of various banking institutions attracts attention.

Maps offer a number of indications for future case studies to the interested 'financial map reader'. For example, while producing the 1913 and 1925 maps of Croatia, several interesting research indicators were noticed. Many branches of banks in Zagreb and the dominant role of savings within the liability structure of local banks in Primorje indicate an accumulation of savings from emigrants to America. There is a similar case concerning significant financial activities in the rather unimportant town of Gospić before the First World War. The financial capacity of a town named Ruma in Srijem increased rapidly after the First World War, much faster than in any other town in the region. Only case studies would be able to answer why this happened, but maps provide a tool that allows us to pose a number of such questions. These maps can be useful in economic history, when combined with a background that displays railway tracks, soil fertility rates, the density of population, and national minorities.⁶⁰

In the course of this research project, numerous maps were created, only some of which were used in the context of this work. The most valuable and interesting maps are incorporated in the text. Other maps, which could be interesting for economic historians, are not included in the text. The author can provide approximately 250 maps in PDF format.

The maps were produced with the geography programme *ARC View 3.2*. For the purposes of making maps, geographical co-ordinates of all towns analysed were added into the database.⁶¹ For the background, a relief map background provided by NOAA Satellite and Information Service, the National Geophysical Data Centre, USA, was used.⁶²

⁶⁰ Applying maps of financial indicators to maps of different backgrounds could be achieved by using the graphic programme *Corel Draw*. In doing so, one might come across some problems related to using different geographical projections on the background and on the analytical map. When producing analytical maps, it was easy to change the geographical projection in the *Arc View* geographical programme. The problem was, however, that proper information about geographical projections of maps from printed or online sources, which were to be used as background, was barely available. This problem limited the possibility of applying various background maps.

⁶¹ The problem of geographical coordinates of provincial towns was resolved by downloading data from *GeoNames*. *GeoNames* was developed by the United States National Imagery and Mapping Agency

CONCLUSION

Research on the history of provincial banking could rely on printed sources only because *Compasses* and additional economic literature provided a vast quantity of data on provincial banks. The database on provincial banking resulted from carefully selecting and sorting data from printed sources. As a result of using printed sources and a consecutive methodology for collecting the data, it was possible to set up a solid foundation for the analysis of provincial banking in the Austro-Hungarian Monarchy and successor states.

As will be seen, by sorting the data into analytical groups based on the urbanisation level of provincial towns and settlements, it was possible to refine the analysis of provincial banking. Analysis in Part two of the thesis demonstrates clearly that it was important to make such analytical sub-groups as the structure of financial institutions and the business of the provincial banks was not the same in very small towns, small towns, sub-regional economic centres and regional economic centres. During the research, tools of analysis were developed which allowed for the structural, business and spatial analysis of provincial banking.

(NIMA) and is available as a download file on its website: <http://164.214.2.59/gns/html/index.html>.

Information about this database was provided by Corey LaMar from the ESRI Arc Data Team.

⁶² Lovrić Sandra from Gis-data Zagreb helped me arrange the colour map for the background.

CHAPTER 2 – INTRODUCTION TO PROVINCIAL BANKING

Provincial banking is not a homogeneous phenomenon. To a great extent, it depends upon local circumstances, factors such as financial capacity, business structures, legal forms and terminology, as well as many economic and social aspects. As these factors may cause confusion, this chapter is aimed at providing basic information on this topic.

The first section introduces the reader to the credit cooperative movement. A further section deals with local and regional banks. Economic nationalism and some other politically influenced economic and social aspects of provincial financial institutions are considered.

THE CREDIT COOPERATIVE MOVEMENT

During the nineteenth century and in the first half of the twentieth century, many thousands of small financial institutions were established all across Europe. Usually, they were termed credit cooperatives. These numerous, small, typically very locally organised savings-credit institutions were developed in order to fill the gaps in the availability of micro credits. The process of doing so is generally called the 'credit cooperative movement'.

The main economic reason for the existence of credit cooperatives is, of course, credit.¹ Wherever credit was too expensive, or scarcely available as a result of the lack of credit institutions, limited credit resources, high or legally complicated collateral requirements, or wherever there were other, non-economic hindrances to credits, there were reasons for people to set up a credit institution themselves. And whenever there was enough good will, human resources and cooperative spirit within a society, a credit cooperative came into existence.²

¹ Jelić, Damir: 'Financing the local economy in Central Europe – metamorphoses of 'do-it-yourself' banking in capitalist and socialist systems', paper for the conference '*Popular Banking and the Financial System*', Bratislava 29-31 May 2003.

² For illustrative examples see Krstonošić, Triva, 'Uticaj Slovačke na pojavu prvih zadružnih organizacija kod Vojvođanskih Slovaka', *Zadružni Arhiv*, Vol. 3 (Novi Sad, 1955), pp. 13-28.

The main idea of the credit cooperative movement was the principle of taking matters into one's own hands. Financial services could be organised by those who needed them simply through setting up a local institution which collected savings at a local level, and offered credits and other financial services to those who needed them. Their establishment resulted from the needs of peasants, small entrepreneurs, members of lower urban classes and some professionals³ to provide themselves with small-scale credits and form a collective in opposition to usurers and the 'hidden' usury of merchants.⁴

The credit cooperative movement was one of the most interesting and widely adopted human enterprises undertaken within the past two centuries. It was meant to improve the living conditions of mankind. This statement is not exaggerated. Millions of people were involved in some form of credit cooperative institution in order to ameliorate their financial, economic or entrepreneurial lives.⁵ In the Austro-Hungarian Monarchy in 1912, there were 15,440 credit cooperatives of different types. Of these, 12,033 were in Cisleithenia, 3,107 in lands belonging to the Hungarian Crown, 797 in Croatia and Slavonia and 27 in Bosnia.⁶ Toussaint Hočevar, noted that until 1910 one in nine Slovenes belonged to a loan cooperative.⁷ Like most of Europe, the Austro-Hungarian Monarchy had a well-developed credit cooperative movement.

Main credit cooperative interests

Widely adopted social movements occurred as a result of many different interests. Most cooperatives were organised to offer services to small, often close-knit groups of people – groups whose common interest in cheap credits could be strengthened by ideologies such as nationalism, anti-Semitism, Christianity, philanthropy or class solidarity. The will of a group of people to organise themselves financially is crucial for the formation and

³ In bigger urban centres, credit cooperatives that specialised in teachers or office-workers could be found. In the Austro-Hungarian Monarchy, there were civil servants' credit cooperatives called Spar- und Vorschuss Consortium des I. Allgemeinen Beamtenvereins der Öster.-Ungar. Monarchie, which could be found in many big towns.

⁴ Popular literature on cooperatives often mention such examples, but there is also evidence in the historiography of the topic. See Hočevar, *The Structure of the Slovenian Economy*, p. 61.

⁵ See Wolff, Henry W., *People's Banks: A Record of Social and Economic Success* (London, 1896).

⁶ Source: *Finanzielles Compass*, 1914.

⁷ Hočevar, *The structure of the Slovenian economy*, p. 73.

successful operation of a credit cooperative. Organisation of these cooperatives was often supported by top-down initiatives from national or religious institutions, political parties, the state and various administrative units. Hočevár highlighted complex and multifunctional reasons for the development of the credit cooperative movement.⁸ The credit cooperative movement originated from different economic and social interests which often coexisted in the same society.

The main economic group interested in building up independent local credit cooperatives and who were able to do so were small entrepreneurs, such as artisans and shop keepers. Small businesses usually required small working capitals but small investment credits or some emergency credits could be a serious problem for them. Since they were too small to be customers of a private banking house or a proper bank and often having only very limited securities, these small entrepreneurs had to borrow from people in their neighbourhood – which usually meant dealing with usurers or entering into some sort of dependent relationship. Entrepreneurial credit cooperatives were in general purely economic organisations, often mixed with some joint business activities, such as cooperative buying and selling, or a joint use of investment resources. The initiators of 3,193 Schulze-Delitzsch⁹ credit cooperatives with limited liability in Cisleithenia in 1912 are in this group.¹⁰ The mission of entrepreneurial credit cooperatives was to support the economic and entrepreneurial growth of their members.¹¹

Peasants often found themselves in a similar situation. Due to the fact that, on the one hand, their revenue depended on their seasonal outcome and, on the other hand, the equilibrium of the agricultural economy was rather weak, they often slid into a perilous financial situation which led to credits becoming much needed.¹² Peasant societies are characterised by the cooperation and interaction of its members.¹³ Thus, villages had two important prerequisites for the development of credit cooperatives: the need for credit and the close relationships of its members. However, organisational and financial experiences

⁸ Ibid, p. 58.

⁹ For information on Schulze-Delitzsch cooperatives see Donald S. Tucker, *The Evolution of People's Banks* (New York, 1922) and Wolff, *People's Banks*, pp. 69-110.

¹⁰ *Finanzielles Compass*, 1914.

¹¹ Gerstner, Paul, *Analiza bilanca* (Belgrade 1933), p. 302.

¹² Tardy, M. Louis, *Report on Agricultural Credit*, p. 3.

¹³ See the works of Henri Mendras and Shanin Teodor.

usually had to be imported into the village from external organisers. Thus, village credit cooperative movements resulted both through top-down initiatives and the interests of peasants.

Top-down organisers played an important role in the development of the credit cooperative movement. The idea that credit cooperatives could be used as an instrument of economic and social change was well developed within the movement. However, there were differences with respect to the type of change that was desired. The main 'ideologists' and organizers of the credit cooperative movement were the church and the nationalists, or so-called 'modernists'. Their 'ideologisation' of credit cooperatives was usually derived from a mixture of what was most important for the respective groups.

Credit cooperatives were often organised under the influence of the church. Their ideological background was founded on the idea that credit cooperatives were a practical instrument to create a perception of fraternity amongst people. Such credit cooperatives had a more philanthropic character than their secular equivalents. Priests, often of peasant origin themselves, were aware of the daily problems faced by peasants. It is not surprising that the credit cooperative movement in villages was well developed in Catholic regions such as Slovenia and Austria. Sometimes they were involved in welfare projects, such as the liberation of indebted peasants from usurers, or in assisting peasants in overpopulated agricultural regions to buy land in cases of large estate division.¹⁴ Church-organised village credit cooperatives were usually called Raiffeisen credit cooperatives.¹⁵

Nationalists had yet another major ideological impact on the credit cooperative movement, and turned it into a strong tool of economic nationalism. By organising competitive financial services directed to national groups, they intended to dissolve economic and financial dependency on other national groups. A close economic relationship amongst the members of credit cooperatives created barriers for economic penetration by other nationalities. As a result, national financial and economic networks emerged and took over economic, as well as political, functions. Very often, when dealing with nationally-based credit cooperatives, it is hard to distinguish between the political and economic functions

¹⁴ See Krištof, Milan, *Kako bi Hrvatska poljodjelska banka imala provesti Vjeresijsku i gospodarsku organizaciju hrvatskog poljodjelstva* (Zagreb, 1902).

¹⁵ For Raiffeisen credit cooperatives see Wolff, *People's Banks*, pp. 111-127; Myron T. Herrick, *Rural Credits: Land and Cooperative* (New York, 1914), pp. 281-320; Helmut Faust, *Geschichte der*

of credit cooperatives. Nationalism was a major stimulant of the credit cooperative movement in the multi-national Austro-Hungarian Monarchy.

The idea of the 'modernisers' was to assist economic development and upgrade the level of economic activity through micro-credits and to improve entrepreneurial and financial skills through the credit cooperative movement. 'The first duty of a noncapitalist, Schulze-Delitzsch believed, was to convert himself into a capitalist.'¹⁶ Cooperatives were often the main channel for the dissemination of modern methods of small-scale agriculture. Village cooperatives imported quality cattle, seeds and fertilizers, and often acted as a link to the market. Furthermore, credit cooperatives have been seen as instruments for the alleviation of fundamental societal problems, such as agricultural pauperisation. 'Immediately after the agrarian strikes and the incident in Elmir, the vice-governor of the Torontal county proposed a list of measures to the county parliament, which also included some ideas about organising cooperatives'.¹⁷ In the Austro-Hungarian Monarchy, credit cooperatives played an important role in the process of the marketisation of the village and the growth of small-scale artisanship.

The credit cooperative movement attracted the interest of many social and economic agents. In the developed stage of the credit cooperative movement, the state began to take notice of the importance of this type of financial institution. Following that, the state often took care of the organisation, supervision and promotion of credit cooperatives, usually concentrating more on the problems of agricultural credits.¹⁸ In many countries, credit cooperatives were organised under the influence of strong individuals – often patriots –

Genossenschaftsbewegung (Frankfurt, 1965); Henrich Richter, *Friedrich Wilhelm Raiffeisen und die Entwicklung seiner Genossenschaftsidee* (Munich, 1966).

¹⁶ J. Carroll Moody and Gilbert C. Fite, *The Credit Union Movement*, p. 7.

¹⁷ Arpad Lebl, 'Peštanska Zemaljska Centralna Kreditna Zadruga (OKH) i Vojvodina 1898-1918', *Godišnjak Filozofskog fakulteta u Novom Sadu*, Vol. 9/1 (1968).

¹⁸ See International Institution of Agriculture, *An Outline of the European Cooperative Credit Systems* (Rome, 1913); Đukić, Vlajko, 'Kreditna politika i djelatnost Saveza srpskih zemljoradničkih zadruga u Zagrebu i njihovih zadruga 1897-1922', *Zadružni Arhiv*, Vol. 5, Novi Sad, pp. 89-121; Feierabend, L.K., *Agricultural cooperatives in Czechoslovakia* (New York 1952); Tanasić, Nemanja, 'Poljoprivredni kredit u Jugoslaviji 1918-1941' in *Zbornik radova Ekonomskog Fakulteta – Univerziteta u Sarajevu*, Vol VII, (Sarajevo, 1972), pp. 257-275; Tardy, M. Louis, *Report on Systems of Agricultural Credit and Insurance, Series of League of Nation Publications* (Geneva, 1938); Vorkapitch, L. Radivoye, *Le Credit Agricole en Yougoslavie* (Paris, 1930); Yordanovitch, Borislav, *L'organisation du crédit agricole* (Paris, 1931).

who were well aware of the importance of micro-credits for economic development.¹⁹ Municipal authorities were interested in credit cooperatives as well. At the lower urban level, credit cooperatives were able to support the financing infrastructure thanks to a sense of solidarity in such small communities. Political elites recognised the potential of the credit cooperatives for the dissemination of political ideas and the building of political networks. Thanks to all those interested subjects, the credit cooperative movement was an important social issue at the end of the nineteenth century and the beginning of twentieth century in the Austro-Hungarian Monarchy.

It is not hard to get confused about the character of the credit cooperatives. If there was a credit cooperative in a big town, it was, as a rule, a specialised credit cooperative organised to provide financial services or financial help for a specific stratum of the local population, usually consisting of small entrepreneurs or professionals. Credit cooperatives in small villages, as a rule, made up a part of the Raiffeisen credit cooperative movement organised by the church,²⁰ by the state²¹ or by some national or political groups²². The problem with analysing small towns is that the information had to be acquired through a case-by-case analysis. In Varaždin in 1913 (Croatia), for example, there co-existed the Opća štedovna i predujmovna zadruga, which was a specialised cooperative of local artisans and later became a provincial bank named Public Savings Bank Joint-Stock Company; Hrvatska činovnička štedovna i predujmovna zadruga, which was an emergency-loan credit cooperative which specialised in assisting office workers and the Blagajna za podporu bolesnikah okružja županije Varaždinske, which was a humanitarian and social security credit cooperative. Putting some order into the world of credit cooperatives is a job that is still waiting to be taken on by a historian.

¹⁹ Those strong individuals and interesting personalities whose vision, organisational capacities and dedication had a great impact on the economic development of their nations are usually completely forgotten in their national histories: for example Vladimir Matijević, whose activities actually built up the entrepreneurial class of Serbs in Croatia in the two decades before the First World War, is almost unknown to Croatian Serbs.

²⁰ For example the Raiffeisen credit cooperatives in Slovenia or the early stages of the Croatian credit cooperative movement.

²¹ Such as the agricultural cooperatives promoted in Hungary: Landeszentralgenossenschaften.

²² For example Srpske zemljoradničke zadruge – Serbian agricultural cooperatives in Croatia, Bosnia and Vojvodina.

Legal and organisational problems

How did a credit cooperative actually operate? It was a particular sort of very small bank which operated for a limited part of the population or in a small area.²³ Financial services of the credit cooperative were, as a rule, limited to the members of the cooperative. The process of organising credit cooperatives was easy because financial and human resources requirements were low and the registration process straightforward. The only formal requirement was the registration of the cooperative at the district court house.²⁴ The administrative and management tasks of the credit cooperative depended on its financial capacity and membership structure, but it usually involved some voluntary work and the democratic control of credit distribution. Credit cooperatives generally wanted not merely to make a profit but also to support their members.

The main characteristic of the cooperatives is that they are not companies with capital, [...] they are not undertaken for accumulating capital, but for the turn-over of capital – cooperatives are not undertaken for making profit from capital (as joint-stock companies usually do) but their intention is to improve profitability and the economic situation of their members through joint operations.²⁵

Credit cooperative members deposited money in the form of savings or membership fees. Usually membership stock was paid in instalments and represented a sort of obligatory savings. By intensive promotion of savings to all strata of the population, cooperatives were an important mobiliser of treasured resources. The savings of the cooperative could be strengthened with some additional resources, such as municipal, county or state resources, or money borrowed from some bigger bank.²⁶ Such liabilities of the cooperative were used to grant credits to the members of the cooperative. The cooperatives' activities were thus based on deposited or borrowed capital, aside from a small amount of own

²³ About advantages of such small-scale banking see Guinnane, Timothy W., 2001. "Cooperatives As Information Machines: German Rural Credit Cooperatives, 1883 1914," *The Journal of Economic History*, Cambridge University Press, vol. 61(02), pp. 366-389.

²⁴ The *Law on Cooperatives* of 1873 in Cisleithenia recognised that cooperatives are neither business enterprises nor associations, thus liberating them from any registration process. Hočevár, *The Structure of the Slovenian Economy*, p. 65.

²⁵ Gerstner, Paul: *Analiza bilanca* (Belgrade 1933), p. 302.

²⁶ Tardy, M. Louis, *Report on Agricultural Credit*, pp. 13-16.

capital. The problem of financial stabilisation could be resolved in two ways: either by keeping a highly stable level of savings and other deposits through democratic control of the institution or intensive ideological promotion, or by building up a considerable amount of the cooperative's own capital. Since every financial institution needed some stable permanent capital, cooperatives were usually building up reserve assets drawn from their profits.²⁷

Credit cooperatives spread through East-Central Europe by implementing and modifying the original German Raiffeisen and Schulze-Delitzsch models. Because of the modification of the two original German models, it does not make much sense to try to fix the 'financial models' of the credit cooperatives.²⁸ Their financial form depended on local circumstances. The main rather confusing factors that influenced the history of the European credit cooperative movement concern the 'capital of guarantee' and the 'profitability dilemma'.

In order to attract liability resources to credit cooperatives, there had to be some sound background. The solutions to this problem differed all over Europe – something that still confuses historians. Schulze-Delitzsch's and Raiffeisen's solutions were based on the concept of unlimited liability. Unlimited liability means that all members of the cooperative solidly guaranteed the liability capital with their deposited funds, but also with all their private assets.²⁹ The capital that was paid in by the cooperative members was usually a small amount but the members of the cooperative (similarly to the owner or co-owner of an individual trade company) took over obligations, mostly in the form of guarantees, for the debts of the cooperative. It was a sound liability for savers as well as for the borrowers of the capital. These institutions could obtain capital from external resources more easily. This way of operating was useful for small communities and smaller financial institutions, since their members could supervise the institution's resources and shared a strong sense of solidarity. Most small village cooperatives, usually organised by priests and the Catholic Church, operated in this way. This was the original way of implementing financial affairs at the German Volksbank. Therefore, German

²⁷ It was for financial reasons that bigger credit cooperatives in Transleithenia often switched to a joint-stock system.

²⁸ See Wolff, *People's Banks*.

²⁹ For interesting theoretical approach see Guinnane, Timothy W. and Ghatak, Maitreesh "The economics of lending with joint liability: theory and practice," *Journal of Development Economics*, vol. 60(1), pp. 195-228.

settlers all over East-Central Europe, sharing a strong sense of solidarity, usually adhered to this form of unlimited liability. The long-term consequence of unlimited liability was the rise of a democratic spirit necessary for supervising a financial institution and a good awareness of community problems. In Cisleithenia in 1912 there were 8,930 credit cooperatives with unlimited liability, 8,311 of which were Raiffeisen village credit cooperatives.

Another model was that of limited liability, i.e. all members paid in some membership fees on which their liability was restricted.³⁰ Credit cooperatives with a large membership, a more sophisticated financial operation with a wide catchment area, as well as urban cooperatives and cooperatives with an extensive management apparatus, often encountered problems with democratic control. In such circumstances their members preferred limited liability; the members of the cooperative acted as guarantors for the liabilities only within the limit of their membership capital. Credit cooperatives with limited liability thus accumulated capital similar to joint-stock companies. Most of the bigger and urban credit cooperatives were of this type.

Cooperatives had different attitudes towards making profits. Sometimes they were strictly non-profit institutions whose members were mainly interested in cheap financial services and the effects the credit cooperative had on the economic and social growth of local communities.³¹ On the other hand, many paid dividends on the deposited capital. The practice of entrepreneur-oriented cooperatives, commonly called Schulze-Delitzsch banks, was to pay dividends to its cooperative members, using much lower interest rates than the usurers of course. In comparison to philanthropic cooperatives, Schulze-Delitzsch banks were profit-oriented. Raiffeisen cooperatives denied any profit interest, charging only some fees to cover expenditure. In 1910 the Schulze-Delitzsch credit cooperatives in Cisleithenia attracted K 1,184.4 m. of savings while mostly Raiffeisen credit cooperatives attracted K 1,328.9 m. Transleithenian credit cooperatives in 1912 had only K 240 m. of savings.³²

³⁰ The model was widely accepted by the Italian Banche popolari.

³¹ Hočevár, *The Structure of the Slovenian Economy*, p. 68.

³² *Finanzielles Compass* 1915, pp. 1245, 1403.

Networks of credit cooperatives

Since they were small and specific financial institutions, credit cooperatives were usually organised in unions. Networks could be created on a national level with the support of the state, as in the case of the Hungarian Országos Központi Hitelszövetkezet (OKH), but they also could have a local or regional character such as the small and financially weak Dalmatian Federation. The networked activities of credit cooperatives had financial and organisational rationales.

In a financial sense, credit cooperatives, as with all other financial institutions, sometimes had abundant resources, and sometimes they lacked resources. Thus, it made sense for them to be part of a network within which they could offer their deposits to, or obtain additional resources from, some other institution(s), if needed. Most credit cooperative networks had an umbrella institution at their centre: a central credit cooperative bank which kept the accounts of credit cooperatives, provided them with credits in peak periods and usually organised some financial supervision. Sometimes it was just a stronger regional or metropolitan bank which had an extra department for credit cooperatives, such as the Hrvatska Poljodjelska Banka in Zagreb after the First World War. Occasionally a similar situation occurred at the micro level: a provincial bank took care of a few credit cooperatives in its neighbourhood.

Each network of credit cooperatives was influenced by its organisers and their ultimate goals. Most credit cooperatives were organised top-down. A rise in membership in a credit cooperative often occurred after some local people recognised how useful it could be for their micro society to be part of the institution. Some 'local organisers' were, on the other hand, influenced by popularisation or network organisers. Network organisers could be any of the following: the state; some state-owned institution; leading national political groups; the church; or, occasionally, forceful individuals. The role that credit cooperatives played in the economic nationalism movement will be discussed further in the section on economic nationalism.

Sometimes there were several networks which co-existed in the same territory. In nationally mixed regions, there were as a rule credit cooperative networks of each nationality, which could be further subdivided. The situation in Slovenia was illustrative of this phenomenon. Although the territory was small, numerous cooperative activities took place. The following associations of credit cooperatives can be identified. The first

Slovene cooperatives association, The Union of Slovene Loan Banks (with strong nationalist connotations) was founded in 1883 in Celje. Later on, two Slovene cooperative associations with national/patriotic connotations were established in Ljubljana. They also had a political profile: one was Catholic (The Union of Loan Banks of Kranjska - renamed the Cooperative Union in 1895) and the other one was more secularly oriented (The Union of Slovene Cooperatives, 1907). Slovene cooperative unions were obviously politically and ideologically oriented. The Catholic, liberal and social-democratic parties all had their own cooperative networks.³³ These credit cooperative networks were important instruments for national/political differentiation.³⁴

There were a number of credit cooperatives which did not belong to any network. They were mostly urban credit cooperatives organised by interested specialised groups or municipalities in order to resolve some specific urban credit problems. The regional analysis found between a few dozen to more than a hundred urban credit cooperatives in the main financial centres.

Metamorphosis of the credit cooperative movement

As time passed, many successful credit cooperatives developed their businesses further. They started to employ full-time staff and developed strong management practices. As the number of customers grew, they sometimes lost their original cooperative character and democratic management. However, they had to maintain a base of small customers. It was a sensitive period in the development of the credit cooperative, when some credit cooperatives actually became local banks. For example, in Tešanj in Bosnia, there was the credit cooperative Prva Muslimanska kreditna zadruga which registered a branch in another town.³⁵ In Transleithenia such credit cooperatives switched to being joint-stock companies. In Cisleithenia we can only assess the strengthening and commercialisation of the credit cooperative sector as there were no legal changes.

³³ Žarko Lazarević, 'Zadružništvo v Sloveniji v času kapitalizma – Sistemi in organizacije', *Arhivi*, Vol. 17 (1994) No. 1-2, pp. 12-19. Lazarević does not give any data on the network activities of German credit cooperatives in Slovenia.

³⁴ The term 'national/political differentiation' is taken from Žarko Lazarević, 'Economy and Nationalism in Yugoslavia', in Schultz Helga and Kubů Eduard (eds), *History and Culture of Economic Nationalism in East Central Europe* (Berlin, 2006).

³⁵ *Finanzielles Compass* 1915, p. 1421.

Credit cooperatives had a straightforward registration procedure and low capital needs. The low initial requirement assisted the establishment of a bank even in very small, economically weak places. Thus, provincial banks sometimes started as credit cooperatives and then re-registered as a 'proper' bank – something that often happened in Transleithenia. It was a common stage in the development of provincial banks. As an example, the First Ilok's joint-stock savings bank can be considered. This was a local bank in Ilok, near Vukovar in Srijem, Croatia, which started to operate in 1893, but it actually came into existence back in 1870, the year of the formation of the First Ilok's savings and support association. Such entrepreneurial credit cooperatives usually retained the same leaders and business activities while merely changing their names as soon as they turned into 'proper' banks. Thus, the importance of the credit cooperative lay partly in the legal status it provided for developing provincial banks in Transleithenia.

Starting a provincial bank as a credit cooperative was common among the nationalist banks in Croatia and Bosnia. Most Serbian savings banks in small Croatian provincial towns, which made up one part of the Serbian economic organisation in the Austro-Hungarian Monarchy (1895-1914), started out as credit cooperatives. They would be referred to as 'savings banks as cooperatives' until the moment they registered as joint-stock companies. The situation was similar in Bosnia before 1903. Its governor, Kalay, was opposed to nationalism in Bosnia and did not allow the formation of national banks while he controlled the Bosnian economy. Therefore most national provincial banks (of all national groups) in Bosnia existed as credit cooperatives first.

It is interesting to note that during the 1870s Sparkassen in Bohemia sometimes developed from the credit cooperatives. They were sometimes linked with the financial difficulties of the main credit cooperative in the town (Rokycany and Turnov), or with the growing need for financial services which the credit cooperative could not serve. In the early twentieth century such organisational changes occurred sometimes for fiscal reasons – for example the Sparkasse in Sedlcany in 1905.³⁶

One type of credit cooperative, pawn-brokerage, deserves special mention.³⁷ If organised as a non-profit or low-profit lending mechanism, pawn-brokerage could be of great help in cases of urgent credit needs. Such institutions can occasionally be found in towns of

³⁶ See Albrecht, *Savings Banks in Bohemia*, pp. 94-96.

³⁷ These institutions existed under the name *zastavarna* in Bohemia. See also Hočevár, *The Structure of the Slovenian Economy*, p. 76.

Cisleithenia. They were sometimes organised as departments of bigger credit cooperatives or municipal savings banks. The task of these institutions was to protect people with a small income from usury but they could also support very small entrepreneurs or artisans. The subject of non-profit pawn-brokerage in East-Central Europe still waits for a historian who is willing to examine it in more detail.

Results of the credit cooperative movement

The social and moral consequences of the credit cooperative movement cannot be denied. The idea of social cooperation could have an impact on societies with a well-developed credit cooperative movement. 'If the citizens, if the families on entering into association and fellowship, were to experience hindrance in a commonwealth instead of help, and were to find their rights attacked instead of being upheld, society would rightly be an object of detestation rather than of desire'.³⁸ Philanthropists regarded credit cooperatives as useful tools with which to fight poverty and the moral degradation of humankind. Fighting poverty by developing savings habits and financial rationality was the main idea of the promoters of credit cooperatives. 'Poor' people were unable to get credits anywhere but, if someone gave them a chance and enough trust, they would pay the money back.³⁹ Through the Raiffeisen cooperatives, which were usually organised with the help of the church, small peasants across Europe received important moral and social support, even though the sums involved might be small. Similarly various urban loan institutions resisted the pauperisation of the urban labourer. Credit cooperatives promoted charity in society.

The development of habits of saving was important for the economic development of the region. Through the activities of credit cooperatives the financial market expanded into territories, urban classes and sections of the population which were outside the sphere of interest of banks. Credit cooperatives were able to bring habits of saving and a minimum of financial literacy to villages, subsistence peasants, the urban proletariat, school pupils and many others who lacked experience of saving in banks. Credit cooperatives were able to mobilise numerous small savings and direct them mostly towards the purposes of modernisation. Also, credit cooperatives took over small-scale financing from the hands of

³⁸ See the *Rerum Novarum* Encyclical of Pope Leo XIII given at St. Peter's in Rome, the fifteenth day of May, 1891, the fourteenth year of his pontificate.

³⁹ Wolff, *People's Banks*, p. 21.

merchants and small usurers and provided cheap micro-credit to the broader population. Thus, the credit cooperative movement invented retail banking.

The popular literature on the credit cooperative movement is full of examples of how much these people finally benefited from the existence of credit cooperatives. Interestingly enough, the broad historiography on the credit cooperative movement seldom documents the real economic effects of micro-credits. Although they are hard to measure, micro-credits had far-reaching consequences, and greatly enhanced the lives of small entrepreneurs and those peasants who were members of credit cooperatives.⁴⁰

⁴⁰ Concerning this problem, see the works of Žarko Lazarević on credit cooperatives. In 1999, at the University of Helsinki, the Finnish historian Jaakko Autio started research entitled 'Cooperative credit and rural indebtedness in Finland in the interwar period'. This focused on the analysis of economic results of the credit cooperative movement. Once finished, it will help us to understand the importance of micro-credit for the peasant economy.

PROVINCIAL BANKS

Before the development of mass communication, commercial banks did not provide financial services to all sections of the economy. It was too expensive and insufficiently profitable for banks to maintain branches or agencies in towns and villages where turnover was comparatively low. The big metropolitan banks in the Monarchy concentrated more on big business than retail banking.⁴¹ Big business was not limited to metropolitan towns. The networks of big banks often also financed big businesses sited in provincial areas.⁴² However, major commercial banks did not provide financial services to a large section of the provincial economy, as the next chapter will show. At the same time, although the credit cooperative movement was widely adopted, its financial capacity and the quality of financial services it provided were seriously limited.⁴³

Between the big financial and metropolitan banking networks and the micro-credit world of credit cooperatives, lay the provincial banks. The main goal of this research is to identify these banks and analyse their business activities. The results of this research are presented in Part two. However, this subject requires some introduction. Provincial banking shared many of the characteristics of 'big banking', the most significant differences lying in the financial capacity of the banks and the territory in which they operated. But there were also a number of specific business, social and economic factors which made provincial banking essentially different from metropolitan banking. The following section will describe how provincial banking operated in the Austro-Hungarian Monarchy at the beginning of the twentieth century.

⁴¹ Rudolph, *Banking and Industrialisation*, p. 85.

⁴² Provincial big businesses were often branches of metropolitan firms or made parts of cartels or at least had close ties with metropolitan banks and big metropolitan enterprises. Thus, it was practical for those big provincial enterprises to have banking services with the metropolitan bank. See Rudolph, *Banking and Industrialisation*, pp. 91-121.

⁴³ See Kővér, György, 'The Austro-Hungarian Banking System' in Cameron, Rondo and V. I. Bovykin (eds), *International Banking 1870-1914* (New York, Oxford, 1991), p. 325.

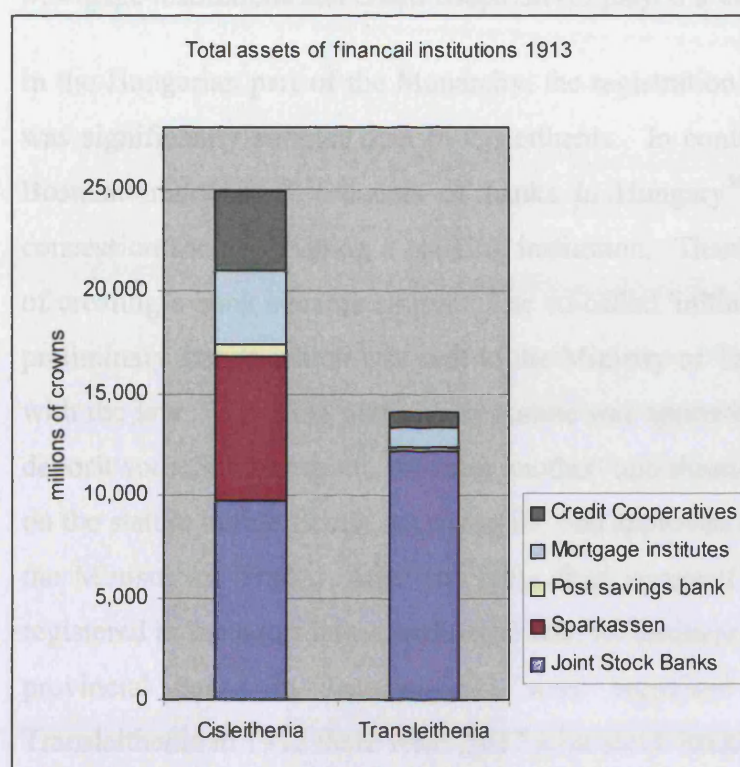
Leitha – a small river marking great differences

Map 1 Administrative division of the Austro-Hungarian Monarchy



The Austro-Hungarian Monarchy was a confederation of two political units: the Reichsräte vertretenen Königreiche and the Länder der ungarischen Krone. Bosnia had a specific legal status and was administered by the governor responsible to both parliaments. In Map 1 above the territory of Cisleithenia is coloured brown and that of Transleithenia light brown. Although the Austro-Hungarian Monarchy was generally regarded as one political entity, it was a confederation of two states with different legal and political traditions and economic structures. The Austrian and Hungarian parts of the Monarchy each had a separate legislature with respect to banking as well as different banking practices. So, two distinct banking systems have to be taken into consideration. The differences between the Transleithenian and Cisleithenian banking systems are presented in the chart below, which also shows the greater development of the Cisleithenian banking system.

Figure 2 The structure of the banking system in Cisleithenia and Transleithenia in 1913



Source: Kővér, György, 'The Austro-Hungarian Banking System' in Cameron, Rondo and V. I. Bovykin (eds), *International Banking 1870-1914* (New York, Oxford, 1991), p. 325.

The Cisleithenian banking system developed a considerable level of specialisation, with a clear division of business amongst joint-stock commercial banks, Sparkassen, mortgage institutions, postal savings banks and credit cooperatives. The Cisleithenian banking system was characterised by a higher level of structural specialisation than its Transleithenian counterpart.⁴⁴ However, there was a substantial amount of co-operation between the various systems.⁴⁵ David F. Good provided an interesting econometric proof of the high level of integration within the Austrian financial market.⁴⁶

⁴⁴ For further discussion of the more universal character of the Transleithenian banking system see Béla, Tomka, 'The Development of Hungarian Banking', pp. 150-156.

⁴⁵ The literature often mentions a fluctuation of resources among the different elements. For Cisleithenian joint-stock banks deposits of Sparkassen were important source of resources. For example 1911 in Cisleithenia 89 banks joint-stock banks had K 1,295.6 m. of capital, K 486 m. reserves K 1,345.7 m. of savings and similar deposits but as much as K 4,170.8 m. of giro deposits and creditors. From the balance sheets it is not clear how much of those K 4,170.8 m. were deposits of different business companies and how much belonged to other, smaller banks and Sparkassen.

⁴⁶ See Good, David F., 'Financial integration in late nineteenth-century Austria', *Journal of Economic History*, Vol. 37 (1977), pp. 890-910.

In Transleithenia, the biggest share of the market was controlled by joint-stock banks. Mortgage institutions and credit cooperatives played a visible though small role.⁴⁷

In the Hungarian part of the Monarchy, the registration process for joint-stock companies was significantly simpler than in Cisleithenia. In contrast to the Cisleithenian⁴⁸ and the Bosnian trade law,⁴⁹ founders of banks in Hungary⁵⁰ did not have to obtain a state concession for establishing a banking institution. Thanks to favourable laws, the process of creating a bank became simple. The so-called 'initialisation assembly' usually set up a preliminary statute which was sent to the Ministry of Trade to ensure that it corresponded with the law. When the preliminary statute was approved, the founders of the bank had to deposit some initial capital, organise another 'initialisation assembly' and maybe comment on the statute before finally accepting it. The approved statute would then again be sent to the Ministry of Trade. After receiving final approval from the Ministry, the bank was registered at the court house and could start its business operations.⁵¹ Consequently, most provincial banks in Transleithenia were organised as joint-stock companies. In Transleithenia in 1912 there were 2,017 joint-stock banks and savings banks.⁵²

There is insufficient information available about the organisation and quality of banking supervision in the Austro-Hungary.⁵³ Each bank was obliged to send annual reports and minutes of annual shareholder assemblies to the Ministry of Trade. However, one has to keep in mind that such annual meetings were often only a formality, especially in small banks where shareholders were involved in the work of the bank on a daily basis anyway.⁵⁴

⁴⁷ Kővér's data presented in Figure 3 does not include all credit cooperatives but it does not change the general picture.

⁴⁸ Article 208 of Austrian *Commercial law* of 1862 with appendixes (1869, 1873, 1875, 1889, 1899, 1906).

⁴⁹ Article 1529 of *Commercial law* of 1883. The very limited rate of granted concessions in Bosnia triggered a number of banks there to start their operations as credit cooperatives. See the regional section on Bosnia in Chapter 4 for further discussion.

⁵⁰ The operation of the banks in Hungary was regulated by the 18th Legal Article of 1840 and the Trade Law of 1875.

⁵¹ Gaćeša, *Istorija bankarstva u Vojvodini*, p. 123.

⁵² *Finanzielles Compass* 1915, p. 130.

⁵³ Leinert Siniša will submit a PhD thesis at the end of 2007, at the Faculty of Philosophy, Department of Informatics, Zagreb University, examining banking history in Croatia with special reference to the legal aspects of banking and the problems of banking supervision.

⁵⁴ See article 'General meeting', *Bilanca*, No. 6/1932, p. 15.

Joint-stock companies were obligated to publish their balance sheets and thanks to this practice we have published information about banks in *Compasses*

Confusingly, many banks in Transleithenia were called 'savings banks'. There was no legal difference between banks and savings banks. Zoltán Gjeer noted that until 1890 savings banks had the same registration procedure as other banks, but they were limited in the use of assets. Deposits could only be invested in securities of the Austrian and Hungarian state, in business securities, the interest from which was guaranteed by the state, and *založna obveznice*, which were listed at the Vienna or Budapest stock exchange market.⁵⁵ According to Tomka, the difference in assets policy between banks and savings banks disappeared by the end of the nineteenth and the beginning of the twentieth century. Balance sheet analysis for 1913 did not reveal any important differences in business practices between 'banks' and 'savings banks'.⁵⁶ Consequently, so-called 'savings banks' are not differentiated from other banks in Transleithenia.

Few municipal savings banks existed in Transleithenia. Tomka has doubted whether their scarcity was due to the low rate of human resources at municipal governments and a lack of support from the state. Legally, there was no difference between municipally-owned and private financial institutions, nor was there a great difference between their financial practices. 'Article 8 of 1909, for example, classified the community savings banks in the same taxation categories as the companies obliged to publish their accounts.'⁵⁷ The very few municipalities which actually set up their own banks used the flexibility of the 1868/1886 Laws which allowed municipalities to set up municipal undertakings. Municipal financial institutions in Transleithenia concentrated on classical savings/credit operations, although they often used credits from bigger banks in order to invest in infrastructure. Besides, the profits directly supported the budget of a municipality instead of being extracted by private hands.⁵⁸ It is worth noting that such institutions were organised by small towns, most of which were in eastern Transleithenia.⁵⁹

⁵⁵ See Gaćeša, *Istorija bankarstva u Vojvodini*, p. 124.

⁵⁶ Tomka, *A magyarországi pénzintézetek*, p. 37.

⁵⁷ Tomka, Béla, 'The Development of Hungarian Banking, 1880-1931: an International Comparison', *Journal of European Economic History*, Vol. 30/1 (2001), p. 132.

⁵⁸ Gaćeša, *Istorija bankarstva u Vojvodini*, p. 177.

⁵⁹ See Halas, Sandor, *Kőszegi Takarékpénztárak Magyarországon* (Budapest, 1905).

In Cisleithenia, a complicated registration process and fiscal policy were hindrances to establishing the legal status of joint-stock companies. It is interesting to note that in 1907 Germany had seven times more joint-stock companies than Cisleithenia.⁶⁰ In Cisleithenia in 1911 there were only 89 joint-stock banks. However, they were fairly strong institutions – in 1911 the joint-stock capital of those 89 banks was K 1,295 m., while in the same year 1984 joint-stock banks in Transleithenia had K 1,343 m.⁶¹

Part of the provincial financial needs in Cisleithenia was satisfied through other legal forms – municipal savings banks called 'Sparkasse' and credit cooperatives. Provincial banking in Cisleithenia was based on a specific banking form known as 'Sparkasse'. Usually, these banks were organised by municipal authorities, and their operations were strictly regulated through the savings-bank statute and had a limited commercial character. In Cisleithenia in 1911 there were 551 Gemeinde Sparkassen (organised by municipalities) – comprising 82.8 per cent of all Sparkassen, 45 Bezirks Sparkasse (organised by county authorities) – 6.7 per cent of all Sparkassen and 71 of Verein Sparkasse (10.5 per cent of all Sparkassen).⁶²

Savings banks organised as joint-stock or limited liability companies are not permitted in Austria.⁶³ The usual form they take is therefore that of an institution which is either founded and under control of a public administrative corporation such as city, town or rural district or by a private association of individuals. In either case, an initial capital (*Gründungsfonds*) is supplied by the founder and is not repayable until a reserve fund to be accumulated reached a certain percentage of the savings deposits. Therefore, in the later stages of the savings bank's career, the reserve fund alone takes the place of the capital account of other undertakings. The management of the Sparkasse is under the supervision of an executive committee (*Sparkassenausschuss*) whose members have a purely honorary function to see to it that overhead expenses are retained low. The savings banks are forbidden, by the *Sparkassen-Regulative*, to loan funds to the members of their

⁶⁰ See Rudolf, *Banking and Industrialisation*, p. 77.

⁶¹ *Finanzielles Compass* 1915, pp. 129-130.

⁶² *Finanzielles Compass* 1915, p. 1081.

⁶³ They were permitted by Hungarian law, and when a small district of Hungary was transferred to Austrian sovereignty under the provision of the treaties of St. Germain and Trianon, being constituted as an Austrian

committees. The net profit is used to strengthen the reserves and only if the latter have reached a certain amount. Any further surplus may be employed, upon approval by authorities, for public welfare purposes. These legal provisions have offered an effective guarantee for the security of deposits, which is enhanced in the case of communal savings banks, by the liability of the respective city, township or district.⁶⁴

The initial process of establishing Sparkassen and their metamorphoses in the Monarchy were not simple. It is important to note that there was a regulative law which had been passed relatively early, in 1844, and which strictly controlled many aspects of Sparkassen operations.⁶⁵ As these institutions were organised under the Sparkassen regulation, the best term for these institutions would be 'regulated savings banks'.⁶⁶ In order to highlight their special legal status, the German term Sparkasse will be used in this text. The Sparkassen performed two main functions in Cisleithenia's economic life. They promoted thrift and they provided credits. Although thrift remained important in the savings bank ideology, 'savings-banks directors acknowledged the importance of providing credits to the provincial community'.⁶⁷

Banking is a business which can easily adapt to circumstances. As the regional analysis in Part two will display, there were also differences in banking architecture from region to region. They resulted from differences in the economic and social structure between regions. Cisleithenia and Transleithenia had distinct economic and social structures and

federal province under the name of Burgenland, the savings banks already in existence there, which were organised as joint-stock companies, were tacitly permitted to carry on their business.

⁶⁴ Sokal, Max and Rosenberg, Otto, 'The banking system of Austria', in Parkers, H. Willis and Beckhart, B.H. (eds) *Foreign Banking Systems* (London, 1929), p. 162.

⁶⁵ The first *Sparkassen Regulative* was issued in 1844 and remained in effect, with amendments in 1853, 1855, 1872 and 1892, until the breakdown of the Austro-Hungarian Monarchy. For the development of savings banks in Cisleithenia and the change in legislation until the First World War see Albrecht, *Savings Banks in Bohemia*, pp. 1-75.

⁶⁶ In the literature on this topic, they are usually just called savings banks, but this might be confusing because of numerous other banks which did not have the same legal and structural background and were also named savings banks. Lazarević Žarko, a Slovenian economic historian, developed the term 'regulated savings banks' to highlight the difference between municipal 'hranilnice' (savings banks in Slovenian language) and numerous credit cooperatives, which were often called 'hranilnice'. See Lazarević, *Zgodovina slovenskega bančništva*, pp. 19-26.

⁶⁷ Albrecht, *Savings banks in Bohemia*, pp. 9 and 29.

legal traditions. It is not surprising that Transleithenia and Cisleithenia developed different types of banking architecture.

Who started provincial banks?

At the beginning of the twentieth century, money transfer and savings facilities were accessible to most of the provincial population. A minimum level of financial services was provided by postal banking, which offered money transfer and savings facilities in every post office.⁶⁸ In Cisleithenia at the eve of the First World War branches of the biggest metropolitan banks offered savings facilities as well, at least in main regional centres.⁶⁹ Taking into account the long-term nature of savings, the branches of commercial banks in bigger regional towns were a viable solution for people from smaller towns who wanted to keep their savings somewhere. Thrift and money-transfer-facilities were present on the provincial financial market.⁷⁰

The main problem with the provincial economy during the nineteenth century was credit. Credit was cheap and easily available in sizeable economic and financial centres, but most actors in the provincial economy, especially small entrepreneurs, had only a slim chance of meeting a Rothschild on the streets of their small town or village. Branches of metropolitan banks did not reach most of the provincial economy until 1913.⁷¹ The solution to the credit problem came with the emergence of local financial institutions. The idea behind local banking was simple: establish an institution, attract locally available capital and savings, and offer credits to those who needed them. In addition, such an institution could offer some other financial services, borrow money from regional centres or the main financial centres and in such way provide a better way of monetising provincial economies.⁷² Such a provincial bank could even make some profits.⁷³

⁶⁸ See section on Post savings banks in the Chapter 3.

⁶⁹ See information about branches of metropolitan banks in Part two and Chapter 3.

⁷⁰ See Chapter 3.

⁷¹ See Chapter 3.

⁷² See Jelić, 'Financing the Local Economy in Central Europe.'

⁷³ For a variety of other economic reasons which could influence the formation of local banks see papers presented at the conference '*Savings banks as Financial institutions: Role, Performance and Impact*' held in the Centre for Business History in Scotland, University of Glasgow, 19th-20th September 2001.

In order to set up a bank, capital – both human and financial – was required. In provincial economies, local political and economic elites and also other banks were in the best position to start such an undertaking. Boris Kršev argued that most of the provincial banks in southern Hungary which emerged before the First World War had roots in merchant credit and that most of the owners of provincial banks were merchants.⁷⁴ Significant regional differences and a lack of case studies make it impossible to draw any general conclusions about the ownership structure of Transleithenian provincial banks. The creation of a local bank was usually based on the joint interests of both political and economic local elites. Provincial economic elites considered local banks to be a good investment, because banking was associated with many social and economic advantages.⁷⁵ Political elites could not ignore the importance of provincial banking. For example, Ujvidéki takarékpénztár, one of the first banks in Vojvodina was formed in 1864 by a group of merchants and artisans from Novi Sad, but the initiator of the project was a political and clerical figure, archbishop Platon Anatacković.⁷⁶ It is important to note the heterogeneous professional structure of the members of the boards of the banks which reflects the heterogeneity of provincial elites.⁷⁷

The metropolitan banks' interest in expanding activity in Transleithenian provincial towns often resulted in the formation of provincial banks. The number of affiliate links with provincial banks indicates that bigger banks often used accumulated human and financial resources to set up a new bank as a sort of investment.⁷⁸ There are no detailed studies which assess this process and establish its periodisation and regional differences. However, from occasional information in *Compasses*, the process can be identified throughout the development of provincial banking. A few case studies have shown that

⁷⁴ Kršev Boris, *Bankarstvo u Dunavskoj Banovini* (Novi Sad, 1998), p. 36-37.

⁷⁵ Kudlek and Matovina, *Bankarstvo Siska*, p. 57-78.

⁷⁶ Kršev Boris, *Bankarstvo u Dunavskoj Banovini*, p. 31.

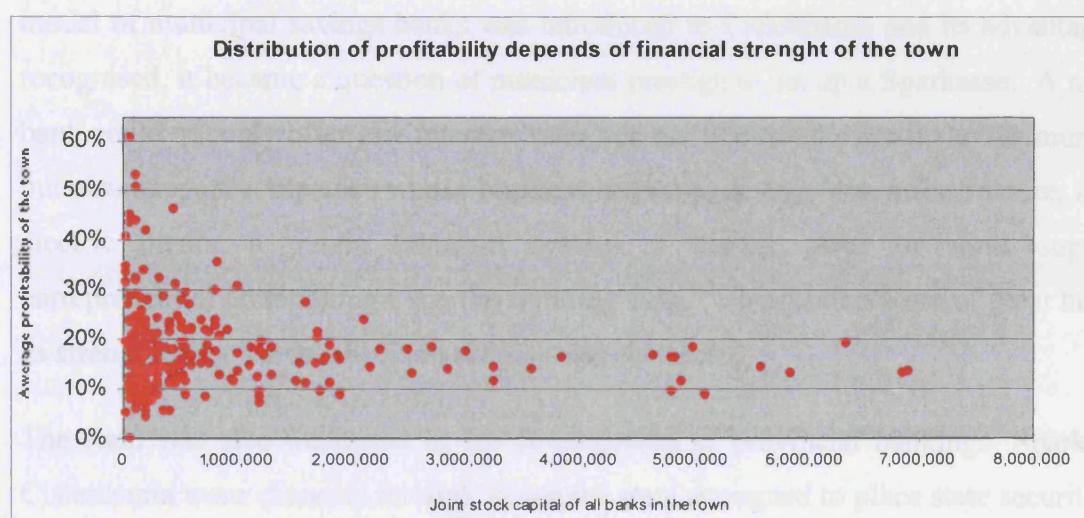
⁷⁷ See Rumenjka, Natalija, 'Čelni ljudi u novčanim zavodima Banske Hrvatske 1900. godine – osvrt na srpsku elitu 1882-1900 godine', *Povijesni prilozi*, Vol. 18 (Zagreb, 1999), pp. 161-239. For examples of how local elites organised banks see Bobik, *Vršačko bankarstvo*, pp. 37-46. See also Table 6.1 in Albrecht, *Savings Banks in Bohemia*, p. 214.

⁷⁸ See section 'Budapest' in Chapter 3.

metropolitan banks cooperated with some members of the local elite, or that local elites attracted the interest of some metropolitan bankers or entrepreneurs.⁷⁹

In Transleithenia, provincial banks were highly profitable institutions. Figure 3 below shows the profitability of banks in Hungary in 1913. The profit/capital ratio averaged some 15 per cent. The number of provincial banks making high profits turned provincial banking into a desirable business.

Figure 3 Hungary 1913 – profit/capital ratio in relation to the financial resources of the town



Source: PROVBANK DATABASE – Hungary 1913

According to Gyula Vargha, the number of lending institutions in Transleithenia rose from only 107 in 1867 to 1255 in 1890.⁸⁰ The tendency of these institutions towards usury was constrained by the 1877 law which limited interest rates to eight per cent. This law was reinforced by the 1883 decree which defined loans with an interest rate of above eight per cent as criminal activity, thus denying lenders any legal protection.⁸¹ However, the law could not change the general financial situation, so high interest rates remained a fact of life in eastern parts of Transleithenia. The provincial banking boom in Transleithenia during the second part of the nineteenth century occurred mostly as a result of the desire for profit manifested by provincial elites and metropolitan banks.

⁷⁹ For the structure of the initial assembly of several Czech banks see Matušek, Josef, *Česi u Hrvatskoj* (Daruvar, 1996), pp. 149-151.

⁸⁰ Gyula, Vargha, *A Magyar hitelügy és hitelintézetek története* (Budapest, 1896), pp. 529, 538, 550.

⁸¹ Held, Joseph, *The modernisation*, p. 59.

The role of municipalities in establishing provincial banks was greater in Cisleithenia than in Transleithenia. Most of the Cisleithenian economy was well monetised through the dense network of branches and agencies of commercial banks, of the central bank as well as of a number of specialised credit cooperatives. However, according to Rudolph, commercial banks in Cisleithenia were mostly dedicated to short-term policies and the financing of business.⁸² While businesses could transform parts of their profits into investments or obtain long-term financing from the bank⁸³, these options were not open to a municipality. At the same time, the growth of a town, its economic development and modernisation depended on investments in its infrastructure, both the communal infrastructure, such as roads or waterworks, and the private, such as housing. Once the model of municipal savings banks was introduced to Cisleithenia and its advantages were recognised, it became a question of municipal prestige to set up a Sparkasse. A municipal bank could not only offer low interest rates and easily available credits to the municipality but also support companies whose business helped to develop the infrastructure, including electric plants, a public transport system, a market place or some support for entrepreneurial undertakings, such as building flats.⁸⁴ Sparkassen were of great help as far as strengthening the urbanisation process was concerned.

The state was also interested in the development of provincial banking. Sparkassen in Cisleithenia were channels through which the state attempted to place state securities. The importance of state securities grew after the 1873 crisis, and included all kinds of state guaranteed securities.⁸⁵ The reluctance of Czech towns to set up Sparkassen and use credit cooperatives as their local financial institutions was symptomatic of a widespread Czech fear of state influence.⁸⁶

In Cisleithenia, local elites could not easily set up a joint-stock bank, but credit cooperatives or Verein Sparkasse were possible. Reichenberg Sparkasse, which became

⁸² Rudolph, *Banking and Industrialisation*, p. 85.

⁸³ By continuous use of short-term credits, companies often had de-facto long-term credit by bank. See Rudolph, Richard, 'Austria 1800-1914' in Cameron, Rondo (ed.), *Banking and Economic Development, Some Lessons of History* (New York, 1972), pp. 42-43.

⁸⁴ Kolar-Dimitrijević, Mira, 'Gradske štedionice u Hrvatskoj od 1895. do 1941 godine' in *Zbornik Mirjane Gross* (Zagreb, 1999), p. 286.

⁸⁵ Albrecht, *Savings Banks in Bohemia*, pp. 18, 139-143.

⁸⁶ Albrecht, *Savings Banks in Bohemia*, pp. 53-55, 212.

one of the largest Bohemian Sparkassen, was not founded by the town, but by a group of business people in 1854. The business elite of Reichenberg used the legal status of the Sparkasse to set up a bank. In its early years the Reichenberg Sparkasse mostly concentrated on discount business.⁸⁷ Similarly, there were a number of credit cooperatives whose financial capacity and business structure indicate that they were *de facto* strong local banks which used the legal framework of credit cooperatives. For example, in 1913, Deutsche Bank für Industrie, Handel, Gewerbe und Landwirtschaft, Ges.m.b.H in Mähr. Schönberg had ten agencies, while Pozemkový ústav v Olmouci z. Sp.s.r.o. had nine branches. Usually, market conditions and credit needs were more decisive factors in shaping the business of the banks than the legal framework or restrictions laid on them.

Usually, a few independent financial institutions could be recognised in the same town. A division based on national affiliation was typical of nationally mixed settlements in East-Central Europe. Nationally competitive financial institutions could be identified as credit cooperatives, Sparkassen or joint-stock banks. There are many examples. Typical cases of national financial organisation are shown in two small cooperatives in a Slovenian small town Šentilj, near the border to Austria, where Germans organised the Spar- und Vorschuss Verein für Sat. Egidi und W.B. und Umgebung in 1893 and the Slovenes the Hranilnica i posojilnica in 1898. In Celje a similar situation occurred with Sparkassen. The old institution Sparkasse der Städtgemeinde Cilli was formed in 1865, but Slovenian nationalists managed to set up Južno-štajerska Hranilnica Celje as a Sparkasse in 1889. In Brčko, a Bosnian trading centre for plums, there were three national joint-stock banks. Srpska Trgovinska Banka d.d was formed in 1905 as a bank of Serbian merchants, to be followed in 1907 by a Muslim bank named Prva Muslimanska Banka d.d. and Croats managed to set up their own bank in 1913 under the name of Hrvatska Posavska Banka d.d. Economic nationalism in nationally mixed regions was important for the marketing policy of provincial banks. Sometimes provincial banks used national agitation to build up a broad basis of savers.⁸⁸ In addition, the competition between nationalities, for instance between Czechs and Germans in Bohemia, played an important role when Sparkassen

⁸⁷ Ibid., pp. 43-44.

⁸⁸ The Serbian Bank and the network of provincial Serbian savings banks used the following marketing motto: 'Every real Serb saves his money at the Serbian Bank'.

emerged throughout the area.⁸⁹ The complex connections between economic nationalism and banking will be assessed further in a separate section.

In addition, strong economically or politically⁹⁰ opposed clans often existed in the same town. At the beginning of the twentieth century, Čazma, a small Croatian settlement of some 800 people, was of some importance as an administrative centre and as a market for peasants from the surrounding areas. In 1903 two new banks were formed within three months of each other: the Hrvatska Štedionica d.d. and the Hrvatska Narodna Štedionica d.d. In these cases, the competition was not based on nationalism but rather on the existence of two strong clans in the towns – these forces were strong because these two banks merged 20 years later.

The main reason for the formation of new financial institutions, apart from antagonism between nationalities, was the development of new entrepreneurial groups. In almost every town, an old provincial institution was usually succeeded at the beginning of the twentieth century by other banks (in Transleithenia) or by specialised institutions and credit cooperatives (in Cisleithenia).⁹¹ The precise time frame for this process differed from town to town. However, if there had not been financial scandals or difficulties, the institution that had come first would usually have retained most of the locally available savings.⁹²

An interesting situation occurred in the industrial town of Reichenberg in Bohemia. In Reichenberg a municipal bank was founded in 1892, as the municipality could not rely on Reichenberg Sparkasse which was not municipally controlled. Several years later, in 1895, Bezirks Sparkasse Reichenberg was founded. Thus three Sparkassen co-existed in the town at the beginning of the twentieth century – one under the control of the business elite, another municipally controlled and one a county Sparkasse. In Reichenberg in 1913 six

⁸⁹ See Hájek, 'Zur Entwicklung der Sparkassen in der böhmischen Ländern bis 1914'.

⁹⁰ In Serbia, members and sympathisers of political parties often organised economic clans and consequently a few banks. See Milić, Danica, 'The role of Jews in Serbian Banking until the First World War', in Kostis, P. Kostas (ed.), *Modern Banking in the Balkans and West-European Capital in the Nineteenth and Twentieth Centuries* (Aldershot 1999), pp. 195-214. A similar situation existed in Sisak in Croatia before the First World War. See Kudlek and Matovina, *Bankarstvo Siska*, pp. 65, 71.

⁹¹ Thesis based on author's analysis of years of formation of provincial financial institutions.

⁹² See section on periods of formation of provincial banks in Chapter 3.

credit cooperatives, one private banking house and eight branches of metropolitan banks can be identified from the database.

The strata of financial users

The different parts of the population in a provincial economy demanded a variety of financial services which were all satisfied in different ways. There was a diversity of operational modes at the business level, e.g. more market-oriented regions in comparison to less developed areas. In financially more developed regions and in economic centres, financial instruments and human resources were available to a much greater extent than in less market-oriented, more agriculturally-based or locally-oriented economic regions. There is a serious lack of case studies and statistical data about the service users of provincial banks⁹³ Occasional information which appears in annual reports of the banks cannot not be applied to provincial banking in general. Therefore, literature quoted in this section usually gives some illustrative examples or opinions rather than definitive statistics. However some generalisations are necessary.⁹⁴

In East-Central Europe, small peasants satisfied most of their economic needs by living on their own, often in predominately subsistence landholdings. Their connection with the market was limited to paying taxes and buying a minimum amount of merchandise. The subsistence based peasant economy offered peasants a considerable degree of economic stability.⁹⁵ The diminution of peasant property as a result of the division of property amongst sons was main source of disequilibrium in the subsistence peasant economy.⁹⁶ In

⁹³ One of rare works related to this problem assess Sparkasse in Germany. See Thomes, Paul, 'Das Kapital der Weiblichkeit. Die Kundinnen der Kreissparkasse St. Wendel (1859-1867)', in Wixforth, Harald (ed.), *Sparkassen in Mitteleuropa im 19. und 20. Jahrhundert (Geld und Kapital. Jahrbuch der Gesellschaft für mitteleuropäische Banken- und Sparkassengeschichte)* (Vienna, 1998).

⁹⁴ This section resulted from the author's knowledge and readings of a broad range of literature on the economic life in the past of East-Central Europe, *Compasses* and bank's annual reports.

⁹⁵ See works of Mendras Henri and Shanin Teodor regarding peasant societies. Shanin, Teodor, *Peasants and peasant societies; selected readings* (Harmondsworth, 1971); Teodor Shanin and Hamza Alavi, *Introduction to the sociology of developing societies* (London, 1982); Mendras, Henri, *Rural sociology* (New York, 1964); Mendras, Henri, *Seljačka društva*, Zagreb, 1986.

⁹⁶ The problem of the agricultural overpopulation attracted the attention of agrarian economists, especially during the interwar period. Not surprisingly, economists tried to develop methods for measuring the agricultural overpopulation. See Tomašević, *Peasants, Politics, and Economic Change*, pp. 310-320. Those interested in the subject, have to take a look in Moore, Wilbert E, *Economic Demography of Eastern*

the Monarchy, this kind of peasantry predominated in Transleithenia, especially in the mountainous regions of Bosnia, Slovakia and Ruthenia. However, as there is no clear line between market agriculture and subsistence based peasant economy, most of the Austro-Hungarian territory, with regional variations, was strongly influenced by non-market peasant life.

Once peasants had converted from a subsistence basis to a more market-oriented existence, they became more attuned to financial matters.⁹⁷ The main financial problem for the peasantry was the slow turnover of the agricultural and seasonal income.⁹⁸ For small merchandise, they depended on the local shopkeeper, who usually offered a merchant credit, and on merchants at the marketplace, who had to be paid in cash. Thus, peasants were forced to buy from the local shopkeeper, who did offer merchant credits, but this was not the cheapest place to buy. A local merchant would calculate his interest rate based on the price of goods, and this interest rate would be high as a result of the low customer mobility. For small peasants, the main means of gaining liquidity was the sale of cattle and grain on the market. In some more developed regions, peasants also sold industrial raw materials. Nevertheless, there were other ways of making additional money, such as the daily market where peasants sold their goods, such as chickens or milk, to locals or a local shopkeeper. Furthermore, seasonal work in the forests or in local industrial companies constituted an additional source of revenue.⁹⁹

Poor crops, cattle disease, extra expenditures such as a wedding or an illness in the family could seriously disrupt the financial stability of subsistence based peasants.¹⁰⁰ Recovery

and Southern Europe (Geneva, 1945); Warriner, Doreen, *Economics of peasant farming* (London, 1939) and The Royal Institution of International Affairs, *Agrarian problems from the Baltic to the Aegean* (London, 1944). As for regional differences regarding agricultural overpopulation see Frangeš, Otto, *Problem relativne prenapučenosti u Jugoslaviji* (Belgrade, 1938); Bičanić, Rudolf, *Agrarna prenapučenost* (Zagreb, 1940) and Melnik, Anton, *The Density of Population in Yugoslavia*; Tomašić, Dinko, *Zakoni porasta stanovništva* (Belgrade, 1929).

⁹⁷ The process of 'marketisation' of peasant societies occurred in the Monarchy throughout the nineteenth century and first half of the twentieth century with regional differences.

⁹⁸ See introduction chapter in Tardy, M. Louis, *Report on Agricultural credit*.

⁹⁹ Such subsistence peasantry presented an excellent reservoir of cheap and flexible working forces. It is interesting to note that certain industrial enterprises (especially those based on agricultural products), thanks to such working forces, could operate on a seasonal basis.

¹⁰⁰ See Lazarević, Žarko, *Kmečki dolgovi na slovenskem* (Ljubljana, 1994) and Komadinić, M., *Problem seljačkih dugova* (Belgrade, 1934).

from such situations was long and painful. Under stable circumstances, subsistence-based peasants preferred to avoid taking credit.¹⁰¹ Despite the hardship involved, solutions to financial difficulties were often sought outside the banking system – a peasant might sell a plot of land or try to find extra resources by temporary emigration. However, such situations often made peasants dependent on local usurers, and only occasionally on local banks. The expenditures involved in emigration sometimes led to mortgage credits.¹⁰² Thus, subsistence-based peasants did not have a regular relationship with the banking system. Raiffeisen credit cooperatives organised by the church, teachers or the state (OKH cooperatives in Hungary) introduced financial literacy into subsistence-based villages.

In more industrialised regions, or in regions with connections to stable markets for agricultural products, such as industrial crops in Bohemia or milk in Slovenia, peasants had a more regular relationship with the banking system. These peasants approached their situations in a rather entrepreneurial way. In order to solve the problems caused by seasonal income and the need to deliver goods to the market on time, they did not rely on a local shopkeeper or merchant. Instead they tried to get closer to the market mostly by organising cooperatives. The attempts to avoid local merchants as intermediaries and 'hidden usurers' led a number of cooperatives to deal not only with credits but also with purchased goods.¹⁰³ Special institutions, which dealt with credits for peasants, were either part of the financial structure in more developed regions or part of various economic development programmes. The dominance of market orientation over state support in peasant life was the crucial factor that made the Cisleithenian cooperative sector financially more than three times stronger than that in Transleithenia.¹⁰⁴ Tomka has explained the underdevelopment of municipal and non-profit banking in Hungary as the result of low human and social capital.¹⁰⁵ Commercially-oriented peasants in Transleithenia could not rely on a rich credit cooperative system. They could obtain credit

¹⁰¹ For peasants' fear of the banks see Kosier, *Problem štednje*, pp. 35-43.

¹⁰² See Kosier, *Problem štednje*, p. 36.

¹⁰³ See Moody, J. Carroll and Fite, Gilbert C., *The Credit Union Movement. Origins and Development 1850-1970* (Lincoln, 1971), p. 9.

¹⁰⁴ Kövér, Table 14-3 in: *The Austro-Hungarian Banking system*.

¹⁰⁵ Tomka, 'The Development of Hungarian Banking', p. 156.

from a local bank. Peasants typically mortgaged land as collateral when borrowing bigger sums in local banks.¹⁰⁶

Local shopkeepers and artisans had to buy goods from big merchants in some of the regional economic centres or even from local peasants or other artisans. Goods bought from merchants could be paid for in cash, by means of the postal checking service or by issuing a bill which could be discounted at some banks. By contrast, material bought from peasants would usually have to be paid for in cash or in exchange for other goods. Similarly, small artisans and shopkeepers sold goods based on cash or a merchant credit.¹⁰⁷ The business archives of small shopkeepers and artisans of that time often contained debtor-books, which were valid as legal documents. The rhythm of payments was linked to the rhythm of income – subject to seasonal influences as far as peasant customers were concerned – or to monthly payments in the case of those in receipt of a stipend such as teachers or administrative staff.¹⁰⁸ The financial life of local shopkeepers and artisans was dominated by merchants and colleagues to whom they owed money and customers from whom they had to collect it.¹⁰⁹

Everyday economic life in less monetised regions was characterised by personal approaches, trust and reputation, and strong seasonal influences. The extent of such 'based-on-trust' operations can be surprising.

The small shopkeepers in the small towns and villages received credits from bigger business establishments in Sarajevo, which in turn bought much of the goods they imported on credits. These merchants conducted their business

¹⁰⁶ Balance sheets of provincial banks published in *Compasses* often indicate separately bills of exchange with and without mortgage collaterals. See also Kršev Boris, *Bankarstvo u Dunavskoj Banovini* (Novi Sad, 1998), p. 35.

¹⁰⁷ See good example in Stojšavljević, Bogdan, *Povijest sela – Hrvatska-Slavonija-Dalmacija 1848-1918* (Zagreb, 1973), p. 214.

¹⁰⁸ See Wagemann, Ernst, *Struktur und Rhythmus der Weltwirtschaft* (Berlin, 1931).

¹⁰⁹ Surprisingly, there is not much literature on the problem of domestic trade in the region. For the weakness of small-scale trade see Tamás Csató, 'Domestic Trade in East-Southeast Europe between the two World Wars', unpublished paper prepared for Kaser, M.C. and Radice, E.A. (eds), *The Economic History of Eastern Europe 1919-1975*, (Oxford 1986), available in British Library.

based on credits in a country that did not have a single bank or credit institution.¹¹⁰

Most of these financial transactions were conducted between business partners who knew each other – a good reputation was the main guarantee for payment.

In more market-oriented regions, the financial side of business was characterised by a higher level of monetisation, which included cash payments, cheques and bills. According to the results of the balance sheet analysis, most business transactions in Transleithenia in 1913 were financed through bills of exchange.¹¹¹ Small entrepreneurial credits were organised by a flow of bills of exchange. In regions with well-developed banking systems, such as Bohemia, small entrepreneurs could take advantage of overdraft options connected to their bank accounts. The growth and success of Živnostenská Banka in Prague was largely dependent on Czech artisans and small entrepreneurs needing credit – Živnostenská Banka means 'artisan's bank'.

There was a heterogeneous class of speculative entrepreneurs – people with some personal fortune who were able to profit from the abundance of resources such as land, forests and cash and human resources, and expertise in the fluctuations of the market or networks of contacts. These entrepreneurs were major peasants, often bigger artisans and shopkeepers, smaller landlords, lawyers and occasionally other people whose regular income stemmed from a salary. Lawyers were common amongst the founders and members of the management boards of the provincial banks.¹¹² Their ability to monitor small societies and their contacts with the world outside the provincial economy allowed them to be amongst the main speculative entrepreneurs. Migrants who returned from America were usually advantageously placed within the provincial economic community because of their savings.¹¹³

¹¹⁰ Sugar, Peter, *The industrialization of Bosnia-Herzegovina, 1878-1919*, (Seattle, 1964), p. 17.

¹¹¹ See Table 21 Hungary 1913/1925 – structure of assets; Table 28 Slovakia 1913/1925 – structure of assets; Table 35 Vojvodina 1913/1925 – structure of assets; Table 45 Croatia, Slavonia and Srijem 1913/1925 – structure of assets; Table 56 Bosnia and Herzegovina 1913/1925 – structure of assets.

¹¹² See again Rumenjak, 'Čelni ljudi u novčanim zavodima', pp. 161-239, Bobik, *Vršačko bankarstvo*, pp. 37-46. and Table 6.1 in Albrecht, *Savings Banks in Bohemia*, p. 214.

¹¹³ See Čizmić, Ivan, 'O iseljavanju iz Hrvatske u razdoblju 1880-1914', *Historijski zbornik*, Vol. 27-28 (Zagreb, 1975).

Their financial operations were generally characterised by the lack of specialisation and the sizable sums involved. One time they might make a profit on the division of an estate, another time the profit might come from wine or wood sent to a distant market.¹¹⁴ This form of entrepreneurship was more common in less developed markets where the provincial economy had weaker connections to the outside world.¹¹⁵

In Transleithenia, where such disaggregated provincial economic elites were predominant, provincial banking was a solution to their problems. A provincial joint-stock bank represented an all-in-one option: a source of credits, a framework for partnerships and an investment opportunity. At the provincial level, apart from the guarantees which were usually left to the bank, the main criteria for obtaining credits were a history of successful entrepreneurial operations or a relationship with the owners or directors of a bank. Because their business could rely on their credit, these elites often participated in the organisation of the bank or kept close to the people running the bank. In Transleithenia, provincial banks themselves were often involved in small speculative entrepreneurial operations, such as brick production or seasonal trade.¹¹⁶ The high profitability of provincial banking offered opportunities for interesting partnerships between shareholders in local banking circles.

More stable entrepreneurs, and big merchants in particular, had specialised and regular business activities, which required solid and steady capital that stemmed from other sources than the usual 'reputation credits', short-term bills of exchange or mortgage credits. In the case of larger credit needs and extensive investments, they had to rely on more secure sources, such as partnerships and the capital of shareholders, but also on temporary account overdrafts and other forms of banking credit.

The development of industry called for significant amounts of capital. Apart from supporting the industry with investments or short-term liquidity credits, banks could sometimes join an enterprise by buying shares or becoming a co-owner. Co-ownership by the bank was beneficial for the enterprise as it could constantly fall back on current account overdraft credit facilities or easily available short-term credits. The success of a

¹¹⁴ For the development of one such entrepreneurial family, family Horvat in Croatia see Stojsavljević, *Povijest sela*, pp. 216-221.

¹¹⁵ Taking into account nature of those speculative businesses they only rarely left any history. However, the local historiography or contemporary social literature often mention such entrepreneurs.

¹¹⁶ Often noted in *Compasses*, case studies and the provincial historiography.

company or industrial facility often depended on having a strong bank in the background.¹¹⁷

With the commercialisation of agriculture in the last decades of the nineteenth century, big landlords required credit in order to finance the turnover in agriculture and make investments for modernisation. They also had to deal with seasonal income. While they were often able to handle the latter successfully thanks to the accumulation of wealth,¹¹⁸ investments in times of modernisation could be a major financial problem. Modernising agriculture mostly required long-term mortgage credits. Therefore, it is not surprising to find specialised institutions for mortgage credits, above all, in agricultural regions. Landowners might try to join banking leaders and expand their liquidity with the prolongation of short-term credits. The lack of long-term credits for modernisation was one of the main reasons for the decline of medium-size landowners.¹¹⁹

Civil servants, teachers, municipal authorities, post-office staff, police officers, the judiciary and other such professionals made up yet another group. They formed the intellectual and administrative elite whose everyday life depended on a monthly salary. However, salaries in lower administrative positions were low, and these people were in a delicate financial position. Their financial needs were usually satisfied by credit from merchants because of the regularity of their income, but small office workers could easily become entangled with usurers. Therefore, this problem was resolved by means of various urban self-help credit cooperatives.¹²⁰

The municipal authorities and intellectual elites as well as entrepreneurs in general, promoted the development of infrastructure and growing urbanisation. They all profited from the growth of the community: civil servants, for example, could climb the career ladder within the hierarchy. Alternatively, they might have more 'users' of the intellectual services they offered. In addition, they were interested in stimulating the region's

¹¹⁷ As noted in Prof. Mira Kolar-Dimitrijević's lecture on successful industrial enterprises in Croatia.

¹¹⁸ The problem of overspending on the part of landlords and expensive ways of life have been elaborated broadly in popular literature, but there are doubts about the extent to which it was an obstacle for the economic equilibrium of big properties. But there is no doubt that those 'luxury resources' would otherwise have been invested in the modernisation of big properties.

¹¹⁹ See Szász, Zoltán, 'Banking and nationality in Hungary, 1867-1914' in *Universal Banking in the Twentieth Century*, p. 36.

economic activity – this would, in turn, have positive consequences for municipal revenue. However, who should be asked for money in order to bring water to a town, to build an electric power plant, a new marketplace, a new school or some other infrastructure?¹²¹ All these factors were important for the economic and social development of a region.¹²² There was always municipal income, but in order to finance investments, considerable sums of money and long-term credits were required.¹²³ Although bigger towns had some success in floating municipal securities, small towns could rarely rely on this source for long-term credits. Thus, the local bank assumed great importance, whether it was a municipal bank or a privately owned bank on which the respective municipality could have some influence.¹²⁴

Cash credits in small sums were needed by all economically weak groups of the population. It was easily available to those parts of the population with a fixed monthly income. Sometimes a guarantee was required in order to get the credit but in small communities, money was usually lent based on the borrower's reputation. Provincial banks or the municipality sometimes set up separate institutions or departments which dealt with these small emergency credits.¹²⁵

BUSINESS OPERATIONS OF A PROVINCIAL BANK

This section provides a short introduction to the business of banking, focusing on the way it operated at the provincial level in the Austro-Hungarian Monarchy at the beginning of the twentieth century. The section is the result of the analysis of the balance sheets database and the analysis of balance sheets in contemporary literature.

¹²⁰ This observation is based on the appearance of numerous urban self-help credit cooperatives in the identification database.

¹²¹ For municipal undertakings see: Gjureković, M., *Općinska poduzeća s osobitim obzirom na hrvatsko obrtno pravo* (Zagreb, 1942); Ludin, A., Bedarf und Dargebot, *Neuere Methoden der elektrizitäts- und wasserwirtschaftlichen Betriebslehre* (Berlin, 1932); Winkler-Mezger, *Die gemeindliche Gaswirtschaft* (Leipzig, 1938). See also case study *Zagrebački električki tramvaj Gradske štedionice općine slob. i kr. glavnog grada Zagreba* (Zageb, 1940).

¹²² See Albrecht, *Savings Banks in Bohemia*, pp. 221-222.

¹²³ See Herkov, *Obćinske Financije* (Zagreb, 1944), pp. 197-205.

¹²⁴ Ibid., p. 198. For a specific case of a private bank with close links to a municipality see Kolar-Dimitrijević, 'Gradske štedionice u Hrvatskoj'.

Liabilities

Any financial institution needs resources in order to operate. This section will present how provincial financial institutions resolved the problem of acquiring resources. These could generally be divided into own resources (capital with reserves), deposits (savings and giro account deposits) and borrowed resources.

The bank's own resources

Every financial institution's business activity was based on mediating between those who deposited or lent resources and those who borrowed from them. However, some permanent resources were necessary for a successful and stable banking existence. The bank's own resources acted as a sort of financial 'stabilizer' which protected the bank from the shocks on the market. These resources could be broadly divided into capital and reserves. Initial capital could be provided by founders and shareholders. The legal status of initial capital is an identifying characteristic of the provincial bank.

The Sparkasse was a specific financial institution. Sparkassen were formed with small 'gründung kapital' and gradually built up some reserves. Instead of relying on initial capital, the stability of the institution was maintained by a municipal guarantee for liabilities, statute restrictions and supervision. It was, *de facto*, a bank without capital.

The formation of these institutions significantly influenced the development of democratic thinking in the regions where they existed. Apart from some reserves, there were no proper guarantees nor capital which could be used for paying for the bank's potential losses. Therefore, savers were very sensitive to the 'quality' of people in whose hands they would leave their savings. The behaviour of sensitive savers can be illustrated by a story about one of the tellers at a savings bank in Mlada Boleslav, who siphoned off a significant sum over several years and escaped to the U.S.A. in 1898. When he was deported back to Mlade Boleslavi to stand trial, he narrowly escaped lynching.¹²⁵ Since Sparkassen directors were influenced by the municipal authorities, the broader population had serious reasons – their savings – to elect only well-qualified people to municipal government.

¹²⁵ See Albrecht, *Savings Banks in Bohemia*, pp. 238-240.

¹²⁶ Albrecht, *Saving banks in Bohemia*, p. 146.

In the Hungarian part of the Monarchy and in Croatia and Bosnia and Herzegovina, most provincial banks were joint-stock companies. These banks, which, in general, retained the name 'savings bank', were mostly organised by provincial economic elites and only in a few cases by a municipality. A few of the strongest provincial entrepreneurs, usually in accordance with the municipal authorities or important political figures, would acquire the initial shares and try to attract other wealthy people to take up the rest. The important investment opportunities these banks provided as well as regional patriotism or nationalism led interested groups to gather around them and deposit their capital. The ability of a provincial economy to raise capital for its provincial bank is an indicator of the economic strength of the provincial economy. In the regional analysis of Transleithenia, the capital of the bank will be used as an indicator for the economic strength of towns. Often local elites founded the local bank together with some of the metropolitan banks – whose importance lay in their provision of initial financial and human capital and in their connections to the metropolitan financial circles.

Reserves made up the accumulated profit of a bank which could not be reinvested in risky banking operations. They fulfilled multiple functions, such as covering different sorts of losses, supporting the growth of joint-stock capital¹²⁷ and financing other unexpected or unusual expenditures. For financial institutions with very small initial capitals, such as credit cooperatives and Sparkassen, reserves functioned in the same way as joint-stock capital for other banks – as a source of stable and long-term liquidity. It is interesting to note some aspects of the financial practice regarding reserves at the Sparkassen. It seems that the Sparkassen had many limits on profitability as far as borrowing and investing savings resources were concerned. However, this factor did not necessarily limit the business policy for reserve funds. The profitability of reserve funds (if indicated) was bigger than those of resources based on savings. This could be read out of carefully analysed balance sheets from a number of Sparkassen in Cisleithenia before the First World War. Catherine Albrecht recognised the tendency of Sparkassen directors to try to develop Sparkassen in a more commercial sense.¹²⁸ According to banking theory, reserves should be invested in quality and easy-to-sell securities. However, the usual banking practice was to employ reserves in everyday business. Banks usually promoted their

¹²⁷ It was a common policy of the initiators of banks to cover the difference between nominal and paid in capital from the reserves during the first few years of banking operations. Similar undertakings could take place later on when the capital of the bank was to be enlarged.

¹²⁸ Albrecht, *Savings Banks in Bohemia*, p. 147.

financial capacity not only by advertising their capital and balance sum but also by indicating their reserves.¹²⁹ Sound reserves stood for a stable and smart banking house which could survive even in difficult times.

When dealing with accounting practices, one has to keep in mind that banks used to maintain hidden reserves. Hidden reserves were regularly recognised and analysed in balance sheets analysis in contemporary economic literature. For the management of a bank, it was important to hide the bank's profits and success not only to avoid taxation but also to avoid high dividends. In difficult times, hidden reserves could be of great help for a bank's survival. 'Wise management will ask themselves when setting up hidden reserves: Which hidden reserves could be mobilised in case of financial difficulties?'¹³⁰ Accounting practices, such as undervaluing properties and securities, were a common method of producing hidden reserves.

Pension funds and various funds for employees could be seen as a specific kind of reserves. The existence of strong and stable pension funds indicates a stable institution.¹³¹ In general, pension funds were invested in quality securities.

The average own resources of the joint-stock banks in Transleithenia in 1913 ranged between 14 to 19 per cent of total liabilities. Thus, in well-developed banking systems and stable financial periods the banks' own resources could be only a small part of total liabilities. However, in small towns and unstable periods the banks' own resources and capital would assume more importance. Even in 1913 in the underdeveloped banking system of Bosnia and Herzegovina the banks' own resources made up an average of 24 per cent of the liabilities. In financially unstable Croatia in 1925 the banks' own resources made up an average of 31 per cent of the liabilities.¹³²

Attracting savings

¹²⁹ See adverts in *Compasses* and economic literature.

¹³⁰ Gertsener, *Analiza bilanca*, p. 201.

¹³¹ See Timet, Tomislav, 'Razvitak štedionica u Jugoslavenskim zemljama bivše Austrijske carevine' *Putevi revolucije*, Vol. 1-2 (Zagreb, 1963), pp. 243-334 and Gaćeša, L. Nikola, 'Srpske novčane ustanove u drugoj polovini XIX i početkom XX veka u Hrvatskoj i Slavoniji' in Krestić Vasilije (ed.), *Zbornik o Srbima u Hrvatskoj*, Vol. 4 (Belgrade, 1999).

¹³² See comparative section on banking in Transleithenia – Chapter 4.

Savings were the most important source of funds for provincial banks. In Transleithenia in 1913 savings ranged on average from 67 per cent of liabilities in Slovakia to 40 per cent in Bosnia and Herzegovina.¹³³ In stable monetary and political times, savings were usually long-term deposits, which allowed a bank more freedom in its operations. However, to attract deposits, it is necessary to convince the broader population to trust in security, profitability and in the positive long-term effects of their savings.¹³⁴ For this purpose, provincial banks undertook numerous marketing activities. Building up savings habits among the broader population was a sensitive process. Depositing savings at banks had become a well-established habit of the urban population in the region by the eve of the First World War. However, it has to be noted that the turbulence caused by the First World War – post-war inflation, bankruptcies during the deflationary period and the Great Depression – had opposite consequences, especially in interwar Hungary and Yugoslavia.

The rural population, however, was not easily convinced of the need to put their money in a bank. The most propulsive instrument for triggering bank-savings habits among the rural population was developed by Raiffeisen credit cooperatives. The successful spread of rural credit cooperatives resulted in the fact that more and more people followed the idea of opening savings accounts with banks. The development of the individual region determined whether rural savings would stay in Raiffeisen cooperatives or move on to commercial or municipal provincial banks, some of the biggest commercial banks or even some state supported institutions. In regions where credit cooperatives were not well developed, the rural population stuck to their fear of financial institutions, thus hindering the creation of a banking system in general.¹³⁵

Attempts to attract savings through marketing consisted of various strategies designed to popularise savings. It included publishing marketing material,¹³⁶ campaigns of obligatory weekly savings¹³⁷ and savings organised in schools. In particular, obligatory savings or weekly savings campaigns had an impact on the development of savings habits.

¹³³ See Ibid.

¹³⁴ Sutcliffe, G. William and Bond, A. Lindlay, *Savings banks and Savings Department Management* (New York, 1930), pp. 3-5.

¹³⁵ About the problems related to getting rural populations to deposit their savings, see chapter 'Our peasants and the problem of modern savings' in Kosier, *Problem štednje*, pp. 35-42.

¹³⁶ See illustrative material in Lazarević, *Zgodovina slovenskega bančništva*, p. 157.

¹³⁷ Balance sheets of banks occasionally indicate values of such 'promotive savings'.

Čehoslovačka Banka in Croatia organised a network of school savings clubs named 'been'.¹³⁸ Specialised savings cooperatives were sometimes organised by provincial banks as independent institutions. For example in Sisak before the First World War two cooperatives existed and obliged small savings for a period of four years. Obligatory savings represented the whole capital of the cooperative which granted its members credits. After four years, the savings capital would be liquidated and all savings, with additional interest, would be paid back to the members. Each year a new cycle of such obliged savings would start. Such cooperatives for obligatory savings were organised by provincial savings banks, while the members of the boards did not receive any payment for their work – it helped to be in a socially appreciated position.¹³⁹ This situation is similar to that of the English penny-banks of the nineteenth century.

Economic emigrants, most of whom moved to the United States, constituted one specific stratum of savers, which required two types of financial services: money transfer and savings. The maturity and stability of a bank or the banking system becomes quite clear through the way that banks managed these, often significant, resources. Mismanagement of the emigrant's resources severely diminished savers' trust in banks. Such mismanagement often happened in Croatia, causing much bitterness and reducing savers' trust in provincial or small banks.¹⁴⁰ In Primorje, an emigrant region on the coast of Croatia, there is a popular saying: 'He got mad like one who lost his entire American savings in the savings bank'. This lack of confidence had long-lasting consequences for the Yugoslav economy – all of the emigrants' money, which only rarely finished up in banks, corresponded to the whole foreign capital borrowed by or invested in Yugoslavia during the interwar period.¹⁴¹

The most important marketing ideologies of provincial banks were provided by regional patriotism and the idea that savings would benefit the local economy. This was common for municipally-owned banks, which were an important source of financing infrastructures. Nevertheless, many provincial banks used to lend money for local infrastructural purposes and then highlighted this activity in their marketing material. This established the common

¹³⁸ Matušek, *Česi u Hrvatskoj*, p. 152.

¹³⁹ Kudlek and Matovina, *Bankarstvo Siska*, pp. 62-64.

¹⁴⁰ Kosier, *Problem štednje*, p. 39.

¹⁴¹ See Damir Jelić, *The importance of Foreign capital within Yugoslav Economy* (unpublished MA dissertation, Leicester, 1999), p. 47.

idea that a savings bank was indeed an institution that used 'our savings for our benefits'. The result of such marketing activities was that the names of savings banks were widely known throughout the region.

As will be seen in a regional analysis later in the text, there was usually more than one financial institution in a provincial economy. A financial system would be simple if all members of a provincial elite could satisfy their financial needs at only one institution. One has to consider that generally there was a considerable level of competition for financial resources within provincial economies. A provincial bank thus faced competition from both external financial institutions and local competitors. Sometimes, provincial banks suffered from the effective competition of branches belonging to major metropolitan or regional banks, which were interested in locally available savings. Big commercial banks were able to pursue better marketing strategies and offered an image of stability. The Prva Hrvatska Štedionica, a big commercial bank in Croatia, offered a very low interest rate before the First World War, but savings deposits were safe there. This bank organised a respectable network of branches, agencies and affiliations all across Croatia and Slavonia and was able to attract significant savings.¹⁴² Banks competed for very small savings. Especially large efforts were made by postal savings banks, which opened in every part of the country by simply being part of post-offices. This competition had positive consequences for the work of provincial banks because other banks promoted the idea of savings, which spread rapidly throughout the regions. Moreover, the fact that provincial banks had competition had a positive effect on the quality of services they offered.

External resources

Provincial savings banks with a long tradition, those that were the first-comers on the provincial financial market, were able to attract savings. Savings were the only liability of regulated municipal savings banks. However, more recent very commercially-oriented provincial banks and banks without a widespread public reputation had problems in attracting savings. For such institutions, borrowing from other banks was an important source of funds. In addition, even stable and sound provincial banks sometimes need

¹⁴² A question to be discussed could be to what extent this bank took over financial resources from the provincial economy and concentrated them in Zagreb. There is no doubt that the growth of Zagreb as the commercial centre of Croatia and Slavonia resulted to a great extent from a high concentration of financial resources there.

additional resources. When deposits and accumulated capital in savings banks did not meet the credit demand of the respective provincial market (either as a result of growing economic and investment activities or due to a lack of savers' confidence in a provincial bank, or because of a low savings capacity or savings habits in a region, or because savings were absorbed by some bigger bank), provincial banks had to borrow from big commercial banks or sometimes even from the central bank.

Provincial banks, however, had to offer some guarantee to those who lent funds to them. The most common instruments were bills of exchange and various securities. A provincial bank would either rediscount bills of exchange they received or deposited bills or some securities as a guarantee for lombard credit. Such practices allowed provincial banks to expand their credit, which sometimes could pose the problems of a bank stability.¹⁴³

Another practice involved giro account overdrafts of a provincial bank with the central bank or a big commercial bank or some umbrella institution such as central savings bank. The overdraft depended on the quality of the bank's business. Because credit receivers were supervised, such a giro account overdrafts credit policy had a positive impact on the quality of the provincial banking sector.

Sometimes, provincial banks acted as selling points for the re-distribution of mortgage credits from big mortgage institutions. If the provincial bank was a stable institution, with a good reputation, major banks or the central bank considered it to be easier to organise mortgage credits by using the provincial bank as an agent, as opposed to dealing independently with distant customers. Furthermore, in some specific social and economic

¹⁴³ Since a bill of exchange has become an almost forgotten credit instrument, it makes sense to explain the basic mechanism of this interesting financial instrument. When merchant B bought goods from merchant A, merchant B left a bill of exchange stating that he would pay the agreed sum in three months to merchant A or somebody else. Instead of waiting for his money for three months, merchant A would go to a bank and 'sell' this bill of exchange with some discount which was usually between 1.5 to 2.5 per cent of the nominal value. This way, a bank sold the money with an interest rate of 6-10 per cent while merchant A was able to get his working capital back immediately and continue with his business. If a bank was 'short' of resources, it could easily rediscount the bill at some other bank, usually a big commercial bank or even the central bank.

The knowledge about market conditions, the reputation of businesses and a personal relationship with the bankers were crucial factors concerning the functioning of this interesting credit mechanism. However, as this credit follows the movement of the goods, it was, in general, a very secure banking business.

For the operational methods of bills of exchange on the international level, see Goschen, Viscount, *The theory of the foreign exchanges* (London, 1901).

situations, when large sums of money had to be redistributed to the province, provincial banks could act as intermediaries because of their working knowledge of local conditions.¹⁴⁴

Sources of additional resources could include the central bank, metropolitan commercial banks, some bigger banks in regional centres and also other provincial banks that sometimes had free resources. Being the centre of a dense network of Austro-Hungarian banking agencies, the Austro-Hungarian Bank could undoubtedly assist even the smallest provincial banks to rediscount their bills. Networking between provincial banks and big commercial banks, or only among each other, sometimes had an informal and sometimes a formal structure. Informal networking often took place between provincial banks and metropolitan commercial banks. There is a chance for very determined readers or researchers to reconstruct such informal networks by using some information from *Compasses*. Usually *Compasses* gives information for which metropolitan banks the provincial banks of Transleithenia kept their own giro accounts with. Sometimes a provincial bank was a *de jure* affiliation or a *de facto* branch of a large commercial bank, even if it acted as an independent institution on the provincial financial market. The cooperation between provincial and commercial banks on a regular business basis was not only useful for provincial banks with respect to additional resources but also with regard to business information, business supervision and human resources¹⁴⁵, resulting in an improved quality of provincial banking operations. For big commercial banks, small provincial banks were effectively independent branches and provided opportunities for them to expand their businesses without expensive networks of their own 'real' branches. They provided expertise, transfer accounts, investment opportunities and more sophisticated financial services to provincial banks. For example, most Hungarian provincial banks were connected to a big commercial bank in Budapest. Serbian savings banks in Croatia interacted closely with the Serbian Bank in Zagreb.¹⁴⁶ Most Serbian savings banks had the same balance sheet system, similar promotional activities, similar

¹⁴⁴ E.g. post-war reconstruction credits in Czechoslovakia or agricultural credits through credit cooperative networks in interwar Bulgaria.

¹⁴⁵ It is interesting to note that apprenticeship in Serbian Bank in Zagreb was usually the first step of the career ladder for young administrators-to-be and bankers in provincial savings banks. Communications between provincial savings banks and trans-regional commercial banks were also encouraged by the fluctuation of employees and bankers between them. These people belonged to the same financial elite of one country.

¹⁴⁶ See Jelić, 'Sailing with the Nationalist Wind', pp. 157-158.

shares, and also cheaper financial services than other provincial banks, which did not belong to any network.

Compared to metropolitan banks, provincial banks were small and had a limited political and economic position in the financial system. By forming networks, they were able to strengthen both their economic and their political positions. In a financial sense, such cooperation was often based on regional and seasonal differences in capital needs and abundance between different provincial savings banks or between provincial bank and big commercial banks in the main financial centres.¹⁴⁷

In most cases, a major commercial bank in a metropolitan town was the regulative centre, but a similar function was also fulfilled by other umbrella institutions. Networking was sometimes organised through associations of provincial banks, through clearing institutions or an umbrella bank. Most of the Hungarian provincial banks were vertically connected with some big commercial banks or specialised institutions in Budapest.¹⁴⁸ In many nationally mixed regions, economic nationalism in its clearest form is found in the process of arranging national financial organisations. A separate section of text is devoted to the problem of the national organisation of finance.¹⁴⁹

The structure of liability capital had an impact on financial policy and the development of provincial banking. A distinction could be made between own capital-based, savings-based and borrowing-based provincial banks. The bank's own resources made up 15-20 per cent of liabilities for most joint-stock company banks in Transleithenia. However, there are a number of banks whose own resources made up 25 or 30 per cent or an even more significant part of the balance total. Provincial banks with unusually strong own capital were usually banks-entrepreneurs, that is, the bank was used as a framework for the business operation of a group of local entrepreneurs. Amongst joint-stock banks in Transleithenia savings usually made up 45 to 65 per cent of the liabilities. However, it is

¹⁴⁷ Data on seasonal fluctuations of the business of different bank groups is usually unavailable (except for the late 1920s and 1930s in annual reports of Czechoslovak central bank, Národní banka Československá, which support this thesis). However, it is often mentioned in various bank reports and contemporary economic literature. Jan Hájek recognised variations in the monthly deposits course of selected Prague banks in Hájek, Jan, 'Development of the Czech banking capital in Bohemia before 1914' in *Hospodářské Dějiny*, Vol. 18 (Prague, 1990), p. 294.

¹⁴⁸ One case of rather rare horizontal networking is provided by the Centrale Hypothekbank der ungarischen Sparkassen als A.-G., established in 1892 by 29 Hungarian Provinz-Sparkassen.

¹⁴⁹ See section 'Economic nationalism and provincial banking' in Chapter 2.

not surprising to find provincial banks where savings made up 70 or 75 per cent of the balance sum. This situation is typical of regions with less developed networks of branches of metropolitan banks, such as small towns in Slovakia and Vojvodina. Also it is typical of banks with a strong regional or national image which were able to convince a broader population to deposit savings in the local bank. Lack of resources on the provincial market and consequently high interest rates attracted metropolitan capital. When borrowed capital made up 15-30 per cent of the balance sum it could be understood as a regular banking situation. However, a higher proportion of borrowed resources indicated a lack of capital accumulation on the local level. The relationship between the bank's own resources, borrowed resources and savings changed from region to region and from town to town. However, comparison of data about individual banks with typical values enables us to judge the economic position of the bank.¹⁵⁰

Assets

Provincial financial institutions, both credit co-operatives and savings banks, often had to negotiate between three requirements. They needed to provide cheap and easily available financial services, mostly credits; to offer profit to the organisers and leaders of the financial institutions; and to be used as a tool for ideological and political actions. The credit policy of provincial banks depended on credit needs on the provincial market but also on the influence of the different population strata on the credit policy of provincial banks.

In Cisleithenia, where a provincial Sparkasse was, as a rule, under municipal influence and the future of municipal leaders depended on votes and thus on the political opinion of the broader population, the Sparkassen banks tended to develop an assets policy that would benefit the broader population but also the municipal government. One has to note the long lasting struggle between the state and provincial leaders of the Sparkassen, which the state tried to redirect more towards state securities while management preferred the redirection of resources toward provincial economies.¹⁵¹ In a similar manner, some provincial banks in Transleithenia, whose leaders were involved in politics and needed the

¹⁵⁰ See 'Comparative analysis of provincial banking in Transleithenia' in Part two of this work.

¹⁵¹ See the example of *Reichenberg* in Albrecht, Catherine, 'The Decision to Establish Savings Banks in Bohemia 1825-1870' in John Komlos (ed.), *Economic Development in the Habsburg Monarchy and in the successor states*, pp. 75-85.

support of the electors, adopted the 'popular' assets orientation. In practice, this meant cheaper credits, more investments in the infrastructure and easily available credits for the 'petty bourgeois'. In 1897 Grga Tuškan, a prominent Croatian political figure, set up a successful local bank in Sisak named Posavska Štedionica. The democratic and populist credit policy of the bank was one of the factors which ensured his popularity.¹⁵² In contrast, a provincial bank in the hands of some provincial entrepreneurs, whose main interest was the profit of the bank and cheap credits for their own operations, would have acted like a 'joint-stock entrepreneur' with an assets policy that focussed on highly profitable operations and expensive short-term credits. In addition, a bank was often a tool for ideological and political action, so credits were redirected for the benefit of national or political groups. There were major differences between the prevalence of these three elements. In most assessed towns, it was possible to find a few financial institutions, each with a different assets policy and a different economic-socio-political function.

However, a few simple banking rules had to be followed in order to maintain the institution's stability. A bank had to be sure of the soundness of its investments and lending resources. Undertaking business and investing in a well-known and transparent environment was the best way to reduce risk.¹⁵³ A provincial bank, with its limited financial resources and human resources had to invest most of its resources at the local level. Assets had to be profitable, but it was necessary to ensure that resources could be easily and quickly mobilised if necessary. Provincial banks placed most of their resources in a way that offered the best combination of profitability, social or entrepreneurial interest and low risk.¹⁵⁴

However, one would like to know: credit to whom? Who benefited from the credit policy of the bank? It was not generally possible to answer this question based on the information from the balance sheet analysis. Balance sheets indicate credit instruments, not the strata of credit users. Most customers of a bank used similar credit instruments, which changed only slightly depending on the economic strength and function of the borrowers. This research project was merely able to identify the role that a few main credit instruments

¹⁵² See Kudlek and Matovina, *Bankarstvo Siska*, pp. 65-66.

¹⁵³ Paul, Thomas, 'German Savings Banks as Instrument of Regional Development up to the Second World War' in Cassis, Youssef, Feldman, D. Gerald and Olsson, Ilf (eds), *The Evolution of Financial Institutions and Markets in Twentieth-century Europe* (Aldershout, 1995), p. 151.

¹⁵⁴ See a number of business strategy advices in Sutcliffe, G. William and Bond, A. Lindley, *Savings Banks and Savings Department Management* (New York and London, 1930).

played in the operation of the bank. However, conclusions about the customers of provincial banks have to be drawn from case studies, keeping in mind that such findings differed from place to place depending on the respective local circumstances and cannot easily be generalised.

ECONOMIC NATIONALISM AND PROVINCIAL BANKING

The term 'economic nationalism' has two main meanings – it describes state protectionism and ethnic protectionism. In earlier historiography the term 'economic nationalism' was used to describe protectionist fever, the final intention of which was to ensure the growth of the national economy by building obstacles to the penetration of foreign goods, services and capital. These could be both institutional (such as custom policy or administrative complications) and non-institutional (for example promotion of domestic products). These measures were organised at the state level. The best known examples of economic nationalism in that sense can be found in the post-First World War period, when a number of European states promoted such measures. The economic nationalism of East Central European states has been well assessed by contemporary analysts, such as Herz¹⁵⁵ and Paslovski,¹⁵⁶ and also historians.¹⁵⁷

According to Ágnes Pogány, the term 'economic nationalism' describes the '*process of creating homogeneous ethnic economies on a given territory*'.¹⁵⁸ However, this definition does not 'cover' all manifestations of 'ethnic' economic nationalism. Often, economic nationalism has not attempted to produce homogeneous ethnic territories, but merely to replace or weaken existing elites of other nationalities. Furthermore, economic nationalism has developed as a tool to protect existing economic and social elites.¹⁵⁹ Economic nationalism, as an elites-protectionism phenomenon, has not been sufficiently recognised in historiography. The problem of ethnic economic nationalism has recently attracted the interest of historians, and historiography is just beginning to look for ways of

¹⁵⁵ Hertz, Frederick, *The Economic Problem of the Danubian States. A Study in Economic Nationalism* (London, 1947).

¹⁵⁶ Paslovski, Leo, *Economic Nationalism of the Danubian States*, (New York, 1928).

¹⁵⁷ See Szlajfer, Henryk (ed.), *Economic Nationalism in East Central Europe and South America 1918-1939*, (Geneva, 1990) as it also contains one theoretical overview of the problems of 'protectionist' economic nationalism.

¹⁵⁸ Pogány, Ágnes, 'Economic Anti-Semitism in Hungary after Trianon' in Schultz, Helga and Kubû, Eduard, *History and culture of economic nationalism*, p. 219.

¹⁵⁹ See Pogány, 'Economic Anti-Semitism in Hungary'; Albrecht, 'Economic Nationalism among German Bohemians', pp. 17-30.

understanding the issue of interpretation.¹⁶⁰ One reductive interpretation of ethnic economic nationalism – '*processes of creation of ethnic economies*' – would include international ethnic economic networks.

When analysing ethnic economic nationalism (in the following text just economic nationalism) one has to bear in mind that it is usually part of wider nationalistic complexes, so some remarks on nationalism are necessary. It is possible to distinguish between ethnicity and nationality. Belonging to one ethnic group results from objective attributes such as language or territory, subjective feelings such as religion or regional identification and behavioural patterns.¹⁶¹ It does not include the political organisation of an ethnic group. When organised politically, an ethnic group becomes a national group. The process of transformation of ethnicity into national groups deserves further attention.¹⁶²

Nationalism is, to a great extent, connected to the problem of social mobility. The formation of ethnicity is a long process, and different for every ethnic group. On the other hand, the political organisation of ethnic groups often occurred during periods of growing social mobility. Often, there were obstacles to social mobility. These occurred frequently in nationally mixed regions where there were differences between the human and financial capital strengths of ethnic groups. These differences resulted from historical situations in which it was not necessary to consider a 'well-to-do' group as exploiters or power-keepers. The most mobile elements of each society are intellectuals and entrepreneurs. Hindrances to the mobility of intellectuals and entrepreneurs prompted them to look for the support of their ethnic group, or, in other words, they would develop the political organisation of their

¹⁶⁰ A recent conference „*Economic Nationalism in East Central Europe*’ held in Frankfurt (Oder) from 17th to 19th March 2005. raised a high quality of discussion about the problem and brought up a few interesting papers and regional studies. Thomas David in his paper ‘Proto-Economic-Nationalism in the early nineteenth century’ offered an excellent overview of the problem, and provided some useful models for future analysis. Conference papers were published in Schultz and Kubů, *History and culture of economic nationalism*.

¹⁶¹ Definition of *ethnicity* taken over from Peter F. Sugar, ‘Ethnicity in Eastern Europe’ in Sugar, Peter F. (ed.), *Ethnic Diversity and conflict in Eastern Europe* (Santa Barbara; Oxford, 1980), p. 421.

¹⁶² Concerning the process of the formation of ethnicity and the development of self-perception of an ethnic group, see possibly the most sensible work in the field Sugar (ed.), *Ethnic Diversity and conflict in Eastern Europe*, especially articles of Paul R. Brass, Joshua A. Fishman, Tamas Hofer and Ernest Gellner. See also Sugar, F. Peter, (ed.), *Eastern European nationalism in the twentieth century* (London, 1995); Sugar, F. Peter and Lederer, I.J. (eds), *Nationalism in Eastern Europe* (Seattle, 1969); Sugar, F. Peter (ed.), *Native fascism in the Successor States, 1918-1945* (Santa Barbara, 1971).

ethnic group. The result would be the growing political awareness of an ethnic group which is usually called nationalism.

For the future analysis of case studies of ethnic nationalism, it would be sensible to make a provisional distinction between intellectual nationalism and economic nationalism.¹⁶³ Intellectual nationalism is a set of ideologies, national myths and ideas about one nation. Although the subject has not been sufficiently researched, one possible interpretation is that intellectual nationalism results from a growing class of educated people in most of Central and South-eastern Europe during the second half of the nineteenth century and the first half of the twentieth century, who were struggling to find a place in the public sector.¹⁶⁴ During this period, most ethnic groups in East-Central Europe developed a political perception, usually through the fight for recognition of their language as an official language that could be used in schools and administration. Ethnic groups would also fight for their right to be politically represented. In situations where religion, instead of language, primarily defined an ethnic group, the group was organised, apart from the request for political representation, around the problem of religious freedom and religious schools. Such was nineteenth-century Serbian nationalism in the Austro-Hungarian Monarchy. Economic nationalism occurred as a result of the struggle for a place in the economic superstructure, or as a result of the will to expand the economic structure. Consequently, the main organisers of economic nationalism were people from business or financial circles, or at least those who were close to these circles.

While the tool of the 'intellectual nationalist' was the 'political polarization' of the ethnic group through schools and political organisation, economic nationalists could rely on the 'creation of ethnic economies'. The idea of ethnic economy is a simple one; business has to be undertaken within ethnic circles so that the members of the ethnic group will avoid exploitation and the mobility obstacles of other, stronger business groups. So-called 'to ourselves' business segregations assisted the development of economic elites within ethnic groups, which would have been much slower if they had emerged in an environment of competition with other nationalities. In such a way, the ethnic economy would present a

¹⁶³ Say 'provisional' as in small societies the political, cultural, and entrepreneurial elites overlapped closely.

¹⁶⁴ See Jelić, Damir, *Economic structure, 'office-seekers' and production of Balkan identity*, web edition, Centre for Advanced studies (Sofia, 2002), www.cas.bg. Some similar ideas could be found in Janos, C. Andrew, *The politics of backwardness in Hungary : 1825-1945* (Princeton, 1982) or in the work of Kende, Tamás, 'The Language of the Blood Libel in East- and Central-European History' in Hanák, Peter and Kontler, László (eds), *Pride and Prejudice* (Budapest, 1995).

sort of 'incubator' for the development of 'our' entrepreneurs. By maintaining the business inside ethnic circles, ethnic groups would avoid the diffusion of their resources, and all constituents of the ethnic group would profit from such a situation.¹⁶⁵

The customer base is important for artisans, services and shopkeepers, and small businesses in general. Thus, economic nationalism would occur mostly in business sectors that have a larger base of customers, such as small artisans, trade and of course banking. On the other hand, it seems that big business was only to a small extent a stage for national struggle.¹⁶⁶ However, Boyer's work has just opened up the problem, which will have to be assessed in other work in the future. Also, economic nationalism is interesting, not so much for industrialists, as for big merchants, who need a large base of small entrepreneurs as customers.¹⁶⁷

The ideology that intellectual nationalists and economic nationalists have used can be confusing. Apart from questions of language problems and political representation, intellectual nationalism has often used economic arguments. The agenda of economic arguments usually deals with the national structure of the administrative apparatus, the distribution of investments and taxation policy.¹⁶⁸ While the national structure of the administrative apparatus is easy to justify, the other two main arguments are rarely more than 'conspiracy theory'. Investments are mostly business-oriented and only rarely related to national interests, while the assessment of tax revenues and expenditures policy could be easily misinterpreted. Walker Connor, an expert in comparative nationalism, observed that enormous regional inequalities are accepted in homogenous nation-states, while this is typically not the case in multinational states.¹⁶⁹ At the same time, economic nationalism

¹⁶⁵ In such a manner, a Croatian inn-keeper would explain to the village youngsters that it is better to spend money on his wine, even if it is of a lesser quality, because he bought it from *their* fathers, rather than to buy tobacco from the Jew.

¹⁶⁶ See Boyer, Christoph, 'Nationality and competition: Czechs and Germans in the economy of the first Czechoslovak Republic 1918-1938', in Teichová, Alice, Matis, Herbert and Patek, Jaroslav (eds), *Economic Change and the National Question in Twentieth-Century Europe* (Cambridge, 2000).

¹⁶⁷ See Jelić, 'Sailing with the Nationalist Wind', pp. 164-165.

¹⁶⁸ The most intriguing 'office-seeker' career in the region was that of Josip Frank, a croatised Jew who had undertaken a successful political career after publishing a pamphlet in which he argued about Hungarian taxes exploiting Croatia.

¹⁶⁹ Quoted from Müller, Uwe, 'Regional policy in Empires and Nation States. East Central Europe before and after 1918' in Schultz and Kubû (eds), *History and culture of economic nationalism*, p. 124.

has often used non-economic arguments, ethnic symbolism, national myths and other products of intellectual nationalism, in order to create the spirit of ethnic solidarity.

The final effects of economic and intellectual nationalism were diverse. Analysis of the ethnic structure of the administrative apparatus, one of the main topics of nationalistic literature, indicates the real agenda of 'intellectual nationalists'.¹⁷⁰ With the ultimate goal of generating new jobs in the public sector, intellectual nationalism often generated conflicts with other ethnic groups and political instability. Economic nationalism, apart from often being a tool for the replacement of economic elites, was an important tool for the expansion of the internal market and the economic institutional network.

Credit cooperatives and provincial banks often arose out of economic nationalist movements. Banks and credit cooperatives were recognised as an excellent tool for economic national organisation and competition.¹⁷¹ National propaganda assisted the homogenisation of entrepreneurial groups and elites necessary for the establishment of banks, as well as for the attraction of initial capital and savings. There is no doubt that, without economic nationalism, provincial banking in certain regions would be less developed.

Nationalistic propaganda and different economic arguments in national ideology do not imply that there were practical economic outcomes. The credit cooperative movements, as movements that involved a significant population, were sometimes used as a potential political network. 'Cooperatives were initiated by the national elites because they recognised their enormous potential for mass mobilisation. The masses accepted them as a means for solving everyday problems. The cooperative movement became a gateway for the dissemination of the national idea to the masses and a basic tool for nation building.'¹⁷² Future research will decide to what extent there were efficient economic projects and results behind the nationalistic noise going on behind the doors of credit cooperative meetings. National banks were instruments which could provide resources for political

¹⁷⁰ See for example Bičanić, Rudolf, *Ekonomska podloga hrvatskog pitanja* (Zagreb, 1938).

¹⁷¹ Those interested in the problem could start with Torsten, Lorenz, 'Cooperatives as a basic instrument of economic nationalism' in Schultz and Kubů (eds), *History and culture of economic nationalism*, while the case study of Kubů, Eduard – Novotný, Jiří – Šouša, Jiří, 'Slavism in National Czech Enterprises in the First Half of the Twentieth Century' in Schultz and Kubů (eds), *History and culture of economic nationalism* pp. 185-206 could be used as a model for understanding of the links between banks and economic nationalism.

¹⁷² Lorenz 'Cooperatives as a basic instrument of economic nationalism', pp. 129-130.

and cultural activities, but their function is difficult to evaluate and prove.¹⁷³ Similarly, for a number of banks, the national flag was often not much more than a marketing tool to attract customers. There are a number of towns and villages that presented ethnic islands, such as German settlements in southern Hungary. When there was a provincial bank in such a settlement, it consequently bore a national flag, business was usually concentrated on this ethnic group, and some nationalistic sentiment connected with the bank could be recognised.

It does seem that there is one clear element, which is characteristic of a successful economic nationalistic project – one bank acts as the central bank of the economic nationalist project. In a well-developed economic nationalist project with a large population base and a number of financial institutions, there is a need for one bank to act as an umbrella institution. Such economic nationalist projects managed to satisfy the interests of many of those involved in the movement.¹⁷⁴ National networks could be found in the Czech Crown Lands, where municipal savings banks were organised in two national networks, a German one and a Czech one. In 1901, the Centralbank der deutschen Sparkasse was established (for German savings banks in Bohemia and Austria) and then, in 1903, a Czech institution followed – the Ústřední Banka Českých Spořitelů (Sporobanca). The Serbian Bank in Zagreb acted as a central bank for numerous independent Serbian provincial banks in Croatia. If the umbrella institution is not a bank but only political institution or political party, it proves the weakness of the project.¹⁷⁵

The Austro-Hungarian Monarchy was a multinational economic and political formation in which all ethnic groups were not in the same economic position. Chapter 3 demonstrates the advanced economic position of Vienna and traces the extensive influence of the city on provincial economies. The importance of German-speaking settlers in promoting this influence is noted. In most of the regions where economic nationalist projects can be identified, they developed in order to replace or weaken German-speaking elites. Before the First World War, and within the boundaries of the assessed region, one can clearly recognise the economic national struggle between Czechs and Slovenes on the one hand and Germans and Austrians on the other. There was a noticeable small network of Austrians in Brixen organised around Bank für Tirol und Vorarlberg.

¹⁷³ Szász, 'Banking and nationality in Hungary', p. 35.

¹⁷⁴ See Jelić, 'Sailing with the Nationalist Wind'.

¹⁷⁵ e.g. German provincial banks in Vojvodina.

In Transleithenia the major network was formed by Romanians in Transylvania, who had established 202 national banks with K 36.4 m. of capital in 1912.¹⁷⁶ According to Szász, 200,000 Saxons were in a sufficiently favourable position to start to establish national credit institutions as early as the 1840s, since they had considerable funds and dominated the money market of Transylvania.¹⁷⁷ The strength of Slovak banking institutions stemmed, to a great extent, from Slovak emigrants in America, who, exposed to the intensive national and pan-Slav agitation of the Slovak Bank in Pittsburgh and Tatra Bank in Turčiansky Svätý Martin, not only financed the growth of Slovak entrepreneurship but also the political activities of Slovak nationalists.¹⁷⁸ The economic nationalism of Croatian Serbs, and similar Serbian economic networking in Srijem and Vojvodina, were not so much about taking over the existing position from another clearly targeted nationality, as about engaging in ongoing economic development projects. In Croatia, there was an ongoing ideological national conflict between Croats and Serbs.¹⁷⁹ Serbian economic nationalism reflected the expansion of the entrepreneurial force more than hostility towards Croats. To some extent, a competition with Jewish merchants in Croatia was happening. Muslims in Bosnia made interesting attempts to maintain and strengthen their economic position. However, these were not populist movements, compared with the situations of Czechs, Slovenes and Croatian Serbs.¹⁸⁰ The most important economic nationalist projects and provincial financial institutions will be presented in Chapters 4 and 5 in detail.

¹⁷⁶ Szász, 'Banking and nationality in Hungary', p. 34. See also Barna, Ábrahám, The idea of Independent Romanian National Economy in Trencsényi, Balázs at all. (eds), *National Building and Contested Identities: Romania and Hungarian case studies* (Budapest, Iasi, 2001)

¹⁷⁷ Szász, 'Banking and nationality in Hungary', p. 33. See also Szász, Zoltán, A magyar kormány tervei a nemzetiségi pénztézek állami ellenőrzésére (1902-1904), *Századok*, 1966, p. 121-122; Egry, Gábor, Az erdélyi szász Raiffeisen-mozgalom kezdetei, *Aetas*, Vol. 19, 2004, pp. 100-130.

¹⁷⁸ Szász, 'Banking and nationality in Hungary', p. 37.

¹⁷⁹ See Artuković, Mato, *Ideologija srpsko-hrvatskih sporova* (Zagreb, 1991).

¹⁸⁰ See Galijašević, Alija, *Ekonomске prilike i bankarstvo u Tešanjskom kraju kroz historiju – preteče bankarstva, ljudi, događanja* (Tešanj, 1999).

CHAPTER 3 – THE FRAMEWORKS

The aim of the first section is to give an overview of the banking structure and the main financial networks in the Austro-Hungarian Monarchy. The section begins with general observations about the economic geography of the region in order to set up the framework in which the main financial networks developed, and the background for regional differences in the financial market. It continues with the presentation of the main financial centres and financial networks. The aim of this section is to present the strength of metropolitan banking and the financial penetration of the main financial networks into the economic body of the region. Metropolitan banking successfully organised credit for the big enterprises of the Monarchy, but some financial services also penetrated the provincial economy. Metropolitan banking successfully organised the financial integration of East-Central Europe. However, for the development of the provincial economy the impact of the central bank and post office savings banks was crucial. During the period between the development of the provincial economy and commercial banking services in the province a 'financial space' was opened up which was filled with provincial banking.

The collapse of the Monarchy caused changes in the banking sector. The banking system and the main banking networks were reorganised and reoriented according to new economic and political entities. The monetary and market situation before the First World War was simpler and easier for provincial banks. In the years following the war, provincial banks encountered a number of problems: the financial losses of the war, monetary instability, political instability and more fluctuations in the business of the banks and the business of their clients. Changes in provincial banking caused by the First World War will be assessed in the regional analysis in Part two, but this second section will provide some necessary information about economic and financial changes in the region which affected provincial banking.

AUSTRO-HUNGARIAN FRAMEWORK

Economic geography of the region

Map 2 Geographic background of the Central East European market



The geography of the region had an impact on the development of the Austro-Hungarian market. Map 2 is a relief map of the territory of the Austro-Hungarian Monarchy. Geographically, the East-Central European market was composed of two major valleys, Bohemian and Panonian, their connecting regions and the surrounding areas.

Bohemia is surrounded by high mountains, except for the low terrain towards Vienna, called the Moravian Plateau. Bohemia looks like a rhomb with raised sides and all its rivers run toward its centre. There, the rivers Vltava and Elbe absorb them and they leave the valley and run towards the German town of Bodenbach. For the development of the internal market of the valley, the rivers were an important factor: the Elbe river is navigable, starting at Pardubitz, and steamboats could arrive from Mělník. The Vltava river is navigable from Böhmisches Budweis and, for steamboats, from Prague. Traffic

towards the north and west was difficult to manage due to the surrounding mountains. The routes towards the south and east were accessible via the Moravian Plateau. However, the Elbe river provided an effective connection with the German market. Relationships with the German market should not be underestimated.¹ In the region's geographical position, between Germany and the Danube Valley, the valley is a specific world 'in between'.

Pannonia, or rather the central Danube region, is a large valley surrounded by the Carpathians in the north, Transylvanian Alps in the east, the Crass and Dinaridi Mountains in the south-east and south, and the Alps in the west.² The rivers Danube and Tisza allowed extensive transport toward Budapest and Vienna, and acted as integrating elements of the valley. Fertile southern Hungary (Srijem, Bačka and Banat) had connections to sea ports through Croatia via the rivers Sava and Kupa. This transport line was very important in the first part of the nineteenth century before the development of railways.

The Vienna Valley, or so-called Lower Austria, is the connecting point between the Bohemian and the Pannonian Basin.³ It is not surprising that Vienna, the transport and economic centre of the Monarchy, grew up at the geographic point where river transport had to be exchanged to continental when goods were transported between Bohemia and Pannonia. It also had an impact on the surrounding area. It is not surprising that Lower Austria became the most developed and advanced region of the Austro-Hungarian Monarchy.⁴

Vienna became a main clearing point for the region.⁵ Its strength did not derive from natural resources but from the relative lack of resources, which redirected the economy

¹ Railway connection from Prague to Hamburg is 100 km shorter than the line Prague-Trieste.

² Geographically, the region could be divided into two valleys: a small and a big valley of the central Danube region. The small valley is the region between Bratislava and Ostrogon and the big valley (Alföld) covers the region between Visegrad and Orsova, including the Drava and the Sava Valley.

³ Economically, but not politically, the valleys of south-western Slovakia – as well as (to some extent) the small western Pannonian Valley – were integrated in the economic area of Vienna.

⁴ See savings deposits per person and literacy indicators as regional indices of economic development in Table 3 in Good, F. David, 'Economic Union and Uneven Development in the Habsburg Monarchy' in Komlos, John (ed.), *Economic Development in the Habsburg Monarchy in the Nineteenth Century* (New York, 1983), p. 77.

⁵ When developing his model of world economies and its centres, Braudel underestimated the importance of regional world economies. Vienna, with its growth, corresponds to similar stories about other centres of world economies, although it acted on a smaller region.

towards exchange before this same process took place in other centres.⁶ It is not surprising that Austrians did business outside Austria. Such strategic positions developed some long-term economic characteristics for Austrian business. Human resources were the most important quality of any centre of economic mediation. The enduring quality of the Austrian economic expansion in the region was certainly owing to human resources.⁷ German-speaking settlers in different parts of the Monarchy formed one of the elements that fortified the expansion of Austrian business within the Monarchy. Another important characteristic was the accumulation of financial resources. Towards the end of the Monarchy, Vienna was able to attract the most significant part of the financial resources of the Austro-Hungarian Monarchy.

The Danube economic region was a large area, comprised of more than just the three valleys already mentioned. The mountain regions and some weaker neighbouring markets also blended in with the main Danube economic region. The mountain areas which surrounded Bohemia owed their economic integration to their natural and mineral resources. So did Silesia. The areas close to the Carpathians, as well as some non-mountainous regions on the other side of the Carpathians, had problems with their economic integration because of an unsatisfactory transport structure. Mountainous regions in Croatia and Bosnia and Herzegovina would have been in a similar situation if there had not been a tendency of Hungary to find its way to the world market via the Adriatic Sea. The areas surrounding the Alps, as well as Slovenia, with its unfavourable geographic structure, profited from being near the centre of economic activity and mineral resources. Serbia, located on the southern border of the Austro-Hungarian area and towards the Ottoman cities of Solun and Istanbul, was in a similar situation. In addition, Serbia was, to a great extent, integrated into the Danube economic region, due to the fact that it had good transport facilities towards the Danube river in its northern part.

⁶ See Jelić, Damir, 'Living in the neighbourhood – economic relation between capitalist Austria and socialist Croatia in Historical perspective', in Enderle-Burcel, Gertrude, *Zarte Bande: Österreich und die europäischen planwirtschaftlichen Länder* (Innsbruck, 2006).

⁷ Limited on natural resources, the Austrians had to concentrate their attempts on quality. One of the numerous small profitable businesses of Austrians during the Monarchy (and later) was the development of high quality cattle breeding. With great success, they sold their cattle to less developed regions of the Monarchy. It was an agricultural, low technology business based on high human resources.

The three valleys with peripheries constituted an economic region, which was most fully economically integrated during the last decades of the Monarchy.⁸ However, the process of building up the economic system of the Austro-Hungarian Monarchy was a long one.⁹ The economic development of this region faced some hindrances on both the internal and the world market.

Apart from being, geographically speaking, an important integrative factor, the Danube River also had its limitations. The Danube River was not navigable for three clear months during the winter, and in early spring, melting and broken-off ice caused a lot of damage and flooding. In addition, due to the quantity of water, the Danube is a fast-flowing river – a factor which made upstream transport expensive (because powerful tugboats were required). Especially in the autumn, during the harvest and export season of grain from the Black Sea region, the transport business struggled. It could not provide for the stimulation of economic integration and the build up of the East-Central European market in the same way as the Rhine River in Germany did.

The Austro-Hungarian Monarchy lacked easy connections to the sea and oceans. The Danube River flows to the Black Sea and not directly into the ocean, thus making the route to the world market even longer. It should be noted that getting past the Danubian Iron Gate was an additional difficulty. The result of such geographical circumstances was that the Danube region was better placed geographically to develop as an internal market than to expand into the international market.

Kurt W. Rothschild described the Monarchy as 'an insufficiently developed agrarian state'.¹⁰ A significant part of the population depended on agriculture, often of a subsistence and non-market-oriented nature. Consequently, the internal market had a limited consumption capacity. The development of market-oriented structures was more successful in the Austrian part of the Monarchy. Transleithenia was a conglomerate, in which the most advanced entrepreneurial and economic forms in some propulsive sectors

⁸ See David F. Good, 'Economic Union and Uneven Development'.

⁹ See David F. Good, 'Modern Economic Growth in the Habsburg Monarchy', *East Central Europe*, Vol. 7/II (1980), pp. 248-268.

¹⁰ Quoted from Eduard März, *Austrian banking and financial policy: Creditanstalt at a turning point, 1913-1923* (London, 1984).

co-existed with non-market economic forms, such as subsistence-based peasants, with a wide range of transitional forms in between.¹¹

The Austro-Hungarian Monarchy was a multi-national and multilingual political structure, composed of Austrian Germans, Hungarians, Czechs, Slovaks, Slovenians, Croats, Serbs, Romanians, Italians, Bosnian Muslims and others.¹² This was a drawback for the mobility of people and for economic cooperation, but also for the development of economic institutions and economic elites that would operate throughout the territory of the region.

The desire to build the internal market and change the economic structure from subsistence-based to market-oriented had its limitations, because of expenditure related to the building of the transport and infrastructural requirements, and the costs of maintaining political stability in a nationally mixed region. The process of the region's marketisation and economic integration was a result of considerable political and financial effort. Some necessary actions were taken to resolve a number of obstacles to economic integration.

Regional differences presented a sound basis for the development of the internal market. In order to organise the exchange of goods and services amongst regions, transport infrastructure had to be built. The same was true of the external market. Railways played a crucial role in the building and integration of the market and in making connections to foreign markets.¹³ Following initial attempts to improve the transport infrastructure by building canals, the Monarchy opted for railways as the main networking infrastructure. Connection with the international market was a important stimulant for the building of railways lines. The building of transport infrastructure, as one necessary prerequisite of economic development, was supported by the state.¹⁴ In total, 22,981 kilometres of railway were built in Cisleithenian territory and 22,229 kilometres in Transleithenia before the First World War.¹⁵

¹¹ Berend and Ránki, *Hungary. A Century of Economic Development*, p. 75.

¹² See works of Seton-Watson and Sugar, Peter F., (ed.), *Ethnic diversity and conflict in Eastern Europe* (Santa Barbara, Oxford, 1980).

¹³ For arguments on high level of economic integration of Austro-Hungarian Monarchy see Good, 'Economic Union and Uneven Development', pp. 65-80.

¹⁴ See László Katus, 'Transport revolution and economic growth in Hungary' in John Komlos (ed.), *Economic Development in the Habsburg Monarchy in the Nineteenth Century* (New York, 1983).

¹⁵ Michael in *Historical Statistic* wrongly stated that lineage af all railways in the Austro-Hungarian Monarchy before the First World War was only 22,981 km. See Michael, *Historical statistic*, pp. 609-611.

Because of capital shortage, foreign capital played an important role in the financing of the establishment of the Austro-Hungarian economy. The Rothschild family played a specific role in this process. Their capital, the capital which they were able to bring into East-Central Europe, and the capital they mobilised there, had a significant effect on state finances and the building of infrastructure in the region. They were able to position themselves as intermediaries and organisers, who activated a number of enterprises and banks and organised the building of the railways. The Rothschild family has to be mentioned as one of the most interesting enterprises which played important function in the development of the central Danube economic region.¹⁶

The need and the will to build the political and transport infrastructure influenced the structure of Austro-Hungarian finances. It was necessary to organise the import and accumulation of capital, and to direct it into the building of infrastructure. Cisleithenian business and financial elites were leaders in the process of the economic integration of the Monarchy. With the development of the economy, and the increase of domestic accumulation, the role of foreign capital diminished. 'Between 1867 and 1873, 60 per cent of the capital invested in the Hungarian economy was of foreign origin. Between 1873 and 1900, 55 per cent of the capital invested in the economy stemmed from domestic accumulation, and the share of foreign capital fell to 45 per cent. Between 1900 and 1913, again, 75 per cent of the financing of the economy was from domestic sources, only 25 per cent from abroad.'¹⁷

However, a number of actions tending towards the marketisation of the region were undertaken by the state. The state elites of the Monarchy had enough human capital to build up legal and institutional frameworks which would assist the monetisation of the region. The most important financial institutions organised by the state were post office savings banks and the Austro-Hungarian Bank, the central bank. The post office savings

For a more detailed narrative about railway building see Strach, H. (ed.), *Geschichte der Eisenbahnen der Österreichisch-Ungarischen Monarchie* (Vienna, 1898); Kalla-Bishop, P.M., *Hungarian Railways* (Darton, 1973). About financing of the railways see Good, David F, *The economic rise of the Habsburg Empire, 1750-1914* (Berkeley; London, 1984), pp. 65-67, 81-82, 99-104. See also Cameron, Rondo, *France and the Development of Europe 1800-1914* (Princeton, 1961).

¹⁶ There is a rich bibliography on the Rothschild family where information about their involvement in East-Central Europe can be found. See Reeves, John, *The Rothschilds: the financial rulers of nations* (London, 1887); Cowles, Virginia, *The Rothschilds: a family of fortune* (London, 1979); Lottman, Herbert R. *Return of the Rothschilds* (London, 1995).

¹⁷ Berend and Ránki, *Hungary. A Century of Economic Development*, p. 73.

banks and central bank network provided a homogeneous financial network across the whole territory of the Austro-Hungarian Monarchy.

Post office savings banks network

In the development of the provincial economy, an important role was played by post office savings banks which assured payment transactions and savings facilities to the province. Instituted in Austria in 1883 and in Hungary two years later, the system also accepted checking deposits by the end of the 1880s. This brought a financial intermediary reach of most of the population. By the 1890s most villages were within easy access of one of its offices.¹⁸ The Magyar kir. Posta Takarékpénztár started its operation in 1886, using a network of 800 agencies. By 1890, its services were available in 4,000 post offices.¹⁹ K.k. Postsparkassen-Amt in 1913 had a network of 7,100 post offices where the Cisleithenian population could use its services.²⁰ Bosansko-hercegovački ured poštanske štedionice was established in Sarajevo in 1911.²¹ The post office savings banks reached even very small places and managed money transfers and savings facilities for most of the population of the Monarchy.²² Being a state-owned and state-controlled institution it attracted a number of small deposits due to its easy accessibility and the considerable level of security for savings. 'In the middle of the 1890s fully three-fourths of the savings accounts were under 20 crowns in both Austria and Hungary. Yet they totalled 170 million crowns by the end of the century.'²³ The postal savings-banks invested their resources in state bonds, thus becoming a distinctive credit source for the state.²⁴

¹⁸ John Komlos, 'The diffusion of Financial Technology into the Habsburg Monarchy Toward the End of the Nineteenth Century' in John Komlos (ed.), *Economic Development in the Habsburg Monarchy in the Nineteenth Century* (New York, 1983).

¹⁹ *Magyar Compass*, Budapest 1891, p. 105.

²⁰ *Finanzielles Compass* 1915, p. 1075.

²¹ *Finanzielles Compass* 1915, p. 1080.

²² Rudolf, *Banking and Industrialisation*, p. 75.

²³ Komlos, 'The diffusion of financial technology into the Austro-Hungaria', p. 143.

²⁴ For postal savings banks see Mandy Lajos, *Posta Takarékpénztárak* (Budapest, 1885); Peter Eigner and Andreas Weigl, 'Die Österreichische Postsparkasse als Model? Möglichkeiten und Grenzen der Implementierung einer Finanzinnovation' in Harald Wixforth (ed.), *Sparkassen in Mitteleuropa*, pp. 11-60; Gaćeša Nikola, *Poštanska štedionica Kraljevine Jugoslavije*.

Postal savings-banks played a crucial role in economic life as organisers of financial transactions, such as money transfers and checking business. They allowed for the expansion of provincial economic life – the provincial merchant, shopkeeper or artisan could easily send or receive money from distant business partners. Taking into account the development of railways and communication by post, post office money transfer facilities allowed catalogue trade between big metropolitan merchant houses and provincial shopkeepers and artisans.²⁵

Network of the Austro-Hungarian Bank (central bank)

The role of the network of the Austro-Hungarian Bank, a central bank, was to support the monetisation of the economy. The central bank was not primarily governed by commercial objectives while developing its network. The network of the Austro-Hungarian bank was organised through branches and agencies.²⁶ According to Map 3, which presents the spatial distribution of the central bank's network in 1913, the network of branches and agencies was more uniform in a business and geographical sense than a commercial banks web. In Transleithenia, it had an almost uniform coverage of territory through branches and agencies which included the less attractive or distant regions such as Upper Hungary, Transylvania and Croatia. The network in Cisleithenia was not quite as uniform, but the whole territory was well-covered, including Dalmatia and Galicia. However, the densest web of branches and agencies was in Bohemia.

The financial capacity of the Austro-Hungarian Bank, and its importance for the economy of the region should not be underestimated. According to Kövér's data, assets of the Austro-Hungarian Bank amounted to K 3.34 b. in 1913, while the total assets of all other banks in the Monarchy were K 39.1 b.²⁷ Béla Tomka indicated that, before the First World

²⁵ Recently the author had the pleasure of researching the business books and correspondence of a small village shop in village Kozji Vrh in Croatia during the 1920s and 1930s. The population of the village was rather small – 124 persons. Most purchase transactions were based on written orders, railways transport of goods and payment through post office checks.

²⁶ See the very good article by Clement, Jobst, 'Gouverner une banque centrale décentralisée: l'exemple austro-hongrois 1847-1914', in Olivier Feiertag and Michel Margairaz (eds), *Gouverner une banque centrale du XVIIIe siècle à nos jours*, Paris: Albin Michel, 2007. See also Karl Tschurn, *Die Entwicklung des Verwaltungsorganismus der Österreichisch-ungarischen Bank, vormals priv. österreichischen Nationalbank* (Vienna, 1908).

²⁷ Kövér, 'The Austro-Hungarian Banking system', Table 14-3, p. 325.

War, the central bank provided almost 20 per cent of Transleithenian short-term credit.²⁸ This credit was distributed through branches and agencies to big banks and provincial banks, mostly by discounting of bills and to some extent giro account overdraft. There was a strong financial connection between the central bank and the banking system, especially between the big joint-stock banks in Cisleithenia and numerous joint-stock banks in Transleithenia. They were the principal users of central-bank credit and bill discounting facilities. However, through branches and agencies credit was also available directly to business companies. The Austro-Hungarian Bank had a strong influence on provincial economic development as well as on the development of provincial banking.

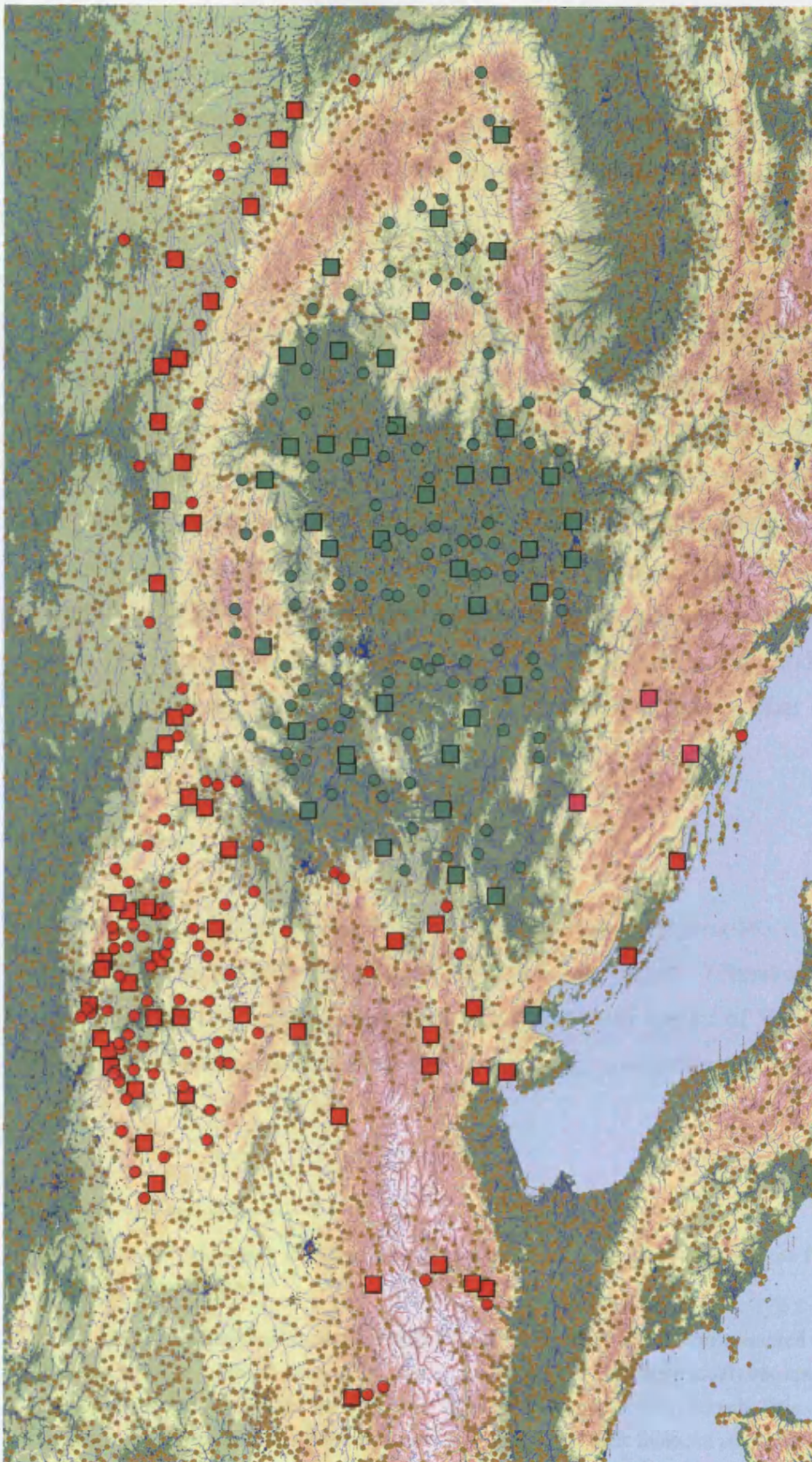
It is important to note the early establishment of branches and agencies of the central bank. In Cisleithenia in 1880 there were 54 branches of the central bank which increased to 102 in 1896.²⁹ The Austro-Hungarian bank established its first agency in 1878. By 1907 there were 75 agencies in Cisleithenia and 98 in Transleithenia.³⁰ The development of the central bank network preceded the development of the branches of metropolitan commercial banks, and formed the main connection between the provincial economy and metropolitan finances. Thus the central bank, together with the activity of the post office savings banks and the development of the railways, assisted and allowed a considerable level of economic activity in the Austro-Hungarian province in the last decades of the nineteenth century..

²⁸ Béla Tomka, 'The Development of Hungarian Banking', p. 161.

²⁹ See Table 4 in Komlos, 'The diffusion of financial technology', p. 149.

³⁰ Karl Tschurn, *Die Entwicklung des Verwaltungsorganismus der Österreichisch-ungarischen Bank*, p. 20.

Map 3 Branches and agencies of the Austro-Hungarian Bank



Square-shaped symbols display branches of the Austro-Hungarian bank. Circular symbols display agencies. Cisleithenia is coloured red, Transleithenia green and Bosnia and Herzegovina violet. Source: PROVBANK DATABASE.

Commercial banking networks

There were several commercial banking networks which organised the dissemination of finance in the Monarchy. There was a web of branches and affiliated institutions organised by the big commercial banks of Vienna, Budapest and Prague. Also, some regional centres strengthened their position and influence over the region through regional networks of branches.

The financial life of the Monarchy was concentrated in three metropolitan areas: Vienna, Budapest and Prague. These three cities had important administrative functions and were centres where the trade and dissemination of finance in the Austro-Hungarian Empire, including its neighbouring territory, were concentrated. It is worth mentioning that all three cities were situated on rivers and present important connecting points for transport. The most important banks of the Monarchy were based in these cities.³¹ The economic strength³² of Vienna, Budapest and Prague and their big banks dominated this part of Europe by means of networks of branches, affiliated institutions, the industrial enterprises they owned, credit policies towards smaller institutions and many other invisible financial operations.

Viennese banks

In Vienna at the eve of the First World War there were 19 joint-stock banks (of which 6 joint-stock banks acted as mortgage houses), 20 banks as Ltd., 7 Sparkassen, two mortgage institutions and 104 credit cooperatives. The joint-stock capital of Viennese banks was K 883.5 m., while the balance sheet total of all banks (including Sparkassen and mortgage

³¹ There is some high quality literature about banking and the financial history of those financial centres and the strongest banks there.

³² When identifying the most important financial institutions, the balance sum was cited as an indicator of the financial capacity of the institution (instead of the capital which is more usual) because financial institutions sometimes undertook significant financial operations with relatively little capital. Moreover, for mortgage institutions this is the only relevant indicator of their financial resources. Banks in which the balance sum was bigger than K 100 m. could be observed as strong, metropolitan institutions. All the data presented below are values for 31. 12. 1913. The reason for presenting those financial indicators is to help the reader to compare the financial capacity of those 'mega-banks', strong regional banks and local banks.

houses) was K 8,217 m.³³ Vienna was the financial centre of the Austro-Hungarian Monarchy.³⁴

Vienna was the point of connection between the Bohemian and Panonian valleys. The pivotal geographical and strategic position of Vienna was visible in Viennese financial networking. The networks of the Vienna commercial banks tried to take over the main commercial transactions of Cisleithenia, and they did not stop at geo-political barriers. The Viennese banks not only covered Austria, but moved into Cisleithenia wherever there was any sign of business activity. They attracted significant numbers of customers, especially amongst medium and large entrepreneurs.³⁵ At the eve of the First World War Silesia, Moravia and the mountain regions of Bohemia were well covered by branches of Viennese banks. In addition, the main regional and commercial centres of Galicia were covered by both branches and agencies³⁶, and so were the main centres in Slovenia and the northern region of present-day Italy. It is also interesting to note that Viennese banks had links with some of the most significant towns in Transleithenia. On the other hand,

³³ Calculated from *Finanzielles Compass* 1915.

³⁴ The most important banks in Vienna were: K.k. priv. Österreichische Credit-Anstalt für Handel und Gewerbe (capital K 150 m., balance sum K 1,181 m.); Wiener Bank-Verein (capital K 130 m., balance sum K 918 m.); K.k. privilegierte allgemeine Österreichische Boden-Credit-Anstalt (capital K 54 m., balance sum K 920 m.); K.k. privilegierte Österreichische Länderbank (capital K 130 m., balance sum K 821 m.); Anglo-Österreichische Bank (capital K 100 m., balance sum K 750 m.); Niederösterreichische Eskompte-Gesellschaft (capital K 75 m., balance sum K 432 m.); Union-Bank (capital K 70 m., balance sum K 374 m.); K.k. priv. Bank Wechselstuben A.-G. Merkur (capital K 50 m., balance sum K 283 m.); Allgemeine Depositen-Bank (capital K 33 m., balance sum K 194 m.); K.k. priv. Allgemeine Verkehrsbank (capital K 42 m., balance sum K 307 m.); Österreichische Central-Boden-Credit-Bank (capital K 8 m., balance sum K 118 m.); K.k. priv. Österreichische Credit-Institut für Verkhrs-Unternehmungen und öffentliche Arbeiten (capital K 2 m., balance sum K 123 m.); K.k. priv. Österreichische Hypothekenbank (capital K 6 m., balance sum K 117 m.); Niederösterreichische Landes-Hypothekenanstalt (balance sum Hypothekar-Darlehens Geschäft K 406 m., balance sum Kommunal-Darlehensgeschäft K 108 m.); Erste Österreichische Sparkasse (balance sum K 558 m.); Zentralsparkassa der Gemeinde Wien (balance sum K 174 m.); K.k. Postsparkassen-Amt (balance sum K 1,435 m.).

³⁵ Jan Hájek, 'Origins of the banking system in interwar Czechoslovakia' in *Universal Banking in the Twentieth Century*, p. 26.

³⁶ Growing financial activity in Galicia in a decade before the First World War attracted attention. Volume of the bills discounted in the branches of Austro-Hungarian Bank in Galician town Lvov almost reached level of Vienna 1909/1911. See Table 2, Good, *Financial integration*, p. 903.

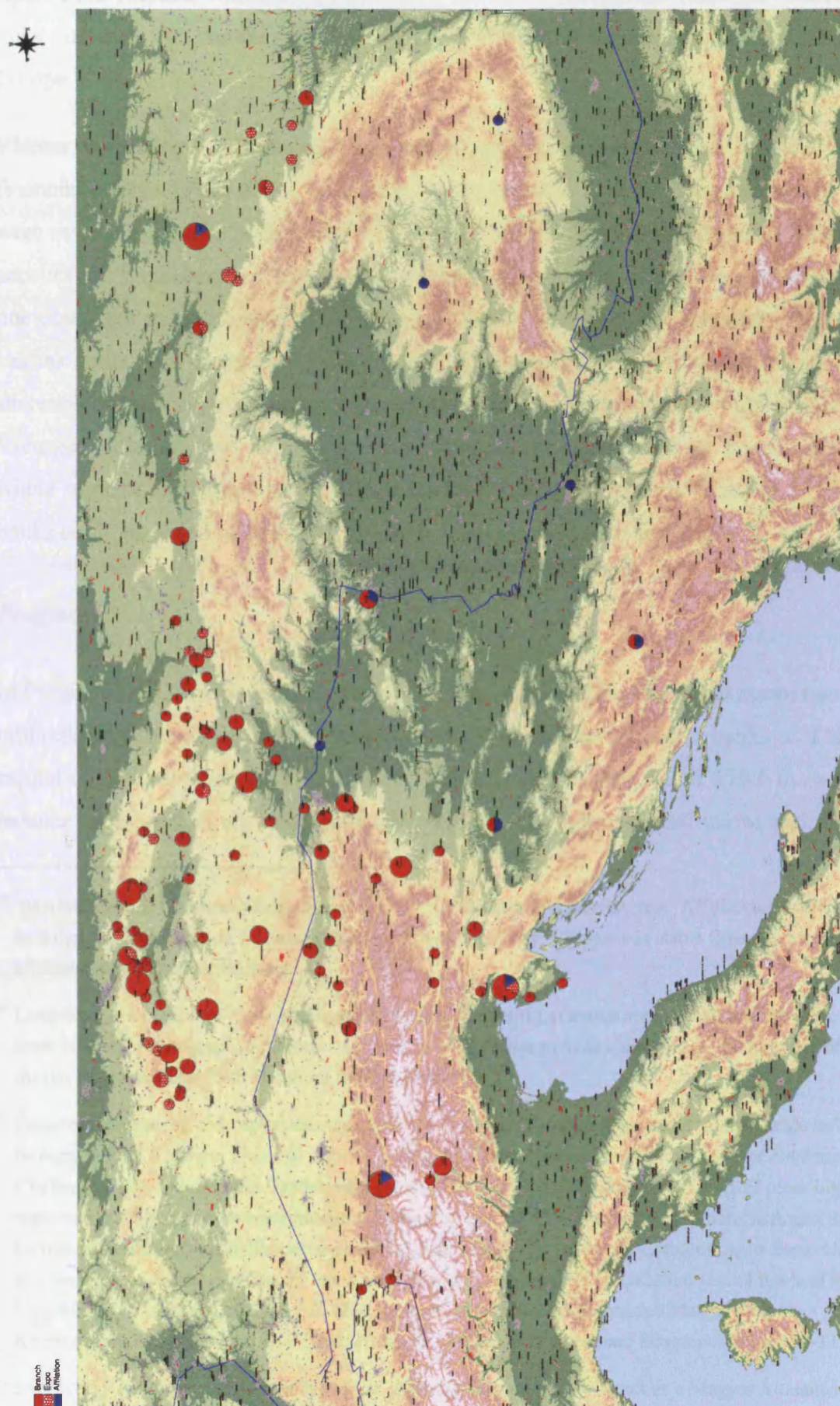
commercially non-attractive Dalmatia³⁷ did not have any links to the Viennese commercial banks.

For networking purposes, Viennese banks mostly used branches and agencies. It seems that the Viennese banks were aided in their networking activity by the presence of German settlers in different parts of the Monarchy, as they were able to provide reliable banking staff and directors even in towns distant from Vienna. All in all, the Viennese commercial banks in 1913 had 144 branches and 25 agencies throughout the territory of the Monarchy.³⁸

³⁷ Dalmatia was under the jurisdiction of the Austrian part of the Monarchy.

³⁸ However, one would have to keep in mind that the network of branches of Vienna banks was developed in the last decade or two before the First World War.

Map 4 Branches and affiliations of the Viennese commercial banks



Source: PROVBANK DATABASE.

Internationally, the Viennese commercial banks had five branches and six affiliations.³⁹ Apart from contacts with London and Paris, the main international financial centres, most links indicate the commercial interest of Vienna was directed toward South-eastern Europe.⁴⁰

Vienna was a proper financial metropolis with a strong influence if not control over other financial centres. Prague was, to a great extent, dependent on the Viennese banks. There were several big banks in Budapest which were founded by Viennese banks.⁴¹ Taking into account the importance of these banks within the framework of the Hungarian economy, one could get an impression of the Viennese impact on Hungarian banking. Recent case studies doubt such conclusions and argue that the significance of Viennese banks both as shareholders and as policy makers decreased in the decades prior to the First World War.⁴² Viennese influence was strong also in other regional centres, such as Trieste and Lvov, where some of the biggest banks were owned by Viennese banks. Affiliations of Viennese banks could be found in Budapest, Bratislava, Brassó, Sarajevo and Zagreb.

Prague

In Prague in 1913 there were 15 commercial joint-stock banks, two Sparkassen, two strong umbrella institutions of the Sparkassen, four mortgage houses and 5 banks as Ltd. The capital of all joint-stock banks (including umbrella institutions) was K 319.6 m., while the balance sheet total of all banks (including Sparkassen, umbrella institutions and mortgage

³⁹ Two branches in London and one branch in Paris, Constantinople and Smyrna. Affiliations could be found in Belgrade, Thessalonica, Sofia and Bucharest (three of them). Branches in stable financial centres, affiliations in less stable Balkans.

⁴⁰ Long-term orientation of Austro-Hungarian Monarchy toward Levantine and oriental markets have its basis in a simple geographical reason – ship route from Trieste to Suez channel is 3,000 nautical miles shorter than ship route from Hamburg to Suez channel.

⁴¹ Economic prosperity and capital shortage after the Compromise of 1868 attracted 'a large-scale influx of foreign, mainly Austrian, financial capital. In 1867 Austrian Rothschilds founded Magyar Általános Hitelbank. 1868 Austrian and English financiers set up the Anglo-Hungarian bank. Three other big banks were founded also with the contribution of foreign capital...In 1879 the Austrian Union Bank and its French associates substantially increased the original capital of the Magyar Leszámitoló as Penzváltó Bank and the Magyar Jelzáloghitelbank...An Austro-French group doubled the original capital funds of historic Pesti Magyar Kereskedelmi Bank...In 1890 an Austro-German Group founded Magyar Ipar és Kereskedelmi Bank.' Berend and Ránki, *Hungary. A Century of Economic Development*, pp. 29-31.

⁴² See Gyorgy Kover, 'Osztrak Kredit-Magyar Hitel. Az Ostrak Credit-Anstalt és a Magyar Általános Hitelbank kartellje 1871-1900', *Századok*, 2005, Vol. 5, pp. 1261-1283.

houses) was K 4,211 m. In Prague, including the suburbs, there were 81 credit cooperatives.

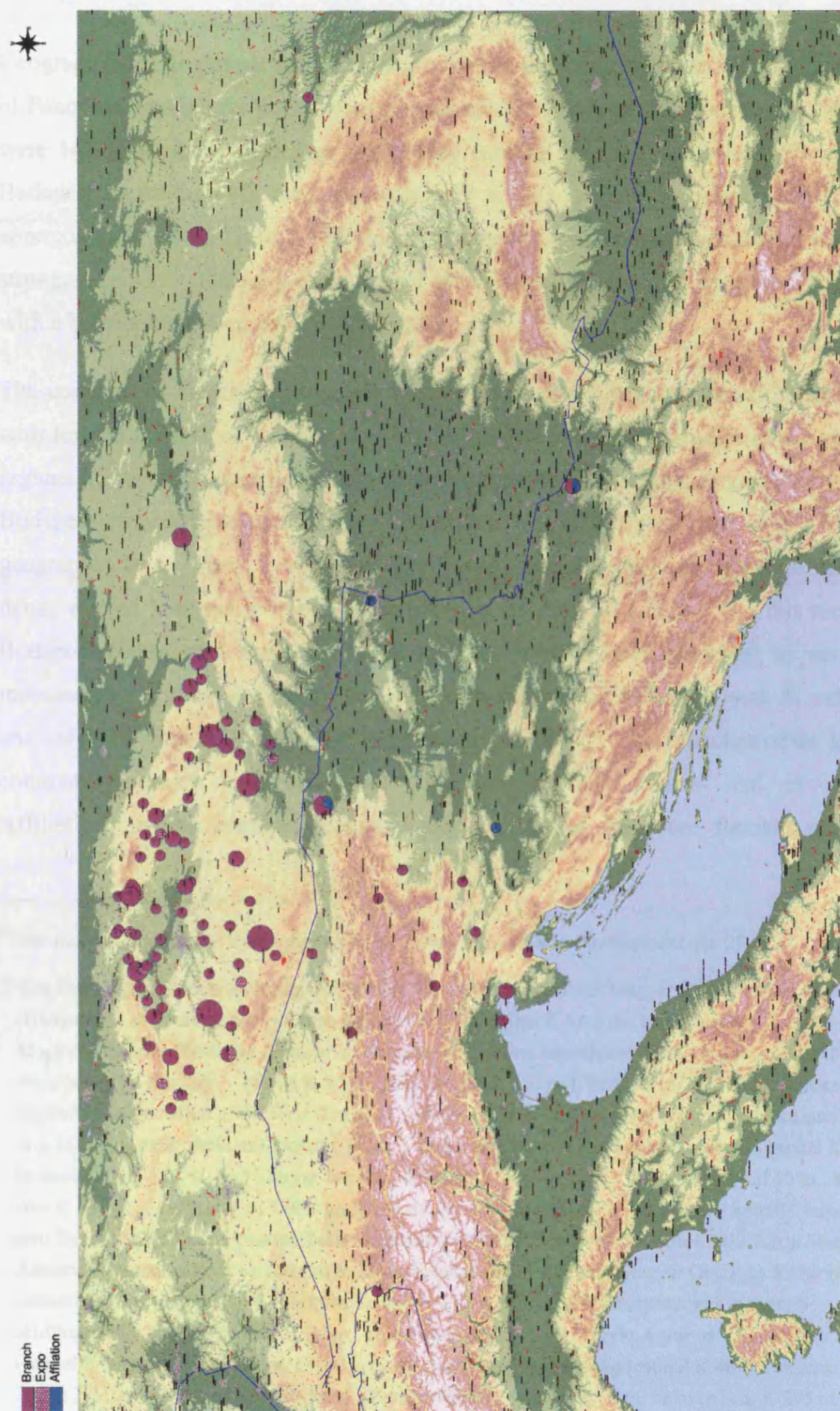
The financial strength of Prague had its roots in the intense economic life of Bohemia. As can be seen on Map 5, Bohemia was covered by branches of the Prague commercial banks while the mountainous, more industrialised regions had denser networks.

It seems that financial capacity, capital concentration and expertise allowed the Prague commercial banks to expand their activity outside Bohemia. By 1913 the Prague banks had penetrated the financial markets of Moravia and Silesia. Other modes of expansion employed by Prague banks were not directed towards the major commercial centres (Vienna, Budapest, Trieste). In less developed financial markets or trade points the capital and expertise of Prague banks could be profitable (Krakow, Lvov, Czernowitz, Zagreb, Salzburg). One branch and one affiliation in Belgrade could be seen as part of that expansion.⁴³ However, it seems that the financial capacity of the Prague commercial banks was not sufficient to allow it to expand on the international market. There were no branches or affiliations of Prague banks outside the Monarchy in 1913 (except Belgrade). The potential for growth, if not yet actual strength, was the reason why Rudolph has identified Prague as a rival of Vienna.⁴⁴

⁴³ For Czech pan Slavic financial expansion see Eduard Kubů – Jiří Novotný – Jiří Šouša 'Slavism in National Czech Enterprises' and Lampe, *Balkan Economic History*, p. 261. Lampe's polite comment on profitability, not ideology as the main driving force of the Czech pan Slavic financial expansion deserves attention. It suggests that ideology could be an excellent marketing and penetration tool in the entrance of new markets.

⁴⁴ Rudolf, *Banking and Industrialisation*, p. 71. See also important Table 3.2. – Joint-stock capital of Czech and German commercial banks in the Czech Lands and of commercial banks in Vienna, 1890-1913 in Hájek, 'Origins of the banking system in interwar Czechoslovakia', p. 26.

Map 5 Branches, agencies and affiliations of the Prague commercial banks



Source: PROVBANK DATABASE.

Budapest

Geographically, Budapest has a central position in the Panonian basin. Thus, the majority of Panonian banking resources were concentrated in Budapest. In Budapest in 1913 there were 142 joint-stock banks and 149 private banking houses. The joint-stock capital of Budapest banks in 1913 was approximately K 703 m. with a balance sheet total of approximately K 6,783 m. The financial capacity was concentrated in several of the strongest banks.⁴⁵ The joint-stock capital of twelve of the strongest banks was K 475.9 m. with a balance sheet sum of K 5,773.5 m.⁴⁶

The commercial banking network in Transleithenia had a structure based on affiliations, with limited number of branches and the centripetal banking tendencies of the peripheral regions of Croatia, Transylvania and Upper Hungary. The networking policy of the major Budapest commercial banks was characterised by limited branches and a restricted geographic area. There is no doubt that it was quite expensive and risky to maintain a dense web of branches in the large territory of the Panonian basin. For this reason, the Budapest commercial banks preferred affiliations rather than branches, as networking instruments. Throughout the territory of the Monarchy in 1913 there were 61 affiliations and only 41 branches of the Budapest commercial banks.⁴⁷ Most branches of the Budapest commercial banks were concentrated in regional trade centres and export ports. Affiliations of the Budapest banks, which constituted the more flexible networking

⁴⁵ See more in Berend and Ránki, *Hungary. A Century of Economic Development*, pp. 28-32.

⁴⁶ The five biggest Hungarian banks before First World War were: Pesti Magyar Kereskedelmi Bank (Hungarian Commercial bank of Pest, founded in 1842 capital K 62.5 m., balance sum K 1,213 m.); Magyar Általános Hitelbank (Hungarian General Credit Bank established 1867 – Austrian Rothschilds were one of its founders – capital K 80 m., balance sum K 552 m.); Pesti Hazai Első Takarékpénztár Egyesület (Association of the First Domestic Savings Bank of Pest – capital K 20 m. balance sum K 902 m.); Magyar Leszámitoló es Penzváltó Bank (Hungarian Discount and Exchange Bank – capital K 50 m. balance sum K 423 m.) and Magyar Jelzáloghitelbank (Mortgage Credit Bank K – capital 40 m., balance sum K 834 m. – beginning of 1880s grew up with Austrian Union Bank and French capital). Import were also Egyesült Budapesti Fővárosi Takarékpénztár (capital K 15 m., balance sum K 302.7 m.); Magyar Általános Takarékpénztár r.t. (capital K 32 m., balance sum K 243 m.); Magyar Országos Központi Takarékpénztár (capital K 18.1 m. balance sum K 290 m.); Magyar Takarékenztárak Központi Jelzálogbankja mint r.t. (capital K 20 m., balance sum K 277 m.); Magyar Agrar- es Jaradekbank r.t. (capital K 32 m., balance sum K 231 m.); Hazai Bank Részvénytársaság (capital K 40 m., balance sum K 207 m.); Magyar Bank es Kereskedelmi Részvénytársaság (capital K 66 m. balance sum K 295 m.)

⁴⁷ Calculated from PROVBANK identification database.

solution, could be found in most of the regional and some of the sub-regional centres of the Panonian basin.

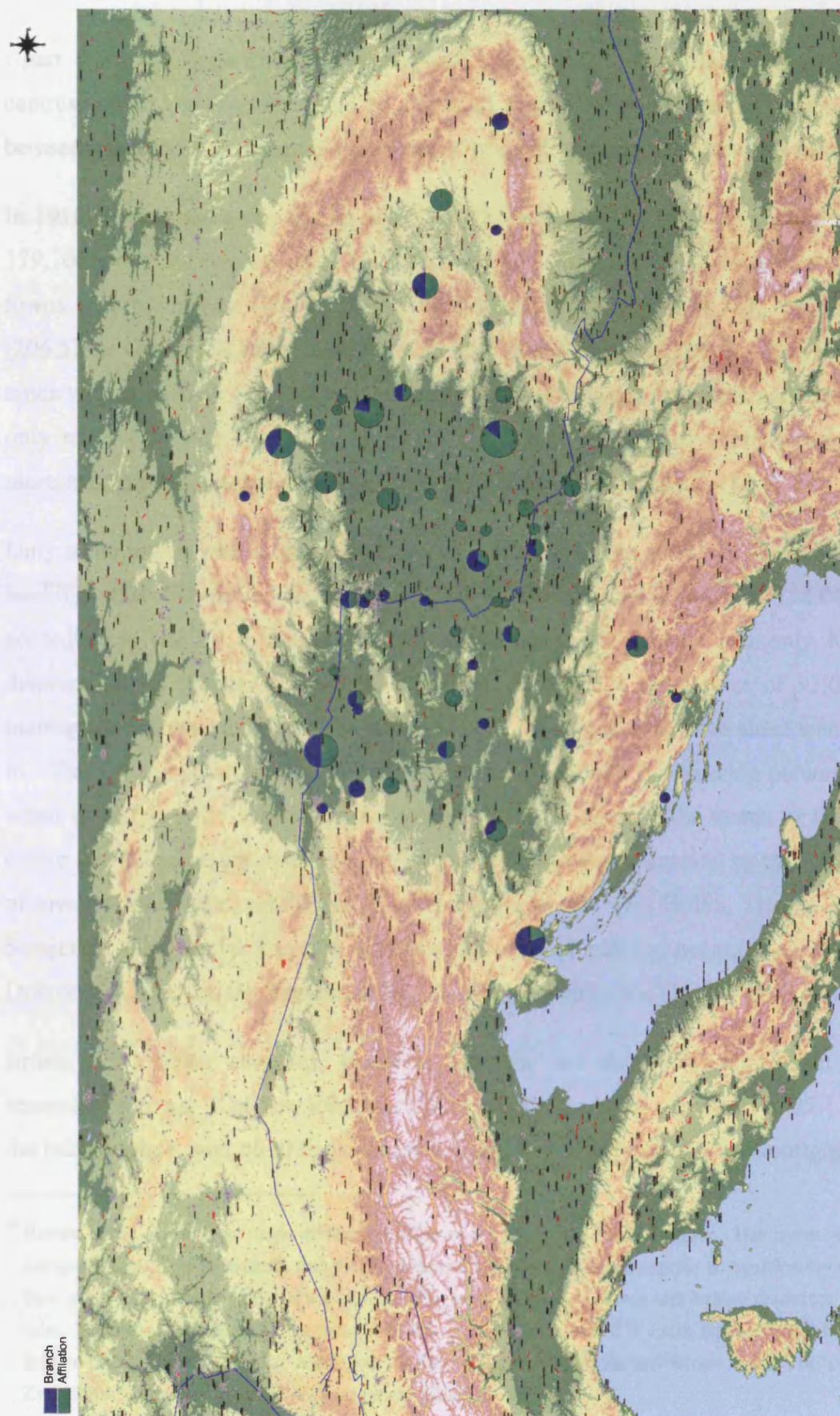
The Budapest commercial banks expanded their activities into Bosnia and Herzegovina and Croatia, but they never attempted to venture outside the regional centres. On the other hand, networking toward Upper Hungary was limited to centres which geographically belonged to the Panonian basin (Bratislava and Košice). The mountain region of Upper Hungary was only sporadically linked to the network of the Budapest commercial banks. The Budapest commercial banks, as a rule, did not enter Cisleithenia.⁴⁸

Affiliations clearly dominated the international networking of the Budapest banks.⁴⁹ These were mainly oriented towards South-eastern Europe, as with the Viennese international branches. Three links to New York existed as a consequence of the interest in the resources of the large Hungarian immigrant community in the United States.

⁴⁸ The Hungarian General Credit Bank had an agreement with the Credit-Anstalt about the territorial division of businesses. The other big Hungarian Banks also had banking partners in Vienna. The only exception was one branch of Budapest bank Central Wechselstuben A.-G. in Vienna. Most of the relationship between financial circles in Vienna and Budapest was based on partnership cooperation between the main commercial banks. Suggested by Ágnes Pogány.

⁴⁹ One branch in Constantinople, Smyrna and Solun (Saloniki) and affiliations in Solun (Saloniki), Rustschurt, Philippopel, Sofia (two affiliations), Bucharest (two affiliations) and New York (three affiliations).

Map 6 Branches and affiliations of the Budapest commercial banks



Source: PROVBANK DATABASE.

Other commercial networks

Apart from the three financial metropolis⁵⁰, there were other economic and financial centres, which were too strong to be classified as provincial banking. Two criteria could be used when trying to identify such centres: population figures and banking networks.

In 1910 Vienna had a population of 2,031,498, Prague with Zizkow, Smichow and Nusle 379,706 while the population of Budapest was 880,000.⁵¹ In 1910, there were only a few towns with more than 100,000 people in Cisleithenia: Trieste (224,721), Lemberg-Lvov (206,574), Graz (151,668), Krakow (150,318) and Brünn (125,008). However, not all cities with more than 100,000 people were equally financially important centres. Graz had only one joint-stock bank with K 14 m. of capital, but several strong Sparkassen and mortgage houses. The balance sheet sum of all banks in Graz was K 482 m.

Only some towns with large populations had developed into strong financial centres with banking networks around them. For example, Szeged was a town of 118,000 people, according to the 1910 census, but the joint-stock capital banks had only K 9.55 m. dispersed in 10 banks. Debrecen, which in 1910 had a population of 93,000 was a metropolitan financial centre with a capital of K 27 m. and a balance sheet sum of K 185 m. Thus, the population criteria had to be re-assessed with the banking networks criteria when identifying the main financial centres. In this research the status of the financial centre was based on the existence of a network of branches organised by the major bank(s) of towns with a large population. Such financial centres were Brünn, Trieste, Zagreb and Sarajevo. Also, we have to note several other regional banking networks such as those of Debrecen, Lvov and the Saxon network in Transylvania.

Brünn was a major economic centre in Moravia, and there were significant economic resources in town. The few joint-stock banks in Brünn had a capital of K 22.1 m., while the balance sheet sum of all banks in town (including Sparkasse and two mortgage houses)

⁵⁰ Renate Banik-Schweitzer made distinction between big towns and the metropolis. Her research on Central European urbanisation indicate that the employment structure of the metropolis is significantly different from other big towns because of the high share of employment in finance and human resources intensive jobs. In Central Europe 1910 she recognised three main metropolises: Vienna, Budapest and Berlin. See Renate Banik-Schweitzer, 'Die Metropole als Urbanisierungstyp in Zentraleuropa in der Vor- und Zwischenkriegszeit' in *Zbornik Mirjane Gross* (Zagreb, 1999).

was K 480 m. However, Brünn banks, competing with the much stronger Vienna and Prague banks, never developed enough to expand their business outside Moravia.

Trieste was a financial centre which had a network of branches resulting from a concentration of financial and human capital. Trieste banks attempted to establish their own market territory, by recognising the opportunity to take over the financing of trade activities along the Adriatic coast. The balance sheet sum of banks in Trieste was only K 160 m. with the capital of joint-stock banks amounting to K 17 m. consequently. It seems that mayor business in Trieste was financed by branches of Vienna and Prague banks.

One would expect that there would have been a development of strong regional financial networks in Galicia, but this did not happen. The activities of the Prague and Vienna commercial banks weakened the process of formation of strong regional banks. Krakow was a town of 150,318 people but had underdeveloped banking, far away from metropolitan status (the balance sum of all banks in the town in 1913 was only K 65 m.). A concentration of finances in Galicia occurred in Lvov. The capital of joint-stock banks in Lvov in 1913 was K 40.2 m., while the balance sheets total of all banks, including mortgage houses and Sparkassen was K 1,285 m. Banks from Lvov had ten branches in the main economic centres of Galicia (Krakow, Podwoloczyska, Nowosielitz, Černowitz, Dobrohobycz, Biala, Tarnopol, Stanislaw). Branches of Lvov banks did not penetrate small towns but connected main regional centres of Galicia.

Zagreb was one financial centre which had a network based on a deep penetration of the provincial financial market. Zagreb banks managed to develop a dense network of branches, affiliations as well as informal national networks thanks to the specific concentration tendencies of the Croatian economy. With the concentration of Croatian finances in Zagreb, the joint-stock capital of all Zagreb banks in 1913 was K 144 m.

Sarajevo was the financial centre which most permeated the Bosnian provincial market. However, the financial networking of Sarajevo before the First World War was not based on private commercial banks but on state supported banks.

Banking in Transylvania, a vast territory with a weak infrastructure and geographically distant from Budapest, was only under the limited influence of Budapest banks. However, no single main centre developed in Transylvania, while several lesser centres emerged

⁵¹ Statistical data from *Mayers Handlexikon, Statistische Übersicht der Österreich-Ungarischen Monarchie*,

(Arad, Nagyszeben, Brassó and Kolozsvár-Cluj). These Saxon towns developed a considerable level of banking and branch activity on a local level, as they strongly cooperated with each other. Pfandbriefanstalt siebenburgischer Sparkassen AG resulted from the cooperation of Sparkassen in Mefgyes, Bistritz, Broos, Mediasch, Schasburg and Szaszregen in Transylvania. However, no single dominant bank or town developed. Debrecen had a strong position in the Tisza region of Hungary and several branches in the Tisza region, but was not able to develop a dominant position on the market.

One small banking network centred on Ljubljana. However, the attempt of the Ljubljana banks to expand into neighbouring markets could be seen as a part of Prague pan-Slavic financial networking.⁵² Brixen, being the centre of the network of Austrians in Italy, could be identified as another small network node.⁵³

One has to keep in mind that there are different types of branch networks. Some regional networks penetrated effectively the provincial economy by opening branches even in small towns. Such financial centres accumulated the region's financial resources, and played an important role in their redistribution. Following the First World War and the disruption of the common Austro-Hungarian financial market, some of these centres had the opportunity to act as economic centres of the region. A typical example of such a centre is Zagreb, which performed such a function both before and after the First World War. Such centres developed because of a limited integration with the Austro-Hungarian financial market and limited links to the three main financial centres.

Some other centres developed because of a considerable level of economic and financial activity and accumulation of human and financial capital. However, because of the competition offered by metropolitan banking they could not develop into proper regional centres and could not assume control over some region. Brno is probably the most typical example.

There were also incomplete networks, which built partial regional banking networks. Examples at opposite ends of the spectrum are shown in Lvov and Trieste. Lvov

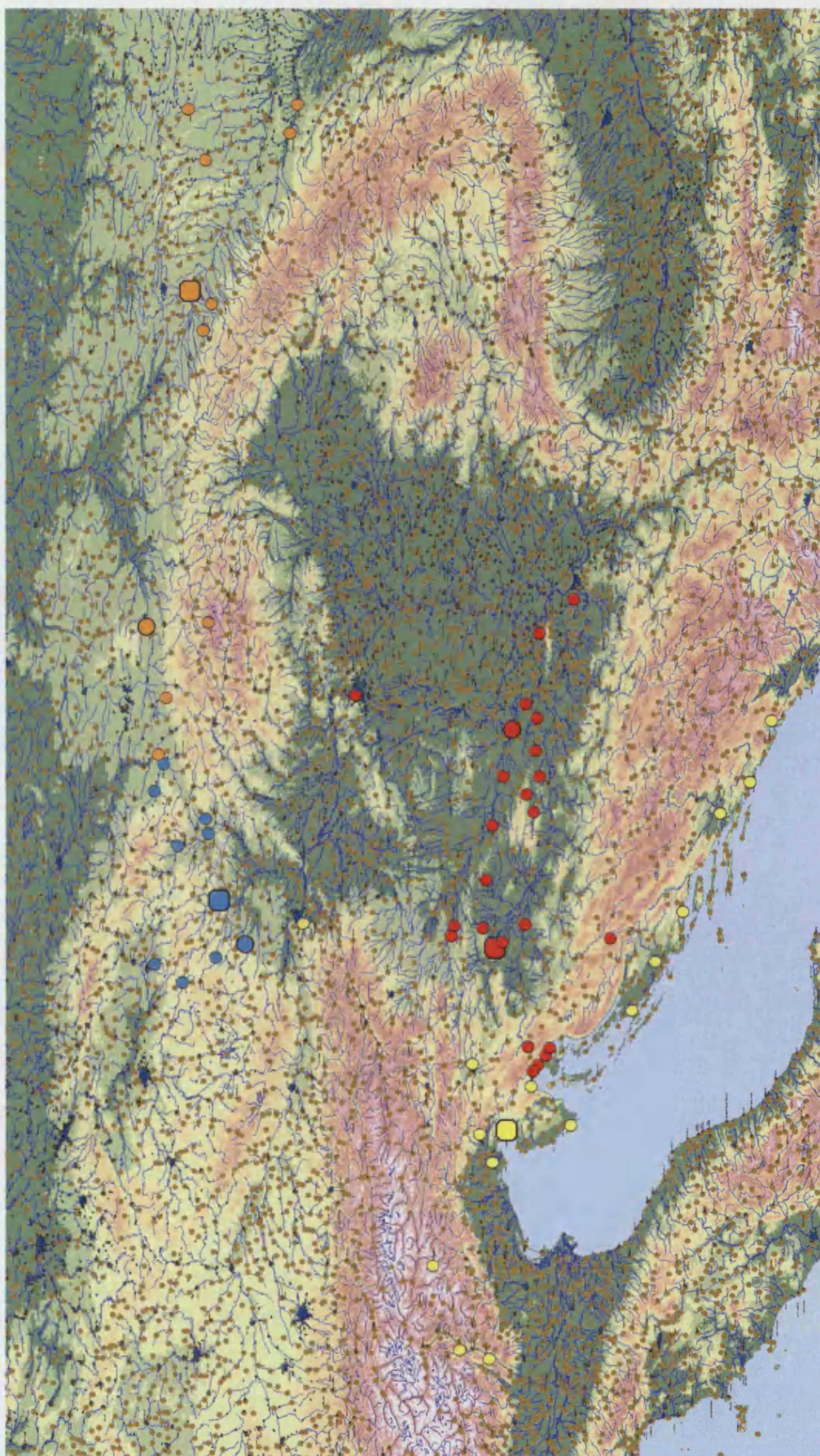
appendix between pages 1068-1069, Vol. 2 (Leipzig and Vienna, 1912).

⁵² See Eduard Kubů – Jiří Novotný – Jiří Šouša 'Slavism in National Czech Enterprises'. The strength of Ljubljana as financial centre also had very much to do with credit cooperative networking.

⁵³ Economic nationalism played important role in development of this network, which was all concentrated in one bank. However, it is hard to talk about Brixen being a proper financial centre.

concentrated on linking the main trade points of the waste territory of Galicia, while the Trieste network concentrated on several small points on the Adriatic coast. Both centres were not able to develop a dominant bank which could take over control of the region.

Map 7 Regional branching networks – Trieste, Brno, Lvov, Zagreb



Source PROVBANK DATABASE.

Limits of commercial banking network and provincial banking

Commercial banking networks had a limited ability to maintain their function as creditors of the provincial economy. The branch network of a metropolitan commercial bank did not follow the expansion of the provincial economy. Even in the pre-First World War years metropolitan branches were relatively underdeveloped in most of the Austro-Hungarian Monarchy.

As late as 1913, the year under consideration here, data indicate underdeveloped branch networks of metropolitan banks. Branches of metropolitan banks were restricted to the regional and eventually sub-regional centres. Branches of metropolitan banks at the level of local banking could be identified only in Bohemia and Moravia. Hungary, Upper Hungary, Silesia, Vojvodina, Croatia and Bosnia and Herzegovina almost completely lacked metropolitan banking branches at the level of small towns. Metropolitan banks were banks of big business and main commercial lines.

How can we assess the extent of the financial integration of Austro-Hungarian banking? What meaning can be attributed to a market which was financially integrated? First, there was an infrastructure that allowed payment transactions, the collection of savings and the distribution of credits to all segments of the economy. In the Monarchy, such an infrastructure existed through commercial banking networks, supported by those of the central bank and the post offices' banking activities in less developed areas. However, the existence of an infrastructure did not necessarily mean that all financial needs would be equally satisfied.

The provincial economy was connected to the metropolitan banking system, especially in regional centres. However, questions arise over the extent to which metropolitan banking operated at a provincial level. It seems that, even in the provinces, metropolitan banks were involved only with the financing of major businesses. This was often based on the entrepreneurial role of banks, one of the distinctive characteristics of banking in East-Central Europe.

In the development of provincial banking there existed a disequilibrium between provincial economic development and the slow development of the network of branches of metropolitan banks. The main provincial business infrastructure developed in the last decades of the nineteenth century. Railways provided transport facilities between the main

provincial economic centres, so that goods could be easily collected and distributed. While post office networks made business communication easy, post office savings banks provided very important money transfer facilities. The central bank ensured the monetisation of the provincial economy, as well as providing credit to some provincial companies. In the last decades of the nineteenth century metropolitan commercial banks did not penetrate the provincial financial market. Analysis of the banking structure in Part two shows that as late as 1913 the influence of metropolitan commercial banks did not go much further than provincial regional centres.

The development of the central bank network indicates the development of the provincial economy. Metropolitan banks did not correspondingly expand their branch networks. In Cisleithenia in 1880 there were 54 branches of the central bank and only 24 branches of commercial banks. Eight years later there were still only 30 branches of commercial banks. As late as 1896 in Cisleithenia there were 66 branches of commercial banks while the central bank had 102 branches.⁵⁴

Thus, there was a time lapse between the growth of provincial economies and the development of commercial banking networks. The growing provincial financial market, which was not satisfied by metropolitan commercial banks, resulted in the development of provincial banking. 'Savings banks were important precisely because of their local orientation. Municipal banks offered financial services in markets that were isolated from the financial centres of the Monarchy.'⁵⁵

The development of different banking systems in Transleithenia and Cisleithenia resulted from different levels of economic development, different economic structures and separate legislative frameworks. Highly market-oriented Cisleithenia with its concentration of big business developed a more sophisticated banking sector. With such a considerable level of financial activity, a certain level of specialisation in the banking sector developed. Of greatest importance for financing industry were not the Sparkassen and the central bank, but the few joint-stock banks, especially the great Viennese banks. The main role of the Sparkassen was the provision of mortgage finance, not the short-term finance of commerce and industry.⁵⁶ The success of Sparkassen in Cisleithenia is partially attributable to the

⁵⁴ See Table 4 in Komlos, 'The diffusion of financial technology', p. 149.

⁵⁵ Albrecht, *Savings Banks in Bohemia*, p. 6.

⁵⁶ Good, *Financial integration*, pp. 896, 897.

legal barriers which prevented commercial banks attracting deposits during the last two decades of the nineteenth century.⁵⁷

The economic structure of Transleithenia, consisting of a mixture of subsistence level agriculture, market-oriented agriculture, and sparsely distributed islands of industry and commerce, was not a strong enough basis for the development of a specialised banking sector. Specialisation and the financial resources of the banking sector were concentrated in Budapest and a few other regional centres, while the rest of the banking sector, especially in provinces, was based on universal banking.

Well-developed provincial banking and the credit cooperative movement testify to the extent of the limits of the networking strength of metropolitan commercial banking. At the same time, the state's interest in the monetisation of the region resulted in effective links between the central bank and provincial banking, evident in a dense web of branches and agencies of the Austro-Hungarian Bank.

⁵⁷ See März Eduard, *Austrian Banking and Financial Policy: Credit-Anstalt at a Turning Point 1913-1923* (London, 1984), pp. 39-41.

AFTER THE COLLAPSE

The First World War was a turning point in the economic history of the Danube region. The Austro-Hungarian Monarchy, which provided the political framework of the Danube economic region, collapsed and new political entities appeared. After the fall of the Monarchy, the existing financial networks were replaced by the new banking systems and financial networks. This change was a consequence of the formation of new political and economic entities, war damage and losses, and post-war monetary instability.

The shaping of new political units had a profound impact upon the banking networks in the region. The East-Central European economic region was divided into smaller market units.⁵⁸ The former territory of the Monarchy was divided into seven custom areas. The previously major position of Vienna as a financial centre of the whole region was replaced by a situation in which the centre of each successor state played an independent role, while the importance of some regional centres increased. There were political obstacles to economic and financial cooperation between the successor states.⁵⁹ A specific problem worth mentioning is the issue of 'nostrification' and 'nationalisation' of Austrian and Hungarian banks and companies in Czechoslovakia and Yugoslavia.⁶⁰ This became an

⁵⁸ Hertz, Frederick, *The Economic Problem of the Danubian States. A Study in Economic Nationalism* (London, 1947) analysed economic changes occurring as a result of the disruption of the Austro-Hungarian Empire. His economic analysis recognised the strong economic consequences of the disruption of the common Austro-Hungarian market on the economy of all ex-empire countries. Hertz described, with well-documented arguments, the interwar period as one long crisis influenced mainly by the loss of that common market. Eventual signs of economic prosperity in successor states were explained as the result of high public expenditures. The short-term results of such fictitious prosperity were not a sound basis for economic development. One could be suspicious about the political background of Hertz's book, but his arguments cannot be denied.

⁵⁹ Foreign trade of Hungary with Austria and the Czech provinces fell by 60 per cent between 1913 and 1924. Czechoslovakia was satisfying almost 50 per cent of flour needs in America, while Hungary for their machinery needs turned towards French, British, German and Italian market. Berend and Ránki, *Hungary. A Century of Economic Development*, p. 102.

⁶⁰ Article 208 of the Peace Treaty of Saint Germaine and article 191 of Trianon contract out all property of the Austro-Hungarian Monarchy belonging to successor states. Regarding the private property of citizens of Austria and Hungary, article 149 of Peace Treaty of Saint Germaine allowed successor states to take care of the property of foreign citizens. The value of such property would be calculated into war reparations, while refunding the losses of Austrian and Hungarian citizens would be managed by their government. Put simply, successor states could take over the property of the citizens of Austria and Hungary. Such property included shares of the company, savings in banks, etc.

effective hindrance to trans-boundary bank networking. The reorientation of the markets offered the opportunity to found new banks, and also for old banks to be expanded. Thus, the integrated multinational banking system of East-Central Europe was replaced by several national banking networks.

The post-war period was characterised by shorter or longer periods of monetary instability, in all successor states. The formation of new political entities, as well as economic and political reconstruction, was the cause of post-war inflation and subsequent deflationary measures during the stabilisation period. All these monetary situations destabilised the pre-war banking structure. During the inflationary periods a number of small banks were established. These 'inflationist birds' emerged mostly in the main financial centres and regional centres. Such banks were typically found in Hungary and Yugoslavia. However, deflationary stabilisation measures swept them out of the market. Another monetary issue that had an impact on the banking system was currency change. There is no doubt that currency change in Kingdom SHS had an impact on the distribution of the financial capacity of the banking system.

War damages and losses were another important factor which shaped banking in the post-First World War East-Central Europe. The economies of the successor states suffered from the consequences of war losses, and it would take time for them to recover.⁶¹ Many banks failed or were weakened as a result of war related losses. It seems that war losses were much more important than the 1925 balance sheets analysis suggests. Post-war inflation diminished the importance of the losses in securities, state bonds and deposits in central and post office savings banks in the post-war balance sheets. At the same time commercial loans were easily paid back by debtors, as they lost value in inflationary periods. Also, years of post-war chaos in Hungary and political instability in Yugoslavia changed the character of banking business in these two countries, which became more short-term oriented.

⁶¹ Gross domestic products levels in 1920 compared with 1913 indicate serious failure, so Czechoslovakia obtained in 1920 only 90.4 per cent of 1913 GDO, Hungary 84.6 per cent of average in 1911-1913 and Yugoslavia 93.6 of 1909-1912 average GDPE. Lethbridge, 'National Income and Products' in Kaser, M.C (ed.), *The Economic History of Eastern Europe 1919-1975* (London-New York-Toronto, 1985), p. 538.

Czechoslovakia

Of all the successor states, the Czechoslovakian economy was the fastest to recover from the war, and the most successfully reorganised for meeting interwar circumstances. The quickly restructured and well-organised banking sector had a significant role in the successful economic growth of interwar Czechoslovakia.⁶² The financial life of Czechoslovakia was characterised by the breaking of links with Vienna, the strengthening of Prague in its attempt to become the financial centre of Central Europe and the integration of Slovakia into the Czechoslovakian financial system.

Liberation from domination by Vienna

The previous chapter highlighted the influence of Viennese banks over the banking and economy of Bohemia and Moravia. With the birth of the new state, Czech economic nationalism had sufficient political power to break the financial and banking dependency on the Viennese financial market. The introduction of a new currency in February 1919, the nostrification and naturalisation of all the most important commercial, industrial and transport undertakings from December 1919,⁶³ and the transformation of the branches of major foreign banks into independent institutions from September 1920 successfully established the framework for the independence of the Czechoslovakian banking system.⁶⁴

⁶² 'After recovery from the post-war recession, three countries recorded rapid rates of overall growth: between 1924 and 1929 the average annual increment of national product ... was six per cent in Czechoslovakia and Hungary and 4.5 per cent in Yugoslavia.' M.C. Kaser, 'Introduction' in *The Economic History of Eastern Europe*, p. 7.

⁶³ Nostrification applied only to firms whose majority ownership lived in or had citizenship in the former Central Powers. It did not apply to firms whose owners lived in or were citizens of Entente countries, nor did it apply to members of non-national ethnic groups that had citizenship in the successor states (such as German Bohemians in Czechoslovakia). Nostrification was permitted by the peace treaties and could be subject to external supervision and appeal. See Gyorgy Ránki nad Jery Tomaszewski, 'The Role of the State in Industry, Banking and Trade' in M.C. Kaser (ed.) *The Economic History of Eastern Europe* Vol. II, pp. 7-9.

⁶⁴ This process was the centre of interest for financial historians, and there are numerous works on those problems. See Lacina, Vlastislav, 'The financial system following the establishment of Czechoslovakia, 1918-1929' and Eigner Peter, 'Bank-Industry networks: The Austrian experience, 1895-1940' both texts in Philip L. Cottrell (ed.), *Rebuilding the Financial System in Central and Eastern Europe, 1918-1994* (Aldershot, 1997). For balanced Czech arguments see Rašin, *Financial Policy of Czechoslovakia*, p. 135-137.

Being mostly municipally-owned institutions, regulated savings banks did not have to go through the process of nostrification. However, two factors were important during the immediate post-war years. Being politically controlled institutions, many savings banks lent resources to the state during the war, and after the Austrian-Hungarian Monarchy lost the war and was divided into successor states, there was no chance to liquidate these resources. Those savings banks which had invested in 'war loans' encountered difficulties in recovering their liquidity, and they subsequently had to find a way to overcome their financial losses. The results of balance sheets indicate that German Sparkassen had the greatest problems with war losses.

Strengthening of Prague

The Czech economy and banking system had a sound heritage which allowed independence from Vienna. Taking into account the weakness of Vienna in post-war years, it was not surprising that Prague became not only an independent financial centre, but developed to become a potential financial centre of Central Europe. During the 1920s, Prague had some advantages as a potential financial centre of Central Europe. Human resources and financial networks developed to a sophisticated level. A strong government had successfully undertaken a number of measures important for the economic development of Czechoslovakia.⁶⁵ Competing centres had serious problems with respect to their financial and political stability. Prague became a 'safe haven' for both German and Austrian investors fleeing post-war inflation and political instability.

Liberated from competition with Viennese banks, the major Prague banks penetrated deeply into Bohemian, Moravian and Silesian markets, according to the analysis in Chapter 5. There is no doubt that stimulating economic conditions and the financial stability of Czechoslovakia supported 'natural' financial tendencies towards concentration in banking.⁶⁶ A few banks from Brünn maintained a strong position and provincial networks, but, in general, Viennese financial concentration and centralisation was transformed into a Prague-centric banking system. However, in Slovakia, the concentration tendencies were

⁶⁵ For the long list of the economic measures of the new government see Rašin, *Financial Policy of Czechoslovakia*.

⁶⁶ See Lacina, Vlastislav, 'Banking system changes after the establishment of the Independent Czechoslovak Republic' in *Universal Banking in the Twentieth Century*.

not directly Prague-oriented, while the major Slovak banks had their head offices in Bratislava.

Slovakia – integration with the Czech financial market

The integration of Slovakia into the Czechoslovak Republic was a process in which one less developed region had to be incorporated into a more advanced, but also politically and economically superior region.⁶⁷ This constituted an intensive turnover for which Slovakia was not prepared. Kirchbaum has commented that Slovakia was 'catapulted from one political system into another'.⁶⁸ The legislative framework of Slovakia had to be adjusted to Czech models and Slovak provincial banks had to adopt the legal practice of the Czech Crown Lands. During the early 1920s, provincial joint-stock banks, which had taken the names 'savings bank', changed them, because they did not have the legal capacity to retain the name Sparkasse.⁶⁹ At the beginning of the 1920s, the intensive process of the integration of the Slovak banking system started. The few growing Slovak banks – mostly situated in Bratislava – took over the weaker provincial banks or provincial banks in liquidation, and transformed them into their branches. At the same time some Prague banks opened branches in Slovak territory or took over influence on some Slovak banks. This process was supported by state measures that imposed business limits on a number of small banks which were unable to satisfy the supervision criteria. This process was very

⁶⁷ 'Special problems were created in provinces which had been ruled by 'Western' methods and owing to the territorial settlement of 1918 came under 'Eastern' administration, or *vice versa*. Czechoslovakia, Yugoslavia, Romania and Poland were states of mixed 'Western' and 'Eastern' provinces. The three types of problem created. These are Western superimposed on Eastern; Eastern superimposed on Western; Eastern superimposed on still more backward Eastern.' in Seton Watson, Hugh, *Eastern Europe between the wars* (Hamden, 1962), p. 150. More about this problem *ibid.* pp. 150-154.

⁶⁸ Stanislav J. Kirchbaum, *A History of Slovakia* (New York, 1996), p. 155.

⁶⁹ Typical provincial banks in Slovakia were named Savings bank (Sparkasse) or People's bank (Volksbank) before the First World war. All banks which were named 'savings bank' changed to some neutral name (bank, credit bank or similar, with regional indication); or into 'people's bank' if such a bank did not exist in the town. This could cause some problems for anyone who has to compare the banking system in Slovakia before and after the First World War. A useful list of old and new names of the banks was published in *Magyar Compass 1925-1926*, Vol. 1 (Budapest, 1926), pp. 725-730.

intensive in 1925/1926. During the economic integration of Slovakia into the Czechoslovak Republic, the pre-war banking system of Slovakia almost disappeared.⁷⁰

Hungary

The financial life of Hungary during the post-war years was shaped by a diminished market, intermediate post-war chaos and hyper-inflation.

Smaller market

The main consequence of the war in Hungary was the loss of political sovereignty over Croatia, Slovakia, Transylvania and Vojvodina. According to the Treaty of Trianon, post-war Hungary occupied an area of 92,600 square kilometres (32.7 per cent of the pre-war territory) and 7,600,000 inhabitants (41.6 per cent of pre-war population). The reorientation of Budapest and Hungary from the 'centre of the Kingdom' to 'another East-Central European political and economic unit' would be a painful process.

Map 8 Territory of 1913 Hungarian Kingdom and interwar Hungary



⁷⁰ See Table 11.1 Number of banks and the main balance sheet items of all banks in Slovakia 1921-1937 in Faltus, Jozef, 'Banking-industry relations in interwar Slovakia' in *Universal Banking in the Twentieth Century*, p. 144.

One of the results of the shrinking of territory after the war was the improvement of infrastructure as the transport equipment and concentrated human resources remained in Budapest and the central part of the country. The economic superstructure that had served a much larger territory before the war, could now better satisfy the needs of a much smaller territory.⁷¹ It had consequences for provincial banks – big Budapest commercial banks concentrated their business efforts on much smaller territory than before the war. It also had an impact on the concentration of Hungarian banking. However, such a structure was more sensitive to economic difficulties, which burdened Hungary after the collapse of the Monarchy.

Table 6 Hungary – structure of gainfully occupied population in 1910

	Pre-war Hungary	Post-war Trianon territory
Agriculture	64.5 %	55.8 %
Mining and industry	17.1 %	21.4 %
Trade and communications	6.5 %	8.7 %
Other	11.9 %	14.1 %

Source: Berend and Ránki, *Hungary A century*, p. 95.

Post-war chaos and inflation

War damages and Hungary's place amongst the defeated territories made the situation all the more difficult. Hungary, like interwar Austria, had problems with its very sizeable administrative apparatus, demobilised soldiers, and the cost of maintaining minimum social stability. At the same time, the state could not rely on tax revenues due to the weakness of the post-war economy, problems caused by the diminution of the market and the problems related to post-war chaos and revolution in Hungary. A shortage of funds has been recognised by György Peteri as the main problem of post-war Hungary, which could not be resolved by external sources of capital from Vienna, Berlin or Paris.⁷² Like so often before, the government had to rely on printing presses.

Inflation in Hungary started during the First World War, resulting from the Austro-Hungarian Bank printing banknotes in order to cover the growing war expenditures of the

⁷¹ See Table 6.

⁷² György Peteri, 'Financial change at a sector level: the interrelationships between banking and industry in Europe, 1880-1938' in *European industry and banking between the wars*, p. 31.

state.⁷³ From the end of 1918 to September 1921, the state still had to rely on inflation in order to maintain the old state apparatus with a new, smaller economic body; to maintain social peace in a revolutionary environment; and to cover the costs of losing the war, such as reparations and war damages.

However, inflation in Hungary had interesting consequences for economic recovery. When the Hungarian State Issuing Bank was established to replace the Austro-Hungarian Bank, its staff wanted to assist post-war economic recovery and generously offered credits to the economy. According to Tomka, the Hungarian Public Note Institution covered most of the short-term credit needs of the economy.⁷⁴ Such a policy of this public note-issuing institution remained active from its establishment in August 1921 to late 1923. It was an interesting compromise between the benefits of inflation for economic recovery, and the problems which inflation had caused in everyday life. In the period between January and May 1924, state expenditures stimulated another wave of inflation, which finally led to the institution of a new independent central bank in May 1924, deflationary measures and monetary stabilisation.⁷⁵ The period studied – between stabilisation and the gold balance sheets (1925) – was burdened with the consequences of deflationary measures, such as high interest rates, a shortage of working capital and increased fiscal pressure.⁷⁶

One of the consequences of inflation and monetary instability was the weakening of the savings habits of the population. According to Berend and Ránki, in the territory of Trianon Hungary, savings before the war amounted to P. 2,800 m., only to diminish to P. 300 m. in 1925.⁷⁷ Provincial banks, which were more dependent on savings than the larger Budapest commercial banks, became more and more dependent on Budapest banks. This situation also resulted from the way the Public Note Institution distributed credit to provincial banks – using the main Budapest commercial banks as intermediaries. Without quoting the exact year in the interwar period, Berend and Ránki stated that eight of the largest Budapest banks were in control of 130 others, either directly or through one or two

⁷³ The process of inflation and the role of the central bank is well described in Pogány, Ágnes and Kover, Gyorgy, 'Die binationale Bank Einer multinationalen Monarchie. Die Österreichisch-Ungarische Bank 1878-1922', *Beiträge zur Wirtschafts- und Sozialgeschichte* (Stuttgart, 2002), pp. 9-127.

⁷⁴ Tomka, 'The Development of Hungarian Banking', p. 161.

⁷⁵ Boross, Elizabeth A., *Inflation and industry in Hungary, 1918-1929* (Berlin, 1994), p. 19.

⁷⁶ *Ibid.*, p. 227.

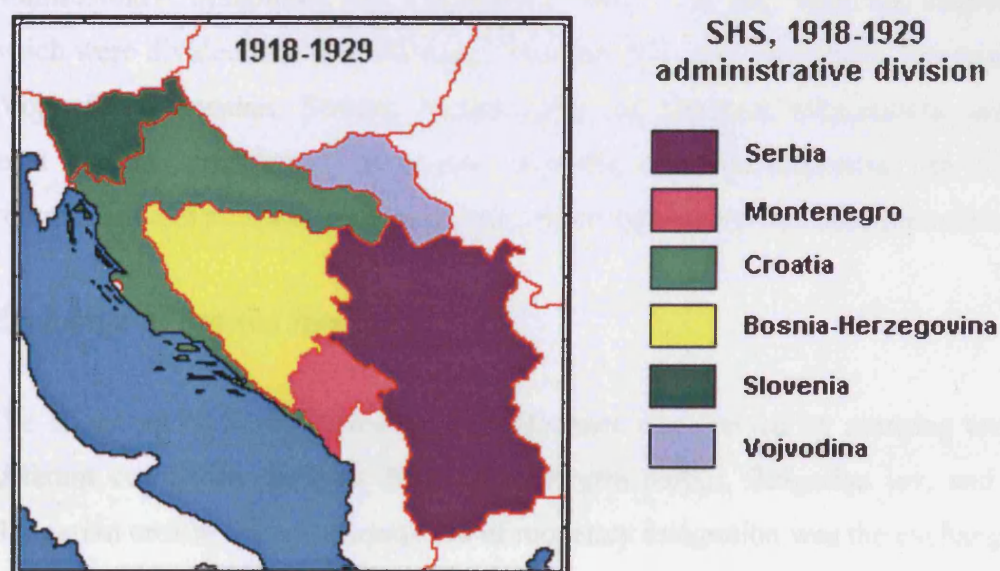
⁷⁷ Berend and Ránki, *Hungary. A Century of Economic Development*, p. 147.

removes. This way, the group of leading banks commanded 72 per cent of the capital resources of the entire system of joint-stock banks and savings institutions. Together, the Credit Bank and the Bank of Commerce disposed of over one third of the capital of the entire credit system.⁷⁸

Yugoslavia

Financial life in Yugoslavia during the post-war years was shaped by the problems of political, economic and legal integration. In a monetary sense the main problems were related to the exchange of crowns into dinar and inflation. The banking sector was characterised by the existence of three parallel banking systems. The problem of nationalisation of 'foreign' banks in Vojvodina is assessed in Chapter 5.

Map 9 Administrative division of the Kingdom SHS



Problems of integration

The formation of the new political entity, the Kingdom SHS, was a result of the war, but political, legal and economic integration was a difficult task. Problems of integration were caused by the very different economic and political cultural backgrounds of the merged regions. Many of those problems remained unsolved, not only during the existence of the

⁷⁸ Ibid., p. 148.

Kingdom SHS (until 1929), but also in the Kingdom of Yugoslavia, when the political and administrative system was more centralised. The subsequent collapse of Socialist Yugoslavia testifies to the problems of integration.

The formation of the new state was related to political and constitutional problems. Political conflicts influenced economic policies and strategies, especially during the 1920s, when national political conflicts repeatedly obstructed the work of parliament. In the first eight years of existence, the Kingdom of SHS had 27 different governments. One important characteristic of political life in the Balkans was the existence of 'newcomers', 'partisans' or 'political prisoners' within post-war governments, who had a huge political strength but who did not have its roots in any kind of economic power. Their political struggles and a low level of comprehension of economic life was disastrous for the economy on many occasions. It is fascinating to see how economic measures or economic ministries were of little importance in political discussion during pre-depression political life.

Administrative integration was a problem in itself. The new state was shaped from units, which were divided into the following: Austrian (Slovenia, Dalmatia), Croatian, Hungarian (Vojvodina), Bosnian, Serbian, Montenegrin and Ottoman (Macedonia) administrative, legal and tax traditions.⁷⁹ It is not surprising that administrative life was based on voluntarism and political improvisations, rather than on law and administrative rules.

Exchange of crowns into dinar

The Kingdom of Serbs, Croats and Slovenes was created by merging territories with different currencies: Serbian dinar, Montenegrin perper, Bulgarian lev, and the Austro-Hungarian crown. The main problem of monetary integration was the exchange of Austro-Hungarian crowns into dinars. This task was aggravated by additional factors: the financial weakness of the newly formed state; the constant inflation of the Austro-Hungarian crown and dinar; the smuggling of crowns to and from other countries where crowns were still in use and the lack of political cooperation, both in the Kingdom of Serbs, Croats and Slovenes and among the successor states.

⁷⁹ Here is an example to illustrate the administrative problems. In 1925, the Post ordered the Ministry of internal affairs to assist in the acquisition of data and the publication *List of towns and villages*, the function of which was to assist the post office staff to deal with the postal service – no ordinary postman in Slovenia had not the slightest idea about towns and villages in southern Serbia, and *vice versa*.

After the First World War the whole country required financial resources. The eastern part of the newly formed state had difficulties because of the war and war damages. The western parts, which previously belonged to the Monarchy and were not devastated by the war, also had some financial needs since the majority of the financial reserves were consumed during the war.⁸⁰ Considering that the tax system was heterogeneous and inefficient, the country was far from a position in which tax revenues could cover necessary and urgent budget expenditures. The state had to rely on monetary taxation. Kingdom SHS governments underestimated the importance of the belief in the monetary system in the process of building the state. Thus because of the short-term interest of the state and budget needs the newly formed state utilized the process of monetary integration to earn some additional resources. It seems that the exchange of crowns into dinars was used as a specific form of taxation.⁸¹

The crown was withdrawn from circulation between February and May 1920, using an exchange rate of four crowns for one dinar, while there were difficulties in the exchange of banknotes with bigger denominations. This provoked dissatisfaction among the population of the western parts of the country, and it was one of the first serious obstacles to a successful political and economic integration of interwar Yugoslavia. There was, and still is, a long political and historical debate about the political and economic reasons, and the consequences of this operation. This debate was mostly raised by nationalistic movements, but involved numerous economic and financial specialists.⁸²

Inflation

Monetary and financial conditions in Yugoslavia after the war were characterised by extreme instability and inflation. Issuing banknotes as a means of budget financing was

⁸⁰ See Lampe, John R., 'Unifying the Yugoslav Economy 1918-1921: Misery and Early Misunderstanding' in Đorđević Dimitrije (ed.), *The Creation of Yugoslavia 1914-1918* (Santa Barbara, Oxford, 1980).

⁸¹ Tomašević, *Novac i kredit*, pp. 169-174.

⁸² Those who are interested in the long lasting discussion of this problem could start with Mirković Mijo, *Ekonomska Historija Jugoslavije*, Vol. 2 (Pula, Rijeka 1985); Bičanić, Rudolf, 'Ekonomске promjene u Hrvatskoj izazvane stvaranjem Jugoslavije 1918' in *Prilozi za ekonomsku povijest Hrvatske* (Zagreb, 1967); Lazarević, Žarko and Prinčič, Jože, *Zgodovina slovenskega bančinstva* (Ljubljana 2000); Slokar, I., 'Valutne razmere, devizna politika in bankarstvo' in Mal, J. (ed.), *Slovenci v desetletju 1918-1928* (Ljubljana, 1928); Lampe, *Balkan Economic History*.

intensive during 1919, 1920 and 1921 and it remained in operation until the end of 1923. Attempts to stabilize the monetary situation through loans to the state failed.⁸³

Simultaneous financial instability and a disorganised market offered many business opportunities to those who were able to act fast enough, just as the disruption of old trade lines, caused by the war, offered business opportunities to 'newcomers'. It was also a period of demand for agricultural products on the European market, in which eastern European agricultural countries made a profit. For all these reasons, the first post-war years were years of a business boom. Post-war inflation led to the formation of numerous small banks, 'inflationist birds', with echoes felt also in provincial banking.

The intentions of the state to stabilise the dinar, and then to institute a deflationary monetary policy, were executed between 1923 and 1925, and resulted in a fixed exchange rate between the dinar and the Swiss franc in August 1925. Deflationary measures, through the state budget and through the decrease of central bank credits, had a disruptive effect on the whole economy, and on banks in particular. A significant number of banks and enterprises failed during these years of stabilisation.

Three parallel banking systems

The problems of the political and economic integration of the Kingdom SHS (from 1929 the Kingdom of Yugoslavia) were reflected in banking as well. In 1925, Yugoslavia still did not have an integrated banking system. Instead, there were three different banking systems, the respective centres of which were in Zagreb, Belgrade and Ljubljana, and which cooperated only to a limited extent. Their differences, their competition and the inability of the state to sustain lasting economic and monetary policy which would benefit all three banking systems, resulted from structural differences and different business traditions among the regions.

Slovenes entered the new state with several strong commercial banks,⁸⁴ numerous municipal savings banks and a strong and well-developed credit cooperative sector. Slovenia was a highly marketised region, with a population which had a savings tradition. Municipal governments had resources, as well as the experience of running an economic

⁸³ In 1921, a consortium of the domestic banks; in 1922, a loan from the Blair & Co Bank in New York.

⁸⁴ Ljubljanska Kreditna Banka, Jadranska Banka, Ilirska Banka, Kranjska Deželna Banka in Ljubljana and Eskomptna Banka in Maribor.

development policy. The national spirit and business tradition of the Slovenes was strong enough to provide the framework for establishing political and financial stability. They were wholly suited to developing a small, but efficient banking system, and they did. The legislative tradition and banking practice inherited from Cisleithenia made the Slovenian banking different from that in the rest of Yugoslavia.

During the first decade after the war Zagreb was the strongest financial centre in the Kingdom of Serbs, Croats and Serbs. The financial capacity of Zagreb had its roots in the concentration of finances from all of Croatia and Slavonia into one centre. The Prva Hrvatska Štedionica played a crucial role in maintaining the position of Zagreb as a financial centre, with a well-developed network of branches all over Croatia. A similar function was maintained by the Serbian bank with its own informal network. War and post-war inflation forced the Zagreb banks to invest in shares of industrial enterprises (mostly in Zagreb), in order to maintain the value of liabilities.⁸⁵ The high prices of agricultural products during the first post-war decade, a period of prosperity in which Croatian and Slavonian agriculture profited heavily, strengthened the position of the whole Croatian economy. Traditional trade links with Budapest and Vienna made Zagreb the main import centre of Yugoslavia during the first post-war decade.⁸⁶ In maintaining the dominant trade position of Zagreb during the early post-war years, the specific situation of the payment system is often underestimated. The specific advantage of Zagreb stemmed from early post-war difficulties in payments between merchants. These payments were often realised through a network of post offices and in Zagreb a central institution Poštansko-čkovni ured organised cheque flow in the territories of Croatia, Slavonia and Vojvodina. At the same time payments to Budapest and Vienna became administratively complicated and could not be realised by simple post cheque as before the War. Consequently a number of provincial merchants turned to buy goods in Zagreb.⁸⁷

The growth of Belgrade as a financial centre was caused by its political and administrative importance in the new state. Before the war Belgrade was the economic centre of Serbia, but its area of economic influence grew with the political and administrative growth of the

⁸⁵ Important observation by Lampe, *Balkan Economic History*, p. 425.

⁸⁶ About growth of Zagreb see Tomislav Timet, *Stambena izgradnja Zagreba do 1945 – ekonomsko-historijska analiza* (Zagreb, 1961). Prof. Mira Kolar-Dimitrijević in a conversation raised attention to tendency of provincial entrepreneurs to invest their accumulated profit in buildings in Zagreb, far away from the eyes of their local customers and business partners.

⁸⁷ See Gaćeša, *Istorija bankarstva u Vojvodini*, p. 280.

town after the war. Its economic and financial expansion occurred mostly during the 1930s, when the Great Depression and administrative measures disrupted Zagreb's status as a financial centre.⁸⁸ The shift of deposits from private to state-owned banks during the 1930s has often been criticized as an attempt of the state to liquidate the private banking sector.⁸⁹ The problem of 'etatism' of Yugoslav banking is a topic which should be re-assessed by future researchers. Vojvodina was the first region whose provincial banking was financially 'attacked' by Belgrade. Details are presented in the regional analysis. However, during the post-war years, Belgrade was not the financially strongest town in the Kingdom of Serbs, Croatian and Serbs. According to the data in Table 7, Belgrade, as a financial centre, was far behind Zagreb in 1925.

Table 7 Financial capacity of main financial centres in Yugoslavia 1925

Financial centre	Capital	Balance sum
Zagreb (Croatia)	615,562,500	5,925,000,000
Belgrade ⁹⁰ commercial banks (Serbia)	490,000,000	2,000,000,000
Sarajevo (Bosnia)	203,005,000	1,244,000,000
Ljubljana (Slovenia)	11,890,000	1,875,000,000
Subotica (Vojvodina)	16,100,000	226,000,000
Novi Sad (Vojvodina)	11,000,000	157,000,000
Veliki Bečkerek (Vojvodina)	7,000,000	61,000,000

Source: Calculated from PROVBANK DATABASE. Values are presented in dinars.

Metamorphoses of the networks and their impact on provincial banking

The previous chapter highlighted the importance of networks of commercial banks, central banks and post office savings banks and their impact on provincial banking. Crucial for the development of provincial banking was a gap in the development of commercial bank branch networks while at the same time central banks and post office savings banks networks supported the development of provincial economy and banking. After the First

⁸⁸ See Lampe, *Balkan Economic History*, pp. 477-479.

⁸⁹ For a balanced approach, see Teodor Starčević, *Privatno bankarstvo u Dunavskoj Banovini*, (unknown, 1939).

⁹⁰ Results for Belgrade could be almost 25 per cent overestimated, because of the Jadransko-Podunavska Banka, which made up Din 120 m. of joint-stock capital and Din 440 m. of balance sum. In 1925, the Jadransko-Podunavska Banka had its administrative centre in Belgrade, but this bank belonged to the business group around the Srpska Banka in Zagreb.

World War the trend was the opposite. While war and post-war disturbances weakened the provincial banks, metropolitan banks greatly expanded their activities in provinces. Thus, provincial banks met competition from metropolitan banks on the provincial financial market, which led to the decline of provincial banking. At the same time the role of central banks and post office savings banks in provincial economies diminished. The following sections assess changes in the branches of commercial banking, central banking and post office savings banks. Commercial banking networks are assessed in details in the regional analysis in Part two.

Metamorphoses of the central bank

The collapse of the Austro-Hungarian Monarchy was also the collapse of the Austro-Hungarian Bank. The Austro-Hungarian Bank entered liquidation on 11 September 1919. During the war and in the first post-war year, the bank printed a substantial volume of banknotes, which caused monetary problems in the successor states.⁹¹ Also, the number of banks which kept deposits in the Austro-Hungarian Bank encountered problems over mobilising these resources. After the war, the central banks, which took over the function and branches of the Austro-Hungarian Bank, were established in the successor states.

⁹¹ At the end of 1916, there were around K 10.8 b. in circulation on the territory of the Austro-Hungarian Monarchy. Circulation was K 17.7 b. at the end of 1917, and it grew to K 31.5 b. until October 31st 1918. At the end of 1919, in the time of the liquidation of the Austro-Hungarian bank, the circulation of banknotes was K 55.6 b.

Table 8 Branches and agencies of the Austro-Hungarian Bank and its successors

Region	No of branches 1913	No of branches 1925
Bohemia	18	17
Moravia/Silesia	7	7
Slovakia	6	6
Hungary	16	20
Croatia	3	3
Bosnia and Herzegovina	3	3
Vojvodina	5	5
Region	No of agencies 1913	No of agencies 1925
Bohemia	50	63
Moravia/Silesia	12	20
Slovakia	20	19
Hungary	38	42
Croatia with Srijem	10	0
Bosnia and Herzegovina	0	0
Vojvodina	5	0

Source: Calculated from PROVBANK DATABASE.

The Národní bank Československá was a strong institution, both financially and regarding human resources, and it managed to take over successfully the supervision and support of the Czechoslovakian financial market.⁹² The Národní bank Československá took over the network of branches of the Austro-Hungarian Bank with only minor changes. However, it expanded the network of agencies in Bohemia and Moravia in favour of Czech towns.⁹³

The Hungarian National Bank was formed with considerable delay, six years after the war, in May 1924 with the financial support of the League of Nations. Before it commenced issuing bank notes, they had been issued by the Hungarian Royal State Institution of Issue. The central bank took over the network of the Austro-Hungarian Bank and expanded it only slightly. In 1913, in the territory of what would become Trianon Hungary, there were

⁹² See 10 Jahre Nachfolge Staaten (Vienna, 1928), pp. 121-127; 163-170.

⁹³ Statement based on comparison of national structure of towns with branches and agencies of the central bank before and after the war.

16 branches and 40 agencies of the central bank, while in 1925, the Hungarian National Bank had 20 branches and 40 agencies.

While central banks of Czechoslovakia and Hungary maintained their pre-war function of creditors of the economy, it was not the case with the central bank of the Kingdom of SHS. The central bank of interwar Yugoslavia, Narodna Banka Kraljevine Srba Hrvata i Slovenaca, was not a successor to the Austro-Hungarian Banks, so much as the successor of the Serbian central bank, Narodna Banka Kraljevine Srbije. The central bank as it existed in the Kingdom of Serbia was a private joint-stock company. Narodna Banka Kraljevine Srba Hrvata i Slovenaca, the central bank of a new state formation, was only slightly expanded from Narodna Banka of the Kingdom of Serbia. The credit policy of the central bank was to a great extent ruled by the interest of the main stock holders, thus lacking the interest of a wide credit policy.⁹⁴ The new central bank took over the network of the branches of the Austro-Hungarian Bank, but not the network of agencies. Kosier argued that the failure of Narodna Banka Kraljevine Srba Hrvata i Slovenaca to expand its network of branches was one of the main weaknesses of the central bank.⁹⁵ With respect to its function as creditor of the economy, the bank was not very favourable towards ex-Austro Hungarian regions.⁹⁶ Having limited resources, and being more oriented towards the Serbian financial market, the central bank played a limited role in the process of financial integration of the newly established state. The new central bank maintained the main function of note-issuing and financing of the state, while the financing of the economy occurred to a limited extent only. It seems that the bank's management adhered to many elements of impromptu and partisanship in its policy. The job of the stamping of crowns was an administrative failure.⁹⁷ A similar situation existed with the exchange of crowns. In the process of the exchange of big banknotes, peasants travelled 50-100 kilometres to Karlovac, an old trade and financial centre, where the Austro-Hungarian Bank had its agency. They were surprised to find out that, in such a big town, there was

⁹⁴ See Lampe, *Balkan Economic History*, pp. 390-391.

⁹⁵ Kosier, *Narodna banka*, pp. 437-451.

⁹⁶ For the regional distribution of the credit of central banks, see Kosier, *Narodna banka*, pp. 562, 569, 570. See also Gaćeša, *Istorija bankarstva u Vojvodini*, p. 301.

⁹⁷ See also Mira Kolar-Dimitrijević, 'Tri dokumenta koji objašnjavaju zašto je poslije žigosanja krune u siječnju 1919 došlo i do njenog markiranja u prosincu iste godine ili afera Hrvatske zemaljske banke d.d' in *Historijski zbornik* – 51 (1998), pp. 149-162.

not a single official place where they could exchange Austro-Hungarian crowns into dinars.⁹⁸

Post office savings banks

During the 1920's post office savings banks maintained their status as providers of a payment function. It is important to note the specific situation in the Kingdom SHS. A post office savings bank existed in Bosnia from 1911. Similar institutions were established in Ljubljana in February 1919 and in Zagreb in August 1920. These institutions organised post office payment and cheque operations for the territory of the ex-monarchy provinces. Such institutions, intended to organise transactions for the whole territory of the new state formation, were established in Belgrade in October 1923.⁹⁹ Post office savings banks only became competitors of commercial banks during the 1930s when the savings collected through post office savings banks became an important source of state financing.¹⁰⁰

Commercial banks networks

The general tendency during the post-war years in all three countries was towards the expansion of branch networks of metropolitan commercial banks. The boom time for branches of metropolitan banks is visible in Table 9 below.

⁹⁸ See Kosier, *Narodna banka*, p. 444.

⁹⁹ See Nikola Gaćeša, *Poštanska štedionica Kraljevine Jugoslavije* (Zagreb, 1934).

¹⁰⁰ *Economic History of Eastern Europe*, Vol 1, p. 288.

Table 9 Number of branches of metropolitan banks

Financial level	Regional centres		Sub-regional centres		Small towns		Very small towns	
	1913	1925	1913	1925	1913	1925	1913	1925
Hu – Danube region	5	15	1	5	0	3	0	0
Hu – Danube Tisza	1	15	1	11	0	3	4	0
Hu – Tisza region	1	17	0	5	0	0	0	0
Slovakia	2	21	0	37	1	23	0	56
Bohemia German towns	44	77	24	48	8	36	2	25
Bohemia Czech towns	10	22	19	37	4	9	2	1
Moravia	16	39	8	22	8	21	0	8
Silesia	6	12	3	2	1	8	0	2
Croatia with Srijem	4	8	9	16	4	13	17	14
Vojvodina	2	15	0	5	1	5	0	2
Bosnia and Herzegovina	6	7			12	21	7	9

Source: PROVBANK DATABASE.

Hungarian metropolitan banks developed the strong branch networks they had lacked before the First World War. However, branch networks were concentrated in regional and subregional centres. The pre-war situation when there were only 9 branches of metropolitan banks in regional and subregional centres in the territory of Trianon Hungary was replaced with a strong network of 68 branches of Budapest banks in Hungary. Yet, branches in small and very small towns remained underdeveloped.¹⁰¹ Czechoslovak metropolitan banks from Brno, Prague and Bratislava developed very dense networks in the whole territory of the Czechoslovak republic. Even before the First World War Bohemia, Moravia and Silesia had developed branch networks and only very small towns had lacked branches.¹⁰² However, during the 1920s the Czechoslovak branch system grew significantly and deeply penetrated the provincial economy. In 1925 in Bohemia, Moravia and Silesia there were 150 branches in regional centres, 109 in sub-regional centres, 74 in small towns while even in very small towns there were 36 branches or agencies of Prague and Brno banks. Slovakia was also deeply penetrated, in contrast to the pre-war period when there were almost no branches of metropolitan banks. In Slovakia, Bratislava and Prague banks until the end of 1925 opened 21 branches in regional centres, 37 branches in a sub-regional centres, 23 branches in small towns and 56 in very small towns. The

¹⁰¹ In 1925 there were only six branches of Budapest banks in small towns. Calculated from PROVBANK DATABASE.

¹⁰² In 1913 Vienna and Prague banks had 76 branches in regional centres and 54 in sub-regional centres and 21 branches in the small towns of Bohemia, Moravia and Silesia. Calculated from PROVBANK DATABASE.

Kingdom of SHS also experienced the development of branch networks of metropolitan banks.¹⁰³ We also have to note branch expansion in small towns in Croatia and Bosnia and Herzegovina.¹⁰⁴ These networks are presented in more detail in a regional analysis in Part two.

Branch networks of metropolitan commercial banks grew to between two and three times their original size in regions where such networks already existed (Bohemia, Moravia, Silesia, Croatia, Bosnia) and six to ten times in regions where there had been weak networks before the First World War.¹⁰⁵ Such profound change resulted from numerous operative factors. The liberation of successor states' markets from the influence of Viennese banks allowed the growth of strong banks in other financial centres. It is especially significant that the state supported the recovery and growth of a few important national banks in each successor state. A typical example is the growth of Živnostenská Banka in Prague.¹⁰⁶ There is no doubt that the growth of several Slovak banks was the result of political support.¹⁰⁷ Also, in the turbulent post-war years and the inflationary and stabilisation periods customers preferred to keep savings and business accounts in several big banks or to hoard money at home.¹⁰⁸ The failure of the numerous small banks in the post-war years caused provincial customers to turn to the Prva Hrvatska Štedionica.¹⁰⁹ The fall in savings habits in the post-war years deterred banks in Hungary and the Kingdom of SHS from getting closer to customers.¹¹⁰ The development of communications in the first decades of the twentieth century also had a positive impact on the character of

¹⁰³ In all three assessed regions together, Croatia, Vojvodina and Bosnia and Herzegovina, the number of branches of metropolitan banks grew from 12 to 30 in regional centres and from 9 to 21 in sub-regional centres. Calculated from PROVBANK DATABASE.

¹⁰⁴ From 17 branches and agencies of metropolitan banks in 1913 their number rose to 39 in 1925 in small towns. Only a small number of branches in very small towns remained almost the same, but the procedure was well developed in Bosnia and Herzegovina and Croatia even in 1913. Calculated from PROVBANK DATABASE.

¹⁰⁵ Calculated from PROVBANK DATABASE.

¹⁰⁶ Lacina, 'Banking system changes after the establishment of the Independent Czechoslovak Republic, pp. 131-141.

¹⁰⁷ Faltus, 'Banking-industry relations in interwar Slovakia', p. 145.

¹⁰⁸ See Kosier, *Problem štednje*, p. 43-49.

¹⁰⁹ See annual reports of Prva Hrvatska Štedionica for years 1920-1925.

¹¹⁰ For the diminishing of banks deposits see Berend and Ránki, *Hungary. A Century of Economic Development*, p. 103.

metropolitan bank branches.¹¹¹ While pre-war metropolitan bank branches were about connecting main regional business centres, post-war banking included more retail banking. More aggressive branch policy after the First World war was also caused by a 'hunger for resources' of the main metropolitan commercial banks. As they took over many industrial and medium and large enterprise clients from Viennese banks, metropolitan commercial banks had to find additional resources. Because of limits to foreign capital flows in the post-war years they put more effort into collecting resources on the domestic and provincial market.¹¹²

Impact of the dissolution of the Monarchy on provincial banking

The provincial bank is a weak institution. Human capital, financial resources, base of customers – these are all small-scale. Provincial banks grew up in a specific situation when there was a need for credit at a provincial economic level, a relative lack of competition and the stable political and economic framework provided by the Austro-Hungarian Monarchy. Thus, the late nineteenth century and early twentieth century development of provincial banking resulted from a favourable macro-economic and market situation.

After the First World War and the collapse of the Monarchy, conditions were not favourable for provincial banking. The main consequences of the war and the destruction of the Monarchy were a number of impulses towards economic and political instability. Another problem for provincial banks was the growth of competition on the provincial financial market. Provincial banks were too small to deal with such turbulence and competition. In general, the economic importance of provincial banking diminished during the interwar period. The modification of provincial banking was different in each successor state and each region, and is analysed in more detail in Part two of the thesis.

¹¹¹ About the development of communications see A. Csernok, É. Ehrlich and Gy. Szilágyi, *Infrastruktúra, korok és országok* (Budapest, 1975); Éva Ehrlich, chapter 'Infrastructure' in Kaser, *Economic History of Eastern Europe*, Vol. I, pp.323-378.

¹¹² See Lacina, 'Banking system changes after the establishment of the independent Czechoslovak Republic', p. 136.

Part two

CHAPTER 4 – PROVINCIAL BANKING IN TRANSLEITHENIA

This chapter analyses provincial banking in Hungary, Slovakia, Vojvodina, Croatia and Bosnia and Herzegovina. It is divided into several sections, one for each region. Each section starts with a short presentation of banking in the principal financial centre, or centres, of the region. Each section then continues with an assessment of the characteristics of provincial banking, making a distinction between regional and local banking. The specific characteristics of the provincial banking of each region are either incorporated into the analysis, or have separate sections, as in the cases of interesting nationalistic banking networks or of strong credit cooperative movements. In order to sustain the flow of the discussion, evidence is presented in the tables at the end of each section. A comparative analysis of provincial banking in Transleithenia is offered at the end of the chapter.

HUNGARY

Before the war

Some geographical characteristics were an obstacle to the creation of a Panonian market. The region's plain was much bigger and less densely populated than that of Bohemia.¹ The low density of population made the internal market much thinner than that of Bohemia. As a result of its geographical position – its mountains in the north, east and south; and the lack of effective and cheap connections to the world market – the plain's principal trade partners were Austria and Bohemia. The principal commercial and transport facilities were directed towards Vienna and Prague, and towards the Adriatic Sea. However, parts of the Panonian basin with a less developed transport structure had problems integrating into the regional market and exporting to the world market.

¹ The whole territory of Hungary in 1913 consisted of some 280,000 km square, and approximately 18,000,000 people, but the density of population was low, 65 people per square km.

Hungary was a predominantly agricultural country, its main products being grain and cattle. Approximately one third of agricultural land was in the hands of landlords, and they were able to accumulate capital from their landholdings.²

In contrast, small-scale landholdings were predominately directed towards a subsistence economy. Small-scale agricultural production and low purchasing capacity were an obstacle to strengthening the domestic market.

Wood was also an important market product, as were, to some extent, industrial agricultural products such as flax or sugar beet. Industry developed in sectors associated with agriculture. The milling industry of Budapest was one of the most developed in the world, but the production of alcoholic beverages, sugar and tobacco together with meat processing were also important. As far as non-agricultural industry is concerned, both the wood industry and also railway wagon production have to be noted.³

On the eve of the First World War the Panonian valley had a well-developed transport infrastructure. The railway network was dense as a result of the demand for transport and the profitability of grain exports on the one hand, and geographical conditions favourable for railway construction on the other. In addition, the Danube was navigable and was the transport axis of the Hungarian plain.⁴

The economic life of the Hungarian plain was in harmony with the rhythm of the seasons: agricultural producers, landowners and big farmers sold their wheat, corn and perhaps some other products to merchants or agents in the provincial economic centre. Following the network of railway lines, the Danube and other navigable rivers, agricultural products were collected, either processed or unprocessed, and redistributed at sub-regional centres, regional centres and in Budapest, to be freighted then to Austria, Bohemia and Germany or exported to the world market via Fiume. Simultaneously, consignments of cattle and pigs

² Lukas, *Gospodarska geografija*, p. 220.

³ For the economic structure of Hungary see Berend I.T. and Ránki, György, *Hungary. A Century of Economic development*, (Newton Abbot, 1974); Berend I.T. and Ránki, György, *Hungary. Underdevelopment and Economic Growth* (Budapest, 1979); Berend I.T. and Ránki, György, *The development of the manufacturing industry in Hungary 1900-1944* (Budapest, 1960); Berend I.T. and Ránki, György, *The Hungarian Economy in the Twentieth Century*, (London, 1986).

⁴ About transport infrastructure see M. Dékány (ed.), *A hazai közmunka és közlekedési ügyek története* (Budapest, 1885); B. Gonda, *Die Ungarische Schifffahrt* (Budapest, 1899); B. Jankó, *A magyar dunai*

followed the same paths, usually being brought onto trains at regional and sub-regional economic centres. The same railway wagons and merchants returned with industrial products, machinery, textiles and colonial goods. Hungary's financial system was organised to finance this seasonal trade.⁵ Budapest, where industry, trade, administrative and political power and, of course, banking⁶ was concentrated, was at the centre of this agricultural empire.

In 1913, Budapest banks together with suburban banks held 75.8 per cent of the banking joint-stock capital present in the territory of the future Trianon Hungary. In fact, in 1913 five of the biggest banks in Budapest collectively held a bigger joint-stock capital than the whole provincial banking sector in the territory of the future Trianon Hungary. The total joint-stock capital of provincial banks in 1913 was K 259.6 m. while the joint-stock capital of all banks in Budapest was approximately K 703 m.⁷

Using the location of branches of the Austro-Hungarian Bank as a classification factor, the regional economic centres in Hungary were: Szombathely (Steinamanger), Szolnok, Szekesfehervar (Stuhlweisenburg), Szeged, Pecs (Funfkirchen), Nyiregyhaza, Nagykanizsa, Miskolc, Kecskemet, Kaposvar, Győr (Raab), Eger (Erlau), Debrecen and

gőzhajózás története 1817-1947 (Budapest, 1968); Kalla-Bishop, P.M., *Hungarian Railways* (Davon, 1973)

⁵ About trade in Hungary see Csató, Tamás, 'The Development of Internal Trade in East Central and South East Europe' *Acta Historica*, Budapest, 1977/3-4. pp. 397-440; Csató, Tamás, 'The Structural Change of Internal Trade in East-Central Europe in the 19th and 20th Century' in: *Ninth International Economic History Congress. Bern, Section B 8: The Structure of Internal Trade, 15th to 19th Century* (Bern, 1986) p. 80-89.

⁶ In Budapest, in 1913, there were 127 joint-stock banks (without credit cooperatives). The most important banks in Budapest were: Ungarische Allgemeine Creditbank (capital K 80 m., balance sum K 552.6 m.), Ungarische Bank und Handels (capital K 66 m., balance sum K 295.6 m.), Pester Ungarische Commerzial-Bank (capital K 62.5 m., balance sum K 1,212.8 m.); Ungarische Eskompte- und Wechsler-Bank (capital K 50 m., balance sum K 423.6 m.); Ungarische Hypotheken-Bank (capital K 40 m., balance sum K 834.6 m.); Ungarische Allgemeine Sparkasse (capital K 32 m., balance sum K 243 m.); Ungarische Agrar-und Rentenbank (capital K 32 m., balance sum K 231 m.); Central-Hypothekenbank Ungarischer Sparkassen als A.-G. (capital K 20 m., balance sum K 277.4 m.); Pester Erste Vaterländischer Sparkasse-Verein (capital K 20 m., balance sum K 902.6 m.); Vereinigte Budapester Hauptstädtische Sparkassa (capital K 15 m., balance sum K 302.7 m.); Ungarischer Landes Central Sparkassa (capital K 18.15 m., balance sum K 290 m.); Innerstädtische Sparkassa (capital K 16 m., balance sum K 144.7 m.); Ungarisches Bodenkreditinstitut (balance sum K 563.5 m.); Landes-Bodencredit-Institut für Klaineigründbesitzer (balance sum K 244 m.); Königlich Ungarischer Postsparkasse (balance sum K 270 m.).

⁷ Table 12 – Hungary 1913/1925 – vertical and regional distribution of financial resources.

Békéscsaba.⁸ The economic strength of Debrecen necessitates a separate assessment. In 1913 there were also 38 sub-regional economic and financial centres on the territory of the future Trianon Hungary – towns where there were agencies of the Austro-Hungarian Bank.⁹ The much smaller Bohemia had a larger number of sub-regional centres.

Provincial financial resources were concentrated in regional and sub-regional economic centres. In 1913, on the territory of the future Trianon Hungary, 15 regional centres with 104 banks held 7.13 per cent of the total banking joint-stock capital, while 38 sub-regional centres with 130 bank held 7.74 per cent. 129 small towns and their 212 local banks held 5.58 per cent of the joint-stock capital, while 128 local banks in very small towns held only 1.34 per cent of total Hungarian banking capital.¹⁰

In 1913, there were 148 bank branches and agencies which provided financial services to the provincial economy in Hungary. However, of these only ten were branches of Budapest banks. Most branches belonged to local banks, while only 15 branches of Budapest banks were identified in regional and sub-regional financial centres. In addition there were 60 branches in small towns, and 75 in very small towns. The branch network on the territory of the future Trianon Hungary in 1913 was not strong – most banks with branches only had only 1-3 of them.

The important question concerns how banks established branch networks. Banks from regional and sub-regional centres had 61 branches in Hungary. Local banks had 77 branches. Most branches, that is 87, were in the Danube-Tisza region, predominantly in small and very small towns.¹¹ In the Danube region, there was a significantly smaller number of branches, only 32, and the majority were of local banks.¹² In the Tisza region,

⁸ Although Sopron was a border town which had a vibrant financial life thanks to the exchange with Austria, it cannot be considered as a regional financial centre.

⁹ Zalaegerszeg, Veszprem, Vacz, Továros, Torokszenmiklos, Tokaj, Tata, Tapolcza, Szentgotthard, Szentes, Szekszarad, Szarvas, Siofok, Papa, Paks, Oroshaza, Nagykoros, Moson, Mohacs. Mezotur, Mako, Kiszarda, Kiskunhalas, Kiskunfelegyhaza, Karczag, Kalocsa, Jaszbereny, Hodmezo Vasarhely, Hajduboszermeney, Gyula, Gyongyos, Esztergom (Gran), Dunaföldvar, Czegled, Csongrad, Berettyoujfalu, Balassagyarmat and Baja.

¹⁰ Table 10 – Hungary 1913/1925 – structure of the banking system; Table 12 – Hungary 1913/1925 – vertical and regional distribution of financial resources.

¹¹ 35 in the small towns and the other 49 in very small towns.

¹² There were four branches in the sub-regional centres, ten branches in small towns and 15 in very small towns.

there were 29 branches, again, mostly of local banks.¹³ The branch system in the territory of the future Trianon Hungary of 1913 was province-based, with only a limited relationship to Budapest.

The few Budapest banks with more branches often had numerous branches and agencies in Budapest and its suburbs. Yet, in 1913 most branches of the Budapest banks were not linked to the territory of the future Trianon Hungary, but to the regional centres of the broader territory of the Hungarian Kingdom. Budapest banks had 32 branches in regional centres of Transleithenia, outside the territory of the future Trianon Hungary.

The limited branch network of the 1913 banking system in the territory of the future Trianon Hungary prompted this analysis to be extended to the network of linked affiliations. For the assessed territory, 64 links were identified. Most of these, 47, were related to Budapest banks. 16 were identified as links between banks in Budapest, including its suburbs, indicating intensive horizontal networking within Budapest. There were also three links to Prague and Vienna of a simple character – some less important provincial banks were descendants of banks in Prague and Vienna. The other 28 links were of a vertical character, in which Budapest banks established, or partially owned, banks in the provinces. Most of these Budapest affiliated banks were located in regional financial centres. Twelve links were located in the Danube region, ten in the Danube Tisza, and another six in the Tisza region. There were 17 affiliation links between provincial banks. There were four links between banks at regional financial centres. There was also the tendency of Debrecen to develop into a financial centre – Debrecen banks had three links to small towns in the region around Debrecen, and there was one horizontal link within Debrecen. Thus, affiliation linking between banks was a networking instrument of Budapest banks and some of the strongest provincial banks.

The major characteristic of the banking system of Hungary in 1913 was a division of banking business between metropolitan and provincial banking. While data on the joint-stock capital resources of banks suggest that Budapest played a central role, the large number of regional and local banks, as well as the weak branch network of Budapest banks indicates the weak financial integration of the Hungarian financial market. There was also a considerable level of desegregation of regional and local banking in Hungary.

¹³ Three in sub-regional centres, 15 in small towns and 11 in very small towns.

The indicators of structural integration clearly display differences between regional and local banking.¹⁴ In 1913, regional and sub-regional centres' indicators of independence were high, approximately 1.05. Small towns had a considerable level of independence at 0.85. In very small towns, the indicator of independence was 0.63.¹⁵

There were several other important tendencies: Municipal banking was underdeveloped and an almost insignificant element of the banking system. Private banks were well established in Budapest, but could also be found in regional financial centres. The credit cooperative movement was developed, but had limited financial capacity. With respect to the legal forms of the financial institutions, the Transylvanian financial system was simpler than that in Cisleithenia. Almost all banks, including those which bore the name 'savings bank', were organised as joint-stock companies. There were some exceptions – very small provincial banks which sometimes had the legal form of credit cooperatives, and a few municipal savings banks.

Regional approach

Considering the huge territory of Hungary and its regional differences, a separate analysis of the banking structure of provincial banking for three sub-regions has been undertaken in order to assess regional differences – the region west of the Danube (Danube region), the territory between the Danube and Tisza (Danube-Tisza region), and the territory east of Tisza (Tisza region). The Danube region¹⁶ was the most developed, while the Tisza region¹⁷ was generally observed to be the most underdeveloped region. The Danube-Tisza region¹⁸ lay between the two in terms of economic development. This division is not only geographical, but also has a historical, cultural and economic background. A considerable part of the Danube region escaped Ottoman conquest and remained under the protection,

¹⁴ For information about the methodology of calculation and meaning of structural integration indicators see pp 28-29.

¹⁵ Tables 14, 16 and 18 present comparative data for other Transleithenian regions.

¹⁶ The region west of Danube was administratively divided into the counties Moson, Sopron, Vas, Zala, Győr, Veszprem, Somogy, Komárom, Fejér, Baranja, Tolna, Esztergom, and a small part of the Pest county.

¹⁷ The region west of Tisza includes the Hajdu, Szolnok, Békés and Csanád counties and parts of Csongrad.

¹⁸ The region between Danube and Tisza includes the counties of Borsod, Heves, the main part of Pest county, Pilis Solt – Kis Kun, and parts of Bacs-Bodrog, Csongrad and Szolnok.

and also under the influence, of Austria. The religious division in Hungary has much to do with this. While most Hungarians accepted the Protestant faith in the sixteenth century, the western and northern parts of the Kingdom were reconverted to Roman Catholicism during the counter-Reformation.¹⁹

Map 10 Regional division of interwar Hungary



On the eve of the First World War the Danube region was the most economically developed part of Hungary. There were many small, but very economically active towns, which had been mostly founded by Germans.²⁰ The high economic activity of the Danube region influenced the branch policy of the Austro-Hungarian Bank. In 1913 there were only seven towns with more than 5,000 people that lacked a connection to the central bank, while in the whole region there were seven branches and twelve agencies of the central bank. In addition, there were five branches of the big Budapest commercial banks. The impression of a considerable level of economic activity is supported by the presence of

¹⁹ John Eppstein (ed.), *British Survey Handbooks – Hungary* (London, 1945), p. 16.

²⁰ Handbook – Hungary, p. 18.

private banks in regional centres. Provincial financial resources were more focused than in the rest of Hungary – in 1913 there was an average of 5.5 institutions per town in regional centres, and 3.0 institutions per town at sub-regional centres compared to the 7.88 and 4.12 ratio for Danube Tisza region, and 9.33 and 4.14 financial institutions per town in regional and sub-regional centres in the Tisza region.²¹

In local economies, which lacked a connection to the central bank, there was an average of 2.20 financial institutions per town in small towns in 1913 and 1.07 in very small towns. Most provincial banks were joint-stock companies bearing the name 'savings bank'. Many had expanded their activity to neighbouring towns, so that in 1913 there were 22 branches of provincial banks active in the 89 towns which had financial institutions. However, there was a complete lack of branches of the Budapest commercial banks in small towns.

The Danube-Tisza region south of Budapest, had a considerable level of trade activity, connected to its strategic position between two navigable rivers. The banking system there was very commercially oriented. In 1913 there were more financial institutions per town than in the Danube region. Even though there were 14 agencies of the central bank in the region, many towns lacked any kind of connection to the central bank. The mountainous regions north of Budapest, a part of the Danube-Tisza region, had a low level of market activity. The main difficulty in this area was caused by limited communications. While the central bank in 1913 had three branches, the almost total absence of agencies indicates limited financial activity. In addition, urbanisation was undeveloped – the region was dominated by numerous small towns each with a population of less than 5,000. Provincial resources in regional banking were fragmented – there was an average of 7.8 institutions per town in regional centres, and 4.12 institutions per town in sub-regional centres. In small towns, which lacked a connection to the central bank, there was an average of 2.30 financial institutions per town in small towns and 1.18 in very small towns.

The banking system of the Tisza region was not well developed. There were only three branches and seven agencies of the central bank there in 1913. In addition, the Budapest commercial banks avoided branching into this region. The region east of Tisza was apparently not a strongly marketised region and because of the relative distance and size of the Panonian basin, it had difficulties integrating into the Budapest economic area. The region was dominated by towns that were bigger than other regional centres in Hungary. Debrecen, Békéscsaba and Nyiregyhaza were proper regional centres, with 34, quite a high

²¹ Table 10 – Hungary 1913/1925 Danube region – structure of the banking system.

number, of financial institutions. In 1913 the urban distribution of banks in the Tisza region was similar to that in the Danube Tisza region. There were 7.83 banking institutions per town in regional centres, 4.12 in sub-regional centres, 2.00 in small towns, and 1.18 in very small towns.

The balance sheet analysis

In 1913, the banks in the principal regional and sub-regional centres, undertook their business with their own resources of – an average of 14-17 per cent of total liabilities – while in local banking the importance of own resources was slightly more important, an average 16-22 per cent of the total. The savings accounts of the population and, to some extent, giro account deposits, are an indicator of the financial conditions, and there were significant differences between regions. In 1913, in the Danube region, savings deposits accounted for 64-68 per cent of total liabilities; 49-54 per cent in the Danube-Tisza region, and even less in the Tisza region – 34-37 per cent.²² It is interesting to note that, for sub-regional centres, savings had somewhat more importance than in regional centres. This was the case because borrowed resources were more easily available for banks in regional centres.

Consequently, there were significant regional differences in the importance of borrowed resources in the three regions. In 1913, regional banks in the Danube region depended only slightly on Budapest and other banks, borrowing an average of 14-17 per cent of the total liabilities. Banks in towns between Danube and Tisza were more dependent on external resources, borrowing an average of 26-28 per cent of the liabilities. A high figure for the Tisza region- 46-48 per cent – indicates a dependency on external financial resources for financing the economic life of the region.²³

The situation with local banking in 1913 was quite similar. In the towns and small market-towns of the Danube region, local banks mostly relied on locally available resources, borrowing only 15-16 per cent of liabilities. In the Danube-Tisza region, the importance of local resources was similar to that of the Danube region, and local banks relied on borrowed resources at an average of 16-23 per cent of the liabilities. Similar to these were small the towns of the Danube-Tisza region where borrowed resources made up 23 per

²² Table 19 – Hungary 1913/1925 – structure of liabilities.

²³ Ibid.

cent of liabilities. In the Tisza region, the high importance of external financial resources can be noted (39 per cent in small towns and 37 per cent in very small towns).²⁴

Anyone dealing with Transleithenian banking has to wonder at the reasons behind the existence of such a very large number of provincial banks. It seems that the principal stimulant for provincial banking in Hungary was the high profitability of this business. The profitability of a bank is indicated by the ratio between profits and the joint-stock capital. The average profit/capital ratio was between 12 and 19 per cent in regional and sub-regional centres, but higher for local banks. There were also regional differences – provincial banking was more profitable in the Danube region than in the Tisza region.²⁵

In the methodology chapter, the limit of the structural analysis of assets was noted. However, the structural analysis of the assets of Hungarian banks reminds us that statistics is a science able to provide useful conclusions from scores of apparently useless pieces of information.

In the regional and sub-regional centres of the Danube region in 1913, a more developed financial life has to be noted, in which financing with bills amounted to only one third of the credit operations, while other forms of short-term credit took a significant share, at 19 per cent of assets in regional centres and 11 per cent in sub-regional centres. Yet, banks in the financial centres of the Danube region in 1913 were able to offer significant mortgage credits, amounting to 31 per cent of assets, and even 36-37 per cent of assets in the form of long-term credits. Also, 10-12 per cent of assets invested in securities indicates a mature financial life. In 1913, in the Danube-Tisza region, the long-term credits of regional and sub-regional banks only comprised an average of 30 per cent, while the importance of bills as a credit instrument was greater, accounting for approximately half of total assets. Investment in securities only comprised 5-7 per cent of assets. In the Tisza region, bills also accounted for half of the assets, while the assets structure was similar to that of the Danube-Tisza region. However, the share of long-term credits in the assets structure was slightly higher in the Tisza region than in the Danube-Tisza region.²⁶

In 1913, the ability of local banks to offer long-term credit in small towns and very small towns was more restricted than in regional and sub-regional centres. Although in the

²⁴ Ibid.

²⁵ Table 20 – Hungary 1913/1925 – profitability.

²⁶ Table 21 – Hungary 1913/1925 – structure of assets.

Danube region local banks had 28-35 per cent of assets in some form of long-term credit, in the Danube-Tisza region, the share was only 22-26 per cent of assets. In the Tisza region, long-term credits were even lower, accounting for an average 13-24 per cent of assets. In local banks, most credits took the form of bills which amounted to almost 70 per cent in the Tisza region, 60 per cent in the Danube-Tisza region and half of the assets in the Danube region. The proportion of mortgage credit decreased significantly from west to east, from an average 30 per cent in the Danube region to 20 per cent in the Danube-Tisza region, and to significantly less in the local economy of the Tisza region. In local banks, securities had little importance, an almost insignificant level of 1-5 per cent.²⁷

The structural analysis of liabilities and assets can answer the question of whether the objective of provincial banks was the import of, or the local mobilisation of capital within the province. In the Danube region in 1913, the principal effect of the provincial banks was the mobilisation of provincial resources (their own resources and savings accounted for more than 80 per cent of total liabilities) and directing them toward the economic development of the region (30-40 per cent of securities + mortgage loans). On the other hand, in the Tisza region provincial banks were importers of capital (40-50 per cent of borrowed resources), and the principal effect of this was extending credit (50-70 per cent of bills of exchange), with some impact on the economic development (15-30 per cent of mortgage loans + securities). In the Danube-Tisza region, provincial banks also had an important role as mobilisers of capital (their own resources and savings together accounted for 70-80 per cent of liabilities) in a similar fashion to banks in the Tisza region.

Credit cooperatives

The most important step in the development of credit cooperatives was the establishment of the Országos Központi Hitelszövetkezet (National Central Office of Credit Cooperatives) in 1898. It was a venture that was greatly supported by the government, which subscribed one million K in shares, while the biggest banks in Budapest bought another million. OKH promoted credit cooperatives, supported them with working capital and by 1913 had managed to open 2,425 credit cooperatives on the territory of Transleithenia (excluding Bosnia), with a tendency to open more branches in less

²⁷ Table 21 – Hungary 1913/1925 – structure of assets.

developed regions.²⁸ The activities of the OKH involved 7,761 villages, or 61.8 per cent of all the settlements in the lands of the Hungarian Crown. In 1913, the total amount of credit of OKH cooperatives was K 279.6 m.²⁹ compared to a total of K 12.112 m. of all banks within the same territory.³⁰ Taking into account the small sums involved, and the political strength of Országos Központi Hitelszövetkezet, there is a question as to what extent the OKH was simply a politically motivated institution that had limited economic consequences.³¹

After the war

The First World War, and its political and economic consequences, changed the structure of Hungarian banking. Hungary experienced a boom of newly established banks during the post-war inflation years, and their business was based on speculation and the inflation-business boom. However, the years of stabilisation and deflationary monetary conditions had adverse effect on many newly founded, as well as many earlier established banks.³² A smaller market, the winnowing out of weak elements in the banking system, and the use of the banking system for the distribution of inflationary credits, shaped a greater integrated banking system after the First World War.

Budapest banks expanded their branches into the provinces. After 1918 regional centres became financially more integrated with Budapest. Instead of just the few branches of Budapest banks, which existed in provincial areas before the war, there were 74, mostly in regional and sub-regional centres in 1925. Although in 1913 there were only four branches

²⁸ Held, Joseph, *The modernization of agriculture: rural transformation in Hungary, 1848-1975* (New York, 1980), p. 96.

²⁹ Karoly Schandl, *A magyar szövetkezés negyven éve (Forty years of Hungarian Cooperatives)*, (Budapest, 1938), p. 63 – quoted from Held Joseph, *ibid*, p. 96.

³⁰ Also, this information makes us somewhat concerned about the data Kövér used in Table 14-3, where he estimated the total assets of credit cooperatives at K 270 m. Did the statistics which Kövér utilized, also include assets of other cooperatives which did not belong to the OKH network?

³¹ Diarmid Coffey, in his survey on credit cooperatives in Yugoslavia, mentioned the opposition to OKH credit cooperatives, because they acted as tool of magyarisation before the First World War. See Coffey, Diarmid, *The Cooperative Movement in Yugoslavia, Rumania and North Italy During and After the World War* (New York, 1922), p. 20.

³² This problem was recognised during the identification of Hungarian banks. However the analysis was limited to the 1913/1925 situation, without elaborating the short-term existence of these inflationist banks.

of Budapest banks in regional financial centres, in 1925 there were 36. The importance of Budapest was also growing in sub-regional financial centres, where the number of Budapest banks' branches increased from two to 21. Even Debrecen, which had no 'Budapest branches' in 1913, had eight in 1925. Exactly how big a change this was can be seen from the fact that Budapest branches in principal regional financial centres grew from 0.28 branches per regional financial centre in 1913 to an average of 2.57 branches in 1925.

In 1913, the average number of financial institutions in regional centres was 7.33, which had increased to 10.4 by 1925. In sub-regional centres, the average number of financial institutions was 3.66 in 1913, and 4.18 in 1925. In regional and sub-regional centres in the territory of the Trianon Hungary, the number of provincial banks remained almost the same in 1925 as in 1913. The fact that the number of provincial banks had not significantly changed, while the number of branches had increased, can be attributed to a greater monetisation of regional and sub-regional centres after the war. Yet local banking had started to weaken. In small towns, there were 192 banks in 1925, compared to 211 banks in 1913. In very small towns, the number of banks decreased from 128 in 1913 to 120 in 1925.

The strengthening of regional centres and the weakening of local banking was even more obvious in the distribution of capital between Budapest, regional banking and local banking. In 1925 regional centres held 11.3 per cent of total Hungarian banking capital, compared to 7.13 per cent in 1913 in the territory of the future Trianon Hungary. The sub-regional banking share in total capital decreased from 7.7 per cent in 1913 to 6.97 per cent in 1925, a situation similar to banking in small towns, which decreased from 5.58 to 4.21 per cent of the total. Local banking in very small towns maintained its financially almost insignificant position-1.34 per cent of total banking capital in 1925.³³ Budapest retained the same position and concentration of finances after the war, with almost the same share in the total joint-stock capital in the Hungarian banking system (76.1 per cent).³⁴

The balance sheet analysis

After the war, provincial banks had to rely more on their own capital. In 1925, regional banks undertook business with 16-21 per cent of their own capital, while local banks had

³³ Table 12 – Hungary 1913/1925 – vertical and regional distribution of financial resources.

³⁴ Ibid.

an average of 17-21 per cent. There were no important differences between the Danube, Danube-Tisza and Tisza regions. It seems that some 15-20 per cent of the total of the bank's own resources was necessary for the operation of a provincial bank in Hungary.³⁵

After the war, savings deposits declined. In 1925, savings in regional banking in the Danube region made up 49-50 per cent of liabilities, compared to the 64-68 percent in 1913. In local banks in the Danube region in 1925 savings made up only 41-47 per cent of liabilities. In 1913 for the same banks savings accounts were 60 per cent of liabilities.

The role of savings in 1925 regional banking in the Danube-Tisza region remained almost unchanged compared to 1913, making approximately 50 per cent of total liabilities. However, there was a significant decline in the role of savings in total liabilities in local banking – they fell from approximately 60 per cent in 1913 to approximately 40 per cent in 1925.

There was an interesting situation with respect to savings in the Tisza region. The share of savings accounts in total liabilities in regional centres grew from 35 per cent in 1913 to 47 per cent in 1925. The share of savings accounts in total liabilities in sub-regional centres and small towns was approximately 40 per cent in 1925. Yet, in very small towns, savings per total ratio fell from 38 per cent in 1913 to 26 per cent in 1925.

After the war, the importance of external resources significantly changed. In 1925, in the Danube region the borrowed resources of provincial banking accounted for an average of 30 per cent of the total assets. Regional banking continued almost unchanged in the Danube Tisza region, while the importance of borrowed resources increased to 35 per cent for local banking. It is interesting to recognise the fall of the share of borrowed resources in the regional banking of the Tisza region, from 46-48 per cent in 1913 to 30-35 per cent in 1925.³⁶

After the war, regional differences in the economic function of the banks were not as strongly pronounced as before the war. In all of Hungary, provincial banks were able to mobilise locally some 65-70 per cent of the liabilities total to cover the remaining 30-35 per cent of liabilities with external resources.

³⁵ Table 19 – Hungary 1913/1925 – structure of liabilities.

³⁶ Ibid.

The unstable political, economic and monetary conditions of post-war Hungary caused a change in the assets policy of Hungarian provincial banks. It is important to note that provincial banks kept much more liquid resources than before the war. While cash and deposit in banks made up only 1-2 per cent of assets in 1913, it made up 3-5 per cent in 1925. The assets policy was very conservative, mostly oriented towards short-term financing. Bills of exchange made up 65 to 70 per cent of the assets. Securities and mortgage loans almost completely disappeared from the balance sheets. However, opportunities for speculative operations and post-war demand meant that many banks also invested in various enterprises. For that reason property made up as much as 8-10 per cent of assets in 1925. In 1913 the same balance item was only 2-3 per cent. Regional differences were also less pronounced than in pre-war Hungary.³⁷

Conclusion

The large Panonian valley and large Hungarian Kingdom were obstacles for the development of a well integrated banking system. Before the First World War Budapest was a strong metropolitan financial centre but could not satisfy the credit needs of the provincial economy. This was the reason for the development of numerous banks both in regional towns as well as in numerous peripheral villages. These small, numerous banks managed to organise financial services for the provincial economy. It may not have been the cheapest financial service, but taking into account the ability of provincial banks to attract savings and to organise long-term mortgage credit, there is no doubt about its quality.

It was only after the First World War, when the territory of Hungary diminished, that strong Budapest banks organised services to provincial economies by establishing a dense network of branches. However, even such networks were mostly directed towards regional banking. The weakening of provincial banks after the First World War resulted, not so much from the competition of Budapest banks, as much as from the financial and political instability of post-war Hungary. Without the savings resources of the broader population, provincial banks had to redirect their business more towards speculative and short-term business and to link more strongly to Budapest banks.

³⁷ Table 21 – Hungary 1913/1925 – structure of assets.

Provincial banking in Hungary during the period 1913-1925 is a testament to the high flexibility of banking in general, and the ability of provincial banks to adapt to a changing economic environment.

Tables – structural data

Table 10 Hungary 1913/1925 – structure of the banking system

Financial level	Towns	Total banks + branches	Banks with branches	Banks without branches	Buda-pest branches	Regional towns branches	Local town branches	Private bank houses
1913 – Trianon Hungary territory								
Budapest		142	10	132				149
Regional centres	15	110	15	89	6	0	0	29
Sub-regional centres	38	139	25	105	2	5	2	6
Small towns	129	272	39	173	0	32	28	1
Very small towns	172	211	9	119	2	24	47	2
1925								
Budapest		177	19	158				156
Regional centres	15	156	20	89	47	0	0	28
Sub-regional centres	38	159	24	103	21	10	1	4
Small towns	131	251	35	157	6	31	22	3
Very small towns	181	199	17	103	0	36	43	0

Source: PROVBANK DATABASE – Hungary 1913/1925 identification database – final calculations.

Table 11 Hungary 1913/1925 – indicators of structural integration

Coefficient of integration	Regional centres	Sub-regional centres	Small towns	Very small towns
1913 – Trianon Hungary territory				
Independent	1.01	1.03	0.85	0.63
Vertical metropolitan	0.08	0.02	0.00	0.01
1925				
Independent	0.76	0.87	0.83	0.65
Vertical metropolitan	0.45	0.20	0.04	0.00

Source: PROVBANK DATABASE – Hungary 1913/1925 identification database – final calculations.

Table 12 Hungary 1913/1925 – vertical and regional distribution of financial resources

Financial level	Danube region	Danube Tisza region	Tisza region	Total	Vertical distribution
1913 joint-stock capital (K m.) – Trianon Hungary territory					
Budapest				aprox 703.0	75.8 %
Regional centres	33.6	37.3	37.8	108.9	7.13 %
Sub-regional centres	20.7	37.6	17.5	75.8	7.74 %
Small towns	17.2	24.2	16.8	58.2	5.58 %
Very small towns	6.9	5.5	4.2	16.6	1.34 %
Total	78.4	104.6	76.3	927.4	100.00 %
1925 joint-stock capital (P m.)					
Budapest				aprox 163.0	76.10 %
Regional centres	11.0	7.2	5.9	24.1	11.27 %
Sub-regional centres	4.2	7.7	3.0	14.9	6.97 %
Small towns	2.7	3.9	2.4	9.0	4.21 %
Very small towns	1.1	1.4	0.7	3.1	1.45 %
Total	19.0	20.2	11.9	214.2	100.00 %

Source: PROVBANK DATABASE – Hungary 1913/1925 balance sheet database – final calculations.

Table 13 Hungary 1913/1925 Danube region – structure of the banking system

Financial level	Towns	Total banks + branches	Banks with branches	Banks without branches	Municipal bank	Budapest branches	Regional towns branches	Local town branches
1913								
Regional centres	6	33	2	27	1	3	0	0
Sub-regional cnt.	15	45	8	33	0	1	2	1
Small towns	34	75	8	56	1	0	4	6
Very small towns	58	62	3	42	2	0	6	9
1925								
Regional centres	6	47	8	27	0	12	0	0
Sub-regional cnt.	15	51	9	34	0	5	3	0
Small towns	37	75	7	49	0	3	9	7
Very small towns	64	69	6	37	2	0	12	12

Source: PROVBANK DATABASE – Hungary 1913/1925 identification database – final calculations.

Table 14 Hungary 1913/1925 Danube region – indicators of structural integration

Coefficient of integration	Regional centres	Sub-regional centres	Small towns	Very small towns
1913				
Independent	0.94	1.00	0.92	0.78
Vertical metropolitan	0.14	0.03	0.00	0.00
1925				
Independent	0.83	0.93	0.79	0.70
Vertical metropolitan	0.38	0.15	0.06	0.00

Source: PROVBANK DATABASE – Hungary 1913/1925 identification database – final calculations.

Table 15 Hungary 1913/1925 Danube-Tisza region – structure of the banking system

Financial level	Total towns	Total banks + branches	Banks with branches	Banks without branches	Municipal banks	Budapest branches	Regional towns branches	Local town branches
1913								
Regional centres	6	47	10	36	0	1	0	0
Sub-regional c.	16	66	13	50	1	1	1	0
Small towns	57	124	25	62	2	0	21	14
Very small t.	78	92	5	34	3	4	14	31
1925								
Regional centres	6	55	11	29	0	15	0	0
Sub-regional c.	16	81	7	56	2	11	5	0
Small towns	56	110	21	57	3	3	16	10
Very small t.	83	96	9	37	4	0	20	26

Source: PROVBANK DATABASE – Hungary 1913/1925 identification database – final calculations.

Table 16 Hungary 1913/1925 Danube-Tisza region – indicators of structural integration

Coefficient of integration	Regional centres	Sub-regional centres	Small towns	Very small towns
1913				
Independent	1.09	1.07	0.82	0.49
Vertical metropolitan	0.03	0.02	0.00	0.07
1925				
Independent	0.83	0.85	0.83	0.57
Vertical metropolitan	0.41	0.20	0.04	0.00

Source: PROVBANK DATABASE – Hungary 1913/1925 identification database – final calculations.

Table 17 Hungary 1913/1925 Tisza region – structure of the banking system

Financial level	Total towns	Total banks + branches	Banks with branches	Banks without branches	Municipal banks	Budapest branches	Regional towns branches	Local town branches
1913								
Debrecen	1	14	0	14	0	0	0	0
Regional centres	2	14	3	11	0	0	0	0
Sub-regional c.	7	29	4	22	0	0	2	1
Small towns	38	76	6	55	0	0	7	8
Very small twn	36	45	1	33	0	0	4	7
1925								
Debrecen	1	23	1	14	0	8	0	0
Regional centres	2	20	0	11	0	9	0	0
Sub-regional c.	7	30	8	13	1	5	2	1
Small towns	38	69	7	51	0	0	6	5
Very small twn	34	40	2	29	0	0	4	5

Source: PROVBANK DATABASE – Hungary 1913/1925 identification database – final calculations.

Table 18 Hungary 1913/1925 Tisza region – indicators of structural integration

Coefficient of integration	Regional centres	Sub-regional centres	Small towns	Very small towns
1913				
Independent	1.11	0.97	0.84	0.77
Vertical metropolitan	0.00	0.00	0.00	0.00
1925				
Independent	0.55	0.87	0.89	0.80
Vertical metropolitan	0.68	0.25	0.00	0.00

Source: PROVBANK DATABASE – Hungary 1913/1925 identification database – final calculations.

Tables – balance sheet analysis

Table 19 Hungary 1913/1925 – structure of liabilities

Region	Financial level	1913 (Trianon Hungary territory)			1925		
		Own resources	Savings and cc	Borrowed resources	Own resources	Savings and cc	Borrowed resources
Danube region	Regional centres	0.16	0.64	0.17	0.18	0.49	0.29
	Sub-regional centres	0.15	0.68	0.13	0.16	0.50	0.29
	Small towns	0.16	0.65	0.15	0.17	0.47	0.31
	Very small towns	0.20	0.61	0.15	0.20	0.41	0.33
Danube Tisza region	Regional centres	0.19	0.50	0.28	0.17	0.51	0.27
	Sub-regional centres	0.17	0.54	0.26	0.19	0.48	0.27
	Small towns	0.17	0.56	0.23	0.20	0.39	0.36
	Very small towns	0.19	0.61	0.16	0.18	0.43	0.34
Tisza region	Regional centres	0.14	0.35	0.48	0.18	0.47	0.30
	Sub-regional centres	0.15	0.37	0.46	0.21	0.40	0.35
	Small towns	0.18	0.40	0.39	0.19	0.41	0.34
	Very small towns	0.22	0.38	0.37	0.17	0.26	0.53

Source: PROVBANK DATABASE – Hungary 1913/1925 balance sheet database – final calculations.

Table 20 Hungary 1913/1925 – profitability

Region	Financial level	1913 (Trianon Hungary territory)		1925	
		Profit/capital	Profit/total	Profit/capital	Profit/total
Danube region	Regional centres	14 %	1.5 %	17 %	1.9 %
	Sub-regional centres	19 %	1.9 %	24 %	2.3 %
	Small towns	22 %	2.1 %	27 %	2.7 %
	Very small towns	17 %	2.4 %	20 %	2.6 %
Danube Tisza region	Regional centres	18 %	2.0 %	17 %	1.9 %
	Sub-regional centres	16 %	1.7 %	21 %	2.4 %
	Small towns	18 %	1.8 %	20 %	2.5 %
	Very small towns	20 %	2.2 %	28 %	2.5 %
Tisza region	Regional centres	14 %	1.4 %	18 %	1.9 %
	Sub-regional centres	13 %	1.3 %	15 %	2.1 %
	Small towns	16 %	1.9 %	15 %	2.1 %
	Very small towns	12 %	2.0 %	23 %	2.0 %

Source: PROVBANK DATABASE – Hungary 1913/1925 balance sheet database – final calculations.

Table 21 Hungary 1913/1925 – structure of assets

Region	Financial level	Cash + banks/total	Securities/ total	Bills/ total	Mortgage /total	Property /total	Other loans/ total
1913 (Trianon Hungary territory)							
Danube region	Regional centres	0.02	0.12	0.30	0.31	0.03	0.19
	Sub-regional centres	0.02	0.10	0.38	0.31	0.03	0.11
	Small towns	0.02	0.07	0.48	0.29	0.02	0.09
	Very small towns	0.01	0.02	0.55	0.26	0.02	0.10
Danube Tisza region	Regional centres	0.02	0.05	0.49	0.26	0.03	0.10
	Sub-regional centres	0.01	0.07	0.54	0.19	0.03	0.09
	Small towns	0.02	0.03	0.63	0.18	0.02	0.08
	Very small towns	0.02	0.01	0.58	0.21	0.03	0.12
Tisza region	Regional centres	0.01	0.08	0.52	0.22	0.02	0.09
	Sub-regional centres	0.01	0.08	0.47	0.23	0.02	0.06
	Small towns	0.01	0.04	0.66	0.13	0.02	0.08
	Very small towns	0.01	0.02	0.73	0.11	0.03	0.08
1925							
Danube region	Regional centres	0.04	0.03	0.60	0	0.09	0.21
	Sub-regional centres	0.04	0.02	0.69	0	0.08	0.15
	Small towns	0.04	0.01	0.66	0.00	0.08	0.18
	Very small towns	0.03	0.01	0.67	0.01	0.10	0.13
Danube Tisza region	Regional centres	0.03	0.03	0.68	0	0.07	0.16
	Sub-regional centres	0.04	0.02	0.67	0	0.10	0.15
	Small towns	0.04	0.02	0.70	0.00	0.10	0.12
	Very small towns	0.05	0.01	0.73	0.00	0.09	0.10
Tisza region	Regional centres	0.04	0.06	0.68	0	0.06	0.15
	Regional centres	0.04	0.03	0.60	0	0.09	0.21
	Small towns	0.06	0.02	0.69	0.00	0.08	0.12
	Very small towns	0.03	0.01	0.73	0.00	0.08	0.12

Source: PROVBANK DATABASE – Hungary 1913/1925 balance sheet database – final calculations.

Table 22 Hungary 1913/1925 – long-term assets and liquidity

Region	Financial level	1913 (Trianon Hungary territory)			1925		
		Long-term assets	Liquidity Average	Liquidity Min/max	Long-term assets	Liquidity Average	Liquidity Min/max
Danube region	Regional centres	0.36	0.79	0.49/1.02	0.09	1.14	1.06/1.23
	Sub-regional centres	0.37	0.76	0.48/1.24	0.09	1.13	1.07/1.27
	Small towns	0.32	0.82	0.33/1.14	0.10	1.15	0.90/1.55
	Very small towns	0.29	0.94	0.46/1.52	0.14	1.15	0.64/1.45
Danube-Tisza region	Regional centres	0.33	0.82	0.69/1.08	0.07	1.14	1.06/1.20
	Sub-regional centres	0.27	0.90	0.62/1.27	0.11	1.18	1.03/1.30
	Small towns	0.23	0.96	0.56/1.26	0.11	1.17	0.96/1.88
	Very small towns	0.24	0.97	0.20/1.47	0.10	1.19	0.92/3.18
Tisza region	Regional centres	0.29	0.87	0.69/0.98	0.06	1.20	1.15/1.30
	Sub-regional centres	0.36	0.76	0.53/1.11	0.10	1.16	1.09/1.25
	Small towns	0.19	1.02	0.61/1.42	0.10	1.19	0.97/2.11
	Very small towns	0.14	1.17	0.40/2.04	0.09	1.16	0.98/1.56

Source: PROVBANK DATABASE – Hungary 1913/1925 balance sheet database – final calculations.

UPPER HUNGARY/SLOVAKIA

Map 11 Slovakia



Pre-war Slovakia (Upper Hungary)

Slovakia was not a separate administrative unit in the Austro-Hungarian Monarchy where it was usually called Upper Hungary.³⁸ In the following text, the term Upper Hungary is used for the territory of future Slovakia excluding Podkarpatia. Upper Hungary was one of the most industrialised regions of Transleithenia and, at the same time, a region in which subsistence agriculture predominated. In 1910 agriculture was the occupation of 70.88 per cent of population.³⁹ Industrialisation was based on the exploitation of natural resources and the use of cheap labour, supported by state subsidies and mostly organised by Hungarian and German entrepreneurs.⁴⁰ Commercial banks from Vienna, Budapest,

³⁸ This analysis excludes the territory of Podkarpatia (Ruthenia), which Slovak historiography usually does not assess as part of Slovak territory. Slovak statistical sources from the interwar period treat Podkarpatia (Ruthenia) as a separate territory.

³⁹ Moore, Wilbert E, *Economic Demography of Eastern and Southern Europe* (Geneva, 1945), pp. 63-64.

⁴⁰ See Ágnes Pogány, 'Economic change and national minorities: Hungary in the twentieth century' in *Economic Change and the national Question*, p. 289.

Prague and Brno financed bigger industrial enterprises in Upper Hungary without opening branches.⁴¹

In 1913, Bratislava was the biggest town in Upper Hungary, with a population of 78,000 people, but it did not dominate the banking system of the region – its banks had no branches.⁴² There were branches of the Austro-Hungarian Bank in Bratislava, Košice (a town of 44,000 people), Nyitra (16,500 people), Banská Bystrica (10,700) and Žilina (9,200 people). There were agencies of the Austro-Hungarian bank in another 18 towns, classified as sub-regional centres, whose populations averaged 9,990 people. However there was an imbalance between the population figures and the financial resources in Slovakian regional banking. For example, the populations of sub-regional centres varied from 22,000 in Komárno to 3,200 in Zlaté Moravce. Yet, the joint-stock capital of Komárno's banks was only K 1.1 m., while Zlaté Moravce concentrated K 5.2 m. of joint-stock capital in its banks.⁴³

The distribution of financial resources was favourable for regional banking in 1913. Lacking principal regional financial centres, regional banking outside Bratislava accounts for as much as 57.44 per cent of the joint-stock capital of Slovakian banking. Bratislava itself accounted for only 7.35 per cent.⁴⁴ Local banking was well developed accounting for 35.21 per cent of the joint-stock capital of banks in Upper Hungary.⁴⁵

The banking system in Upper Hungary in 1913 was composed of 327 financial institutes, of which 43 were banks with branches, 183 banks without branches and 101 branches of the banks. The number of banks without branches in regional centres was 16, in sub-regional centres 40, in small towns 42, and in very small towns 75. In regional centres there were only three banks with branches, but 19 banks with branches in sub-regional centres. In small towns there were 13 banks with branches. Even in very small towns there were eight such banks. Branches were spread out mostly for local banking. In 1913

⁴¹ Faltus, 'Bank-industry relations in interwar Slovakia', p. 142.

⁴² The weakness of Bratislava banks was influenced by being too close to the strong Vienna financial market.

⁴³ Applying Gal's models, which I have already mentioned, on assessing the financial capacity of Slovak towns would provide interesting results and indications for future research on the regional differences in the structure of Slovak economy.

⁴⁴ Compare with 1925 situation in Table 24 Slovakia 1913/1925 – vertical distribution of financial resources.

⁴⁵ Table 24 – Slovakia 1913/1925 – vertical distribution of financial resources.

in regional centres there were only six branches, in sub-regional centres seven, in small towns 20 and in very small towns 62.⁴⁶

In 1913, regional banking, especially sub-regional banking, was deeply independent. The indicator of independence in regional centres was 0.82 and 1.05 in sub-regional centres. Financial markets of small towns had a considerable level of independence – the indicator of independence being 0.82 in 1913. However, in 1913, very small towns had greater vertically integrated banking – the vertical integration indicator was 0.62 in 1913 as a result of the intensive branch policy of provincial banks. The vertical integration of provincial banking with metropolitan financial centres was almost insignificant – in regional centres the vertical metropolitan indicator was 0.08 and 0 on other financial levels.⁴⁷

The specific structure of provincial banking in Upper Hungary attracts attention. The banking system which developed on the territory of future Slovakia was characterised by the absence of one major financial centre, and a disaggregated banking system. There were banks in Slovakia that had several branches. However, these banks never created strong networks, solely expanding their businesses to neighbouring places. This is the case even for some banks which had four, five or even more branches. Map 11 presents bank branch networks in Upper Hungary. It is hard to talk about proper networking, only about an expansion of the businesses of provincial banks into smaller towns in their immediate neighbourhoods.

Yet, provincial banking in Upper Hungary had very limited structural links with Hungarian and Budapest banking. Budapest banks had only six branches in Upper Hungary – four in Bratislava, and two in Kosice. There were also few branches of Hungarian banks in very small towns in the regions bordering Hungary.⁴⁸

However, there remains the question of whether there were any affiliations between Slovakian provincial banking and Austro-Hungarian banking centres. Budapest banks had only 11 links to Upper Hungarian banks: three with Bratislava, three with Košice and another five links to other regional banks. Taking well-developed provincial banking and

⁴⁶ Table 23 – Slovakia 1913/1925 – structure of the banking system.

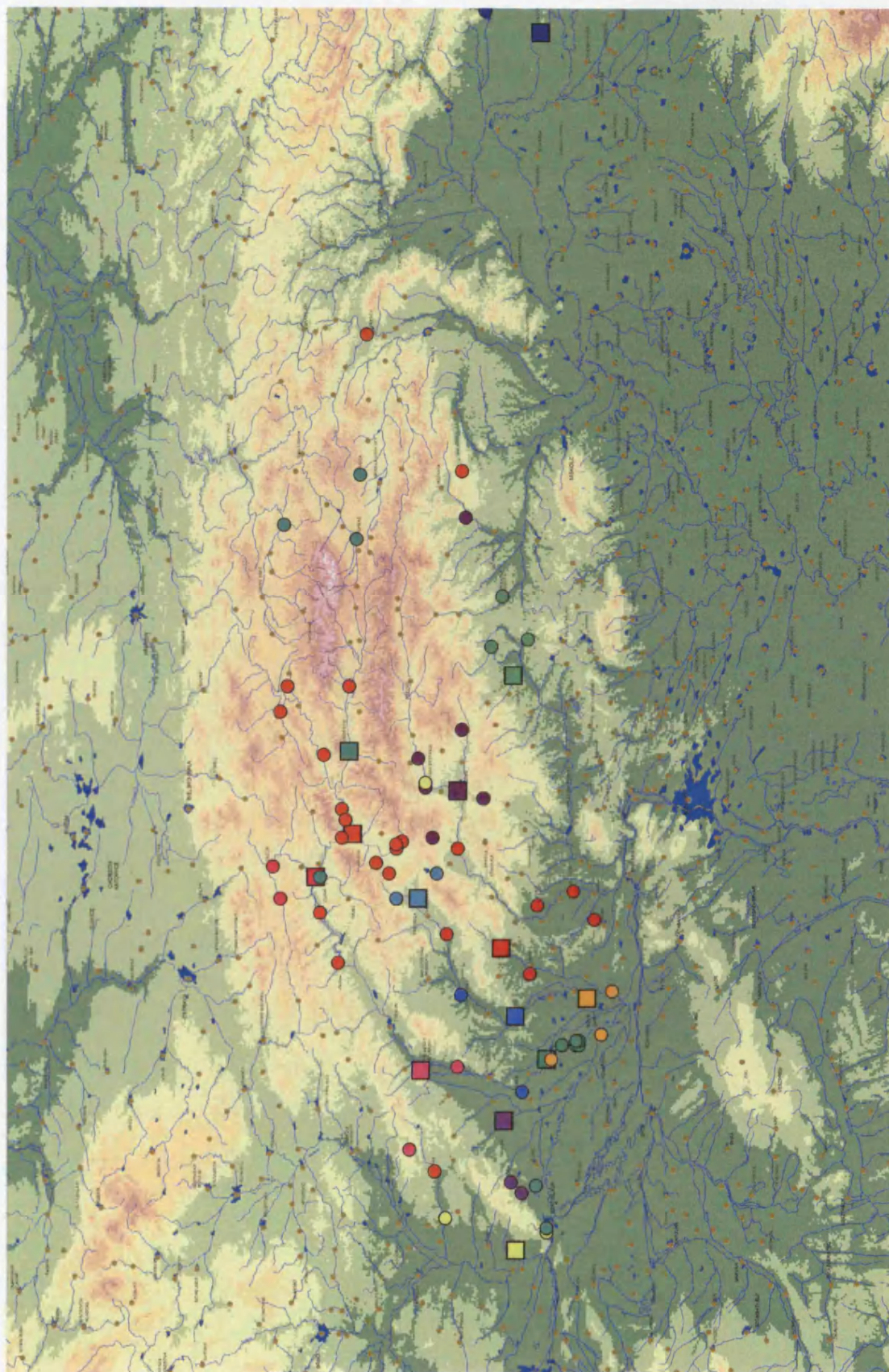
⁴⁷ For information about the methodology of calculation and meaning of structural integration indicators see pp 28-29.

⁴⁸ See PROVBANK DATABASE.

the number of provincial banks into account, the conclusion is that the banking system of Upper Hungary in 1913 was an independent banking system. There were only a few links between the Hungarian banking system and the principal regional centres and some towns on the border of Hungary.⁴⁹ The independence of the Upper Hungarian banking system is apparent on Map 13. The whole territory of Slovakia was well covered with banking institutions, but they were mostly provincial banks, or branches of provincial banks.

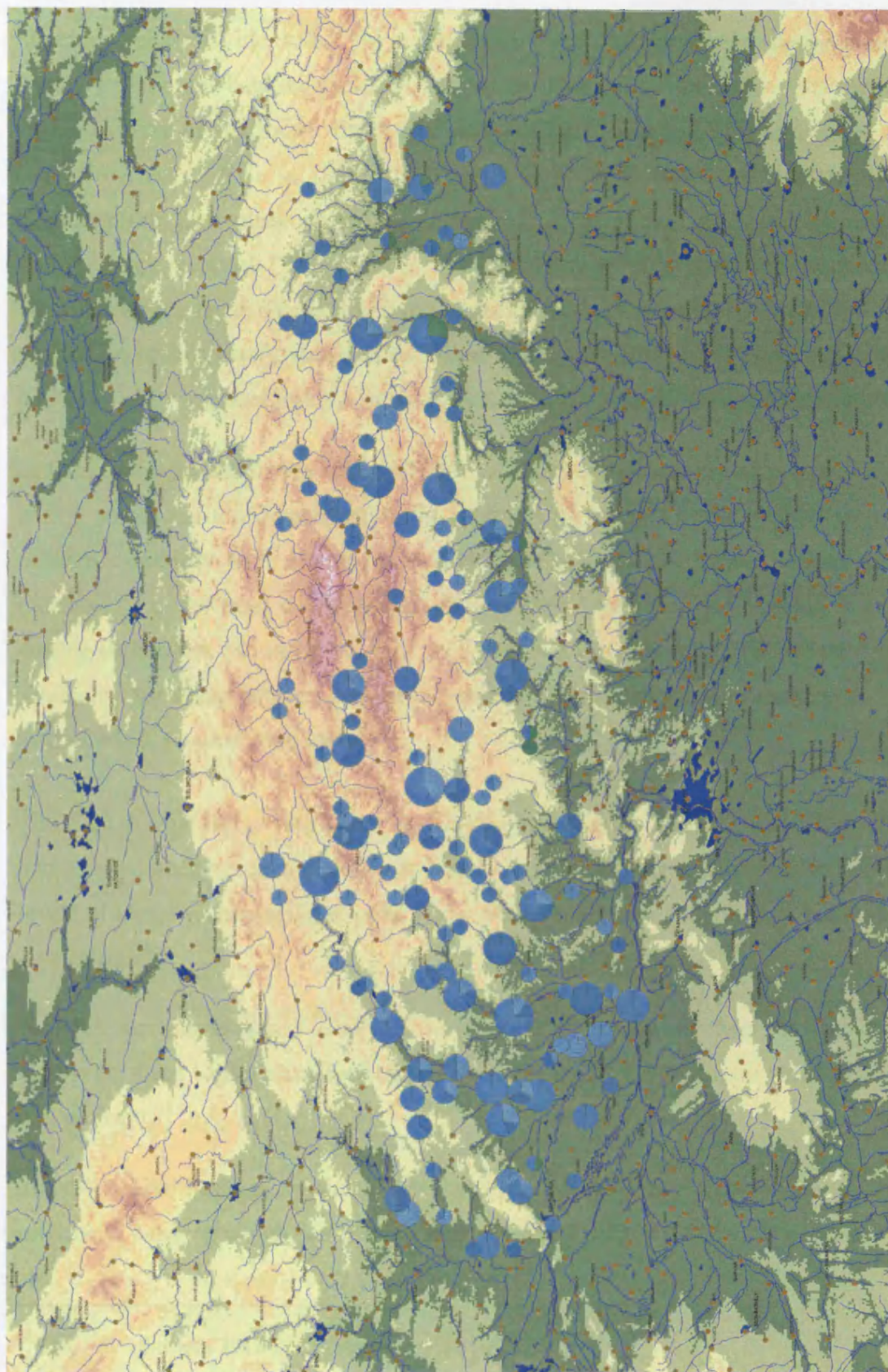
⁴⁹ See Ibid.

Map 12 Slovakia 1913 – provincial networks



Local networks are marked with the same colour. Square symbols represent centres of the local network, while circles indicate branches. Most local networks are limited to their surrounding areas. Source PROVBANK DATABASE – Slovakia 1913.

Map 13 Slovakia 1913 – provincial banking based banking system



Blue indicates provincial banks or branches. Green indicates branches of Hungarian banks. The diameter of each mark is relative to the financial level of the town. It is important to note the complete lack of any Bratislava branches. Source PROVBANK DATABASE – Slovakia 1913.

The balance sheet analysis

Structural analysis identified the independence of the provincial banking of Upper Hungary within the banking system of the Austro-Hungarian Monarchy. It is also apparent in the structure of liabilities. The banks' own resources accounted for an average of 16 per cent of the total assets in 1913. Very small local banks relied on their own resources slightly more than other provincial banks. The major part of liabilities consisted of savings, approximately 70 per cent in 1913. The role of borrowed resources in the liabilities structure of Slovak provincial banks was 8-14 per cent in 1913.⁵⁰ Such a low proportion of borrowed resources indicates that Upper Hungarian provincial banks were not very well integrated into the banking system of the Austro-Hungarian Monarchy.

In 1913, the principal assets were bills of exchange- approximately 45 per cent of the total, with a somewhat higher proportion for banks in very small towns. There were signs of economic stability with mortgage loans accounting for 20 to 28 per cent of assets. An indicator of a low level of integration of Slovakian banking in the banking system of the Austro-Hungarian Monarchy is that securities account for only 2-7 per cent of assets. Typically, for disaggregated provincial banking accounting practice, there were 14-19 per cent of other, unaccounted loans.⁵¹

The ratio of liquidity to long-term relationship indicates that Slovakian provincial banking had a sound background and stable business in 1913. Banks maintained considerable levels of liquidity, managing to offer 22-31 per cent of assets as long-term credits to their customers.⁵²

In 1913, provincial banks earned 17-19 per cent in profits on their joint-stock capitals. However, these banks were not banks-usurers, as the profit/total ratio was not bigger than two per cent.⁵³

The Slovakian banking system before the First World War was based on disaggregated provincial banking which had limited links to other financial centres. The independence of

⁵⁰ Table 26 – Slovakia 1913/1925 – structure of the liabilities.

⁵¹ Table 28 – Slovakia 1913/1925 – structure of assets.

⁵² Table 29 – Slovakia 1913/1925 – long-term assets and liquidity.

⁵³ Table 27 – Slovakia 1913/1925 – profitability.

Slovak banking in the Austro-Hungarian Monarchy was not only apparent in the lack of branches of metropolitan banks but also in the low share of borrowed resources in the liabilities structure. It seems that pre-First World War Slovak banking was a distinctive provincial based banking system.

After the war

After the First World War, Upper Hungary became a part of the Czechoslovak Republic. The economic system of Upper Hungary had to be redirected from a Hungary-oriented economy towards a Prague-oriented economy. It is interesting to note that Slovak banking and economy was penetrated by Czech banks even before the collapse of the Austro-Hungarian Monarchy and the formation of the Czechoslovak republic.⁵⁴ During the interwar period industry was, to a great extent, taken over by Prague companies or declined because it could not compete with Czech industry.⁵⁵

The change and concentration of Slovak provincial banking in the period after the war has already been mentioned.⁵⁶ The years 1920-1926 were a period of crisis for small provincial banks in Slovakia. Their number significantly decreased between 1913 and 1925 – especially those without branches. The number of banks in regional centres fell from 19 to ten, in sub-regional centres from 59 to 24, in small towns from 55 to 22, and in very small towns from 83 to 24. Yet, the number of branches grew. Their numbers in regional centres increased from six to 24, in sub-regional centres from seven to 50, in small towns from 20 to 58 and in very small towns from 63 to 121. A comparison of Maps 12 and 13 indicates how the structure of the Slovakian banking system changed between 1913 and 1925.⁵⁷ The number of branches of Prague banks was not really significant but their business activity – especially linked to financing of industry – was significant.⁵⁸

⁵⁴ See Holec, 'Economic aspects of Slovak national development', pp. 277-280.

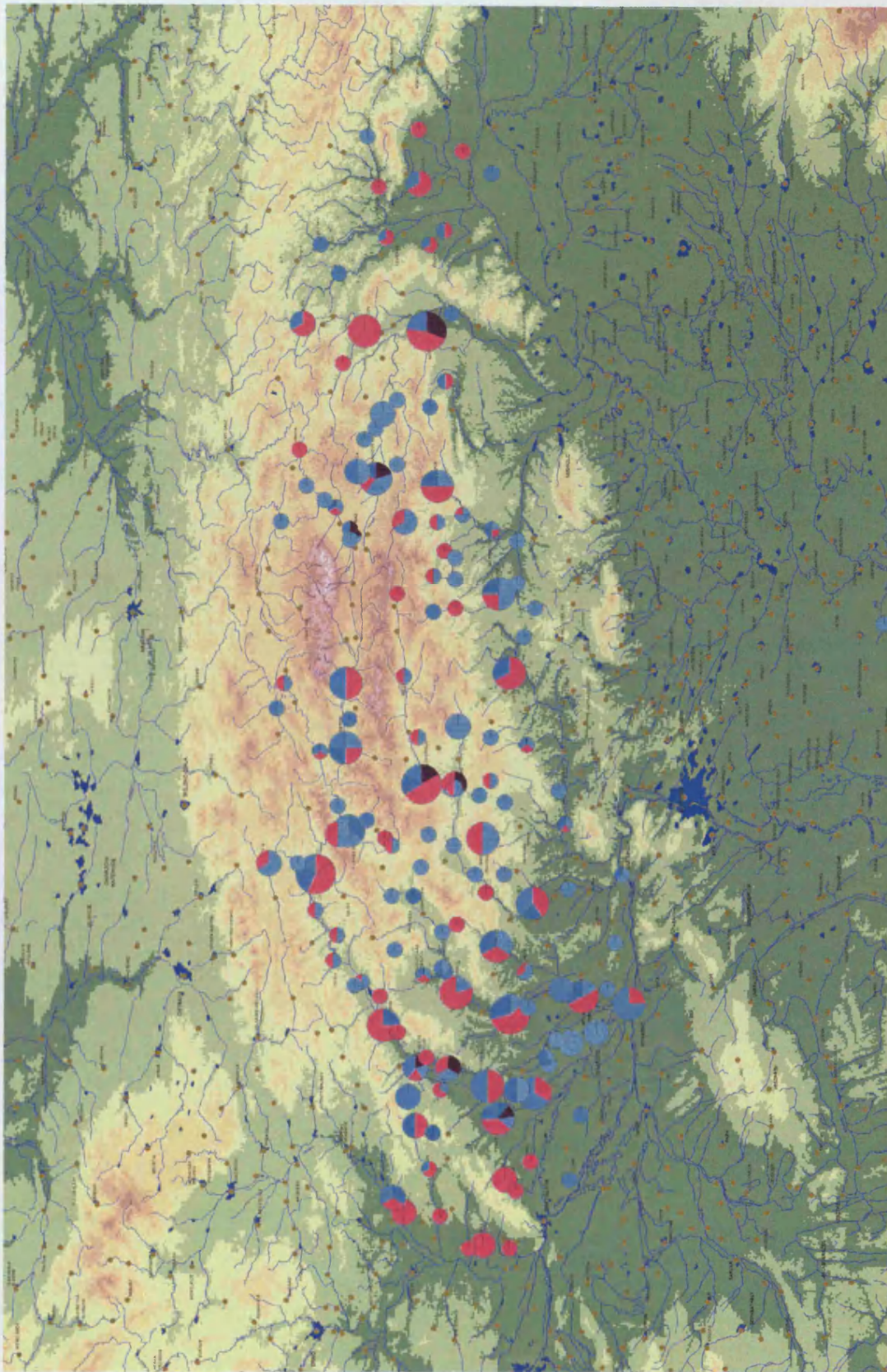
⁵⁵ See Jaroslav Pátek, 'Economic, social and political aspects of multinational interwar Czechoslovakia' in *Economic Change and the national Question*, p. 257.

⁵⁶ See Chapter 3, section 'Slovakia – integration with the Czech financial market'.

⁵⁷ Table 23 – Slovakia 1913/1925 – structure of the banking system.

⁵⁸ Czech financial influence in Slovakia had increased in the late 1920's and during the 1930's. See Faltus, 'Banking-industry relations in interwar Slovakia', pp. 146-149.

Map 14 Slovakia 1925 – branches penetrating the banking system



Blue indicates provincial banks or branches of provincial banks (branches are light blue). Violet indicates branches of Bratislava banks. Several branches of Prague or Moravian banks are indicated with black. The diameter of each mark is relative to the financial level of the town. Source PROVBANK DATABASE – Slovakia 1925.

During the concentration process of Slovak banking, several major banks emerged within the Slovak banking system. They were the Tatra Bank⁵⁹ (joint-stock capital Kč 75 m.) which expanded its network to 48 branches and agencies, and the Slovenská Banka (joint-stock capital Kč 70 m.) which had 37 branches in 1925. There were also two notable Bratislava banks – the Slovakische Allgemeine Bank (12 branches) and the Donau Bank (17 branches).⁶⁰ Several regional banks which expanded their branch networks have to be noted, such as the Zipser Bank AG Kesmark with 11 branches, the Narodna Banka US Banska Bystrica with 14 branches, and the Úvěrna Banka US in Zilina with 17 branches. As a result of mergers in the Slovakian banking system during the post-war years, in 1925 Bratislava retained 76.53 per cent of Slovakian joint-stock capital.⁶¹ The importance of local banking diminished to only 6.8 per cent, while previously dominant regional banking occupied only 16.64 per cent of total banking capital of Slovakia in 1925.⁶²

Indicators of structural integration also point to significant changes in Slovakian banking after the First World War.⁶³ In 1925 regional centres display a considerable level of vertical metropolitan integration (0.95) and a weakening of the indicator of independence (which fell from 0.82 in 1913 to 0.38 in 1925). The decline of the indicator of independence was even stronger in sub-regional centres, falling from 1.05 in 1913 to 0.41 in 1925. This was a result of the takeover of numerous regional banks by Bratislava banks. Changes in local banking indicate a similar shift from independent banking to vertically integrated banking, especially in small towns (the indicator of independence moved from

⁵⁹ Turčiansky Svätý Martin was a town with a strong Slovak national sentiment and a number of nationalist organisations – it was almost the centre of the Slovak cultural and political national movement. The Tatra bank was established in 1885 with the financial support of 8,290 shareholders, and could be understood as an attempt of the Slovaks to establish an economic nationalist movement. See Stanislav J. Kirschbaum, *A History of Slovakia* (New York, 1996), p. 137.

⁶⁰ It is important to note that several important banks were affiliations of Prague banks or Prague banks had strong influence in them.

⁶¹ It is hard to know how to count the position of the Tatra Bank. The 1925 joint-stock capital of the Tatra bank was Kč 75 m. and it was capitally the strongest bank in Slovakia, which expanded its network by taking over a number of local and regional banks in the period 1920-1926 and turning them into branches. The Tatra bank was registered in Turčiansky Svätý Martin, but had a head office in Bratislava, and its character is indicative of metropolitan banking. For that reason, the Tatra Bank was counted as a Bratislava bank in the 1925 analysis.

⁶² Table 24 – Slovakia 1913/1925 – vertical distribution of financial resources.

⁶³ For information about the methodology of calculation and meaning of structural integration indicators see pp 28-29.

0.82 in 1913 to 0.34 in 1925 in favour of the vertical metropolitan integration indicator which had increased from 0.02 in 1913 to 0.62 in 1925).⁶⁴

However, it seems that the remaining provincial banks in Slovakia retained a considerable level of independence. This is well displayed in the structure of liabilities. The major part of liabilities consisted of savings- approximately 75 per cent in 1925. The banks' own resources were typically 10-13 per cent of the total. The role of borrowed resources in the liabilities structure of Slovak provincial banks was only 7-18 per cent in 1925.⁶⁵ Slovak provincial banks were not very well integrated into the banking systems, either that of the Austro-Hungarian Monarchy, or that of Czechoslovakia.

The balance sheet analysis

Provincial banks in Slovakia experienced an extreme change in the structure of their assets between 1913 and 1925. After the war, the high proportion of undefined assets, 20-33 per cent, indicates a difficult situation. It was quite similar to the low proportion of mortgage loans which fell to five per cent. Regional banks held 20 per cent, while local banks retained 12 per cent, of their assets in securities, which was much more than in the pre-war period. Compared to the pre-war situation (2 per cent), banks retained a significant part of liquid resources in cash, giro account or loans to other banks – from 6 to 13 per cent. Consequently, the share of bills of exchange was much lower than before the war – regional banks lent, via bills, only around 28 per cent of assets, while local banks 36 per cent.⁶⁶

The collapse of Slovakian provincial banking after the War is apparent in the fall in liquidity and the reduction of long-term assets.⁶⁷ Furthermore, in 1925, provincial banks in Slovakia did not make profits, but rather losses.⁶⁸

The problems connected with the political, regulatory, macro- and micro-economic reasons for the disappearance of pre-war disaggregated provincial banking in Slovakia, and the

⁶⁴ Table 25 – Slovakia 1913/1925 – indicators of structural integration.

⁶⁵ Table 26 – Slovakia 1913/1925 – structure of the liabilities.

⁶⁶ Table 28 – Slovakia 1913/1925 – structure of assets.

⁶⁷ Table 29 – Slovakia 1913/1925 – long-term assets and liquidity.

⁶⁸ Table 27 – Slovakia 1913/1925 – profitability.

formation of a concentrated banking system, deserve further historical analysis.⁶⁹ State intervention played a significant role in this change. Rašin argues that the pre-war banking system of Slovakia, based on disaggregate petty banks, was not able to mobilize hoarded savings, so the state authorised several of the most qualified Czech Sparkassen to open branches in Slovakia and encouraged the creation of Sparkassen in Slovakia. The state also exercised strong supervision of provincial banks in Slovakia and many of them lost the right to collect savings.⁷⁰ All banks in Slovakia which held the name 'savings banks' had to change their names, because they were not established as regulated savings banks.⁷¹ It would be interesting to elucidate whether such a rapid change of the banking system of Slovakia was an attempt by Prague banks to take over control of the Slovak financial market, or an attempt by the state to provide Slovakia with cheap, good quality financial services. There may have been some other rationales – e.g. Czechoslovak nationalism against Hungarian and German economic elites in Slovakia.

Conclusion

The banking history of Slovakia is the history of a periphery. Before the First World War, as a result of the inability of Budapest banks to provide financial services to the whole of Transleithenia, Upper Hungary was not integrated into the banking system of the Hungarian Kingdom. The financial influence of Budapest was limited to several regional centres. At the same time, the economy, based on strong local entrepreneurs, was playing 'catch-up' and needed credit. The result was well developed banking in provincial towns, which often expanded into local branch networks.

After the war, when Slovakia came under the influence of a much stronger Czech banking system, the whole banking system rapidly changed. Provincial banks were not able to resist the economic and political influence of a much more developed financial centre. Within only twelve years, the highly independent provincial banking of Upper Hungary became an integrated banking system of Slovakia. This process occurred through the concentration of banking in several strong banks in Bratislava and the development of their branch networks.

⁶⁹ Interested readers could study the works of Jozef Faltus and Roman Holec.

⁷⁰ Rašin, *Financial Policy of Czechoslovakia*, p. 134.

Taking into account the role of political factors in this process, future research on this process can be expected, probably undertaken separately by Czech, Slovak, Hungarian and German historians.

⁷¹ See the list of the names of banks in Slovakia before and after the First World War in *Magyar Compass 1925-1926*, Vol. 1 (Budapest, 1926), pp. 725-730.

Tables – structural data

Table 23 Slovakia 1913/1925 – structure of the banking system

Financial level	Bratislava	Regional centres	Sub-regional centres	Small towns	Very small towns
1913					
Total towns	1	4	18	31	99
Total banks + branches	16	25	66	75	142
<i>Average banks + branches/town</i>	<i>16</i>	<i>6.25</i>	<i>3.66</i>	<i>2.41</i>	
Private banks	1	2	0	1	0
Commercial banks with branches	0	3	20	13	9
Comm. banks without branches	10	16	39	42	74
Branches of Hungarian banks	4	2	0	1	4
Branches of regional banks	1	2	6	10	38
Branches of local banks	1	2	1	9	17
Credit cooperatives	5	6	11	16	28
1925					
Total towns	1	4	18	31	91
Total banks + branches	31	33	77	80	145
<i>Average banks + branches/town</i>	<i>31</i>		<i>4.27</i>		<i>1.59</i>
Private banks	13	4	4	1	1
Commercial banks with branches	8	5	11	8	4
Comm. banks without branches	8	5	12	14	20
Branches of Bratislava banks		16	35	30	44
Branches of regional banks	1	1	11	19	49
Branches of local banks	0	0	3	4	24
Branches of Prague banks	12	5	2	3	2
Branches of Moravian bank	2	1	0	1	2
Sparkassen	1	0	3	1	0

Source: PROVBANK DATABASE – Slovakia 1913/1925 identification database – final calculations.

Table 24 Slovakia 1913/1925 – vertical distribution of financial resources

Financial level	1913 joint-stock capital (K m.)	Per cent of total	1925 joint-stock capital (Kč m.)	Per cent of total
Bratislava	6.2	7.35 %	325.5	76.53 %
Regional centres	12.4	14.62 %	29.3	6.89 %
Sub-regional centres	36.2	42.82 %	41.5	9.75 %
Small towns	17.9	21.26 %	20,3	4.77 %
Very small towns	11.8	13.95 %	8.7	2.06 %
Total	84.6	100.00 %	425.3	100.00 %

Source: PROVBANK DATABASE – Slovakia 1913/1925 balance sheet database – final calculations.

Table 25 Slovakia 1913/1925 – indicators of structural integration

Coefficient of integration	Regional Centres	Sub-regional centres	Small towns	Very small towns
1913				
Independence	0.82	1.05	0.82	0.62
Vertical metropolitan	0.08	0	0.02	0.01
1925				
Independent	0.38	0.41	0.34	0.18
Vertical metropolitan	0.95	0.72	0.62	0.48

Source: PROVBANK DATABASE – Slovakia 1913/1925 identification database – final calculations.

Tables – balance sheets data

Table 26 Slovakia 1913/1925 – structure of the liabilities

Financial level	1913			1925		
	Own resources	Savings and cc	Borrowed resources	Own resources	Savings and cc	Borrowed resources
Bratislava	0.10	0.80	0.08			
Regional centres	0.16	0.67	0.14	0.10	0.81	0.07
Sub-regional centres	0.16	0.66	0.14	0.12	0.67	0.18
Small towns	0.16	0.71	0.10	0.13	0.77	0.09
Very small towns	0.19	0.69	0.09	0.13	0.74	0.10

Source: PROVBANK DATABASE – Slovakia 1913/1925 balance sheet database – final calculations

Table 27 Slovakia 1913/1925 – profitability

Financial level	1913		1925	
	Profit/capital	Profit/total	Profit/capital	Profit/total
Bratislava	20 %	1.1 %		
Regional centres	19 %	1.8 %	-39 %	-3.9 %
Sub-regional centres	17 %	1.8 %	5 %	0.3 %
Small towns	19 %	2.0 %	14 %	1.0 %
Very small towns	18 %	2.0 %	-16 %	-3.3 %

Source: PROVBANK DATABASE – Slovakia 1913/1925 balance sheet database – final calculations.

Table 28 Slovakia 1913/1925 – structure of assets

Financial level	Cash + banks/ total	Securities/ total	Bills/ total	Mortgage/ total	Property/ total	Other loans/ total
1913						
Bratislava	0.024	0.015	0.224	0.33	0.04	0.18
Regional centres	0.019	0.002	0.45	0.28	0.02	0.14
Sub-regional centres	0.025	0.007	0.44	0.27	0.02	0.15
Small towns	0.021	0.004	0.45	0.23	0.04	0.19
Very small towns	0.024	0.006	0.54	0.20	0.01	0.16
1925						
Regional centres	0.057	0.204	0.28	0.05	0.05	0.31
Sub-regional centres	0.065	0.209	0.29	0.06	0.03	0.33
Small towns	0.133	0.117	0.35	0.05	0.03	0.30
Very small towns	0.075	0.121	0.37	0.14	0.03	0.20

Source: PROVBANK DATABASE – Slovakia 1913/1925 balance sheet database – final calculations

Table 29 Slovakia 1913/1925 – long-term assets and liquidity

Financial level	1913			1925		
	Long-term assets	Liquidity average	Liquidity min/max	Long-term assets	Liquidity average	Liquidity min/max
Bratislava	0.38	0.69				
Regional centres	0.31	0.84	0.69/0.98	0.09	0.61	0.48/0.78
Sub-regional centres	0.30	0.86	0.56/1.12	0.09	0.72	0.38/1.24
Small towns	0.28	0.89	0.50/1.14	0.08	0.77	0.54/1.04
Very small towns	0.22	1.0	0.20/2.10	0.18	0.72	0.32/1.12

Source: PROVBANK DATABASE – Slovakia 1913/1925 balance sheet database – final calculations.

VOJVODINA

Before the war

In this research, the term Vojvodina is used for a part of the southern Panonian valley included in the territory of Yugoslavia after the First World War.⁷² During the whole of the nineteenth and twentieth centuries, Vojvodina was a very economically active region, thanks to very fertile land and a dense network of railways and navigable rivers (Danube, Sava, Tisza). Even before the development of the railway network of Transleithenia, grain from Vojvodina was exported via the Sava and Kupa rivers, passing the towns of Sisak and Karlovac in Croatia, through the port of Rijeka, and onto the world market.⁷³ Agriculture and agricultural-related industry was, thanks to fertile land, good communications and a lack of agricultural overpopulation, a basis for the economic growth and capital accumulation of Vojvodina.

The historical development of this region, together with its economic opportunities, subjected the 'Borderland of Vojvodina' to economic and political immigration, both from close neighbours and from distant land-seekers, artisans and merchants. The region was characterized by a considerable level of ethnic heterogeneity. Hungarians, Serbs, Germans, Croats, Romanians and Jews, and to a lesser extent Slovaks and Czechs lived, traded, produced grain, founded industries, competed and cooperated in this specific borderland region.

Subotica, with a population of 95,000 in 1910 was the region's biggest town. However, it did not develop into the financial centre. In 1913, only 14.4 per cent of the banking joint-stock capital of Vojvodina was concentrated in Subotica.⁷⁴ Other regional centres were Novi Sad (34,000 people 1910), Pančevo (21,000 people), Veliki Bečkerek (26,000 people) and Vršac (27,000 people). The Austro-Hungarian Bank had agencies in Novi

⁷² For the territorial and political meaning of the term Vojvodina, see the article 'Political and legal status of Vojvodina from the end of XVII to the end of twentieth century' in Gaćeša, *Istorija bankarstva u Vojvodini*. In a political sense, the text suffers a little bit from Serbian nationalism, but has historiographical value.

⁷³ See Karaman Igor, *Privredni život banske Hrvatske od 1700. do 1850* (Zagreb, 1989), pp. 49-100; 223-246.

⁷⁴ Table 31 – Vojvodina 1913/1925 – vertical distribution of financial resources.

Bečej (7,700), Senta (29,7000), Sombor (31,000), Stari Bečej (19,500) and Velika Kikinda (27,000). Banks had an important role in the financing of agriculture and trade in agricultural products.⁷⁵ It is not surprising that regional economic centres, which had an important role as an agricultural trade centre developed strong banking. In ten regional and sub-regional centres (including Subotica), there were 50 banks and 11 branches.⁷⁶ Regional and sub-regional centres were the backbone of banking capacity in Vojvodina, with 51.8 per cent of the Vojvodina banking joint-stock capital in 1913.⁷⁷

Thanks to a considerable level of economic activity, Vojvodina attracted large banks from Budapest and Temesvar, with a number of branches and also affiliated links with Vojvodina banks being established.⁷⁸ These banks were mostly interested in financing trade, and their affiliations could be found in towns that were trade centres. Subotica had two branches and four affiliations while other regional and sub-regional centres had seven branches and eight affiliations.⁷⁹ However, the main body of the banking system was composed of provincial banks.

The considerable level of economic activity and profitable market-oriented agriculture assisted the formation of economic elites at a local level.⁸⁰ There was a complex provincial banking system in the small territory of Vojvodina. Banking in small and very small towns was composed of 32 branches and 101 banks. The existence of seven local municipal banks indicates that elites in Vojvodina were convinced of the importance of the creation of local banks.⁸¹ It is not surprising that local banking accounts for as much as 26.2 per cent of the Vojvodina banking capital.⁸² Two branches and three affiliations of Hungarian banks in small towns are an indication of the intense financial life in Vojvodina.

Before the First World War provincial banking in Vojvodina developed its networking strategy. Local bank networking was mostly limited to simple vertical networking – from

⁷⁵ Ana Rudić, 'Bankarstvo u Vojvodini 1918-1929' in Gaćeša, *Istorija bankarstva u Vojvodini*, pp. 288-289.

⁷⁶ Table 30 – Vojvodina 1913/1925 – structure of the banking system.

⁷⁷ Table 31 – Vojvodina 1913/1925 – vertical distribution of financial resources.

⁷⁸ See PROVBANK DATABASE.

⁷⁹ Table 30 – Vojvodina 1913/1925 – structure of the banking system.

⁸⁰ See Mijo Mirković, *Ekonomska historija Jugoslavije* (Pula, Rijeka, 1985), Vol. I, pp. 325-334.

⁸¹ Table 30 – Vojvodina 1913/1925 – structure of the banking system.

⁸² Table 31 – Vojvodina 1913/1925 – vertical distribution of financial resources.

provincial town's bank to one, or a few smaller neighbouring towns. Yet, Pančevo banks developed stronger networks: in 1913 the Pančevačka Kreditna Banka had five branches, and the Pančevačka Pučka Banka had eight branches in small towns around Pančevo.⁸³ The remaining few branches of regional banks were simple vertical links to smaller neighbouring towns.

Indicators of structural integration are a testament to the considerable level of independence of Vojvodina provincial banking in 1913.⁸⁴ Independent indicators varied between 0.77 and 0.93, depending on the financial level. Vertical integration with Budapest was weak – only 0.05 in regional centres.⁸⁵

The balance sheet analysis

The structure of the liabilities of provincial banking in Vojvodina in 1913 indicates stable banking. The banks' own resources accounted for 16-19 per cent, and savings accounted for approximately 50 per cent of the liabilities in 1913. The significant share of savings accounts in very small towns (65 per cent) resulted from isolation. Borrowed resources in regional centres accounted for 35 per cent, and their importance diminished at lower financial levels, being only 14 per cent in very small towns.⁸⁶

In 1913 the structure of assets of banks in Vojvodina could almost be called typical for provincial banking in agriculturally rich regions. Most assets were bills of exchange, financing the seasonal trade of agricultural production. Bills accounted for from 54 per cent in regional centres to 74 per cent in very small towns. A need for agricultural modernisation, a demand for long-term loans and the possibility of mortgages on landholdings, led to mortgage loans accounting for 24 per cent in regional and 19 per cent in sub-regional centres. Banks in small and very small towns were not able to offer such a high proportion of long-term loans, and therefore their mortgage loans amounted to only 8-12 per cent of assets. Having a considerable level of independence and profitable investments in their surroundings, banks in Vojvodina were not too interested in securities.

⁸³ See PROVBANK DATABASE.

⁸⁴ For information about the methodology of calculation and meaning of structural integration indicators see pp 28-29.

⁸⁵ Table 32 – Vojvodina 1913/1925 – indicators of structural integration.

⁸⁶ Table 33 – Vojvodina 1913/1925 – structure of the liabilities.

Securities could only be found among banks in regional centres (7.7 per cent). Investments in buildings accounted for only one per cent of the total balance (with the exception of regional banks). The stable economic situation allowed banks to maintain a typical two per cent of assets in cash or liquid resources.⁸⁷

Provincial banking in Vojvodina was a very profitable business. Owners of provincial banks could expect a profit of 17-22 per cent on capital before the War. Yet, banking services were not too expensive, as the profit/total ratio was approximately two per cent with some variations.⁸⁸

In the introductory paragraphs, the ethnically mixed population of Vojvodina was mentioned. The question is: to what extent did ethnical heterogeneity influence the banking system? In 1913, most banks lacked a national indication in their names. Instead, they used territorial or business designations. Territorial designation was important for local banking. Provincial banks in very small towns used a territorial designation in 86.5 per cent of all cases, while in small towns 70 per cent of the banks used territorial designations and another 28 per cent used some other non-national designation such as 'popular', 'business' or 'savings' banks. However, in regional centres 18.2 per cent of banks had a Serbian national designation. This is somewhat less pronounced in sub-regional centres where there were only two Serbian banks.⁸⁹ However, the financial capacity of Serbian banks was very small in 1913 – the average joint-stock capital of banks with Serbian designations in regional centres (including Subotica) was only K 0.36 m., while the average joint-stock capital of all banks in regional centres was K 0.73 m. The emerging Serbian entrepreneurial elites tried to strengthen their economic and entrepreneurial positions by organising national banks.

The credit cooperative movement in Vojvodina was not typical of small peasants and artisans. Apart from some Serbian national credit cooperatives and state promoted OKH cooperatives, most credit cooperatives fulfilled the same function as provincial banks. Agricultural-based business in Vojvodina generated specific local elites whose strength was based on income from large and medium-sized landholdings, land speculation, and trade of agricultural products. Such local elites formed not only banks, but also credit

⁸⁷ Table 35 – Vojvodina 1913/1925 – structure of assets.

⁸⁸ Table 34 – Vojvodina 1913/1925 – profitability.

⁸⁹ Table 37 – Vojvodina 1913 – names of the joint-stock banks.

cooperatives which existed even in very small towns and villages.⁹⁰ Their credit cooperatives had the function of satisfying the credit needs of local elites; of banks-entrepreneurs which allowed joint business operations; and of banks-usurers who drained profit as a result of problems which agricultural entrepreneurs and peasants had because of seasonal income. A number of local banks commenced their operation as credit cooperatives, before moving to the joint-stock capital legal form. For example, Vršačka zadruga za štednju i predujam established in 1897 as a credit cooperative changed to joint-stock company status in 1904.

After the War

After the First World War Vojvodina became part of the Kingdom S.H.S. It was economically the most developed region of the new state. During the 1920s Vojvodina provided 25 per cent of all direct tax revenues of the Kingdom S.H.S.⁹¹

Banking in post-war Vojvodina was shaped by the breaking of credit links with big Hungarian banks and attempts to nationalise German and Hungarian provincial banks. A number of banks changed ownership. There were also liquidations, the creation of new banks and takeovers, many as a result of the process of nostrification which occurred in Vojvodina after the war.⁹² Good business years thanks to inflation and the profitability of agriculture during the 1920s also attracted Zagreb and Belgrade banks to open branches in Vojvodina.

The influence of Hungarian banks was replaced by the influence of Zagreb and Belgrade. In place of Hungarian banks, branches of banks from Belgrade, Zagreb, Ljubljana and Sarajevo penetrated Vojvodina banking. In 1925, in regional and sub-regional centres (including Subotica), Zagreb banks had 12 branches, those of Belgrade eight branches, Sarajevo three branches and Ljubljana three branches. Belgrade banks also penetrated the local banking sector with six branches. The role of these branches in the Vojvodina

⁹⁰ See long list of local banks and credit cooperatives in Vojvodina 1913 – identification data-base.

⁹¹ Rudić, 'Bankarstvo u Vojvodini 1918-1929', p. 315.

⁹² About the legal and practical process of 'nationalisation' of Vojvodina banking see Gaćeša, *Istorija bankarstva u Vojvodini*, pp. 281-287.

economy was important – it seems that these branches were the real owners of most of big business and industry in post-war Vojvodina.⁹³ The banking business of Vojvodina was divided between several major banks outside Vojvodina and weak and disaggregated Vojvodina provincial banking.⁹⁴

After the First World War, Vojvodina was the scene of financial attacks on Hungarian and German populations and their financial institutions. It was a result of post-war revenge, the economic nationalism of Serbs in Vojvodina, and the interest of the state in the resources of those banks. In the post-war struggle for Hungarian and Austrian war reparations and the joint property of the successor states, it was also useful for the new state to retain some arguments for political negotiations. In the period 1919-1922, a number of banks in Vojvodina were under sequestration and the administrative control of the state, while the savings of the Hungarian and German populations were frozen in those institutions. In 1922, most Hungarians and Germans in Vojvodina obtained Yugoslav citizenship, and so there were no more reasons for such a policy. However, the state continued with this policy until 1924, while the process of returning the ownership of banks to their owners continued. Also, in 1922, the state imposed political control on joint-stock banks. Banks mostly resolved the problem by installing important Serbian nationalists or members of state bureaucracy on the boards and paying them some benefits – but these people rarely had any impact on the business of the bank.⁹⁵ This turbulent period of banking history in Vojvodina displays to what extent provincial banks, deeply rooted within local economic elites, were resistant. They were resistant, because most provincial banks remained active, saved their capital and maintained their position in the local economy.⁹⁶

After the war, Serbs in Vojvodina took a leading political position, but the growth of the number of banks with Serbian national designations in sub-regional centres and very small towns was limited. Nevertheless, the financial capacity of most Serbian banks in regional and sub-regional centres had increased from being mostly insignificant in 1913 to

⁹³ See Rudić, 'Bankarstvo u Vojvodini 1918-1929', p. 309.

⁹⁴ Ibid.

⁹⁵ Gaćeša, *Istorija bankarstva u Vojvodini*, p. 285.

⁹⁶ For a more detailed account see Gaćeša, *Istorija bankarstva u Vojvodini*, pp. 276-287.

competitive in 1925. The average joint-stock capital of banks with Serbian designations in regional and sub-regional centres was Din 1.9 m. – the same as the average for all banks.⁹⁷

The main change in regional banking was the diminishing financial position of Subotica. Novi Sad grew as the administrative and financial centre of Serbian capital and became the business centre of Vojvodina after the First World War. However, the banking capacity of Novi Sad stayed lower than Subotica because of the failure of Srpska Zadružna Banka, which had grown to become the biggest Vojvodina bank during the early 1920s. The bank, which had made attempts to become a leader on the Vojvodina financial market, developed a dense network of branches but failed because of loosing liquidity thanks to the over-investment policy of the bank. The lack of one dominant financial centre or dominant bank in Vojvodina was one of the serious limits of banking in Vojvodina.⁹⁸

All these changes in banking are only apparent in the structural analysis to some extent. The number of provincial banks remained almost the same as before the war. Regional banking, which was composed of 53 banks and 11 branches in 1913, now had 43 banks and 29 branches. Local banking, which had 107 banks and 32 branches in 1913, was composed of 98 banks and 30 branches in 1925. Thus, the main structural change occurred in regional banking, while local banking continued with a similar structure. The distribution of financial capacity remained very similar to 1913.⁹⁹

A considerable level of independence in local banking and sub-regional centres (0.73-0.76) continued in 1925, but had declined in regional centres (0.56).¹⁰⁰ Horizontal integration remained insignificant, except at the level of very small towns (0.11). Vertical integration had increased after the First World War to 0.39 in regional centres, and remained almost the same as in 1913 in sub-regional centres and small towns.¹⁰¹

⁹⁷ Calculated from PROVBANK DATABASE – Vojvodina 1925 – balance sheet database.

⁹⁸ Rudić, 'Bankarstvo u Vojvodini 1918-1929', pp. 292-293.

⁹⁹ See Table 31 – Vojvodina 1913/1925 – vertical distribution of financial resources.

¹⁰⁰ About methodology of calculation and meaning of structural integration indicators see page 27.

¹⁰¹ Table 32 – Vojvodina 1913/1925 – indicators of structural integration.

The balance sheet analysis

However, the balance sheet structure changed. The association of banks in Vojvodina often argued about the lack of credit support from the central banks.¹⁰² After the First World War, provincial banks in Vojvodina relied more on resources available in the provincial economy than in 1913. The importance of savings accounts was approximately 70 per cent in 1925, while borrowed resources were only around ten per cent – two to three times less than in 1913.¹⁰³

Because of fears of inflation and economic instability after the war, banks in Vojvodina reduced mortgage loans and augmented liquid resources (cash + deposits at other banks) to eight to ten per cent. Bills accounts were approximately 60 per cent of assets (with the exception of regional banks which had 46 per cent). The 'other loans' item, whose structure is not entirely clear, was a significant 25-27 per cent (regional banks had as much as 37 per cent of undefined assets).¹⁰⁴

Conclusion

Gaćeša recognised one important problem of Vojvodina – it never developed its own financial centre or one strong leading bank.¹⁰⁵ Vojvodina was one region which allowed a high accumulation of capital. However, it lacked the ability to enclose the region in one financial market. National heterogeneity, good transport communications and the geographical openness of regions are factors which were obstacles for the concentration of finances. Like Moravia, Vojvodina was too exposed to external economic and political influence to be able to develop a regional concentration of finances.

Before the First World War a considerable level of economic activity and capital accumulation had led to the formation of links to banks outside the region, and intensive provincial banking. Finances were concentrated in regional and sub-regional economic centres – centres of trade and agricultural-related industry.

¹⁰² See *Izveštaj udruženja vojvodanskih banaka* for years 1926, 1927, 1928, 1929.

¹⁰³ Table 33 – Vojvodina 1913/1925 – structure of the liabilities.

¹⁰⁴ Table 35 – Vojvodina 1913/1925 – structure of assets.

¹⁰⁵ Gaćeša, *Istorija bankarstva u Vojvodini*, p. VII.

With the formation of Yugoslavia, political changes led to a redirection of links from Hungary-oriented to Yugoslavia-oriented. Political factors caused the weakening of a number of local banks and the strengthening of Serbian national banking. The wealth and economic activity of regional centres attracted Zagreb and Belgrade banks.

Tables – structural data

Table 30 Vojvodina 1913/1925 – structure of the banking system

Classification groups	Subotica	Regional centres	Sub-regional centres	Small towns	Very small towns
1913					
Total towns	1	4	5	39	47
Total banks + branches	12	28	23	86	53
<i>Average banks+branches/town</i>	<i>12</i>	<i>7</i>	<i>4.6</i>	<i>2.20</i>	<i>1.13</i>
Municipal banks	0	0	1	1	5
Commercial banks with branches	1	4	1	7	0
Comm. banks without branches	8	20	16	55	39
Branches and agencies of Hungarian banks	2	3	3	3	0
Branches and agencies of regional banks	1	0	1	14	3
Branches and agencies of local banks	0	1	0	6	6
1925					
Total towns	1	4	5	36	47
Total banks + branches	11	39	22	73	55
<i>Average banks+branches/town</i>	<i>11</i>	<i>9.75</i>	<i>4.4</i>	<i>2.03</i>	<i>1.17</i>
Municipal banks	1	0	0	0	4
Commercial banks with branches	1	3	1	5	1
Comm. banks without branches	3	19	15	51	37
Branches of regional banks	0	1	1	9	5
Branches of local banks	0	1	0	3	6
Branches of BG banks	1	6	1	4	2
Branches of ZG banks	4	5	3	1	0
Branches of LJU/SA bank	1	4	1	0	0

Source: PROVBANK DATABASE – Vojvodina 1913/1925 identification database – final calculations.

Table 31 Vojvodina 1913/1925 – vertical distribution of financial resources

Financial level	1913 joint-stock capital (K m.)	Per cent of total	1925 joint-stock capital (Din m.)	Per cent of total
Subotica	7.0	14.40 %	16.1	14.17 %
Regional centres	17.8	36.63 %	38.2	33.64 %
Sub-regional centres	7.4	15.22 %	21.0	18.49 %
Small towns	12.7	26.19 %	20.6	18.17 %
Very small towns	3.7	7.56 %	17.6	15.53 %
Total	48.6	100.00 %	113.6	100.00 %

Source: PROVBANK DATABASE – Vojvodina 1913/1925 balance sheet database – final calculations.

Table 32 Vojvodina 1913/1925 – indicators of structural integration

Coefficient of integration	Regional centres	Sub-regional centres	Small towns	Very small towns
1913				
Independent	0.93	0.84	0,77	0,83
Vertical metropolitan	0.05	0	0,02	0
1925				
Independent	0.60	0.75	0,80	0,77
Vertical metropolitan	0.58	0.34	0,10	0,05

Source: PROVBANK DATABASE – Vojvodina 1913/1925 identification database – final calculations.

Tables – balance-sheets data

Table 33 Vojvodina 1913/1925 – structure of the liabilities

Financial level	1913			1925		
	Own resources	Savings and cc	Borrowed resources	Own resources	Savings and cc	Borrowed resources
Regional centres	0.16	0.45	0.35	0.12	0.68	0.15
Sub-regional centres	0.17	0.54	0.25	0.22	0.64	0.08
Small towns	0.19	0.50	0.27	0.13	0.72	0.11
Very small towns	0.17	0.65	0.14	0.15	0.75	0.06

Source: PROVBANK DATABASE – Vojvodina 1913/1925 balance sheet database – final calculations

Table 34 Vojvodina 1913/1925 – profitability

Financial level	1913		1925	
	Profit/capital	Profit/total	Profit/capital	Profit/total
Regional centres	17.5 %	2.0 %	24.7 %	2.1 %
Sub-regional centres	22.7 %	2.1 %	20.9 %	3.6 %
Small towns	16.6 %	2.1 %	21.7 %	1.6 %
Very small towns	19.6 %	2.0 %	35.1 %	2.1 %

Source: PROVBANK DATABASE – Vojvodina 1913/1925 balance sheet database – final calculations.

Table 35 Vojvodina 1913/1925 – structure of assets

Financial level	Cash + banks/ total	Securities/ total	Bills/ total	Mortgage/ total	Property/ total	Other loans/ total
1913						
Regional centres	0.023	0.077	0.54	0.24	0.02	0.09
Sub-regional centres	0.016	0.055	0.68	0.19	0.01	0.04
Small towns	0.019	0.038	0.72	0.12	0.01	0.07
Very small towns	0.029	0.011	0.74	0.08	0.01	0.10
1925						
Regional centres	0.108	0.028	0.46	0.00	0.02	0.37
Sub-regional centres	0.080	0.022	0.60	0.00	0.01	0.27
Small towns	0.082	0.028	0.61	0.00	0.01	0.25
Very small towns	0.081	0.034	0.59	0.01	0.00	0.28

Source: PROVBANK DATABASE – Vojvodina 1913/1925 identification database – final calculations.

Table 36 Vojvodina 1913/1925 – long-term assets and liquidity

Financial level	1913			1925		
	Long-term assets	Liquidity Average	Liquidity Min/max	Long-term assets	Liquidity Average	Liquidity Min/max
Regional centres	27.0 %	0.89	0.77/1.05	7.1 %	1.11	1.01/1.15
Sub-regional centres	20.4 %	1.00	0.62/1.30	2.6 %	1.36	1.15/1.76
Small towns	14.2 %	1.11	0.69/1.97	3.6 %	1.17	0.90/1.70
Very small towns	11.1 %	1.09	0.75/1.60	1.5 %	1.27	0.89/2.37

Source: PROVBANK DATABASE – Vojvodina 1913/1925 balance sheet database – final calculations.

Tables – economic nationalism

Table 37 Vojvodina 1913 – names of the joint-stock banks

Classification level	Regional centres (included Subotica)		Sub-regional centres		Small towns		Very small towns	
1913								
Name with territorial determination	18	54.6 %	12	70.6 %	45	70.3 %	32	86.5 %
Other	8	24.2 %	3	17.6 %	18	28.1 %	5	13.5 %
Slovak national determination	1	3.0 %	0	0	0	0	0	0
Serbian national determination	6	18.2 %	2	11.8 %	1	1.6 %	1	2.7 %
Total joint-stock banks	33	100.0 %	17	100.0 %	64	100.0 %	37	100.0 %
1925								
Name with territorial determination	8	30.8 %	11	68.7 %	35	62.5 %	25	65.7 %
Other	12	46.1 %	2	12.5 %	20	35.7 %	8	21.0 %
Slovak national determination	1	3.8 %	0		0	0	0	0
Serbian national determination	5	19.2 %	3	18.7 %	1	1.7 %	5	13.1 %
Total joint-stock banks	26	100.0 %	16	100.0 %	56	100.0 %	38	100.0 %

Source: PROVBANK DATABASE – Vojvodina 1913/1925 identification database – final calculations.

CROATIA

Before the war

The process of the national formation and political unification of Croatia was long. In 1913, continental Croatia and part of the Adriatic coast, Slavonia and Srijem were under the jurisdiction of the Croatian parliament and held the title Kingdom of Croatia and Slavonia. Until the First World War, Dalmatia was an Austrian province. The port of Rijeka (Fiume) was neither under Croatian jurisdiction in 1913, nor during the interwar period. Prior to the First World War Rijeka was the principal export point of Hungary and had an impact on the economic development of Croatia and the formation of economic elites in the Croatian territory in the vicinity of Rijeka. The economic and political development of the eastern part of Srijem during the interwar years was similar to the region called 'Borderland of Vojvodina'.¹⁰⁶

Map 15 Croatia 1913 – administrative division



¹⁰⁶ Srijem was a fertile agricultural region between the rivers Sava and Danube. For historical reasons, agricultural overpopulation in Srijem was rather low. In Srijem there was a peaceful co-existence of small subsistence landholdings and capitalist, market-oriented big and medium-sized landholdings. Srijem was

Croatia developed a banking system which was to a great extent independent from Vienna and Budapest. In the nineteenth century, in the early stage of the development of the system, Croatia did not have a high enough level of economic activity to attract foreign banks.¹⁰⁷ Later on, the development of local and regional banks in Croatia filled most of the credit needs which could have attracted foreign banks. The language barrier and nationalism were also obstacles for the penetration of Hungarian or Austrian banks into the territory of Croatia. Savings were, to a great extent, absorbed by the early developed and well-managed Prva Hrvatska Štedionica, and foreign banks could not rely on local savings. Branches and affiliations of Hungarian, Austrian and Czech banks were limited to the big centres of Zagreb, Osijek and Fiume.

The financial system of Croatia and Slavonia was dominated by the strong position of Zagreb. On the eve of the First World War, Zagreb, the seat of the Croatian parliament, was a town of approximately 60,000 people, the administrative centre and the political capital of Croatia and Slavonia. The most important banks were Prva Hrvatska Štedionica, Hrvatska Slavonska Zemaljska Hipotekarna Banka d.d., Srpska Banka d.d., Hrvatska Eskomptna Banka, Hrvatska Poljodjelska Banka d.d. and Hrvatska Sveopća Kreditna Banka d.d. Apart from these, there were another 15 banks and exchange houses, and branch offices which connected Zagreb to Vienna,¹⁰⁸ Budapest¹⁰⁹ and Prague.¹¹⁰ In addition, in Zagreb there were 27 credit-savings cooperatives of various, usually specialised, types.

Apart from the economic strength of Zagreb, which attracted most of the trade undertaken by other parts of Croatia, its position as a financial centre resulted from the branch policy of some of its most important banks. In 1913, the Prva Hrvatska Štedionica had branches and agencies in 21 towns in Croatia and Slavonia, while the Serbian Bank supported the development of a network of Serbian savings banks in those parts of Croatia where Serbs

also a region with a long trade and entrepreneurial tradition. Before building the railway lines, significant trade and transport of grain were organised via the river Sava to the export port Fiume.

¹⁰⁷ See Lampe's opinion, *Balkan Economic History*, p. 303.

¹⁰⁸ In Zagreb, there was a branch of the Austro-Hungarian Bank and a branch of Wiener Bank-Vereins.

¹⁰⁹ Branch of Magyar Bank és Kereskedelmi Részvénytársaság.

¹¹⁰ The connection to Prague was somewhat complicated. In Zagreb, there was a branch of the Hrvatska Zemaljska Banka Osijek which was the biggest bank in Slavonia. Hrvatska Zemaljska Banka in Osijek was a formation of Živnostenská Banka in Prague.

had settled.¹¹¹ The Hrvatska Poljodjelska Banka¹¹² and the Hrvatska Pučka Banka also had branches. The collection of savings had an impact on the development of the branch network. One has to take note of the numerous branches in Primorje, the coastal area around the town of Rijeka-Fiume. The reason for such a dense web of branches was the amount of savings which could be collected in this area, whose population had relatively high savings coming from businesses in connection with the town of Fiume,¹¹³ seafaring tradition or temporary emigration to America.

The other two regional financial centres where the Austro-Hungarian Bank had branches, were Osijek and Varaždin. The financial position of Osijek, a town of 31,500 people, was determined by it being the administrative centre of the agricultural region of Slavonia. Osijek had the powerful Hrvatska Zemaljska Banka and financial connections with Zagreb,¹¹⁴ Vienna,¹¹⁵ Budapest¹¹⁶ and Prague.¹¹⁷ There were also five local banks and one exchange office. Varaždin (12,000 inhabitants) had only four local banks, one exchange office, a branch of the Prva Hrvatska Štedionica and several savings-credit cooperatives. However, Varaždin was an important administrative and artisan centre that dominated north-western Croatia. The Austro-Hungarian Bank's branch not only did business with Varaždin banks, but also with numerous local banks in nearby places and towns of north-western Croatia.¹¹⁸ After the First World War, Osijek and Varaždin lost some of their

¹¹¹ See section about economic nationalism of Serbs in Croatia.

¹¹² Hrvatska Poljodjelska Banka was a bank of the Catholic Church in Croatia. It started its operation as the central bank of the credit cooperative movement, but several years after its formation it developed a more commercially-oriented business structure, which was greatly involved in the estate business. The bank was also successful in attracting savings in emigrant regions.

¹¹³ Before the development of the railway to Fiume, in the early nineteenth century, transport to Fiume was mostly in the hands of people from Primorje. They developed a strong entrepreneurial spirit ('man from Primorje' was a synonym for a smuggler) which continued in other forms after the railway line was built.

¹¹⁴ Branches of Prva Hrvatska Štedionica and Hrvatska Eskomptna Banka.

¹¹⁵ Branch of the Austro-Hungarian Bank.

¹¹⁶ Branch of Pest Magyar Kereskedelmi Bank.

¹¹⁷ Osijek's big bank – Hrvatska Zemaljska Banka was founded as an affiliation of Živnostenská Banka.

¹¹⁸ In the accounting book of the Varaždin's branch of the Austro-Hungarian Bank for 1900 are listed all the most important local banks from Križevci, Bjelovar, Pregrada, Krapina, Ludbreg, Koprivnica, Varaždin, Đurđevac, Virje,... Dragutin, Feletar, *Prilozi za povijest Varaždinskog bankarstva*, p. 35.

importance and independence as regional centres, and became more dependent on Zagreb.¹¹⁹

In 1913, Rijeka was subject to Hungarian legislation and was the principal Hungarian export port. The major Croatian banks had connections with Rijeka.¹²⁰ During the interwar period, when Rijeka was a legally independent town under Italian political control, Sušak, a part of the town under Yugoslav jurisdiction, flourished. It became an independent economic centre and an important Yugoslav export port. However, even before the First World War, it had been the centre of Croatian entrepreneurship and the nationalist movement. Several banks with Croatian capital had developed there. The most important was the Banka i Štedionica za Primorje d.d., established in 1895 as a strong regional bank.¹²¹ Its strength stemmed from the savings of emigrants (with branches in Bakar and Rijeka) and the financial activity of the port. There were two other local banks in Sušak.

Some other towns, whose financial capacity surpassed the limits of the local economy, and where the Austro-Hungarian Bank had agencies, should be mentioned. These were Karlovac,¹²² Brod na Savi,¹²³ Bjelovar,¹²⁴ Sisak, Križevci and Čakovec. The sub-regional centres of Srijem were Srijemska Mitrovica, Ruma, Vinkovci and Vukovar.

¹¹⁹ The average number of financial institutions remained the same, but the importance of branches of the Zagreb bank grew. In these two towns, there were only three branches of Zagreb banks in 1913, which expanded to eight branches in 1925.

¹²⁰ Prva Hrvatska Štedionica and Hrvatska Poljodjelska Banka had its branches there, while Riječka Pučka Banka d.d. was an affiliation of Hrvatska Eskomptna Banka.

¹²¹ In 1913 the capital was K 4.0 m and the balance sum K 19.1 m.

¹²² Karlovac is a town near Zagreb with a strong economic and administrative past, 16,000 people, it was a trade and industrial centre. The principal financial institution was the Pučka Štedionica d.d. (established 1895). In 1913 it had a joint-stock capital of K 0.5 m and turnover of K 4 m, after the real leader and financial first-comer, Karlovačka Štedionica went into liquidation in 1912 (balance sheet published for 1913 indicate capital of K 0.3 m and balance sum of K 7.5 m). In the town operated also the Srpska Kreditna Banka i Štedionica, a typical institution of the Serbian economic network, and a branch of Prva Hrvatska Štedionica. Municipal authorities established a municipal bank in 1914, Gradska Štedionica Slobodnog i Kr. Grada Karlovca. Thanks to strong economic activities in the town there developed another two small banks, a few credit cooperatives and a branch of one bank from Zagreb. Three small banking houses bear witness to the existence of significant exchange business in the town.

¹²³ Brod na Savi (Slavonski Brod) was for centuries a bridge to Bosnia and Herzegovina (railway line for Sarajevo went there), and had 10,000 habitants in 1913. The financial resources were concentrated in the Hrvatska Eskomptna i Mjenjačka Banka d.d (incorporated 1902, in 1913 it had a capital of K 2 m and pure

In 1913, Zagreb dominated the banking system of Croatia, but the financial capacity of provincial banking was significant.¹²⁵ The joint-stock capital of Zagreb banks in 1913 was K 143.9 m., while that of the provincial banking of Croatia (without Sušak) amounted to K 87.4 m. The joint-stock capital of Srijem provincial banks was K 26 m. In 1913, Zagreb was able to attract K 40.2 m. on savings accounts, while provincial banking in Croatia (without Sušak) attracted K 31.0 m. Total savings in Srijem banks amounted to K 7.1 m. The few banks that existed in Sušak had a capital of K 4.1 m. and attracted K 13.2 m. of savings.

Provincial banking in Croatia and Slavonia (without Srijem) in 1913 was composed of 143 commercial banks and 53 branches in 102 provincial towns. Regional banking at the two regional centres and six sub-regional centres consisted of 26 commercial banks and 9 branches. There was local banking in 16 small towns (36 commercial banks and 7 branches) and 80 very small towns (81 commercial banks and 37 branches).¹²⁶ In Srijem, there were four sub-regional financial centres with 19 banks and four branches. There was local banking in six small towns (11 banks and one branch) and 19 very small towns and villages (19 banks and four branches). Special institutions were concentrated in Zagreb

balance sum of K 9.5 m) whose financial capacity and businesses network surpassed the borders of provincial economy. The Serbian capital organised in the Srpska Kreditna Banka d.d. made it a strong bank (incorporated 1904, the capital in 1913 was K 0.6 m and pure balance sum K 2.7 m.). Apart from the branch of the Prva Hrvatska Štedionica, there were two other, rather small banks of a commercial character.

¹²⁴ In 1913, Bjelovar was a town of 6,200 people, not only the administrative centre of the county, but also a trade and artisan centre of the reach agricultural region. There were five banks and the branch of the Prva Hrvatska Štedionica. Bjelovar was one of the towns which used its legal status and the law on the organisation of towns in the Kingdom of Croatia and Slavonia (Zakon o ustroju gradskih općina u Kraljevinama Hrvatskoj i Slavoniji of 21. lipnja 1895) to organise its municipal savings bank (Gradska Štedionica Općine Slobodnog i Kraljevskog Grada Bjelovara was established 1903). However, the strongest bank in Bjelovar was the Bjelovarska Štedionica which concentrated most of the local financial capacity (1913 Bjelovarska Štedionica, established 1872, had capital of K 0.2 m., and a pure balance sum of K 3.7 m. At the same time it was an agency of the Austro-Hungarian Bank.). The Serbian national capital was organised through Srpski Kreditni Zavod d.d. (1913 Srpski Kreditni Zavod, established 1903, had capital of K 0.2 m. and a pure balance sum of K 0.9 m.). The other two banks were Hrvatska Trgovačko-Obrtna Štedionica and Narodna Štedionica d.d. Narodna Štedionica was stronger than other two banks with capital of K 0.3 m. and a balance sum of K 1.3 m. It is interesting to note that the bank also had one branch in neighbouring Garešnica. Few members of the bank boards were Jews (probably local merchants).

¹²⁵ Tables 40 – Croatia, Slavonia and Srijem 1913/1925 – vertical distribution of financial resources.

¹²⁶ Table 38 – Croatia and Slavonia 1913/1925 – structure of the banking system.

(one in Osijek), while municipal banks did not exist before 1913. However, some major provincial banks, the so-called first-comers, were also capable of taking care of municipal interests to some extent.¹²⁷ Branches of Zagreb banks penetrated not only regional banking (eight branches), but also local banking (21 branches). In Srijem, Zagreb branches were limited to regional centres, where four existed.¹²⁸

In 1913 the vertical metropolitan indicators of structural integration were 0.35 for regional banking in Croatia and Slavonia, and 0.27 for sub-regional centres in Srijem.¹²⁹ The indicator of independence was 0.85 for regional centres and 0.7 for sub-regional centres in Croatia and Slavonia, and 0.89 for Srijem. Local banking in Croatia and Slavonia had similar indicators of independence as regional banking (0.87 in small towns and 0.70 in very small towns). However, the vertical metropolitan indicator was 0.14 in small towns and 0.22 in very small towns. Local banking in Srijem indicates even stronger structural independence. The integration of independence was 0.92 in small towns and 0.85 in very small towns – completely lacking structural links to metropolitan banking.¹³⁰

The balance sheet analysis

Provincial banks in Croatia depended upon their own resources much more than banks in other regions of Transleithenia. The importance of the provincial banks' own resources in Croatia and Slavonia in 1913 ranged from 23 per cent in sub-regional centres to as much as 28 per cent in very small towns. Such a high ratio was also present in very small towns in Srijem. Consequently, savings only made up 45 per cent of liabilities. Srijem banks in small towns and sub-regional centres attracted more savings. Borrowed resources account for 20-30 per cent of the liabilities.¹³¹

¹²⁷ Koprivnička Banka in the sub-regional centre Koprivnica, despite having a strong impact on the town's finances, was not legally owned by the municipality. See Kolar-Dimitrijević, 'Gradske štedionice u Hrvatskoj', p. 288.

¹²⁸ Table 39 – Srijem 1913/1925 – structure of the banking system.

¹²⁹ For information about the methodology of calculation and meaning of structural integration indicators see pp 28-29.

¹³⁰ Table 41 – Croatia and Slavonia 1913/1925 – indicators of structural integration; Table 42 – Srijem 1913/1925 – indicators of structural integration.

¹³¹ Table 43 – Croatia, Slavonia and Srijem 1913/1925 – structure of the liabilities.

The main characteristic of Croatian provincial banking was a distinction between banking in regional centres and other provincial banking. Bills of exchange were the dominant credit instrument in Croatian provincial banking in 1913. Bills account for 71 to 83 per cent of assets in local banking and sub-regional centres in Croatia, Slavonia and Srijem. Yet, bills account for only 40 per cent of assets in regional centres. Regional centres had significant long-term credits (32 per cent mortgage loans), while other provincial banking had a very low share (4-5 per cent share of mortgage loans in Croatia and Slavonia, and ten per cent in Srijem). A higher proportion of mortgage loans in Srijem was a result of the area's agricultural potential.¹³² Securities presented an insignificant share of assets in the whole provincial banking system. Other loans accounted for 2-13 per cent of the total, increasing with the level of urbanisation.¹³³

After the war

After the First World War, the Croatian banking system was characterised by the dominant influence of Zagreb, and the decline of provincial, especially local, banking.

Provincial banking lost much of its financial importance, compared to the pre-war situation.¹³⁴ The joint-stock capital of Zagreb commercial banks in 1925 was Din 615 m., while the joint-stock capital of the provincial banking of Croatia and Slavonia (without Sušak) was only Din 47 m. The banks in Sušak had a capital of Din 16.2 m.¹³⁵ The joint-stock capital of Srijem provincial banks was Din 23 m. In 1925, Zagreb was able to attract Din 2,509 m. on savings accounts, while the provincial banking in Croatia and Slavonia (without Sušak) retained only Din 202 m. Savings accounts in Srijem banks totalled Din 786.9 m.

Provincial banking in Croatia and Slavonia in 1925 was composed of 84 commercial banks and 53 branches in 70 provincial towns. In 1913 banks and branches had existed in 103 provincial towns. Regional banking in two regional centres and six sub-regional centres consisted of 13 commercial banks and 19 branches. There was local banking in 14 small

¹³² Table 45 – Croatia, Slavonia and Srijem 1913/1925 – structure of assets.

¹³³ Ibid.

¹³⁴ Tables 40 – Croatia, Slavonia and Srijem 1913/1925 – vertical distribution of financial resources.

¹³⁵ The most important Sušak bank, Banka i Štedionica za Primorje, went into financial difficulties during 1925.

towns (24 banks and 8 branches) and only in 48 very small towns (47 banks and 26 branches).¹³⁶ Four sub-regional financial centres in Srijem had 12 banks and 7 branches. Local banking in Srijem also waned, existing in only five small towns (10 banks and 4 branches) and only 13 very small towns and villages (9 banks and 6 branches).¹³⁷ Zagreb banks had 18 branches in the regional banking of Croatia and Slavonia, while their influence on local banking was almost the same (22 branches). By 1925, Zagreb banks had also strengthened their influence over the regional banking in Srijem, having six branches there.

In 1925, vertical indicators of structural integration were 0.86 for regional centres and 0.79 for sub-regional centres in Croatia and Slavonia, and 0.50 for sub-regional centres in Srijem.¹³⁸ The indicator of independence for regional banking was 0.54 and 0.37 in Croatia and Slavonia, but remained high (0.75) in Srijem. The indicator of independence for local banking remained high at 0.80 in small towns and was 0.66 in very small towns in Croatia and Slavonia. The vertical metropolitan indicator was high for local banking – 0.28 on average. In 1925 indicators of independence were 0.79 in small towns and 0.63 in very small towns in Srijem while the vertical metropolitan indicator was 0.00.¹³⁹

The balance sheet analysis

In Croatia and Slavonia provincial banks' borrowed resources which had declined after the First World War ranged from only 9-19 per cent – causing a reliance on the resources available in the local economy. The importance of savings deposits displayed a significant growth, to make up approximately 67 per cent of liabilities. The role of the banks' own resources fell to an average of 18 per cent. After the war, Srijem had a similar structure of liabilities.¹⁴⁰

¹³⁶ Table 38 – Croatia and Slavonia 1913/1925 – structure of the banking system.

¹³⁷ Table 39 – Srijem 1913/1925 – structure of the banking system.

¹³⁸ For information about the methodology of calculation and meaning of structural integration indicators see pp 27-28.

¹³⁹ Table 41 – Croatia and Slavonia 1913/1925 – indicators of structural integration; Table 42 – Srijem 1913/1925 – indicators of structural integration.

¹⁴⁰ Table 43 – Croatia, Slavonia and Srijem 1913/1925 – structure of the liabilities.

Post-war provincial banks in Croatia, Slavonia and Srijem retained approximately five per cent of resources in cash and in liquid deposits at other banks. Bills of exchange were the main credit instrument (40-60 per cent of total assets) but comprised smaller share than before the war. Differences between regional and local banks continued – local banks had a higher proportion of bills of exchange than regional banks. Mortgage loans had almost disappeared from the financial market in the post-war period.¹⁴¹ Monetary instability and inflation forced banks to restrict long-term borrowing while the profitability of speculative operations directed banks' business towards short-term loans. Other loans made up a significant 23-46 per cent of assets.

It is worth noting the expensive banking services in Srijem. The profit/capital ratio was typical for Transleithenia, fluctuating from 12 to 25 per cent, depending on the analytical group. However, the profit/total ratio, 2.3-3.8, much higher than in the rest of Transleithenia, indicates expensive banking services.¹⁴²

Economic nationalism

Economic nationalism in Croatia had two different components. Before the First World War, there was a very active and successful Serbian economic initiative. It was organised around the Serbian Bank in Zagreb in the form of Serbian savings banks in small provincial towns and Serbian credit cooperatives.¹⁴³ They were mostly organised in the territory of the former military borderland.¹⁴⁴ Following the founding of the Kingdom of Serbs, Croats and Slovenes, Croatian nationalism was also involved in economic nationalist activities, but it never reached the intensity and success of the Serbian movement.¹⁴⁵

¹⁴¹ Table 45 – Croatia, Slavonia and Srijem 1913/1925 – structure of assets.

¹⁴² Table 44 – Croatia, Slavonia and Srijem 1913/1925 – profitability.

¹⁴³ For more detailed approach see Jelić, 'Sailing with the Nationalist Wind'

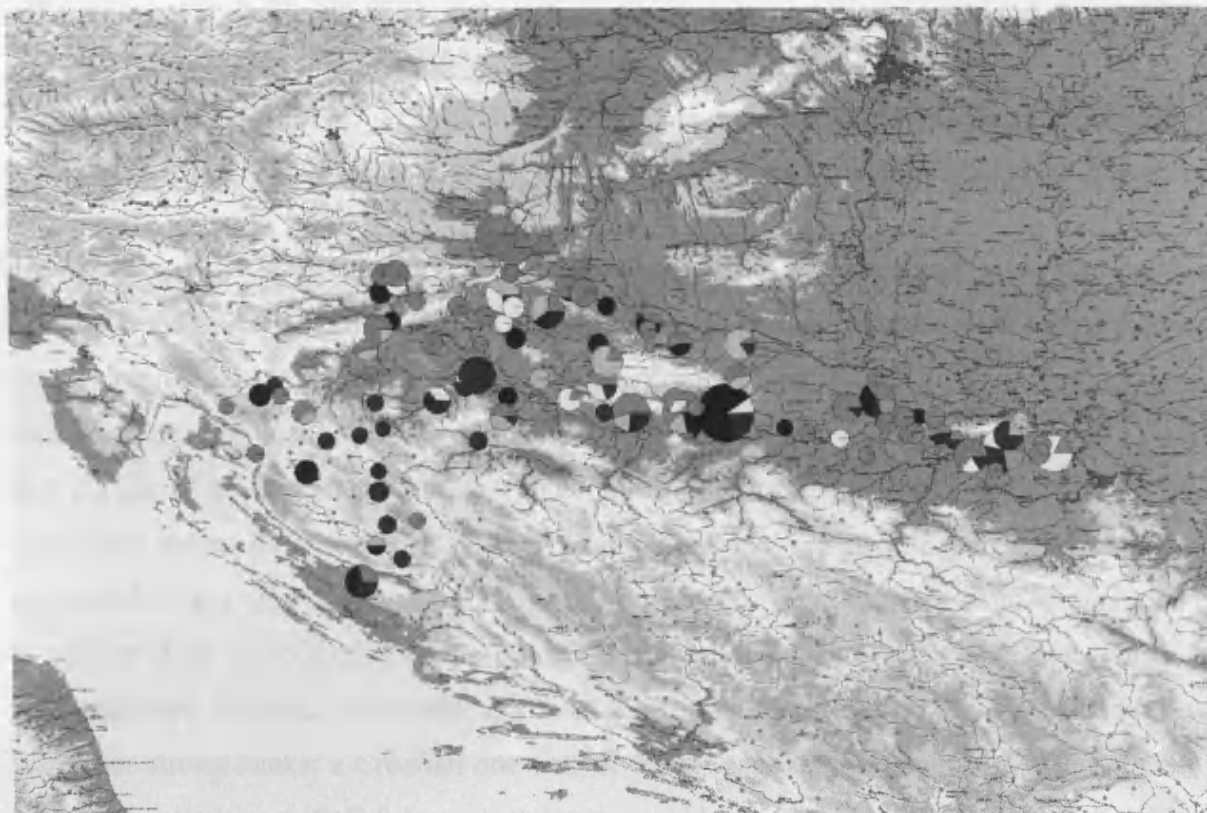
¹⁴⁴ A few strong banks in Srijem were organised by the local Serbian capital but did not belong to the circle of the Serbian Bank, and did not hold Serbian designation.

¹⁴⁵ See Šute, Ivica, *Organizacija i djelovanje Gospodarske Sloge*, unpublished PhD dissertation, Zagreb University, 2006.

The names of the banks offer interesting indicators about the development of the Croatian banking system and the appearance of economic nationalism.¹⁴⁶ There were three principal groups of provincial banks in terms of names in 1913: those with Croatian or Serbian national designations, banks whose names indicated the town or region and banks which called themselves 'people's banks'. Among these groups of banks, the most significant were those with regional/municipal indications which accounted for 37.5 per cent of banks in sub-regional centres, 47 per cent in small towns and 33 per cent in very small towns. These banks had been mostly established during the nineteenth century, initially in sub-regional centres and small towns (the average year of formation was 1887), and then in very small towns (the average year of formation was 1897). In 1913, each of the groups of banks with Croatian and Serbian national designations accounted for approximately 19 per cent of all sub-regional and local banks. There were slightly more Croatian banks in small towns and slightly more Serbian banks in very small towns. 'National banks', both Serbian and Croatian, were established during the first decade of the twentieth century. 'People's banks' account for 11-14 per cent of sub-regional and local banking in 1913. The average year of the formation of 'people's banks' was 1898 in sub-regional centres and small towns, whereas 'people's banks' in very small towns belonged to the first decade of the twentieth century with an average year of formation of 1904, similar to that of nationalist banks.

¹⁴⁶ Table 47 – Croatia and Slavonia 1913/1925 – names of the joint-stock banks.

Map 16 Croatia 1913 – national and a-national banks



Grey indicates nationally indifferent banks (dark grey regional names, grey people's banks, light grey other non-national banks). Blue indicates banks with Croatian national name, red indicates Serbian banks while violet is for German banks and light blue for Slovakian banks. The diameter of the chart depends upon the total joint-stock banking capital in the town. Ratio of the bank's capital in the total town's joint-stock capital is indicated with the share division of the chart. The national banks emerged within the territory of the ex- military border, Srijem and smaller provincial towns – all being emerging provincial markets and latecomers in the world of finance. Source PROVBANK DATABASE – Croatia 1913.

Analysis of the financial strength and the liabilities structure of these groups of banks could shed more light on the problem of 'national banking'.¹⁴⁷ In 1913 banks with regional and 'people's' designations were amongst the major banks (joint-stock capital as indicator) at all levels of provincial banking. This group had 40-50 per cent of savings in their liabilities' structure. These banks were strongly commercially oriented with an average of 20 per cent of the profit on joint-stock capital. Their banking services could be classified as expensive, since they made a profit of two to three per cent of the total balance.¹⁴⁸

In Croatia in 1913, Serbian banks, usually named 'Serbian savings banks', could compete with other banks in sub-regional centres with their joint-stock capital, but in local banking

¹⁴⁷ Table 49 – Croatia 1913 – financial indicators related to marketing motto of the bank.

¹⁴⁸ However, it is interesting to note that 'people's banks' in very small towns, mostly established in the first decade of the twentieth century, had a profit/capital ratio of 'only' 16 per cent on average. It resulted from limited business opportunities, as two per cent of the profit on the balance total ratio does not indicate the non-profit orientation of those local banks.

Serbian banks were weaker. Croatian banks in small and very small towns were among the stronger ones. Regional banks with Croatian designations were excluded from the analysis, as they could be confused with big banks which were not necessarily linked to Croatian national sentiment. After the First World War, with the diminishing role of provincial banking, the national orientation of banks lost most of its financial importance.

Srijem had a different structure as far as the names of banks are concerned. In Srijem first-comers on the financial market did not necessarily bear the regional name. For that reason, the distinction has to be made between national banks and other banks. Other banks comprised existing institutions from the nineteenth century and 'newcomers' formed in the first decade of the twentieth century. In Srijem in 1913, Serbian banks accounted for a significant share: 28 per cent of all banks in sub-regional centres, 18 per cent in small towns and 22 per cent in very small towns.¹⁴⁹ Banks with Croatian national identification, as well as those with German or Slovakian, did not make up statistically valuable groups. However, their financial importance at a local level could be significant. In Vukovar, there were four strong banks: a Croatian one with K 0.3 m. capital, a German one with K 0.33 m. capital, a Serbian with K 0.1 m. capital and an old bank established in 1876 with K 0.32 m capital.¹⁵⁰ In sub-regional centres, first-comers developed early (the average year of formation was 1880) and were the strongest (average capital K 0.28 m.). Serbian national banks developed early (the average year of formation was 1899) but were not able to attain the strength of existing banks (the average capital of Serbian banks in 1913 was K 0.15 m.)

In Srijem, at the local banking level, older established banks had an average year of formation of 1890, while Serbian ones developed in the first decade of twentieth century. Serbian banks had a much lower capital than old banks, except in Irig, where Serbian they dominated. The ambition of Serbian provincial banking could be recognised in the liabilities structure. In 1913 in Srijem, older, established banks based their business on savings (60, 60, and 47 per cent respectively) with a limited role of borrowed resources in liabilities structure (19, 20, and 26 per cent respectively). Serbian banks in sub-regional centres were able to attract significant savings (56 per cent of total). Serbian banking in

¹⁴⁹ Table 50 – Srijem 1913/1925 – names of the joint-stock banks.

¹⁵⁰ PROVBANK DATABASE.

very small towns was not successful in attracting savings (34 per cent), and relied heavily on borrowed resources (40 per cent).¹⁵¹

Credit cooperatives

In Croatia, in 1912 there were 797 credit cooperatives which attracted K 17 m. of savings.¹⁵² That comprised, variously, three credit cooperative movements. There was a state organised network under the control of Budapest; the so-called OKH credit cooperatives which had central umbrella institutions in Zagreb and Osijek. Second, the Serbian Bank organised a number of Serbian credit cooperatives in villages. The official umbrella institution was not the Serbian bank, but the legally independent Centralna kasa srpskih zemljoradničkih zadruga. In 1905, there were 237 cooperatives involved in the Union of the Serbian Credit Cooperatives, with more than 7,000 members. Third, the Catholic Church also made some efforts with Raiffeisen cooperatives. They commenced their activities in 1901, established the Hrvatska Poljodjelska Banka in 1902 as an umbrella institution, and before the end of the same year, had organised as many as 118 credit cooperatives. The activity of the Hrvatska Poljodjelska Banka was also concerned with purchasing and selling activities, support of emigration and land purchase. It seems that after several years, there was a change in the business policy of the bank, which turned to profitable land speculations based on the sound capital of the church and savings of emigrants. The credit cooperative movement continued without the bank and after the First World War was mostly linked with the Središnja Sveza Hrvatskih Seljačkih Zadruga.

It is important to note that the Serbian and Catholic credit cooperative movements cooperated extensively before the First World War. The Hrvatska Poljodjelska Banka and the Union of Serbian Credit Cooperatives cooperated in the organisation of emigration, improvement of human resources in villages and land purchase.¹⁵³

¹⁵¹ Table 50 – Srijem 1913 – financial indicators related to marketing motto of the bank.

¹⁵² Finanzeilles compass 1915, p. 129-131.

¹⁵³ See the few examples in Stojisavljević, *Povijest sela*, pp. 293-309.

Conclusion

The Croatian banking system was only integrated into the principal Austro-Hungarian financial networks to a limited extent. There were links with the most important financial centres of the Monarchy but most of the banking system and financial services were organised around regional and local banks and their branches.

The banking system of Croatia was characterised by the leading position of Zagreb. Some major Croatian banks penetrated the provincial financial markets by establishing branches, affiliations or building business networks. That way, they attracted the best business opportunities and a lion's share of savings.

Provincial banking in Croatia had a considerable level of financial fragmentation – a high number of provincial banks competing on the provincial market. It was the result of economic activity based on small-scale agriculture and, consequently, small-scale trade and industry. Leaders on the provincial financial market were usually first-comers, provincial banks established since the early 1870s, which were able to attract provincial savings and capital.¹⁵⁴ The leading competitors for these old provincial saving banks were national banks which developed during the first decade of the twentieth century. National banks attracted customers on the basis of economic nationalism and national propaganda. The leading national bank was the Serbian savings bank, as there was not such a strong movement of Croatian savings banks or other national banks such as German and Slovak.

After the First World War, Zagreb banks penetrated the provincial financial market more deeply. The strength of Zagreb diminished the importance of regional banking which is apparent both in the diminishing number of provincial banks and in the smaller financial capacity of provincial banking. Only Osijek and Sušak developed banking institutions which surpassed local importance.

¹⁵⁴ Those 'first -comers' banks could be identified by the year of formation before 1900 and the use of regional or 'people's' name of the bank.

Tables – structural data

Table 38 Croatia and Slavonia 1913/1925 – structure of the banking system

Classification groups	Zagreb	Regional centres (Osijek and Varaždin)	Sub-regional centres	Small towns	Very small towns
1913					
Total towns	1	2	6	14	80
Commercial banks + branches	22	13	22	43	118
<i>Average number of financial institutions/town</i>	<i>22.00</i>	<i>7.00</i>	<i>3.67</i>	<i>3.07</i>	<i>1.47</i>
Private bankhouses	5		3		1
Special institutions	2	1	0		
Commercial banks with branches	5	2	2	3	3
Comm. banks without branches	14	8	14	33	78
Branches of Zagreb bank	0	3	5	4	17
Branches of regional banks	1	0	1	2	6
Branches of local banks	0	0	0	1	14
1925					
Total towns	1	2	6	14	48
Total banks + branches	34	14	18	32	73
<i>Average number of financial institutions/town</i>	<i>34.00</i>	<i>7.00</i>	<i>3.00</i>	<i>2.28</i>	<i>1.52</i>
Private bankhouses	14	3	5		
Special institutions (including municipal banks)	4	1	1		
Commercial banks with branches	12	3	0	3	2
Comm. banks without branches	15	3	7	21	45
Branches of Zagreb bank	0	8	10	6	14
Branches of regional banks	1	0	1	2	3
Branches of local banks	0	0	0	0	9

Source: PROVBANK DATABASE – Croatia 1913/1925 identification database – final calculations.

Table 39 Srijem 1913/1925 – structure of the banking system

Classification groups	Sub-regional centres	Small towns	Very small towns
1913			
Total towns	4	6	19
Total financial institutions (without cooperatives)	22	12	23
<i>Average number of financial institutions/town</i>	<i>5.50</i>	<i>2.00</i>	<i>1.2</i>
Commercial banks with branches	3	0	1
Commercial banks without branches	15	11	18
Branches and offices of Zagreb commercial bank	4	0	0
Branches of regional banks	0	1	3
Branches of local banks	0	0	1
1925			
Total towns	4	5	13
Total financial institutions (without cooperatives)	18	14	15
<i>Average number of financial institutions/town</i>	<i>4.50</i>	<i>2.80</i>	<i>1.15</i>
Commercial banks with branches	3	2	1
Commercial banks without branches	9	8	8
Branches and offices of Zagreb commercial bank	6	0	0
Branches of regional banks	0	3	1
Branches of local banks	0	1	5
Private bankhouses	1	0	0

Source: PROVBANK DATABASE – Croatia 1913/1925 identification database – final calculations.

Table 40 Croatia, Slavonia and Srijem 1913/1925 – vertical distribution of financial resources

Financial level	1913 joint-stock capital (K m.)		1925 joint-stock capital (Din m.)	
	Croatia and Slavonia	Srijem	Croatia and Slavonia	Srijem
Zagreb	40.2		615.6	
Regional centres	8.4		11.5	
Sub-regional centres	6.8 + Sušak 4.1	3.7	7.7 + Sušak 16.2	12.3
Small towns	7.9	2.1	9.9	9.4
Very small towns	7.9	1.3	18.2	1.8

Financial level	1913 savings (K m.)		1925 savings (Din)	
	Croatia and Slavonia	Srijem	Croatia and Slavonia	Srijem
Zagreb	143.9			
Regional centres	22.1			
Sub-regional centres	15.8 + Sušak 13.2	16.2	+ Sušak	
Small towns	24.6	6.8		
Very small towns	24.8	2.9		

Source: PROVBANK DATABASE – Croatia 1913/1925 balance sheet database – final calculations.

Table 41 Croatia and Slavonia 1913/1925 – indicators of structural integration

Coefficient of integration	Regional centres	Sub-regional centres	Small towns	Very small towns
1913				
Independent	0.85	0.77	0.87	0.70
Vertical metropolitan	0.35	0.34	0.14	0.22
1925				
Independent	0.54	0.37	0.80	0.66
Vertical metropolitan	0.86	0.79	0.28	0.29

Calculated from PROVBANK DATABASE – Croatia 1913/1925 identification database.

Table 42 Srijem 1913/1925 – indicators of structural integration

Coefficient of integration	Sub-regional centres	Small Towns	Very small towns
1913			
Independent	0.89	0.92	0.85
Vertical metropolitan	0.27	0.00	0.00
1925			
Independent	0.75	0.79	0.63
Vertical metropolitan	0.50	0.00	0.00

Calculated from PROVBANK DATABASE – Croatia 1913/1925 identification database.

Tables – balance sheets analysis

Table 43 Croatia, Slavonia and Srijem 1913/1925 – structure of the liabilities

Financial level	Croatia and Slavonia			Srijem		
	Own resources	Savings and cc	Borrowed resources	Own resources	Savings and cc	Borrowed resources
1913						
Regional centres	0.14	0.47	0.36			
Sub-regional centres	0.23	0.42	0.32	0.18	0.57	0.21
Small towns	0.25	0.48	0.23	0.19	0.51	0.26
Very small towns	0.28	0.44	0.24	0.25	0.43	0.28
1925						
Regional centres	0.17	0.67	0.12			
Sub-regional centres	0.18	0.69	0.09	0.23	0.60	0.12
Small towns	0.18	0.67	0.09	0.18	0.64	0.13
Very small towns	0.19	0.67	0.10	0.25	0.56	0.12

Source: PROVBANK DATABASE – Croatia 1913/1925 balance sheet database – final calculations.

Table 44 Croatia, Slavonia and Srijem 1913/1925 – profitability

Financial level	1913		1925	
	Profit/capital	Profit/total	Profit/capital	Profit/total
Croatia				
Regional centres	13 %	1.5 %	31 %	2.9 %
Sub-regional centres	16 %	2.2 %	17 %	2.3 %
Small towns	16 %	3.1 %	14 %	2.0 %
Very small towns	17 %	2.9 %	17 %	1.4 %
Srijem				
Sub-regional centres	19 %	2.3 %	19 %	3.1 %
Small towns	14 %	2.3 %	23 %	3.2 %
Very small towns	18 %	3.4 %	32 %	4.6 %

Source: PROVBANK DATABASE – Croatia 1913/1925 balance sheet database – final calculations.

Table 45 Croatia, Slavonia and Srijem 1913/1925 – structure of assets

Financial level		Cash + banks/total	Securities/ total	Bills/ total	Mortgage/ total	Property/ total	Other loans / total
1913							
Regional centres		0.037	0.070	0.40	0.32	0.02	0.13
Sub-regional centres	Croatia and Slavonia	0.020	0.038	0.72	0.04	0.03	0.13
	Srijem	0.023	0.025	0.71	0.10	0.04	0.07
Small towns	Croatia and Slavonia	0.020	0.018	0.83	0.05	0.03	0.03
	Srijem	0.019	0.011	0.78	0.10	0.02	0.04
Very small towns	Croatia and Slavonia	0.026	0.014	0.81	0.04	0.02	0.07
	Srijem	0.031	0.005	0.82	0.08	0.01	0.02
1925							
Regional centres		0.039	0.029	0.44	0.03	0.02	0.44
Sub-regional centres	Croatia and Slavonia	0.040	0.020	0.42	0.00	0.02	0.46
	Srijem	0.047	0.012	0.49	0.01	0.05	0.38
Small towns	Croatia and Slavonia	0.056	0.029	0.63	0.00	0.01	0.23
	Srijem	0.045	0.020	0.59	0.05	0.01	0.28
Very small towns	Croatia and Slavonia	0.049	0.020	0.58	0.03	0.02	0.26
	Srijem	0.050	0.017	0.53	0.00	0.03	0.35

Source: PROVBANK DATABASE – Croatia 1913/1925 balance sheet database – final calculations.

Table 46 Croatia, Slavonia and Srijem 1913/1925 – long-term assets and liquidity

Financial level	1913			1925		
	Long-term assets	Liquidity Average	Liquidity Min/max	Long-term assets	Liquidity Average	Liquidity Min/max
Croatia						
Regional centres	3.5 %	0.77	0.65/0.89	5.1 %	1.21	1.05/1.37
Sub-regional centres	7.1 %	1.25	1.08/1.43	5.7 %	1.22	0.96/1.35
Small towns	8.1 %	1.30	1.02/1.68	1.9 %	1.29	1.10/1.91
Very small towns	5.8 %	1.44	0.93/2.01	5.1 %	1.25	0.68/1.56
Srijem						
Sub-regional centres	14.8 %	1.08	0.95/1.21	5.9 %	1.30	1.21/1.40
Small towns	13.1 %	1.14	0.97/1.49	6.2 %	1.22	1.06/1.54
Very small towns	9.1 %	1.32	0.62/2.15	3.3 %	1.61	1.04/3.16

Source: PROVBANK DATABASE – Croatia 1913/1925 balance sheet database – final calculations.

Tables – economic nationalism

Table 47 Croatia and Slavonia 1913/1925 – names of the joint-stock banks

	Sub-regional centres		Small towns		Very small towns	
1913						
Total provincial banks	16	Per cent of total	38	Per cent of total	81	Per cent of total
Croatian national indication	3	18.75 %	7	18.42%	16	19.75%
Serbian national indication	3	18.75%	6	15.79%	18	22.22%
Regional or municipal indication	6	37.50%	18	47.37%	27	33.33%
Popular	2	12.50%	4	10.57%	11	13.58%
Others	2	12.50%	3	7.89%	9	11.11%
1925						
Total provincial banks	7	Per cent of total	25	Per cent of total	49	Per cent of total
Croatian national indication	0		5	20 %	9	18.37 %
Serbian national indication	3	42.86 %	4	16 %	13	26.53 %
Regional or municipal indication	3	42.86 %	9	36 %	15	30.61 %
Popular	1	14.28 %	3	12 %	4	8.16 %
Others	0		4	16 %	8	16.33 %

Source: PROVBANK DATABASE – Croatia 1913/1925 identification database.

Table 48 Srijem 1913/1925 – names of the joint-stock banks

Classification groups	Sub-regional centres		Small towns		Very small towns	
1913						
Total joint-stock banks	18	Per cent of total	11	Per cent of total	18	Per cent of total
Other old						
Other new						
Serbian national determination	5	27.78 %	2	18.18 %	4	22.22 %
Croatian national determination	1	5.55 %	0		1	5.55 %
German national determination	2	11.11 %	0		1	5.55 %
Slovak national determination	0		1	9.09 %	1	5.55 %
1925						
Total joint-stock banks	10	Per cent of total	10	Per cent of total	9	Per cent of total
Other old						
Other new						
Serbian national determination	4	40 %	1	10 %	2	22.22 %
Croatian national determination	1	10 %	0		1	11.11 %
German national determination	1	10 %	0		1	11.11 %
Slovak national determination	0		2	20 %	0	

Calculated from PROVBANK DATABASE – Croatia 1913/1925 identification database.

Table 49 Croatia 1913 – financial indicators related to marketing motto of the bank

Financial level	Marketing motto	Banks	Average year of formation	Capital (K)	Own resources /total	Savings/ total	Borrowed resources /total	Profit/ capital	Profit /total
Sub-regional centres	Regional	6	1888	311,667	0.24	0.40	0.34	0.19	0.022
	Serbian	3	1903	300,000	0.23	0.45	0.29	0.14	0.025
	Croatian ¹⁵⁵	3	1906						
	People's	3	1899	383,333	0.22	0.45	0.30	0.13	0.023
Small towns	Regional	7	1886	268,824	0.24	0.48	0.24	0.21	0.032
	Croatian	7	1905	170,000	0.30	0.40	0.27	0.13	0.030
	People's	4	1898	247,500	0.23	0.42	0.31	0.21	0.032
Very small towns	Regional	27	1897	117,577	0.23	0.50	0.23	0.22	0.027
	Serbian	16	1905	71,353	0.32	0.49	0.14	0.18	0.034
	Croatian	14	1906	100,000	0.34	0.32	0.31	0.11	0.026
	People's	10	1904	97,000	0.28	0.37	0.31	0.16	0.021

Calculated from PROVBANK DATABASE – Croatia 1913/1925 balance sheet database.

Table 50 Srijem 1913 – financial indicators related to marketing motto of the bank

	Marketing motto	Banks	Average year of formation	Capital (K)	Own resources /total	Savings/ total	Borrowed resources /total	Profit/ capital	Profit /total
Sub-regional	Other old	7	1880	280,000	0.18	0.60	0.19	25 %	2.4 %
	Other new	2	1908	103,500					
	Serbian	5	1899	150,000	0.22	0.56	0.18	20 %	2.7 %
Small towns	Other old	5	1890	208,000	0.17	0.60	0.20	19 %	2.3 %
	Other new	3	1910	200,000	0.22	0.33	0.42	14 %	2.6 %
	Serbian	2	1911	200,000	0.29	0.47	0.18	20 %	3.8 %
Very small towns	Other old	5	1891	130,000	0.23	0.47	0.26	18 %	3.2 %
	Other new	6	1906	51,667	0.28	0.29	0.27	12 %	2.6 %
	Serbian	3	1905	70,000	0.22	0.34	0.40	15 %	3.0 %

Calculated from PROVBANK DATABASE – Croatia 1913/1925 balance sheet database – final calculations.

¹⁵⁵ Atypical statistical group.

BOSNIA AND HERZEGOVINA

Before 1878, the financing of trade and artisans in Bosnia and Herzegovina had been based on an informal organisation of credit, merchant credit and private moneylenders called *sarafi*.

'In spite of bad transportation, Bosnian trade was quite active. Sarajevo was the centre not only of the already mentioned export trade of various products, but also supplied most of the neighbouring villages with spices, sugar, coffee, rice, cotton goods, cotton yarn, household items, and other basic necessities. The merchants of Sarajevo bought these goods mainly in Vienna and Trieste, but they imported some articles even from England and France. These same merchants also imported some rough woollens from the European provinces of the Empire and tobacco from Anatolia. Sarajevo was also the centre of the export trade which shipped cattle, hides, skins, wool, and furs mainly to Croatia-Slavonia and Dalmatia....The small shopkeepers in the small towns and villages received credit from the bigger businesses' establishments in Sarajevo, who in turn bought much of the goods they imported on credit. These merchants conducted their business based on credit in a country which had not a single bank or credit institution.'¹⁵⁶

However, there were two distinctive financial institutions of the earlier period of the Ottoman Empire – *Vakuf* and *menafi-sanduke*. *Vakuf* was similar to today's 'foundations', characteristic of Islamic societies. *Vakufs* were important for urbanisation and the building of infrastructure. They financed the building of religious buildings, but also schools, bridges, waterways, cobbled streets, public squares, free river ferries and the like.¹⁵⁷ In addition, many infrastructures important for the development of trade and artisans such as caravanserais, hostelrys, mills, warehouses and shops were financed by *vakufs*. The *vakuf's* cash resources were sometimes lent to merchants, artisans, peasants and others.¹⁵⁸ The money and valuables of underage children and heirs, called the *money of jetima* had a

¹⁵⁶ Sugar, *Industrialisation*, p. 17.

¹⁵⁷ See Osman A. Sokolović, 'Vakufi kao komunalne ustanove', *Novi Behar*, 1944, No. 15.

¹⁵⁸ See Marković, Marko, *Bankarstvo Bosne i Hercegovine* (Sarajevo, 1938), p. 5.

similar economic function¹⁵⁹ The general financial policy of the *mutevelijas*, the *vakuf's* managers, was to perform a social function dedicated to the *vakuf's* founders, and to preserve the value of the *vakuf*. However, over the years and centuries, because of mismanagement and disturbances such as crop failures, epidemics, wars and inflation, the *vakufs*, and especially their liquid assets, lost their value. In the nineteenth century, with the destabilisation of the Ottoman Empire and the Austro-Hungarian occupation, *vakufs* in Bosnia and Herzegovina lost most of their financial importance.

An institution called *menafi-sanduke* had developed in Bosnia and Herzegovina from 1866 with the intention of assisting peasants and fighting usury in villages. They were *de facto* loan 'cassas', whose capital was provided through the privatisation of *vakufs* and different charity donations (which could be seen as a specific form of taxation). The establishment and the operation of the institutions was under the control of the provincial government¹⁶⁰ In the period 1871-1878, there were *menafi-sandukes* in 38 towns in Bosnia and Herzegovina.¹⁶¹

Before the war

On the eve of the First World War, Bosnia and Herzegovina had a special status, belonging neither to the Austrian, nor to the Hungarian parts of the Monarchy, but being under their joint government. Its banking system had rapidly developed, as a result of state care, economic nationalism and the business opportunities of an emerging market.

The establishment of 'proper' banks followed the Austrian occupation of Bosnia and Herzegovina in 1878. The first and the strongest banks were established by either the government or the financial institutions of the Monarchy. On the eve of the First World War, the most important were the Privilegierte Landesbank für Bosnia and Herzegovina,¹⁶²

¹⁵⁹ Galijašević, *Ekonomске prilike*, pp. 23-28.

¹⁶⁰ It is important to note that it was not strictly a Muslim institution, but ruled by two Muslims and two Christians. The interest rate was approximately one per cent per month.

¹⁶¹ See Hamdija Kresljaković, *Menafi-sanduci u BiH 1866-1878* (Sarajevo, 1940).

¹⁶² Prior to the establishment of the Länderbank, the most important institutions were Hypothecar Credit-Anstalt and Credit-Anstalt und Sparkassa, both government owned. They were absorbed by the Länderbank. Privilegierte Landesbank had a capital of K 14 m. in 1913.

the Privilegierte Agrar- und Commercial Bank für Bosnia and Herzegovina¹⁶³ and the Österreichische-Bosnische Creditanstalt.¹⁶⁴ There were also three strong national banks – the Centralna Banka i Štedionica in Sarajevo,¹⁶⁵ the Srpska Centralna Banka za Bosnu i Herzegovinu¹⁶⁶ and the Muslimanska Centralna Banka za Bosnu i Herzegovinu.¹⁶⁷ All were sited in Sarajevo, together with the important branches of the Monarchy's banks, the Union Bank, the Ungarische Handels Bank – and the very small branch of the Ljubljana Credit bank (which was, *de facto*, an affiliation of the Živnostenská Banka in Prague).

Sarajevo was both the administrative and the financial centre of Bosnia and Herzegovina. In Sarajevo, there were a number of institutions. The post office savings bank was established in 1911. The Creditbank- und Sparkasse AG was a government institution that served only government employees, and it would be hard to claim that it was a real bank. There were also two other commercial banks, both with a Serbian national designation – the Srpska Narodna Banka, established in 1911, and the Srpska Privredna Banka, established in 1914. The Hrvatska Zadružna Banka was at the centre of the Croatian credit cooperative movement. The Banka Josef Loeschner in Sarajevo was a small private banking house.

¹⁶³ Privilegierte Agrar und Commercial Bank für Bosnia and Herzegovina was founded by the Pesti Magyar Kereskedelmi Bank and Landesverwaltung (province government) and had a capital of K 8.0 m.

The most interesting loan businesses in Bosnia and Herzegovina were loans to the serfs who wanted to buy their freedom and land from their landlords, agas. 'The Länderbank used complicated credit regulations to keep the majority of rural lending in its own hands.' see Lampe, *Balkan Economic History*, p. 308.

Privilegierte Agrar and commercial Bank für Bosnia and Herzegovina was able to acquire in 1908 exclusive rights for this operations. It became a scandal as the bank was able to charge as much as ten per cent per year to the serfs on a 50 years 'liberation of serfdoms' loan. See Sugar, *Industrialisation*, pp. 93-94; Luka Banović, 'Privilegovana agrarna i komercijalna banka za BiH', *Glasnik arhiva i Društva arhivskih radnika BiH*, Vol. 6 (Sarajevo, 1996).

¹⁶⁴ Österreichische-Bosnische Creditanstalt, established 1912, was a joint venture of the Union bank (closing its branch offices when this institution was founded) and the Österreichische Boden Creditanstalt. In 1913 its capital was K 4 m.

¹⁶⁵ Established in 1907 as a Croatian Central Bank with a capital of K 3.2 m.

¹⁶⁶ Established 1912, capital K 3.2 m.

¹⁶⁷ Established in 1912 with the initiative of the Muslim independent party and capital of K 3.0 m., financed by Ungarische Eskompte und Wechsler-Bank, Österreichische Länderbank and Hrvatska Eskomptna Banka. See Adem-aga Mesić, *Moj odgovor bezimenim klevetnicima i drugi tekstovi*, ed. Amir Brka (Tešanj, 1998).

In Bosnia and Herzegovina branches of the Austro-Hungarian bank existed only in Banja Luka and Mostar and there were no agencies. Financially, the most active towns were Banja Luka, Brčko and Mostar, followed by Bijeljina and Bosanski Novi. In these towns on the eve of the First World War, provincial banks co-existed with branches of the Landesbank and other Sarajevo banks. The relatively high level of financial activity in those towns was the result of a higher level of urbanisation,¹⁶⁸ their position on the railway lines¹⁶⁹ and their importance as trade centres.¹⁷⁰ There is no doubt that the railway network was one of the most important factors in the economic and financial development of Bosnia and Herzegovina. It is significant that most towns with a bank or branches were situated on or close to railways. Northern Bosnia, especially Bosanska Posavina (Brčko, Bijeljina), benefited from an effective transportation connection to the dense network of railways of the Danube basin.

In Banja Luka and Mostar, there were five banks and four branches of Sarajevo and two branches of Budapest banks. Apart from Banja Luka and Mostar, there were banks, branches or agencies of the banks in another 32 provincial towns in 1913. In 14 small towns there were 21 local banks and 15 branches, mostly branches of Sarajevo banks. Banking in very small towns was based on branches. In 18 very small towns there were only five local banks and financial services were provided by branches of Sarajevo (seven branches), regional (eight branches and agencies) and local banks (three branches and agencies).

The financial resources of provincial banking in Bosnia and Herzegovina were weak compared to Sarajevo banks. The joint-stock capital of Sarajevo banks was K 42.8 m. and made up 83.6 per cent of the joint-stock capital of the banking system of Bosnia and Herzegovina. The joint-stock capital of banks in Banja Luka and Mostar was K 2.06 m. – 4.81 per cent of total – while banks in 14 small towns altogether accounted for K 4.36 m.

¹⁶⁸ Banja Luka and Mostar were small towns with 15,000 to 16,000 people, both were administrative centres of the district, but also both had up-to-date tobacco factory, coal mines and other small industrial enterprises.

¹⁶⁹ Banja Luka, Bosanski Novi and Brčko had a position on the standard gauge railway, while only narrow gauge passed through Mostar.

¹⁷⁰ Brčko was the chief trading centre of dried plums, the most important single item exported from Bosnia and Herzegovina. From Brčko foreign buyers, who came to the town every year, shipped Bosnian prunes all over the world. It is not surprising that the first provincial bank established in Bosnia, 1889, was Savings Bank of Brčko.

of joint-stock capital. Banking in very small towns accounted for only 1.41 per cent of the joint-stock capital of the banking system.¹⁷¹

The balance sheet analysis

Provincial banking in Bosnia and Herzegovina was characterised by an unusually high ratio of the banks' own resources. In 1913, the banks' own resources account for one quarter of total liabilities. Provincial banks in Bosnia were only able to attract an unusually low ratio of savings. In 1913, banks in regional centres (Mostar and Banja Luka) could attract some savings (on average 40 per cent of liabilities), but banks in small and very small towns had serious problems in attracting savers (savings accounts only made up 26-32 per cent of total liabilities).¹⁷² The reason for such a relationship of savers towards banks has its roots in the long tradition of hoarding among the population and a short tradition of banking. Bosnia and Herzegovina was a society with a strong tradition of informal credit and a lack of confidence in banks. Palairret's comparison of banking assets per capita between Balkan regions put Bosnia in the last place, far behind Serbia and Bulgaria.¹⁷³ Consequently, provincial banks in Bosnia and Herzegovina had to rely heavily on their own and borrowed resources. 34-44 per cent of borrowed resources in the liabilities structure indicates an intensive interaction between provincial banks and the banking system. The rediscounting of discounted bills was the principal business for provincial banks. They also borrowed from bigger financial institutions, mostly those in Sarajevo. The liabilities structure indicates that many provincial banks in Bosnia and Herzegovina were banks-entrepreneurs which served the interests of a small group of owners. In cooperation with some bigger banks they drained profit from weak provincial economy.

The negative public image of provincial banks is not surprising taking into account the data on the profitability.¹⁷⁴ Banks in Bosnia and Herzegovina had approximately a 17 per cent

¹⁷¹ Table 53 – Bosnia and Herzegovina 1913/1925 – vertical distribution of financial resources.

¹⁷² Table 54 – Bosnia and Herzegovina 1913/1925 – structure of the liabilities.

¹⁷³ See Michael Palairret, *The Balkan economies c. 1800-1914 : Evolution without Development* (Cambridge, 1997), p. 228.

¹⁷⁴ A negative image of banks was often mentioned in contemporary novels and in folks tales. 'He who enters the bank will never get out'. Bosnian peasants, artisans and small entrepreneurs, as well as old merchant families preferred their old fashioned business relations based on merchant credit.

profit/capital ratio both before and after the First World War and a high profit/total ratio – three per cent in 1913.¹⁷⁵ There were national differences in the profitability of provincial banks. The average profit/capital in 1913 was 18.2 per cent for Muslim banks, 18.3 per cent for Croatian banks, 17.9 per cent for non-national banks and 15.7 per cent for Serbian banks.¹⁷⁶

The structure of assets supports the thesis about provincial banks in Bosnia and Herzegovina being banks-entrepreneurs. The banks almost completely lacked loans to the municipality, long-term loans or investments in securities. Most assets were bills of exchange, the short-term financing of trade or entrepreneurial speculations. On the other hand, the ratio of unspecified balance sheet items was high in 1913 – approximately one third of assets. These unspecified assets were probably directed into speculative or entrepreneurial operations of the banks and their owners.¹⁷⁷

The economic nationalism of Serbs, Muslims and Croats in Bosnia and Herzegovina had an important impact on the development of the provincial banks. Kalay, a long time governor and the economic developer of Bosnia, opposed the establishment of institutions that carried religious or ethnic labels, and had control over the creation of any enterprise in Bosnia and Herzegovina. Only five banks were established during his regime. The banks commenced after his death, when national banks were permitted.¹⁷⁸ Before the First World War the Muslims had organised six banks, Croats eight, while Serbs organised 21 banks and savings banks.

Muslims had three major banks in Banja Luka, Tešanj and Brčko, the result of a trading tradition amongst Muslims in northern Bosnia. The Muslimanska Banka d.d. in Banja Luka had branches in surrounding places. There were also two provincial Muslim banks in Foča and Bijeljina. Croats had small to medium-sized banks in regions with Croatian populations. Numerous Serbian banks and Serbian savings banks echoed the economic organisation of Serbs in Croatia and Bosnia and the emergence of a Serbian entrepreneurial class. Most institutions were small local banks, but the Serbian institutions in Tuzla,

¹⁷⁵ Table 55 – Bosnia and Herzegovina 1913/1925 – profitability.

¹⁷⁶ Calculated from PROVBANK DATABASE.

¹⁷⁷ Table 56 – Bosnia and Herzegovina 1913/1925 – structure of assets.

¹⁷⁸ For that reason some, later strong national banks, started as credit cooperatives – e.g. Hrvatska Banka in Vareš, Hrvatska Banka in Zenica and Muslimanska Trgovačka i Poljoprivredna Banka d.d. in Tešanj. See Galijašević, *Ekonomске prilike*, p. 48.

Trebinje and especially Mostar had a significant turnover. All were important weapons in the expansion of the Serbian merchant class.¹⁷⁹ In many towns there was economic competition between national groups and consequently competition between national provincial banks. There was such a situation in Bijeljina, Foca, Brčko and Livno, but also in places where branches of national banks competed on the provincial market.

It is hard to talk about a well-developed credit cooperative movement in Bosnia and Herzegovina. Because of Kalay's already mentioned restrictive policy for the formation of banks as joint-stock companies until 1903, a number of banks commenced their operation as credit cooperatives. However, national movements and economic nationalism did not develop credit cooperatives as their main instrument – in Bosnia and Herzegovina there were no widely accepted nationalist credit cooperative movements as there were in other parts of the Monarchy. Occasionally, there were some Serbian or Croat village credit cooperatives and some credit cooperatives of the urban type, but their number and financial capacity was small. Altogether, there were 122 credit cooperatives in Bosnia and Herzegovina in 1910, of which 27 were with limited and 95 with unlimited solidarity.¹⁸⁰

After the war

After the war financial activity in Sarajevo significantly increased. In 1925 there were 16 banks and eight branches of Belgrade, Zagreb and Ljubljana banks – the number of banking institutions had more than doubled compared to 1913. Also, the number of branches of Sarajevo banks within Bosnia increased from 23 in 1913 to 38 in 1925.¹⁸¹ By nationalising the biggest banks, which were previously foreign owned, Bosnia and Herzegovina gained strong banks which could support the economic development of the region. In 1925 Sarajevo was the third banking centre of the Kingdom SHS.¹⁸²

Regional financial centres, Mostar and Banja Luka, did not display the same financially growing banking system as the rest of Bosnia and Herzegovina. The number of banks remained the same as in 1913, while their importance in the banking system diminished. In 1925 banks from Banja Luka and Mostar had only 2 branches, compared to 10 branches

¹⁷⁹ See Balance sheet database – Bosnia and Herzegovina 1913.

¹⁸⁰ *Finanzeilles compass* 1915, p. 129-131.

¹⁸¹ Table 51 – Bosnia and Herzegovina 1913/1925 – structure of the banking system.

¹⁸² See Table 7 in Chapter 3.

in 1913.¹⁸³ Also, the share of regional banks in the total capital of the Bosnia and Herzegovina banking system diminished from 4.81 per cent in 1913 to 3.65 per cent in 1925.¹⁸⁴ The weakening of banking in these two towns was partially caused by the competition between branches – in 1925 there were 7 branches of Sarajevo banks.

There was only limited structural change in 14 small towns. The number of provincial banks remained almost the same, but the number of branches of Sarajevo banks almost doubled from 12 in 1913 to 22 in 1925.¹⁸⁵ The share of capital of small towns' banks in the whole banking system also remained almost the same.¹⁸⁶

The most profound change in provincial banking occurred in the very small towns. While in 1913 there were only 18 very small towns where a provincial bank or branch was situated, in 1925 research identified 33 such very small towns. While in 1913 there were only five banks in very small towns, in 1925 there were 34 banks. At the same time the number of branches had not changed.¹⁸⁷ Provincial banking in the very small towns changed from being branch based in 1913 to provincial bank based in 1925. Consequently, the joint stock capital of provincial banks in very small towns increased – in 1913 very small towns' banks made up only 1.41 per cent while in 1925 the share of very small towns' banks capital in the whole region's banking capital was 8.28 per cent.¹⁸⁸

The balance sheet analysis

The structure of liabilities did not change compared to the pre-war situation. Provincial banking liabilities remained based on the bank's own and borrowed resources with a limited impact from savings. It is important to note the very high ratio of the bank's own resources – on average 36 per cent of the total – amongst banks in very small towns.¹⁸⁹ It

¹⁸³ Table 51 – Bosnia and Herzegovina 1913/1925 – structure of the banking system.

¹⁸⁴ Table 53 – Bosnia and Herzegovina 1913/1925 – vertical distribution of financial resources.

¹⁸⁵ Table 51 – Bosnia and Herzegovina 1913/1925 – structure of the banking system.

¹⁸⁶ Table 53 – Bosnia and Herzegovina 1913/1925 – vertical distribution of financial resources.

¹⁸⁷ Table 51 – Bosnia and Herzegovina 1913/1925 – structure of the banking system.

¹⁸⁸ Table 53 – Bosnia and Herzegovina 1913/1925 – vertical distribution of financial resources.

¹⁸⁹ Table 54 – Bosnia and Herzegovina 1913/1925 – structure of the liabilities.

seems that the banking boom in very small towns after the First World war reflects the existence of numerous small banks' entrepreneurs.

The structure of the assets of provincial banks in Bosnia and Herzegovina in 1925 is difficult to reconstruct because of a very high share of balance sheet items which were included in the 'other loans' category – almost half of the assets positions. It is worth noting that provincial banks had to keep more cash than before the war – approximately four per cent of assets. As before the war, provincial banks in Bosnia and Herzegovina mostly avoided securities.¹⁹⁰

Conclusion

Provincial banking in Bosnia and Herzegovina developed rather late – at the beginning of the twentieth century. Until the First World War we can only talk about the beginnings of provincial banking. Provincial banking in Bosnia and Herzegovina mostly did not manage to mobilise a broad base of savers. Provincial banks were mostly small bank-entrepreneurs. After the war, when most of the provincial banking in East-Central Europe suffered from the competition of metropolitan branches, local banking in Bosnia and Herzegovina experienced its period of maximum growth.

¹⁹⁰ Table 56 – Bosnia and Herzegovina 1913/1925 – structure of assets.

Tables – structural data

Table 51 Bosnia and Herzegovina 1913/1925 – structure of the banking system

Classification level	Sarajevo	Regional centres	Small towns	Very small towns
1913				
Towns	1	2	14	18
Total banks + branches	11	11	36	23
<i>Average number of financial institutions/town</i>	<i>11.00</i>	<i>5.50</i>	<i>2.57</i>	<i>1.28</i>
Bank without branch	4	2	17	5
Banks with branch	5	3	4	0
Branch of Sarajevo bank	0	4	12	7
branch of international bank	2	2	0	0
branch or regional bank	0	0	2	8
branch of local bank	0	0	1	3
1925				
Towns	1	2	14	33
Total banks + branches	24	12	44	52
<i>Average number of financial institutions/town</i>	<i>24.24</i>	<i>6.00</i>	<i>3.14</i>	<i>1.58</i>
Banks with branches	11	2	4	2
Banks without branches	5	3	18	32
Sarajevo branches	0	7	22	9
Branches of regional banks	0	0	0	2
Branches of local banks	0	0	0	7
Branches of Belgrade bank	4	0	0	0
Branches of Ljubljana bank	2	0	0	0
Branches of Zagreb bank	2	0	0	0

Source: PROVBANK DATABASE – Bosnia and Herzegovina 1913/1925 identification database – final calculations.

Table 52 Bosnia and Herzegovina 1913/1925 – indicators of structural integration

Coefficient of integration	Regional Centres	Small towns	Very small towns
1913			
Independent	0.59	0.64	0.22
Vertical metropolitan	0.82	0.50	0.46
1925			
Independent	0.50	0.55	0.67
Vertical metropolitan	0.88	0.75	0.26

Calculated from PROVBANK DATABASE – Bosnia and Herzegovina 1913/1925 identification database.

Table 53 Bosnia and Herzegovina 1913/1925 – vertical distribution of financial resources

	1913		1925	
	Joint-stock capital (K m.)	Per cent of total	Joint-stock capital (Din m.)	Per cent of total
Sarajevo	35.7	83.58 %	203.0	78.12 %
Regional centres	2.0	4.81 %	9.5	3.65 %
Small towns	4.4	10.20 %	25.8	9.95 %
Very small towns	0.6	1.41 %	21.5	8.28 %
Total	42.8	100.00 %	259.8	100.00 %

Source: PROVBANK DATABASE – Bosnia and Herzegovina 1913/1925 balance sheet database – final calculations.

Tables – balance-sheets analysis

Table 54 Bosnia and Herzegovina 1913/1925 – structure of the liabilities

Financial level	1913			1925		
	Own resources	Savings and cc	Borrowed resources	Own resources	Savings and cc	Borrowed resources
Regional centres	0.23	0.40	0.34	0.29	0.30	0.35
Small towns	0.26	0.32	0.37	0.28	0.36	0.31
Very small towns	0.24	0.26	0.44	0.36	0.32	0.26

Source: PROVBANK DATABASE – Bosnia and Herzegovina 1913/1925 balance sheet database – final calculations.

Table 55 Bosnia and Herzegovina 1913/1925 – profitability

Financial level	1913		1925	
	Profit/capital	Profit/total	Profit/capital	Profit/total
Regional centres	17 %	2.8 %	16 %	4.1 %
Small towns	16 %	3.0 %	19 %	4.1 %
Very small towns	17 %	3.3 %	16 %	4.6 %

Source: PROVBANK DATABASE – Bosnia and Herzegovina 1913/1925 balance sheet database – final calculations.

Table 56 Bosnia and Herzegovina 1913/1925 – structure of assets

Financial level	Cash + banks/ total	Securities/ total	Bills/ total	Mortgage/ total	Property/ total	=ther loans/ total
1913						
Regional centres	0.016	0.015	0.58	0.00	0.02	0.37
Small towns	0.017	0.024	0.64	0.00	0.01	0.29
Very small towns	0.018	0.017	0.79	0.00	0.01	0.16
1925						
Regional centres	0.038	0.007	0.37	0.00	0.00	0.58
Small towns	0.039	0.026	0.46	0.00	0.01	0.46
Very small towns	0.045	0.018	0.52	0.00	0.02	0.38

Source: PROVBANK DATABASE – Bosnia and Herzegovina 1913/1925 balance sheet database – final calculations.

Table 57 Bosnia and Herzegovina 1913/1925 – long-term assets and liquidity

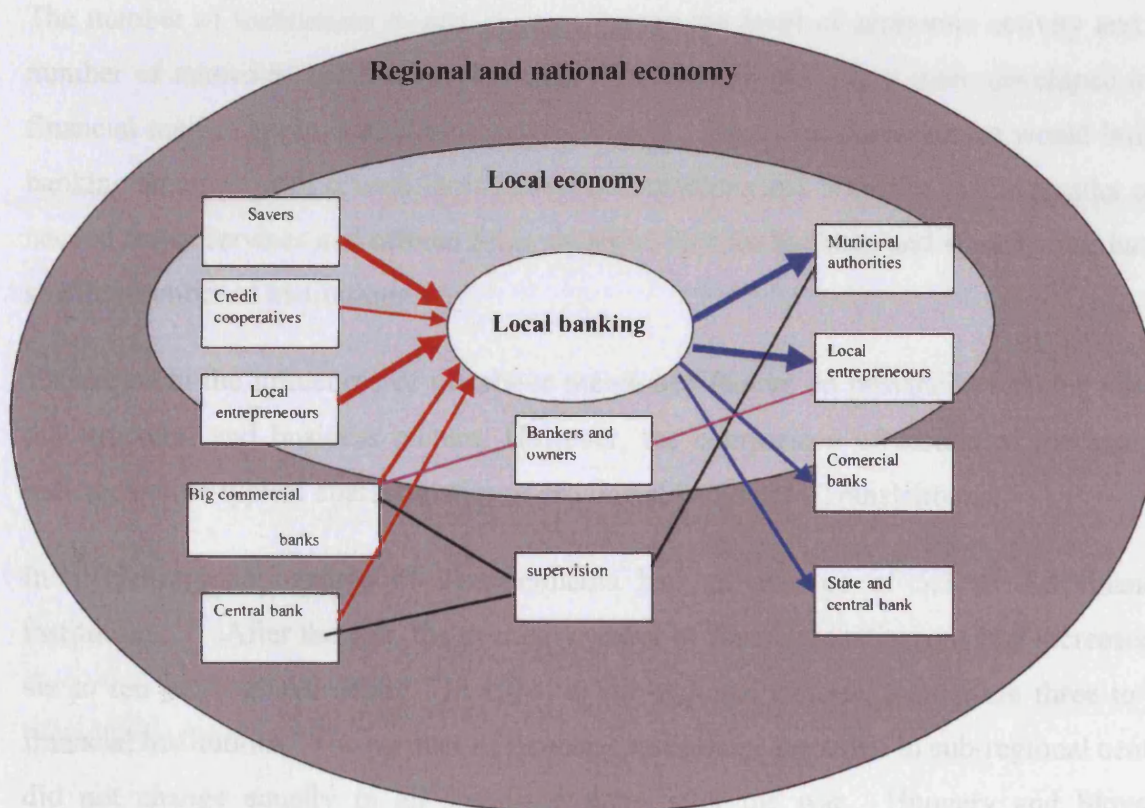
Financial level	1913			1925		
	Long-term assets	Liquidity average	Liquidity min/max	Long-term assets	Liquidity average	Liquidity min/max
Regional centres	2.2 %	1.34	1.3/1.4	0.2 %	1.5	1.41/1.67
Small towns	1.1 %	1.42	1.1/2.0	1.1 %	1.5	1.31/1.87
Very small towns	0.8 %	1.40	1.3/1.6	2.5 %	1.8	1.31/3.01

Source: PROVBANK DATABASE – Bosnia and Herzegovina 1913/1925 balance sheet database – final calculations.

COMPARATIVE ANALYSIS OF PROVINCIAL BANKING IN TRANSLEITHENIA

The history of provincial banking is to a great extent the history of the collection and redistribution of resources available to the provincial financial markets. Each provincial town could be imagined as an independent economic unit named 'local economy'. Every 'local economy', in a financial sense, presents one reservoir of the available financial resources and credit needs. There is also a certain market for banking services and mediations in which a bank could be involved.

Figure 4 Model of local banking



The main providers of financial resources at a local level were savers and entrepreneurs. The volume of their resources would certainly depend upon the level of economic activity – the capital accumulation ability of entrepreneurs and the savings habits and savings ability of the population. Eventually, credit cooperatives and economic nationalism could assist the flow of savings resources into provincial banks. Big commercial banks could be interested in selling credit and services, and eventually act as local entrepreneurs involved in business operations. Thus, they would develop branches, affiliations or informal business links with the financial market of a local economy. The state had an interest in

better monetisation and the development of the local economy. If this was the case, the central bank would act as credit provider to the local economy, usually through local banks. The ability and will of various groups to provide resources to local financial markets changed from town to town, region to region and over time.

Credit was needed by entrepreneurs, the broader population and the municipality. Thus, all these local economy credit consumers were interested in local financial markets. However, commercial banks and the state could be interested in the local economy's for its resources. The distribution of resources available in the local economy financial markets depended upon various circumstances – the economic, political and human capital capacity of interested subjects and their need for resources.

The number of institutions clearly depended upon the level of economic activity and the number of interested subjects on each local financial market. In a more developed local financial market, more institutions would develop. Bigger local economies would build a banking structure with several local financial institutions and branches, while smaller ones needed fewer services and offered fewer opportunities for bankers, and would, thus, have a smaller number of institutions.

Variations in the influences of the above mentioned factors on provincial banking shaped the structural and business picture. However, the comparison of results of the analysis indicates some typical characteristics of provincial banking in Transleithenia.

In 1913, regional centres of Transleithenia had an average of 5.5 to 7.8 financial institutions.¹⁹¹ After the war, the average number of financial institutions had increased to six to ten per regional centre. In 1913, at sub-regional centres, there were three to 5.5 financial institutions. The number of financial institutions per town in sub-regional centres did not change equally in all successor states after the war. Hungary and Slovakia experienced a slight growth in the number of financial institutions per sub-regional centre after the war, while their average number declined in Croatia, Srijem and Vojvodina. In small towns in 1913, there were usually 2.0-2.6 financial institutions per town, with the exception of Croatia which had three. After the war, there were some small changes: a decline in the number of financial institutions per town in Croatia and Hungary, and a growth of institutions in Bosnia and Srijem. In very small towns, there was no competition

¹⁹¹ The term 'financial institutions' includes banks, branches and municipal banks but excludes private banking houses, credit cooperatives and specialised institutions.

– the average number of provincial financial institutions varied from one to 1.5 financial institutions. The situation did not change after the war. Thus, it could be concluded that the average number of financial institutions per town ranged from one in very small towns to as many as six to ten in bigger regional centres.¹⁹²

The main analytical distinction for analysis of provincial financial markets could be made between local financial institutions and branches of external banks. Usually local banks were not able to satisfy all the financial services and needs of the local economy, because of limited financial and human resources. Consequently, some external banks would have realised the opportunities and entered the local financial market. External banks had the advantages of greater financial resources and better human capital. Local banks could rely on understanding local markets and regional patriotism.

A useful structural indicator for the analysis of provincial banking is the ratio of branches to the total number of financial institutions. In 1913 in regional centres, branches accounted for 12 to 25 per cent of financial institutions in Transleithenia. However, there were exceptions in the Danube-Tisza and Tisza region in Hungary where the ratio was much lower. In sub-regional centres, branches account for 10-18 per cent of the financial institutions. The exceptions were Croatia where this ratio was higher, and the Danube-Tisza region which had very few branches. In 1913 in Transleithenian small towns, branches accounted for 13-28 per cent of financial institutions, while in very small towns this ratio was much higher – 24-53 per cent. The Bosnian banking system displayed a significantly higher proportion of branches than in the rest of Transleithenia within the whole provincial banking system – in 1913 branches accounted for 54 per cent of financial institutions in regional centres, 42 per cent in small towns and 78 per cent in very small towns.¹⁹³

The situation changed after the war. In regional centres of Transleithenia in 1925, branches accounted for 25-44 per cent of financial institutions. Slovakia had a high proportion of branches in regional centres – as much as 70 per cent of financial institutions, while Croatia and Bosnia had 58 per cent. In sub-regional centres, the ratio of branches varied between 16 and 45 per cent of the banking institutions, with the exceptions of Croatia and Slovakia with 61-65 per cent of the branches in total. In small towns, the

¹⁹² Table 58 – Transleithenia 1913/1925 – average number of financial institutions/town.

¹⁹³ Table 60 – Transleithenia 1913/1925 – average number of banks with branches/town.

branch/total financial institutions ratio was, as a rule, around 25 per cent, with the exceptions of Bosnia and Slovakia. In very small towns, the ratio of branches varied between 23-48 per cent with the exception of Slovakia, where the proportion of branches/financial institutions per town was extremely high at 84 per cent.¹⁹⁴

The integration of provincial banking, from a structural point of view, could occur either through branches of big metropolitan banks, or through branches of provincial banks. Whether a provincial bank was able to build up a branch network depended upon many factors. The indicator 'average number of banks with branches/town' points to the financial and human resources capacity of provincial economies that enabled their banks to establish branches. The typical Transleithenian regional centre had one bank with branches. However, there are several exceptions. In 1913 banks in regional centres in the Danube region in Hungary and Slovakia were less likely to open branches. After the war there was a decline in the number of banks with branches in the Tisza region and in Vojvodina. Sub-regional centres did not always have banks with branches. On average, only every second sub-regional town was able to establish banks with branches. The exception was Slovakia in 1913, where almost every sub-regional centre had a bank with branches. Yet, banks in the sub-regional centres of Vojvodina failed to open branches. After the war, the ability of banks of sub-regional centres in Croatia and Slovakia to have branches declined significantly.

Joint-stock provincial banks in Transleithenia in 1913 usually operated with 15-25 per cent of their own resources. However, banks in very small towns generally had slightly more of their own resources than other provincial banks, like banks in Bosnia and Herzegovina. Such banks were usually organised by closed local elites. The provincial banks' own resources depended upon the character of the banking, and the ability of the banks to attract savings and borrow resources from the banking system. During economically unstable periods, like the interwar years, in most of the assessed regions banks had to rely more on their own resources. However, provincial banks' own resources rarely surpassed 25 per cent of the total, except in some specific regions such as Bosnia and Herzegovina and under unusual circumstances.¹⁹⁵

¹⁹⁴ Ibid.

¹⁹⁵ Table 61 – Transleithenia 1913/1925 – own resources/total of provincial banks 1913.

Attracting savings (and giro account deposits) was a process which depended upon many factors. There were huge variations in the deposit/total ratio among the regions and over time. It primarily depended upon economic circumstances – there had to be a surplus between revenue and the expenditures of the population. However, the savings habits of the population were crucial for attracting deposits to the bank. The low figures of the savings/total ratio in Bosnia and Herzegovina were influenced by the strong saving at home habits of the population. Periods of monetary and political instability and inflation would make a population abandon the stance of keeping cash deposits at the bank. A fall in the deposits in the banks in post-war Hungary resulted from such an inflationary situation or fear of inflation. Once such extreme situations are excluded, it could be concluded that the joint-stock provincial banks in Transleithenia relied on 45-65 per cent of total on deposits.¹⁹⁶

A substantial diversification between the roles that external resources played in the operation of the provincial banks has to be noted. There is no doubt that, in the case of a local lack of resources, the presence of the instruments of borrowing, and the interest of borrowers, provincial banks could attract significant external resources. Borrowed resources varied from a low proportion in Slovakia and post-war Vojvodina (around ten per cent), to over 35-50 per cent in eastern Hungary in 1925. Provincial banks mostly operated with 15-30 per cent of external resources.¹⁹⁷

The sizeable development of provincial banks in Transleithenia had a sound economic motivation – it was a profitable business. Provincial banks in stable Austro-Hungarian times made 15-20 per cent profit on capital. During the unstable post-war years, profits were often even higher – reaching as much as 30 per cent amongst provincial banks in Croatia.¹⁹⁸

Transleithenian provincial banking was based on banks organised as joint-stock companies formed through a simplified legal procedure and under loose supervision by the state. Such a legal and organisational form was flexible, and it could easily adapt to local circumstances. The joint-stock legal form could be efficient if there was only a small group of owners and also when a bank had numerous shareholders. It could be used for

¹⁹⁶ Table 62 – Transleithenia 1913/1925 – savings deposits/total in provincial banks 1913.

¹⁹⁷ Table 63 – Transleithenia 1913/1925 – borrowed resources/total in provincial banks.

¹⁹⁸ Table 64 – Transleithenia 1913/1925 – profit/total in provincial banks.

strong regional banks, as well as for very small, local institutions whose financial capacity and area of operation could be compared with some credit cooperatives.¹⁹⁹ The joint-stock model of provincial banks could be efficient for many banking functions: as a mobilisation of capital at the local level, as an importer or exporter of capital from a region, as a joint-stock entrepreneur, as well as a joint-stock usurer. It is not surprising that provincial banks in Transleithenia occurred in such a large number. However, thanks to analysis undertaken in the regional sections of this chapter, we can build up a picture of a 'typical' provincial bank in Transleithenia.

A typical provincial bank in Transleithenia was set up by a local economic elite as a very profitable enterprise. Profitability was a result of the strong credit demand of the local economy. I say 'strong credit demand' as it caused competition between banks and between branches of major commercial banks and provincial banks.²⁰⁰ However, competition in the provincial market had an impact on the quality of provincial banks – they could not develop a local financial monopoly, interest rates had to be competitive, and they also had to run a competitive policy for attracting resources. After the First World War, when competition on the market became more intensive, especially regarding attracting savings, provincial banks declined. They could not offer the same services as branches of commercial banks. Provincial banking in Transleithenia is an almost typical example of how competition on the market influences the quality of services.

However, when and where this competition was low, provincial banks flourished. Competition was low in small provincial towns – a specific part of the financial market which could offer high profits to interested bankers.²⁰¹ It is not surprising that regional banks, which suffered from the competition of commercial banks in regional and sub-regional centres, often expanded their activity to neighbouring small towns.²⁰² In such a

¹⁹⁹ The weakness of the credit cooperative movement in Transleithenia could be explained with the flexibility of joint-stock banking – there were only some limited sectors of micro-credit that could not be organised with joint-stock banks. At the same time, credit cooperatives had too many structural and legal obstacles for eventual expansion.

²⁰⁰ Unfortunately, the historiography as well as this research was not able to assess profoundly the competition between branches and provincial banks in provincial economies. Future research on this problem depends on the availability of data on branch business for some of the big banks with strong branch networks.

²⁰¹ See Table 64 – Transleithenia 1913/1925 – profit/total in provincial banks.

²⁰² See Table 59 – Transleithenia 1913/1925 – average ratio branches/financial institutions.

way they both strengthened regional banking and offered better financial services to the local banking sector.

Thanks to various influential elements, provincial banks were not all the same. Being very flexible institutions, they differed depending on their respective circumstances. This is also similar to the situation with the provincial banking systems.

Tables

Table 58 Transleithenia 1913/1925 – average number of financial institutions per town

Financial level	Regional centres		Sub-regional centres		Small towns		Very small towns	
	1913	1925	1913	1925	1913	1925	1913	1925
Hu – Danube region	5.5	7.8	3.0	3.4	2.2	2.0	1.01	1.08
Hu – Danube Tisza	7.8	9.2	4.1	5.1	2.2	2.0	1.18	1.16
Hu – Tisza region	7.0	10.0	4.1	4.3	2.0	1.8	1.25	1.18
Slovakia	6.2	8.2	3.7	4.2	2.4	2.5	1.46	1.59
Croatia	7.0	7.0	3.7	3.0	3.0	2.3	1.47	1.52
Srijem			5.5	4.5	2.0	2.8	1.20	1.15
Vojvodina	7.0	9.8	4.6	4.4	2.2	2.0	1.13	1.17
Bosnia and Herzegovina	5.5	6.0			2.6	3.4	1.28	1.71

Table 59 Transleithenia 1913/1925 – average ratio branches/financial institutions

Financial level	Regional centres		Sub-regional centres		Small towns		Very small towns	
	1913	1925	1913	1925	1913	1925	1913	1925
Hu – Danube region	0.121	0.255	0.111	0.157	0.133	0.253	0.240	0.348
Hu – Danube Tisza	0.021	0.273	0.030	0.198	0.282	0.264	0.533	0.479
Hu – Tisza region	0.000	0.348	0.103	0.450	0.197	0.267	0.244	0.245
Slovakia	0.240	0.706	0.106	0.649	0.267	0.716	0.434	0.834
Croatia	0.231	0.571	0.273	0.611	0.163	0.25	0.314	0.356
Srijem			0.182	0.333	0.083	0.286	0.174	0.400
Vojvodina	0.143	0.436	0.174	0.273	0.267	0.233	0.170	0.236
Bosnia and Herzegovina	0.545	0.583			0.417	0.549	0.783	0.354

Table 60 Transleithenia 1913/1925 – average number of banks with branches/town

Financial level	Regional centres		Sub-regional centres		Small towns		Very small towns	
Reference years	1913	1925	1913	1925	1913	1925	1913	1925
Hu – Danube region	0.33	1.33	0.53	0.60	0.24	0.19	0.052	0.094
Hu – Danube Tisza	1.67	1.83	0.81	0.44	0.44	0.38	0.064	0.108
Hu – Tisza region	1.50	0.00	0.57	1.14	0.16	0.18	0.027	0.059
Slovakia	0.75	1.25	1.05	0.18	0.42	0.25	0.081	0.044
Croatia	1.00	1.50	0.33	0.00	0.21	0.21	0.038	0.042
Srijem			0.75	0.75	0.00	0.20	0.052	0.077
Vojvodina	1.0	0.75	0.20	0.20	0.18	0.14	0.000	0.037
Bosnia and Herzegovina	1.50	1.00			0.29	0.22	0.000	0.061

Table 61 Transleithenia 1913/1925 – own resources/total of provincial banks 1913

Financial level	Regional centres		Sub-regional centres		Small towns		Very small towns	
Reference years	1913	1925	1913	1925	1913	1925	1913	1925
Hu – Danube region	0.16	0.18	0.15	0.16	0.16	0.17	0.20	0.20
Hu – Danube Tisza	0.19	0.17	0.17	0.19	0.17	0.20	0.19	0.18
Hu – Tisza region	0.14	0.18	0.15	0.21	0.18	0.19	0.22	0.17
Slovakia	0.16	0.10	0.16	0.12	0.16	0.13	0.19	0.13
Croatia	0.13	0.31	0.16	0.17	0.16	0.14	0.17	0.17
Srijem			0.19	0.19	0.14	0.23	0.18	0.32
Vojvodina	0.16	0.12	0.17	0.22	0.19	0.13	0.17	0.15
Bosnia and Herzegovina	0.23	0.29			0.26	0.28	0.24	0.36

Table 62 Transleithenia 1913/1925 – savings deposits/total in provincial banks 1913

Financial level	Regional centres		Sub-regional centres		Small towns		Very small towns	
Reference years	1913	1925	1913	1925	1913	1925	1913	1925
Hu – Danube region	0.64	0.49	0.68	0.50	0.65	0.47	0.61	0.41
Hu – Danube Tisza	0.50	0.51	0.54	0.48	0.56	0.39	0.61	0.43
Hu – Tisza region	0.35	0.47	0.37	0.40	0.40	0.41	0.38	0.26
Slovakia	0.67	0.81	0.66	0.67	0.71	0.77	0.69	0.74
Croatia	0.47	0.67	0.42	0.69	0.48	0.67	0.44	0.67
Srijem			0.57	0.60	0.51	0.64	0.43	0.56
Vojvodina	0.45	0.68	0.54	0.64	0.50	0.72	0.65	0.75
Bosnia and Herzegovina	0.40	0.30			0.32	0.36	0.26	0.32

Table 63 Transleithenia 1913/1925 – borrowed resources/total in provincial banks

Financial level	Regional centres		Sub-regional centres		Small towns		Very small towns	
Reference years	1913	1925	1913	1925	1913	1925	1913	1925
Hu – Danube region	0.17	0.29	0.13	0.29	0.15	0.31	0.15	0.33
Hu – Danube Tisza	0.28	0.27	0.26	0.27	0.23	0.36	0.16	0.34
Hu – Tisza region	0.48	0.30	0.46	0.35	0.39	0.34	0.37	0.53
Slovakia	0.14	0.07	0.14	0.18	0.10	0.09	0.09	0.10
Croatia	0.36	0.12	0.32	0.09	0.23	0.09	0.24	0.10
Srijem			0.21	0.12	0.26	0.13	0.28	0.12
Vojvodina	0.35	0.15	0.25	0.08	0.27	0.11	0.14	0.06
Bosnia and Herzegovina	0.34	0.35			0.37	0.31	0.44	0.26

Table 64 Transleithenia 1913/1925 – profit/total in provincial banks

Financial level	Regional centres		Sub-regional centres		Small towns		Very small towns	
Reference years	1913	1925	1913	1925	1913	1925	1913	1925
Hu – Danube region	0.14	0.18	0.19	0.16	0.22	0.17	0.17	0.20
Hu – Danube Tisza	0.18	0.17	0.16	0.19	0.18	0.20	0.20	0.18
Hu – Tisza region	0.14	0.18	0.13	0.21	0.16	0.19	0.12	0.17
Slovakia	0.19	-0.39	0.17	0.05	0.19	0.14	0.18	-0.16
Croatia	0.13	0.31	0.16	0.17	0.16	0.14	0.17	0.17
Srijem			0.19	0.19	0.14	0.23	0.18	0.32
Vojvodina	0.17	0.25	0.23	0.21	0.17	0.22	0.20	0.35
Bosnia and Herzegovina	0.17	0.16			0.16	0.19	0.17	0.16

CHAPTER 5 – PROVINCIAL BANKING IN CISLEITHENIA

The Cisleithenian banking system had a sophisticated architecture. Commercial banks, branches of commercial banks, municipal Sparkassen, credit cooperatives and branches of the central bank coexisted and interacted within the same territory. Each of the co-existing banking sub-systems in Cisleithenia had its own legal framework. They usually also had a specific strata of customers, with the division often emphasized along national lines. There was also a significant inter-sectoral and inter-regional flow of resources which can be recognised through the analysis of the structure of the banking system. Due to the lack of reliable information on all financial sub-systems, the financial analysis in this chapter is limited to Sparkassen.

BOHEMIA

General observations

Bohemia, thanks to its geographical position, navigable rivers and the structure of the terrain, was favourable for development into an almost perfect market. On the eve of the First World War, Bohemia was a region of approximately 52,000 square km and 6,700,000 inhabitants. In 1910, the population density was relatively high, with 130 inhabitants per square km. The terrain provided no significant hindrances for internal transport while there were sufficient narrow passes in the surrounding mountains to allow for railway connections to Austria and Germany. On the eve of the First World War, Bohemia had 20 railway connections to external markets.¹ Aside from the connections to external markets and navigable rivers that supported the development of an internal market, Bohemia had abundant fertile soils, minerals and coal. Coal not only provided cheap energy for domestic industry but was also exported to Germany. Iron ore around Prague and Pilsen was the basis for the development of metallurgy. Other natural resources, such as good quality kaolin, salt and graphite stimulated the development of other industries. In 1910, only 36 per cent of the population was involved in agriculture. A significant portion of arable land – 28 per cent – was held in the hands of large landlords, who were able to

¹ Lukas, *Gospodarska geografija*. p. 211.

develop modern, efficient production for the market.² Agriculture lost its subsistence character – and there was a market for agricultural products with growing numbers of industrial workers and urban population. The growing manufacturing industry absorbed the surplus of agricultural population and employed educated people.³ Most forests were in the hands of big landlords whose accumulation of capital allowed development of the timber industry.⁴

The profitability of industrial production, mining and market-oriented agriculture was the basis for the growth of domestic consumption, further strengthened by regional diversity and specialisation. Bohemia produced – mostly on an industrial basis – items needed in other parts of the valley, or which could be exported to Germany or to the Danube region. Such a specialisation assisted Bohemian producers of sugar, beer, paper, textile, metal, porcelain and many other products in gaining a leading position within the European market. It is not surprising that Bohemia was one of the most developed regions of the Austro-Hungarian Monarchy.

Before the war

There were also well-developed financial networks which enabled the easy flow of money. In 1913 in Bohemia there were 1,167 financial institutions (including branches and credit cooperatives) listed in the *Financial Compasses*.⁵ Banking was characterised by a complicated banking architecture. There was the big business banking of joint-stock banks, a parallel world of municipal Sparkassen, and a strong but diverse credit cooperative movement. It has to be noted that the German and the Czech populations each had their own banking systems which were virtually separate and independent from the other. However, Bohemia had a strongly integrated financial system, thanks to the interaction of the different elements of the banking system.

² Ibid. p. 205.

³ The weakness of the domestic market, in circumstances of agricultural overpopulation and growing education in many Central and South-eastern European countries, led to the emersion of office-seekers, educated elites who, unable to find their economic niche in society, created political instability and pressure in the public sphere, which, in the long run, had a negative impact on economic development.

⁴ Lukas, *Gospodarska geografija*. p. 206.

Big business in Bohemia was mostly serviced by commercial banks. At a provincial level, numerous branches and agencies of Prague banks have to be taken into consideration.⁶ The financial integration of the market before the First World War was further strengthened by numerous branches and agencies of Viennese banks.⁷ These Viennese banks also fulfilled the important function of connecting Bohemia with external markets. Branches and affiliations of the Prague banks – Živnostenská Banka and Böhmsche Union Bank – had the same function beyond Bohemia. The development of the Bohemian market was stimulated by the successful organisation of the banking system, as well as by the inflow of financial resources from outside Bohemia, both from Germany and elsewhere within the Austro-Hungarian Monarchy.⁸

The most interesting question regarding banking in Bohemia concerns the branches of commercial banks and their penetration of the provincial economy. Sparkassen, agricultural county loan cassas and credit cooperatives did not open any branches or subsidiaries until the First World War. Surprisingly, most Prague banks did not expand their operations through provincial branches until the First World War, but rather developed business links with other Austro-Hungarian financial and regional centres and set up branches there. In 1913, all Bohemian banks had in total 65 branches and 19 agencies, but 31 of these branches were situated outside Bohemia in different parts of the Monarchy (mostly in Cisleithenia). In addition, the majority of Bohemian branches and agencies were situated in big towns. Consequently, branches of the major trans-regional joint-stock banks had a very limited influence on the provision of financial services in the provinces. The financial function of the commercial banks in the provincial economy was not so much to offer financial services to the broader population as to organise trans-

⁵ There is a possibility that some financial institutions were not listed in the *Compasses*, but these were either very small urban co-operatives or village co-operatives – with a relatively low level of financial importance.

⁶ In 1913, the banking leaders were Živnostenská Banka (11 branches), Böhmsche Escompte-Bank (15 branches and two agencies), Böhmsche Industrial Bank (10 branches), Hospodarska Úvěrni Bank pro Český (10 branches), Česká Banka (three branches and nine agencies) and Böhmsche Union Bank (six branches) and Založni Úvěrni Ústav in Hradci Kralove (eight branches). Some small banks had one or two branches.

⁷ Anglo Austrian Bank (19 branches), K.K privilegierte Österreichische Länderbank (four branches and eight agencies), K.k. priv Bank & Wechselstuben A.-G. Merkur (9 branches), Wiener Bank-Verein (11 branches) and K.k. priv Österreichische Credit-Anstalt fir Handel und Gewerbe (6 branches).

⁸ See Rudolph, *Banking and Industrialisation*, pp.174-183.

regional and trans-national financial operations by providing financial services to major businesses and smaller financial institutions.⁹

Bohemia was an urbanised and marketised region. A strong provincial need for financial services stimulated the development of provincial financial institutions, which could not take the legal form of joint-stock bank. Local structures developed three types of local financial institutions: regulated savings banks – so-called Sparkassen, district agricultural cooperatives and various other credit cooperatives. The Sparkasse – or regulated savings bank – was a necessary institution both for small and big municipalities. District agricultural cooperatives were developed to assist agriculture and were an institution specific to Bohemia.¹⁰ Usually there was one main credit cooperative in a town titled 'obcanska založna' in Czech towns or 'Vorschusskasse' in German towns. Apart from these, there were usually some specialised credit cooperatives organised by interested groups such as artisans or small shopkeepers.¹¹ It has to be noted that there were also a considerable number of Raiffeisen credit cooperatives in villages but which are not included in this analysis.

There is no doubt that there were effective institutional channels which allowed the concentration of finances in Bohemia. Many towns were too small to attract branches of the major commercial banks, but this does not imply that the local financial market lacked connections to financial centres. In 1913, the Sparkassen were organised in networks: the Centralbank der deutschen Sparkassen for German savings banks and credit cooperatives

⁹ See Rudolph, Richard, 'Austria 1800-1914' in Cameron, Rondo (ed.), *Banking and Economic Development, Some Lessons of History* (New York, 1972), pp. 38-49.

¹⁰ 'District agricultural pawnshops developed as a strictly Czech speciality. They stemmed from so-called contribution funds, set up at individual manors from the end of the 18th century, as a form of insurance against various natural disasters. In Bohemia, the year 1882 brought the possibility of merging these small funds into one institution within a self-governed district. As their business activities were rather limited at first, they were gradually given more legislative space, until eventually achieving considerable business freedom in the interwar period. They focused on similar social groups and similar types of transactions, as did the Raiffeisen-type pawnshops, but unlike Raiffeisen cooperatives, these were fairly large institutions with a strong local influence.' Quotation from Roman Holec and Jan Hájek, 'Popular Banking in Central Europe', unpublished paper from the EABH annual conference 'Popular Banking and the Financial System' Bratislava 29-31 May 2003.

¹¹ For the development of credit cooperatives and differences between Czech and German cooperatives in Bohemia see Catherine Albrecht, 'Nationalism in the Cooperative Movement in Bohemia before 1914' in Torsten Lorenz (ed.), *Cooperatives in Ethnic Conflicts: Eastern Europe in the 19th and early 20th Century*, pp. 215-227.

in Bohemia and Austria, and the Ústřední Banka Českých Spořitelů (Sporobanca) for Czech savings banks. In addition, there were webs of credit cooperatives, such as the Zemský Svaz Živnostenskýh Založen a Družstev v Praze (270 cooperatives of which 225 were credit institutions), and the Central Verband der Deutschen Land Genossenschaften Böhmens (671 credit cooperatives and 142 cooperatives of different types). In addition, the importance of the Prague Saldierungsverein, an institution that acted as a clearing house for Bohemian banks and bigger municipal savings banks, should not be underestimated. After the war, the Centralbank der deutschen Sparkassen limited its activity to the Czechoslovak Republic.

Prague was the financial centre of Bohemia and its significance stretched beyond its borders. In Prague¹² in 1913, there were 20 joint-stock commercial banks.¹³ In addition, two large Sparkassen¹⁴ and numerous branches of commercial banks (e.g. eight branches of Viennese banks) have to be considered. Credit cooperatives were an excellent form of satisfying the financial needs of different urban economic groups – and there were 81 financial institutions of this type in Prague in 1913. Five banks registered as limited companies (Ltd) and 16 private banking houses testify to the considerable level of economic activity within the city. Nine specialized financial institutions, such as mortgage houses and credit cooperatives' umbrella institutions, have also to be noted.¹⁵

The importance of other major regional centres should also not be underestimated. The Austro-Hungarian Bank had its branches in 17 towns – Aussig, Ceske Budejovice, Eger, Gablonz, Karlsbad, Hradec Králové, Dvůr Králové nad Labem, Kolín, Pardubice, Pilsen, Reichenberg, Saaz, Teplitz-Schönau, Bodenbach Tetschen, Trautenau, Mladá Boleslav

¹² Data for Prague suburbs are included (Smíchov, Královské Vinohrady, Karlín, Dejvice, Hostivice, Vršovice).

¹³ The most important banks in Prague were: Živnostenská Banka (capital K 80 m., balance sum K 417 m.); K.k. priv. Böhmisches Union-Bank (capital K 65 m., balance sum K 340 m.); Böhmisches Industrial Bank (capital K 40 m., balance sum K 174.4 m.); Prager Creditbank – Pražská Úvěrní Banka (capital K 25 m., balance sum K 136.8 m.); Böhmisches Eskompte Bank – Česká Eskomptní Banka (capital K 12 m., balance sum K 166.6 m.); Centralbank der Deutschen Sparkassen (capital K 30.0 m., balance sum K 353.5 m.); Ústřední Banka Českých Spořitelů (capital K 25 m., balance sum K 304.8 m.); Landesbank des Königreiches Böhmen – Zemská Banka Království Českého (balance sum K 1,162 m.); Hypothekbank des Königreiches Böhmen – Hypoteční Banka Království Českého (balance sum K 351 m.).

¹⁴ The financial capacity of the Böhmisches Sparkasse (Spořitelna Česká), whose balance sum was K 308 m. implies that this bank was more than just a local municipal savings bank. Czechs often criticized its German orientation. In 1903, there was a politically motivated Czech 'run' on the Böhmisches Sparkasse. Czechs had their own bank, the Prague Municipal Savings Bank, founded in 1875.

and Warnsdorf.¹⁶ Some other economic centres were big enough to attract the Austro-Hungarian Bank to employ some of the local savings banks as its agencies (Banknebenstelle). The network of the central bank agencies in Bohemia was dense – they were to be found in no less than 50 small towns.¹⁷

There was an average of nine banking institutions in regional centres in 1913. Surprisingly, there were only five joint-stock commercial banks in these 17 regional centres. Instead, their financial function was performed by the numerous branches of Bohemian (an average of 2.06 branches per regional centre) and Viennese commercial banks (an average of 1.82 branches per regional centre). Each regional financial centre had a municipal Sparkasse. In addition, there were numerous specialized urban cooperatives which reinforced the financial life of regional financial centres – there were 56 credit cooperatives and 10 district agricultural cooperatives in 17 regional centres.

Sub-regional financial centres had an average of 4.33 financial institutions per town in 1913. Most had a connection with some of the big commercial banks – mostly to Bohemian banks through a branch office. On average, 71 per cent of the sub-regional financial centres had a branch of a Bohemian commercial bank, while 22 per cent had a branch of one of the Viennese commercial banks. There were no joint-stock commercial banks situated in sub-regional centres but a municipal savings bank could be found in each one. In those 50 sub-regional centres there were 81 credit cooperatives and 31 district agricultural cooperatives.¹⁸

¹⁵ Table 65 – Bohemia 1913 – structure of the banking system.

¹⁶ German and Czech names of the towns listed depend of the national structure of population according to the 1910 census data.

¹⁷ In 1913 agencies of the Austro-Hungarian Bank existed in: Asch, Benešove, Bilin, Böhm. Leipa, Brandys nad Labem, Braunau in der Böhmen, Brux, Časlav, Chrudim, Domazlice, Dux, Graslitz, Hohenelbe, Horice, Humpolec, Jičín, Jilemnice, Jindřichuv Hradec, Kladne, Klatov, Komotau, Kutne Hore, Leitmeritz, Lobositz, Louny, Marienbad, Mělník, Mnichova Hradišt, Nachod, Německoho Brod, Nimburg, Nový Bydžov, Pelhrimov, Pisek, Píseck, Podmoklice, Příbram, Rakovník, Rokycany, Roudnice nad Labem, Rumburg, Schluckenau, Schönlinde, Semil, Slane, Strakonice, Tabor, Volyn, Vysoke Myte, Weipert.

¹⁸ Table 65 – Bohemia 1913 – structure of the banking system.

There were 51 small towns and 128 very small towns which had a Sparkasse but lacked a direct connection to the Austro-Hungarian Bank in 1913.¹⁹ These places also lacked connections to other commercial banks which rarely attempted to open branches in them. In 51 small towns, there were only six branches of Bohemian commercial banks and seven branches of Viennese commercial banks. In 128 very small towns, there were only four branches of commercial banks – two Bohemian and two Viennese. Sparkassen and credit cooperatives dominated the financial life of these local economies.²⁰

In some very small towns, there were insufficient financial resources and human resources to run a Sparkasse. That is to say the Sparkasse, as a financial form, was not adopted at a very low level of urbanisation. However, in Bohemia, even at a very low level of urbanisation, some local financial organisations could be found. In *Finanzielles Compasses*, 266 such places were listed, which had an average of 1.11 financial institutions. There were no joint-stocks or any other banks (Ltd. or mortgage houses) in small places apart from three branches of Bohemian and two branches of Austrian commercial banks.

The national segregation of banking in Bohemia has already been mentioned, as well as the different banking structures of German and Czech banking. First of all, it has to be noted that Germans were dominant in ten regional centres while Czechs were in the majority in only five regional centres.²¹ Yet, there were 34 sub-regional centres with Czech predominance and just 15 with German.²² This is one analytical deviation resulting from the political effort of Czech towns to get agencies of the central bank into small Czech towns. As the Austro-Hungarian Bank was an important provider of credit, the emerging Czech entrepreneurial class was fighting politically to get better access to credit resources.²³ The average population of German regional centres, according to the 1910 census, was 28,017 people compared to the average population of 15,868 in Czech regional

¹⁹ The minimum criteria for a town's classification as a small town was the existence of a Sparkasse in the town, and a population of at least 4,600 people. Very small towns are those with a Sparkasse and less than 4,600 habitants. Towns without Sparkassen were not analysed.

²⁰ Table 65 – Bohemia 1913 – structure of the banking system.

²¹ Pilsen and Czech Budjevice as multinational towns were excluded from national analysis.

²² Table 66 – Bohemia 1913 – structure of the banking system – national comparison.

²³ Albrecht, *Savings Banks in Bohemia*, p. 206.

centres. German sub-regional centres had an average population of 12,893, while the Czech average population was 9,256.²⁴

In 1913, German and Czech regional and sub-regional centres were not of the same economic capacity – the German towns were much stronger. The Sparkassen in German regional centres had an average of 18,500 savers, compared to an average of 9,270 in Czech regional centres. It was a similar situation with regard to the financial capacity of the Sparkassen. In 1913, the Sparkassen in German regional centres had on average savings of K 2.7 m., compared to an average of K 1.48 m. in Czech regional centres. In German sub-regional centres, the Sparkassen had an average of 9,670 savers, while Czech sub-regional centres had only 6,180 savers. The average savings in the Sparkassen were K 16.8 m. in German and K 9.2 m. in Czech sub-regional centres.²⁵ German regional and sub-regional centres also had significantly better connections to commercial banks than Czech centres. German regional centres had an average of 2.5 branches of Viennese banks and 1.8 branches of Prague banks while Czech regional centres had an average of 0.6 branches of Viennese banks and 1.4 branches of Prague banks. In German sub-regional centres, there was an average of 0.73 branches of Viennese banks per town, and 0.87 branches of Prague banks per town, while in numerous Czech sub-regional centres there were no Viennese branches and only 0.56 branches of Prague banks. Both national groups set up urban credit cooperatives, but it has to be noted that there was a higher density of county agricultural cassa institutions in Czech towns than in German ones.²⁶ It is interesting to note that, in 1913, there were banks in the form of limited companies in only Czech towns. But a closer look reveals that they were German or Jewish banks – and they had protocols drawn up in the German language.

It would be fitting to conclude this general overview of Bohemian banking with an analysis, comparing the distribution of savings and credit financial resources between various sectors of the banking system, and indicating changes between 1913 and 1925. Unfortunately, this is not possible due to the lack of adequate data. However, the Sparkassen were the most important provincial financial institutions and it is possible to find out more about their operations by analysing their balance sheets.

²⁴ Calculated from PROVBANK DATABASE – Bohemia 1913 – identification.

²⁵ Table 68 – Bohemia 1913/1925 – financial resources – national comparison.

²⁶ Table 66 – Bohemia 1913 – structure of the banking system – national comparison.

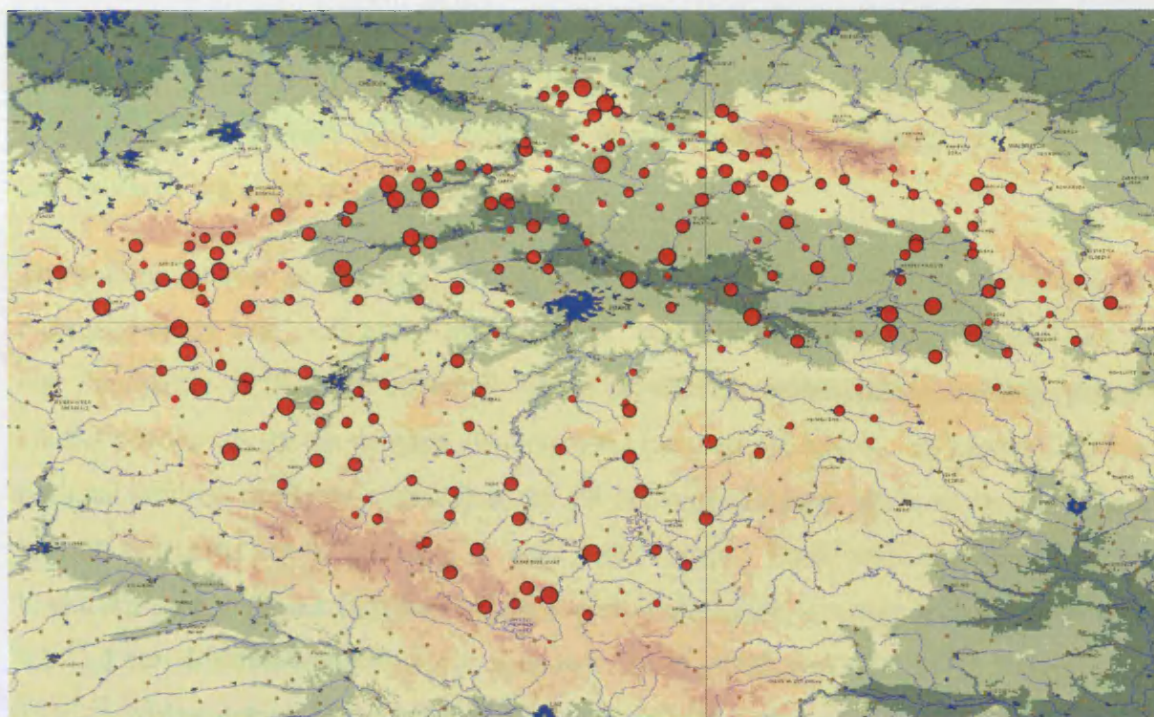
The balance sheet analysis

The intention of this section is to elucidate the principal characteristics of Sparkassen in Bohemia in 1913 by analysing balance sheet data. The main determinants of the Sparkassen have already been noted: municipally-controlled, regulated through supervision and statute restriction, and without capital. The liabilities of the Sparkassen were mostly savings – 90 to 95 per cent of the balance sheet total. The remaining liabilities were made up mostly of reserves and some small initial capital, and eventually of some guaranty deposits. Municipal character and savings-based liabilities give the impression that Sparkassen made up a group of similar banks. Yet balance sheet analysis will surprise anyone expecting something like a uniform business policy of the Sparkassen.

Firstly, Sparkassen were not similar, since they had different financial capacities. In 1913 there coexisted in Bohemia both very small Sparkassen with almost insignificant balance sums (as low as K 0.2 m.) with quite substantial ones – the biggest Sparkasse outside Prague managing resources of K 65 m. Keeping in mind all the differences that existed between them, it can be concluded that between ten and twenty Sparkassen approached the financial size of a single big commercial bank. The financial resources of the Sparkassen stemmed from the number of savers and the saving capacity of the population. It is clear that the Sparkassen in bigger towns had more savers. The Sparkassen in Bohemia had between 300 and 41,000 savers, while savings per head varied between K 150-2,350.²⁷ The average savings per capita were around K 1,300, and the average number of savers was between 5,000-10,000. But there was no typical or average respective capacity of savings banks. The financial resources of each Sparkasse strongly depended upon the respective capacity of the economy of the town or place where it was situated. However, the financial capacity of each Sparkasse depended very much on its ability to attract savings and competition from branches of commercial banks.

Map 17 Bohemia 1913 – savings per head in Sparkassen, regional distribution

²⁷ Table 69 – Bohemia 1913 – saving per capita – national comparison.



Source: PROVBANK DATABASE – Bohemia 1913.

When considering Bohemia and the differences in the financial capacity of Sparkassen, it has to be noted that there were also significant regional differences. They are displayed on Map 17 above. The central plateau of Bohemia had a lower level of savings per capita than the surrounding mountains and the region north of Prague. There were several reasons for this. The valley, with its agriculturally dependent economy had a lower level of savings accumulation than the industrially dependent mountain areas. In addition, the regions with German populations had higher savings accumulations and a tradition of saving in the local Sparkasse. Catherine Albrecht suggested that the lower savings proportion in Czech regions might be distorted by the use of only savings bank data since Czechs had traditionally favoured credit cooperatives over Sparkassen.

In Bohemia, with its favourable geographical context, economic structure and a considerable level of 'marketisation', development at the local level depended upon the ability of the municipality to organise favourable economic and infrastructural conditions. In practice, this meant building up the local infrastructure and assisting the growth of local enterprises. The Sparkassen had sufficient financial and human resources to perform this function. The financial operations of the Sparkassen were determined by savings-based liabilities – in a stable economy savings were long-term deposits. Sparkassen managers were forced to pursue conservative assets policy. The Sparkassen were restricted in their

business by regulatory statutes, local public interest, and government and umbrella institutions' supervision. However, there were significant differences in the assets structure of each savings bank – something that has to be kept in mind when considering the results of the assets structure analysis.²⁸

The public interest of the local society was satisfied by two important credit forms – mortgage credit and loans to the municipality. The principal financial function of the pre-war Sparkassen in the local economy was to provide mortgage credit. In 1913, mortgage credits accounted for an average of almost 60 per cent of assets. In regional and sub-regional centres, mortgages accounted for 56 per cent of assets, while in small towns this was 60 per cent, and 58 per cent in very small towns. There were differences between banks but they were not significant – the standard deviation /average indicator was around 0.2.²⁹ Even differences between German and Czech Sparkassen were fairly insignificant in 1913.³⁰ This situation was a result of the need for long-term loans in provincial economies and the ability of the Sparkassen as savings-based banks to meet this need, thanks to stable savings deposits. There is unfortunately not enough information on how mortgage credits were employed and who were the borrowers.³¹

The public interest was also visible in loans to the municipality. In 1913, loans to the municipality amounted to 9-13 per cent of total assets. The importance of such loans increased with the level of urbanisation – the more urbanised towns had a greater need to develop their infrastructure.³² It has also to be noted that, in 1913, the Czech Sparkassen had more loans to municipalities than German Sparkassen.³³ This was the result of the tendency of Czech provincial economies to catch up. Such significant, easily available

²⁸ To highlight the relative freedom of the assets structure management of the directors of savings banks, apart from average indicators, tables also provide min/max and standard deviation data for each analysed item. While entering the min/max indicator the smallest and the highest values have been excluded as a statistical deviation.

²⁹ Table 70 – Bohemia 1913/1925 – assets structure of the Sparkassen.

³⁰ See Table 71 – Bohemia 1913/1925 – assets structure – national comparison.

³¹ Albrecht, *Savings banks in Bohemia*, p. 184 argues that the German Sparkassen often participated in the profitable financing of house building in Vienna, especially during the nineteenth century. Also, she suggested in her comments on the final draft, that in the 1880s, a lot of mortgages were secured by landholdings and may have been used primarily for working credit.

³² Table 70 – Bohemia 1913/1925 – assets structure of the Sparkassen.

³³ See Table 71 – Bohemia 1913/1925 – assets structure – national comparison.

resources were of great assistance to the municipality in their daily operations (solving problems of short-term liquidity), and in their attempt to build their respective infrastructures (long-term financing of urbanisation projects).

One of the interesting aspects concerning Bohemian Sparkassen is their significant investment in securities. In 1913, the Sparkassen in regional centres had as much as 20 per cent of their assets in securities. In sub-regional centres, the ratio of securities was 15.7 per cent, in small towns 18 per cent, and 14 per cent in very small towns.³⁴ There were significant differences between German and Czech Sparkassen. German Sparkassen retained 20-23 per cent of their assets in securities, while Czech ones retained only 6-12.7 per cent on average, depending on the financial level.³⁵ This indicates that German Sparkassen had a much more sophisticated banking policy than Czech Sparkassen, and that the human resources of German Sparkassen were higher.³⁶ However, even the percentage of Czech Sparkassen was not too low when compared to provincial banks in Transleithenia.

There were a number of reasons for Sparkassen to invest in securities. Resources invested in securities could be readily realised at little penalty or could be deposited as guaranty for lombard credit. On the one hand, securities offered stable profit and on the other hand they were important for the liquidity of the Sparkasse. The state was also interested in the resources of the Sparkassen – usually the statute of the bank regulated the investment in government securities. The reluctance of Czech towns to form Sparkassen in the early stage of their expansion, lower rates of Czech investment in state paper, and the orientation of Czech savers towards credit cooperatives resulted from a lack of confidence in the Austrian government before 1918.

However, this research based on balance sheets does not provide information about the structure of the securities. Albrecht has provided some information about pre-war

³⁴ Table 70 – Bohemia 1913/1925 – assets structure of the Sparkassen.

³⁵ Table 71 – Bohemia 1913/1925 – assets structure – national comparison.

³⁶ Lower rates of Czech investment in state paper in the Austro-Hungarian Monarchy reflect not just their level of integration into the financial network, but also their lack of confidence in the Austrian government before 1918. After the founding of Czechoslovakia in 1918, Czech savings banks invested more avidly in state paper, but German banks did not withdraw from this market.

tendencies, but they are not necessarily relevant for this analysis.³⁷ She indicated that the Sparkassen financed government securities (both central and provincial government securities), enterprise securities guaranteed by the government such as railways securities, and also mortgage bonds (Pfandbriefe) issued by public banks, and shares of the Austro-Hungarian Bank. She also highlighted the difference in the securities policies between the German and the Czech Sparkassen. The Czech Sparkassen purchased more provincial bonds compared to German Sparkassen, which often acted on the Vienna financial market.³⁸ Securities issued by the local government had a more direct impact on the economic development of Bohemia than Cisleithenian securities.

The Sparkassen were well integrated into the financial system, not only through investments in securities, but also by short-term lending to other banks. These advances were very liquid, and resolved the issue of where to place short-term resources. Deposited resources or short-term loans to other banks could be easily withdrawn. In 1913, this ratio was between four and eight per cent, depending on the level of urbanisation, and there was a high standard deviation.³⁹ Before the war, less sophisticated Czech Sparkassen deposited more resources in other banks (four to ten per cent, since small Sparkassen tended to rely on this kind of assets policy), while the German Sparkassen advanced only three to five per cent of their assets to other banks.⁴⁰

Relatively small resources were advanced via bills of exchange – between 4.6 per cent in regional centres and nine per cent in very small towns, with a very high standard deviation.⁴¹ There were significant differences between average values for German and Czech Sparkassen, indicating that German Sparkassen used other credit instruments. In 1913, German Sparkassen had only one to six per cent of bills of exchange in their assets structure (with a strong dependence on the financial level – the lower the level, the more

³⁷ There is a difference between the findings of this research (the rate of securities in total assets was 15-18 per cent in 1913), and the data offered by Albrecht, *Savings banks in Bohemia*, p. 110 (average 22.3 per cent for 1910).

³⁸ It is interesting to note that the Czech Sparkassen sometimes bought Hungarian securities, because of their profitability, Albrecht, *Savings banks in Bohemia*, p. 141.

³⁹ Table 70 – Bohemia 1913/1925 – assets structure of the Sparkassen.

⁴⁰ Table 71 – Bohemia 1913/1925 – assets structure – national comparison.

⁴¹ Table 70 – Bohemia 1913/1925 – assets structure of the Sparkassen.

bills they owned), while Czech Sparkassen held eight to 15 per cent of assets in bills, with the highest share of bills in regional centres.⁴²

To promote savings, a savings bank needed its own building, and this required spending some resources. It took approximately 1-2 per cent of the total savings bank assets. However, there were also a number of Sparkassen which did not indicate any properties in their balance sheets.⁴³

After the War

After the First World War, the provincial banking system in Bohemia remained based on Sparkassen and branches of joint-stock banks. However, Viennese branches were replaced by Prague branches, and the network of branches became more dense, as a result of the increasing financial strength of Prague. In 1925, there were 26 joint-stock banks in Prague, 19 of which were banks with branches (compared to only ten banks with branches in 1913). In Prague, the number of private bank-houses increased significantly, from 16 in 1913 to 44 in 1925. Its central position promoted Prague to being the base of another 11 specialised institutions.⁴⁴

In regional banks, commercial banking developed more intensively than before the war. In 1925 there were six joint-stock banks in regional centres and another three in sub-regional centres. Private banking houses also appeared – in 1925 there were 30 private banking houses in regional centres and 11 in sub-regional centres. However, the main difference was in the number of branches. In 17 regional centres, there were 117 branches and agencies of Prague joint-stock banks, and 87 branches and agencies in sub-regional centres. There were also branches of Prague Sparkassen, four in regional centres and one in a sub-regional centre.⁴⁵ This implies that the growth of branches of commercial banks in regional and sub-regional centres had more than doubled compared to the pre-war situation. We can also note an initial growth of branches of Moravian banks in Bohemia – in 1925 there were four branches of Moravian banks in regional centres and six in sub-regional centres.

⁴² Table 71 – Bohemia 1913/1925 – assets structure – national comparison.

⁴³ See PROVBANK DATABASE – Bohemia 1913 – balance sheet database.

⁴⁴ Table 65 – Bohemia 1913 – structure of the banking system.

Prague banks also penetrated local banking more than before the First World War. In 51 small towns, there were 44 branches and agencies of Prague commercial banks (compared to seven Viennese and five Prague branches in 1913). Even in the 128 very small towns, there were twenty branches and agencies of Prague commercial banks.⁴⁶

It is interesting to observe a post-war penetration of several Sparkassen and umbrella institutions in towns with a very low level of urbanisation. The Böhmische Sparkasse opened a number of small agencies (Sammelstelle – payment points) throughout the country – eight in small and very small towns, but 44 existed in small places – towns without a Sparkasse. The Creditanstalt der Deutschen reg. Gen. m.b.H. Prague had a similar network of equivalent payment points – Zweiganstalt: 17 in small towns, 16 in very small towns, and another 12 in small places. Another issue worth noting was the tendency of provincial banks, Sparkassen and county agricultural cassa, to establish agencies in their vicinity (these had not existed before the War). There were 24 such agencies in small places in 1925. The probable reason for their development was the collection of savings from the provincial economy.⁴⁷

After the war German towns continued to have better branch links to commercial banks, albeit solely to Prague banks. In 1925 German regional centres had an average of 7.3 branches and agencies of Prague commercial banks, while Czech regional centres had only 4.24 branches and agencies. German sub-regional centres had an average of 3.13 branches and agencies of the Prague commercial banks while Czech sub-regional centres had only 1.09. It should also be noted that the number of private banking houses in German towns was significantly greater than in Czech towns stemming from a higher level of economic activity in German towns.⁴⁸

⁴⁵ Ibid.

⁴⁶ Ibid.

⁴⁷ Calculated from PROVBANK DATABASE – Bohemia 1925 – identification.

⁴⁸ Table 66 – Bohemia 1913 – structure of the banking system – national comparison.

The balance sheet analysis

In 1925, the average savings in Sparkassen in German and Czech towns were almost the same – K 98.6 m. in German and K 90.9 m. in Czech regional centres.⁴⁹ After the war, Czech sub-regional centres had greater financial resources than German – the average savings in German sub-regional centres was K 40.5 m. compared to K 54.9 m. in Czech sub-regional towns.⁵⁰

After the First World War, the share of mortgage loans in assets significantly decreased. In 1925, mortgage loans accounted for 32 per cent of assets in regional centres, 29 per cent in sub-regional centres and only 26 per cent in small and very small towns. The standard deviation had almost doubled compared to the pre-war situation, and many Sparkassen had a very low proportion of mortgage loans. However, there was no clear difference between German and Czech Sparkassen. The post-war business of the Sparkassen was less uniform, and mortgage orientation depended more heavily on the local circumstances of each bank.⁵¹

The share of municipal loans in the assets structure remained almost unchanged after the First World War. However, a high standard deviation/average ratio has to be noted, which was 0.7-0.9 both before and after the war – indicating that there were significant variations in municipal loans policies amongst the Sparkassen.⁵²

After the war, the tendency to invest in securities was higher. In 1925, securities made up around 30 per cent of assets. There were local variations but they were not extreme – the standard deviation/average ratio was approximately 0.45.⁵³ The differences between German and Czech Sparkassen remained, but they were much smaller than in 1913. The

⁴⁹ Table 69 – Bohemia 1913 – saving per capita – national comparison.

⁵⁰ Table 68 – Bohemia 1913/1925 – financial resources – national comparison.

⁵¹ One has to keep in mind that during the post-war years the state stimulated house building, and that a part of the mortgage credits were state guaranteed building loans – without such a state intervention mortgage orientation of the Sparkassen would have been much lower. State guaranteed house building loans account for approximately one quarter of all mortgage loans. Regarding housing problems and state intervention see Rašin, *Financial Policy of Czechoslovakia*, pp. 141-145.

⁵² Table 70 – Bohemia 1913/1925 – assets structure of the Sparkassen.

⁵³ Ibid.

Czech Sparkassen kept 23-29 per cent of their assets in securities, while German Sparkassen had 30-38 per cent.⁵⁴

However, the importance of banks as asset partners increased after the war. In 1925, Bohemian Sparkassen in regional centres placed an average of 8.7 per cent of their resources in banks, while smaller Sparkassen in small and very small towns put as much as 16.5 per cent of their assets in banks.⁵⁵ There was a difference between German and Czech Sparkassen.⁵⁶ The tendency of the Czech Sparkassen to keep their assets in banks was more pronounced, but that difference, except in regional centres, was only a few percentage points. Most short-term deposit receivers were major commercial banks although some were cooperatives in the vicinity. It seems that these resources were important for the commercial banks in Bohemia.⁵⁷

After the war, the importance of bills of exchange significantly diminished to approximately two per cent of assets on average.⁵⁸ Bills retained some importance in very small towns where they still accounted for 3.9 per cent of the assets of German Sparkassen, and seven per cent of Czech Sparkassen.⁵⁹ Anyway, the share of other debtors (lombard, giro account, and other) was not high – approximately a few per cent on average in 1913, and up to ten per cent in 1925.⁶⁰

⁵⁴ Table 71– Bohemia 1913/1925 – assets structure – national comparison.

⁵⁵ Table 70– Bohemia 1913/1925 – assets structure of the Sparkassen.

⁵⁶ See Table 71 – Bohemia 1913/1925 – assets structure – national comparison.

⁵⁷ Indicators for 1913 were not available, but there are some indicators from the interwar period:

‘The increase of creditors reflect deposits of peoples' banking institutions as well as short-term credits obtained abroad’ bulletin NBCZ, No 6/1928, p. 33.

‘Against this stood the decline in creditors which was due to the reduced inflow of money from other banking institutions, and the smaller volume of short-term foreign credits’ bulletin NBCZ, No. 4/1929, p. 45.

‘New funds on the side of liabilities were provided mainly by saving deposits and also by increased own resources...’ bulletin NBCZ, No. 10/1929, p. 50.

‘...the decline of creditors which is to be explained partly by the increased autumnal seasonal demand on funds and partly by the fact that surplus funds deposited by popular credit institutions at banks have been retired’ bulletin NBCZ, No. 9/1930, p. 62.

⁵⁸ Table 70 – Bohemia 1913/1925 – assets structure of the Sparkassen.

⁵⁹ Table 71 – Bohemia 1913/1925 – assets structure – national comparison.

⁶⁰ Table 71 – Bohemia 1913/1925 – assets structure – national comparison.

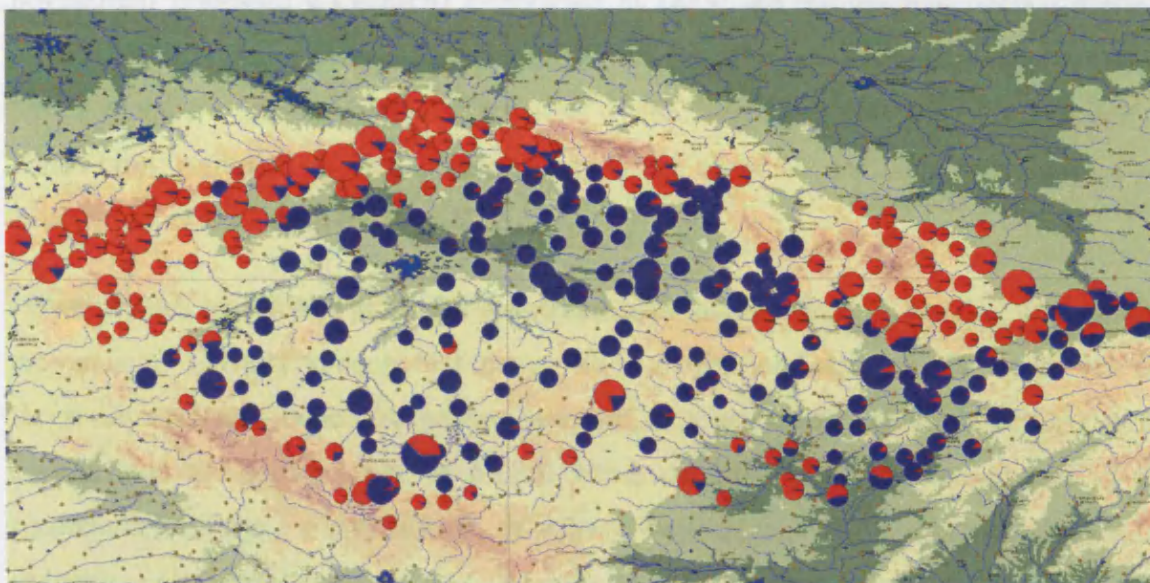
Anyone analysing the post-war balance sheets of banks in successor states will be concerned with positions indicating war losses, losses linked to deposits at Austrian banks, and similar items. The balance sheets of post-war Bohemian Sparkassen in 1925 demonstrate that the value of such assets was almost insignificant, around one per cent on average. There was a difference between German and Czech Sparkassen. While, on average, Czech Sparkassen had almost no war losses, the German Sparkassen experienced an average loss of between 1.4 and 4.6 per cent, depending on the level of urbanisation.⁶¹ Taking into account the local business orientation of the Czech Sparkassen, and the connection of German Sparkassen with Vienna, such a state of affairs is not surprising. Taking into account that German Bohemian banks invested heavily in the bonds before the war it could be that German Sparkassen had much bigger hidden losses. There were also differences between banks. For example, 29.7 per cent of assets of the Leitmeritz Sparkasse were war losses in 1925. Post-war inflation had had a considerable effect on the diminishing balance sheet value of the war losses.

Economic nationalism

In Bohemia, ethnic groups were divided spatially, with Czechs in the heartlands of Bohemia and Germans in the border lands (see Map 18 below). In an economic sense, Germans were not the upper class amidst the sea of Czech peasants, but rather economically stronger neighbours from another part of the valley.

⁶¹ Ibid.

Map 18 National structure of Bohemia, Moravia and Silesia



The diameter of the chart indicates the population of the town. The red portion of the chart indicates the German speaking population according to the 1910 census. Data for Prague, Brunn and Pilsen are not included. Source PROVBANK DATABASE.

Tension between Czechs and Germans in Bohemia was well developed. Ethnic economic competition was apparent not only in handicrafts and small-scale trades, as in other regions of the Austro-Hungarian Monarchy, but also occurred on the much higher level of the economic superstructure, in industry and high finance.⁶² National conflicts, competition and tension about mobility could occur in places common to both national groups: in the centres of political representation and in centres where their businesses met.

As a centre of trade, industry and finance, the growing capital Prague was the centre of Czech economic nationalism. In Prague, young Czech business and financial elites, familiar with the financial, institutional and networking strength of Germans in business circles, realized that the problem of upward mobility could not be solved without the support of economic nationalism. The theory that economic nationalism had much to do with social mobility could be supported with analysis of the way the institutional framework of Czech economic nationalism developed. Two institutions important for the

⁶² See Albrecht, Catherine, 'National Economy or Economic Nationalism in the Bohemian Crownlands, 1848-1914,' in Richard Frucht, ed., *Labyrinth of Nationalism/Complexities of Diplomacy: Essays in Honor of Barbara and Charles Jelavich* (Columbus, Ohio, 1992), pp. 69-83; Albrecht, Catherine, 'Rural Banks and Czech Nationalism in Bohemia, 1948-1914', *Agricultural History*, Vol. 78 (2004), pp. 317-345; Kubů, Eduard, Novotný, Jiří and Šouša, Jiří Šouša 'Slavism in National Czech Enterprises in the First Half of the twentieth Century' in Schultz Helga and Kubů Eduard (eds), *History and culture of economic nationalism*

economic nationalism of the Czech business elites – The Industrial Union (Jednota ku povzbuzení průmyslu v Čechách) established in 1833, and the business society Merkur, established in 1862 – were initially multinational institutions. Their growing number of Czech members, together with the tensions of the language issue, led to a situation in which both institutions gained an exclusively Czech character and were then used for the 'production' of the Czech business class.⁶³

However, this research is primarily concerned with the relevance of banking to economic nationalism. There is no doubt that the growth in the financial strength of Prague⁶⁴ was not the result of Czech economic nationalism, but of a growth in economic activity in all sectors, and the accumulation of capital which occurred from the second half of the nineteenth century. Accumulation of capital from agriculture and agriculture-related industry, rich natural resources and the demographic configuration of the predominately Czech areas led to a strengthening of the Czech capital.⁶⁵

The most important Czech financial institution, Živnostenská Banka had been founded in 1868 to act as a central bank for Czech credit cooperatives.⁶⁶ Its great importance for the future of Czech banking lay in the fact that it had two departments: one to serve as the central bank for credit cooperatives, the other to operate as a *crédit-mobilier* bank.⁶⁷ In high finance, the sector Živnostenská Banka moved into, the competition did not come as much from Bohemian Germans, as from the Vienna commercial banks.⁶⁸ Because of that, the Živnostenská Banka had reasons to support Czech economic nationalism in Bohemia and Moravia. As a further step, the Živnostenská Banka found it profitable to expand its business into other, in a banking sense, less developed and more profitable regions outside

in East Central Europe (Berlin, 2006); Gary B. Cohen, *The Politics of Ethnic Survival: Germans in Prague, 1861-1914* (Princeton, 1981)

⁶³ Boyer, Christoph, 'Nationality and competition: Czechs and Germans in the economy of the first Czechoslovak Republic 1918-1938', in Teichová, Alice; Matis, Herbert and Patek, Jaroslav (eds), *Economic Change and the National Question in Twentieth-Century Europe* (Cambridge, 2000).

⁶⁴ Rudolph stated that, in the last decade before the war, Prague became a rival to Vienna in financial matters. See Rudolph, *Banking and Industrialisation*, pp. 129-155.

⁶⁵ Rudolph, *Banking and Industrialisation*, p. 71.

⁶⁶ For the political struggle for the formation of the Živnostenská Banka see Albrecht, 'Nationalism in the Cooperative Movement in Bohemia', pp. 220-222.

⁶⁷ Rudolph, *Banking and Industrialisation*, p. 72.

⁶⁸ See Chapter 3, section on financial metropolis and their networks.

Bohemia.⁶⁹ Pan-Slavism was an ideology which supported such expansion of Czech banks.⁷⁰

Municipal savings banks, as strong economic and political tools, were involved in Czech-German antagonism. The Sparkasse, as a financial form, was a German tradition. From a national perspective, the fact that the economically more advanced German populations lived mainly in towns accounts for the clear advantage they had, while the Czech Sparkassen lagged behind and only started to catch up after the turn of the century.⁷¹ On the eve of the First World War, the number of German savings banks in Bohemia still outnumbered their Czech counterparts. The economic capacity of Czech Sparkassen in provincial towns reached that of German Sparkassen in the post-war years. Czech Sparkassen in Bohemia actually came to rely on the Prague Municipal Savings Bank for support after its establishment in 1875. Later, in 1903, the Ústřední Banka Českých Spořitelů was established to act as an umbrella institution for Czech Sparkassen. Germans had established their central bank for savings banks two years earlier – the Centralbank der deutschen Sparkassen.

Conclusion

Bohemian provincial banking was determined by the region's two main characteristics – a considerable level of economic activity and national antagonism between Germans and Czechs. The considerable level of economic activity in Bohemia resulted in a highly sophisticated and integrated banking system, with close cooperation between financial centres and the province and between various types of financial institutions. At the same time, national antagonism was the disintegrative factor which resulted in the existence of two parallel banking systems.

Before the First World War branches of Vienna commercial banks had an important role in the financial life of Bohemia. However, before the war Vienna and Prague commercial banks mainly operated on the level of regional economic centres. It was only after the

⁶⁹ See Ibid.

⁷⁰ See Eduard Kubů – Jiří Novotný – Jiří Šouša 'Slavism in National Czech Enterprises'.

⁷¹ Holec and Hájek, *Popular Banking in Central Europe*, p. 3. Albrecht's opinion was that 'Czech towns were suspicious of the motives of the government officials who promoted the establishment of savings banks.', Albrecht, 'Nationalism in the Cooperative Movement in Bohemia', p. 218.

formation of the Czechoslovak Republic that the provincial financial market became important for Prague commercial banks, whose branches entered into both regional and local financial markets of Bohemia.

Tables – structural data

Table 65 Bohemia 1913 – structure of the banking system

Classification level	Prague (with suburbs)	Regional centres	Sub- regional centres	Small towns	Very small towns
1913					
Towns	1	17	50	51	128
Private banking houses	16	14	6	2	4
Special institutions	9	0	0	0	0
Commercial banks (joint-stock) without branches	5	3	0	0	0
Commercial banks (joint-stock) with branches	10	2	0	0	0
LTD banks	5	2	6	1	1
Branches and offices of the Vienna commercial bank	9	34	11	7	2
Branches of Prague banks		36	32	5	2
Branches and offices of Bohemian commercial bank	2	1	5	1	0
Branches and offices of the Moravian commercial bank	3	0	2	0	0
Sparkassen	4	20	49	50	127
County agricultural cassas	3	10	31	16	47
Other credit cooperatives (only those listed in <i>Compasses</i>)	81	56	81	45	91
1925					
Towns	1	17	50	51	128
Private banking houses	44	30	11	2	2
Special institutions	11	0	0	0	0
Joint-stock banks without branches	7	5	2	0	0
Joint-stock banks with branches	19	1	1	0	0
Branches of the Prague commercial bank		103	73	19	3
Agencies of Prague banks	-	14	14	25	17
LTD banks	7	5	4	1	1
Branches and offices of the provincial banks	0	8	6	2	0
Branches and offices of the Moravian commercial bank	5	4	6	1	1
Total savings banks	4	19	51	50	128
County agricultural cassas	2	10	31	16	47
Agencies of Prague Sparkassen	-	4	1	2	6
Branches of provincial Sparkassen	-	1	0	1	0

Calculated from PROVBANK DATABASE – Bohemia 1913/1925 identification database.

Table 66 Bohemia 1913 – structure of the banking system – national comparison

Financial level	Regional centres		Sub-regional		Small towns		Very small towns	
National group	German	Czech	German	Czech	German	Czech	German	Czech
Towns	10	5	15	34	29	19	67	60
1913								
Sparkassen	13	5	15	33	29	18	67	59
Vienna branches	25	3	11	0	6	1	0	2
Prague branches	19	7	13	19	2	3	2	0
LTD banks ⁷²	0	3	0	6	0	1	0	1
Okresne	2	6	5	26	5	11	11	35
Credit cooperative	35	11	22	56	19	23	34	55
<i>VN branch/town</i>	<i>2.50</i>	<i>0.60</i>	<i>0.73</i>	<i>0.00</i>	<i>0.21</i>	<i>0.05</i>	<i>0.00</i>	<i>0.03</i>
<i>PG branch/town</i>	<i>1.90</i>	<i>1.40</i>	<i>0.87</i>	<i>0.56</i>	<i>0.07</i>	<i>0.16</i>	<i>0.03</i>	<i>0.00</i>
<i>Cooperative/town</i>	<i>3.50</i>	<i>2.20</i>	<i>1.47</i>	<i>1.65</i>	<i>0.66</i>	<i>1.21</i>	<i>0.51</i>	<i>0.92</i>
<i>Okresne/town</i>	<i>0.20</i>	<i>1.20</i>	<i>0.33</i>	<i>0.76</i>	<i>0.17</i>	<i>0.58</i>	<i>0.16</i>	<i>0.58</i>
1925								
Towns	10	5	15	34	29	19	67	60
Sparkassen	12	5	17	33	29	18	67	60
Prague branches	61	21	39	33	11	8	3	0
Prague agencies	12	1	8	4	23	1	17	0
Ltd bank	2	3	0	4	0	1	0	1
Private banks	17	2	8	3	2	0	0	0
<i>PG branch/town</i>	<i>6.10</i>	<i>4.04</i>	<i>2.60</i>	<i>0.97</i>	<i>0.40</i>	<i>0.42</i>	<i>0.04</i>	<i>0.00</i>
<i>PG agencies/town</i>	<i>1.20</i>	<i>0.20</i>	<i>0.53</i>	<i>0.12</i>	<i>0.79</i>	<i>0.05</i>	<i>0.25</i>	<i>0.00</i>

Calculated from PROVBANK DATABASE – Bohemia 1913/1925 identification database.

⁷² It is interesting to note that, in 1913, all Ltd companies banks were in Czech towns, but had name in German language.

Tables – balance sheet analysis

Table 67 Bohemia 1913 – financial resources of Sparkassen

Financial level	Total savings	Per cent of total	Average savings
1913			
Prague commercial banks	442,901,165		
Regional centres banks	30,241,982		
Prague Sparkassen	470,678,241	21.22 %	
Regional centres Sparkasse	464,655,020	20.94 %	24,455,527
Sub-regional centres	587,708,291	26.49 %	11,754,166
Small towns Sparkassen	350,642,786	15.81 %	7,012,856
Very small towns	344,864,892	15.54 %	2,737,023
1925			
Prague commercial banks	957,004,539		
Regional centres other banks	50,739,000		
Prague Sparkassen	2,243,996,285	23.05 %	
Regional centre Sparkassen	1,907,575,955	19.59 %	105,976,442
Sub-regional centres	2,446,111,994	25.12 %	49,920,653
Small towns Sparkassen	1,21,978,163	14.60 %	28,927,184
Very small towns	1,716,873,219	17.63 %	13,518,687

Calculated from PROVBANK DATABASE – Bohemia 1913/1925 balance sheets database.

Table 68 Bohemia 1913/1925 – financial resources – national comparison

Financial level	Total savings		Average savings	
National division	German	Czech	German	Czech
1913				
Regional centres	317,281,089	74,307,165	27,881,990	14,861,433
Sub-regional centres	268,364,836	305,142,067	16,772,802	9,246,729
Small towns	254,152,003	89,571,304	8,763,862	4,976,184
Very small towns	216,431,229	125,505,537	3,230,317	2,163,889
1925				
Regional centres	1,084,283,241	454,489,377	98,571,204	90,897,875
Sub-regional centres	608,200,348	1,813,524,696	40,546,690	54,955,294
Small towns	847,715,093	553,397,924	28,257,170	32,552,819
Very small towns	765,318,077	907,905,239	11,595,728	15,925,737

Calculated from PROVBANK DATABASE – Bohemia 1913/1925 balance sheets database.

Table 69 Bohemia 1913 – saving per capita – national comparison

National division	German Sparkasse		Czech Sparkassen	
Financial level	Savings per head	No of savers	Savings per head	No of savers
Regional centres	1,493	18,503	1,688	9,270
Sub-regional centres	1,687	9,668	1,539	6,184
Small towns	1,442	5,704	1,294	3,763
Very small towns	1,241	2,596	1,135	1,891

Calculated from PROVBANK DATABASE – Bohemia 1913/1925 balance sheets database.

Table 70 Bohemia 1913/1925 – assets structure of the Sparkassen

Assets	Financial level	Regional centres	Sub-regional centres	Small towns	Very small towns
1913					
Mortgage	Average	0.560	0.564	0.595	0.578
	Min/max	0.46/0.71	0.24/0.77	0.38/0.83	0.26/0.84
	Stndev/average	0.16	0.19	0.20	0.22
Municipal loans	Average	0.129	0.098	0.096	0.079
	Min/max	0/0.27	0/0.21	0/0.26	0/0.28
	Stndev/average	0.68	0.77	0.85	0.83
Securities	Average	0.198	0.157	0.18	0.139
	Min/max	0.06/0.35	0.01/39	0/0.36	0/0.50
	Stndev/average	0.442	0.54	0.54	0.92
Bank	Average	0.037	0.052	0.050	0.076
	Min/max	0/0.09	0.01/0.14	0/0.17	0/0.31
	Stndev/average	0.77	0.76	0.92	1.01
Bills	Average	0.046	0.062	0.047	0.091
	Min/max	0/0.17	0/0.25	0/0.17	0/0.32
	Stndev/average	1.63	1.21	1.20	0.87
Property	Average	0.011	0.019	0.06	0.05
	Min/max	0/0.03	0/0.06	0/0.03	0/0.06
	Stndev/average	0.89	3.08	1.70	2.11
1925					
Mortgage	Average	0.332	0.288	0.262	0.262
	Min/max	0.23/0.45	0.11/0.55	0.06/0.48	0.03/0.52
	Stndev	0.290	0.396	0.429	0.415
Municipal loans	Average	0.100	0.110	0.102	0.087
	Min/max	0.02/0.19	0.01/0.23	0/0.37	0/0.33
	Stndev	0.605	0.644	0.936	0.920
Securities	Average	0.313	0.307	0.294	0.298
	Min/max	0.13/0.52	0.08/0.60	0.09/0.53	0.05/0.67
	Stndev	0.427	0.460	0.477	0.528
Bank	Average	0.087	0.143	0.166	0.165
	Min/max	0/0.14	0/0.31	0.01/0.36	0/0.49
	Stndev	0.526	0.585	0.631	0.662
Bills	Average	0.016	0.018	0.026	0.056
	Min/max	0/0.05	0/0.07	0/0.10	0/0.18
	Stndev	1.669	1.083	1.142	0.864
Property	Average	0.010	0.005	0.003	0.002
	Min/max	0/0.03	0/0.02	0/0.01	0/0.02
	Stndev	1.309	1.050	1.283	2.390
War amortisation	Average	0.009	0.014	0.013	0.012
	Min/max	0/0.04	0/0.09	0/0.10	0/0.09
	Stndev	2.028	3.483	2.136	2.044
Other short-term	Average	0.089	0.090	0.108	0.087
	Min/max	0/0.19	0/0.23	0/0.30	0/0.42
	Stndev	0.861	0.781	1.129	1.225

Table 71 Bohemia 1913/1925 – assets structure – national comparison

Financial level	National group	Average mortgage/ sum	Average communal / sum	Average banks/ sum	Average securities/ sum	Average bills/ sum	War / amortisation
1913							
Regional centres	German	0.579	0.119	0.036	0.232	0.008	
	Czech	0.508	0.157	0.040	0.105	0.150	
Sub-regional centres	German	0.607	0.097	0.031	0.213	0.021	
	Czech	0.574	0.098	0.063	0.127	0.083	
Small towns	German	0.591	0.091	0.030	0.230	0.023	
	Czech	0.579	0.113	0.084	0.106	0.090	
Very small towns	German	0.576	0.071	0.054	0.204	0.060	
	Czech	0.582	0.089	0.101	0.060	0.129	
1925							
Regional centres	German	0.337	0.092	0.069	0.357	0.012	0.014
	Czech	0.314	0.119	0.130	0.232	0.031	0.000
Sub-regional centres	German	0.257	0.124	0.105	0.375	0.010	0.046
	Czech	0.301	0.104	0.158	0.280	0.022	0.001
Small towns	German	0.262	0.093	0.154	0.297	0.028	0.022
	Czech	0.263	0.115	0.186	0.289	0.022	0.000
Very small towns	German	0.259	0.076	0.145	0.348	0.039	0.028
	Czech	0.266	0.095	0.182	0.255	0.070	0.000

Calculated from PROVBANK DATABASE – Bohemia 1913/1925 balance sheets database.

Table 72 Bohemia 1905 – securities owned by Czech Sparkassen (in guldens)

Austrian state Securities	Bohemian provincial Bank	Bohemian Mortgage Bank	Moravian Mortgage Bank	Stock of Austro-Hungarian Bank	Hungarian securities	Stock of Sporobanca	Other
9,551,000	14,876,000	10,134,000	3,122,000	1,649,000	1,583,000	5,402,000	3,934,000
19.00 %	29.60 %	20.17 %	6.21 %	3.28 %	3.15 %	10.75 %	7.83 %

Source: Albrecht, *Savings Banks in Bohemia*, p. 142.

MORAVIA AND SILESIA

The merits of a joint economic and financial analysis of Moravia and Silesia could be questioned. There is no doubt that there were significant differences between Moravia and Silesia. Silesia was dominated by mining and industry and only 35 per cent of the population was engaged in agriculture, in comparison to 46 per cent of the Moravian population. In addition, Silesia is a predominantly mountainous region, while Moravia is a fertile plateau. There was also a significant difference in the national structure: in 1910 the population of Silesia consisted of 44 per cent Germans, 32 per cent Poles and 24 per cent Czechs, while the population of Moravia consisted of 72 per cent Czechs and 28 per cent Germans. Silesia occupied approximately 5,150 square km, and its population was approximately 757,000 (the density of population was 147 inhabitants per square km), while Moravia had approximately 22,000 square km and 2,600,000 inhabitants (a density of 118 inhabitants per square km).⁷³ However, the historiography and statistics often treat Silesia together with Moravia. In this analysis, both regions will be analysed together but, sometimes, whenever statistically possible, their financial differences will be emphasized.

Before the war

The financial life of Moravia and Silesia was shaped in accordance with their geographical positions. Both regions were oriented towards external markets. The Moravian and Silesian economies were open to influence from both Prague and Vienna, and this was one of the reasons why Moravia and Silesia had problems developing their own financial centres. Economic connections with Vienna and Prague were, to some extent, an obstacle to the concentration of finances in regional Moravian centres. In 1913 there were 31 branches of Viennese banks, 21 branches of Prague banks and only six branches of

⁷³ Data from Filip Lukas, *Gospodarska geografija*, pp. 184, 204.

Moravian banks in Moravia and Silesia.⁷⁴ There is no doubt that Viennese and Prague banks dominated the Moravian and Silesian economy.⁷⁵

Brünn was a town of 125,000 people, with an international reputation in the textile and wool industries, but there were only 9 commercial banks, just four of which were joint-stock companies. 30 credit cooperatives in Brünn testify to the considerable level of economic activity in the town. Yet nine branches of Viennese and Bohemian banks were situated in Brünn. There is no doubt that Brünn was a strong economic centre, but it was not a regional financial metropolis. Branches of Brünn banks were not able to compete with branches of Viennese and Prague banks.

The network of Austro-Hungarian Bank branches and corresponding local banks was less developed in Moravia and Silesia than elsewhere. Apart from Brünn, the Austro-Hungarian Bank had branches in Iglau,⁷⁶ Jägerndorf,⁷⁷ Mähr. Ostrau,⁷⁸ Olmütz, Prostějov⁷⁹ and Troppau⁸⁰. Agencies of the Austro-Hungarian Bank existed in only ten towns.⁸¹ Taking into account the size of the territory and the population figures, the relationship with the Austro-Hungarian Bank was much stronger in Bohemia (18 branches and 49 agencies to 6.6 m. inhabitants) than in Moravia and Silesia (seven branches and ten agencies to 3.35 m. inhabitants).

The regional and sub-regional centres of Moravia and Silesia were under the financial influence of branches of commercial banks from Prague and Vienna. In 1913, there were

⁷⁴ Catherine Albrecht in her comments on the final draft suggested that both Moravia and Silesia were oriented more toward the Viennese capital market, since their largest firms were owned by Germans, who bypassed Prague. Prague's involvement was limited to Czech firms, which tended to be much smaller in those two provinces than in Bohemia.

⁷⁵ To some extent there was a competition between Prague and Vienna for the Moravian market, but Viennese banks were able to take over the most important and most attractive businesses.

⁷⁶ Textile and leather industry, tobacco manufacturing.

⁷⁷ Textile industry.

⁷⁸ A town of 37,000 people, the centre of iron and mining industry.

⁷⁹ Prostějov developed a significant concentration of Czech businesses while Brünn was economically, politically and culturally dominated by Germans.

⁸⁰ An administrative centre with strong textile and sugar industry.

⁸¹ Friedek, Kromeríž, Mistek, Neu Titschein, Nikolsburg, Prerov, Trebič, Uherski Hradiště, Znaim and Zwittau.

16 branches of Bohemian banks in the regional and sub-regional centres of Moravia and Silesia, 17 branches and agencies of Viennese banks and seven branches and agencies of Moravian banks. In regional centres, there was an average of 2.16 Prague branches per town, and 1.5 Viennese branches per town. Yet, the Brünn-based network had only 0.5 branches per regional centre. In sub-regional centres, Viennese branches were the leaders with 0.7 branches per town, while Prague and Brünn had 0.4 branches per sub-regional centre.⁸² There were only two joint-stock banks in regional banking in Moravia and Silesia.⁸³

The policy of commercial banks was to avoid branching into small towns and places. However, those few branches and agencies display the domination of Viennese and Prague banks on the Moravian and Silesian provincial market. In small towns there were six branches of Viennese banks, three Bohemian branches and a single Moravian branch. In very small towns, there were no branches of joint-stock banks. In 1913, there were 0.21 branches and agencies per small town, among which were 0.10 branches of Prague and 0.19 Viennese banks. There were no branches in very small towns.⁸⁴ Moravia and Silesia resolved most financial problems at the local level of economy by organising Sparkassen and credit cooperatives.

In Moravia and Silesia, the important role of commercial banks which were registered as companies with limited responsibility (Ges.m.b.H), or even as credit cooperatives, has to be noted. In 1913, there were 16 in Moravia and Silesia compared to 11 in much bigger Bohemia. They could be found not only in Brünn, which had three, and in regional centres, which had four, but also elsewhere – six could be found in small and three in very small towns.

The weakness of regional financial concentration and the weakness of Brünn as a financial centre of the region is apparent in the vertical distribution of financial resources of the provincial Sparkassen in Moravia and Silesia. In 1913, Sparkassen in small and very small towns held as much as 50 per cent of savings placed within the Sparkassen. This was

⁸² Table 73 – Moravia/Silesia 1913/1925 – structure of the banking system.

⁸³ Handels und Gewerbe Bank in Moravska Ostrau and Olmützer Kreditbank in Olmouc. Both banks were of a local character and did not have any branches in 1913.

⁸⁴ Table 73 – Moravia/Silesia 1913/1925 – structure of the banking system.

considerably more than in Bohemia and Transleithenia.⁸⁵ This atypical vertical distribution of financial resources continued after the First World War. Either the Sparkassen in regional and sub-regional centres suffered from the competition of Viennese and Prague branches in the process of the acquisition of savings, or the regional centres were not developed enough, because of the economic openness of Moravia and Silesia.

The balance sheet analysis

Savings per head are a good indicator of the financial capacity of a region. There was a clear difference in the savings per head ratio between Moravian and Silesian Sparkassen. Savings per head were approximately 30 per cent higher in Moravia than in Silesia and 10-30 per cent higher than in Bohemia. This ratio was even higher (almost 50 per cent) in regional centres, but the data are not very reliable because of the small statistical sample.⁸⁶ The reason for this could be the more developed financial system in Bohemia and Silesia, where Prague banks and branches of Viennese banks were able to attract a part of provincial savings. Higher savings rates in Moravia may have reflected the more conservative economic and political climate there.⁸⁷

With respect to the difference in average financial capacity and the average number of savers, there was a contrast between Moravia and Silesia. This analysis indicates that in 1913 Silesian Sparkassen had more savers and were financially stronger institutions than Moravian Sparkassen.

The liabilities of regulated savings banks were based on savings and there were no appreciable differences between the Sparkassen. As a rule, savings accounted for between 90-95 per cent of total liabilities. Before the First World War, the Sparkassen in Moravia and Silesia retained stable reserves which accounted for an average five per cent of the total.⁸⁸

⁸⁵ In Bohemia, in 1913, Sparkassen in small and very small towns were able to attract 31 per cent of the savings of the Sparkassen in Bohemia. In Transleithenia, the financial resources of small and very small towns account for between 7-20 per cent of the regional financial potential.

⁸⁶ Table 75 – Moravia/Silesia 1913 – savings per head.

⁸⁷ Suggested by Catherine Albrecht in her comments on the final draft.

⁸⁸ Table 76 – Moravia/Silesia 1913/1925 – structure of liabilities.

In Moravia and Silesia, the most significant part of Sparkassen resources was directed toward the long-term development of towns. Mortgage loans and loans to the municipality made up the lion's share of assets, and to some extent in greater proportion than in Bohemia. In 1913, mortgage loans account for an average of 53-64 per cent of assets of both Moravian and Silesian Sparkassen. Loans to municipalities varied around ten per cent on average in 1913.⁸⁹

Bills of exchange could be considered an instrument for financing entrepreneurial operations, which indicates a less organised market.⁹⁰ The Sparkassen in Moravia had a more important function as regards financing business than those in Silesia, especially in smaller towns and similar places. In 1913, in small and very small Moravian towns, the Sparkassen held 12-13 per cent of assets in the form of bills of exchange.⁹¹

The relative underdevelopment of the Moravian-Silesian financial market, compared to Bohemia, can also be recognized in the somewhat lower proportional level of investment on the financial market – i.e. investment in securities and deposits to other banks. On average, Moravian and Silesian Sparkassen hardly retained more than 20 per cent of their resources on the financial market in 1913, usually with usually 3-4 per cent in banks and 16-17 per cent in securities.⁹²

After the war

The position of Brünn did not change significantly with the creation of Czechoslovakia. The Moravian and Silesian economy was no longer dominated by Viennese banks but by Prague banks. In 1925, Brünn was an active economic centre with 15 private banking houses, but there were only four joint-stock banks. Despite this, twenty branches and agencies of Prague banks operated in Brünn. Brünn banks started to develop their own networks of branches – there were nine branches and agencies of Brünn banks in regional and sub-regional centres and another fifteen in small and very small towns. However, they suffered from the competition of Prague branches and agencies. Throughout the territory

⁸⁹ Table 77 – Moravia/Silesia 1913/1925 – assets structure of the Sparkassen.

⁹⁰ In developed market condition business would be in the hands of stable companies which use account overdraft or merchant credit as a credit instrument.

⁹¹ Table 77 – Moravia/Silesia 1913/1925 – assets structure of the Sparkassen.

⁹² Table 77 – Moravia/Silesia 1913/1925 – assets structure of the Sparkassen.

of Moravia and Silesia – not including Brunn – there were another 90 branches and agencies of Prague banks.⁹³

Prague banks took over the Moravian and Silesian regional financial market – there were 47 branches and agencies of Prague banks in regional centres, and another 19 in sub-regional centres. In 1925, there was an average of 7.83 Prague branches and agencies per regional centre, and 1.9 per sub-regional centre. In 1925, there were only two joint-stock banks on the provincial financial market, one in Olmouc and the other in Znaim. Some Ges.m.b.H banks developed branches or agency networks in Moravia and Silesia. Deutsche Bank für Industrie, Handel, Gewerbe und Landwirtschaft, Ges.m.b.H – Mähr. Schönberg had ten agencies, while Pozemkový ústav v Olmouci z. Sp.s.r.o. had nine branches.⁹⁴

Even at the level of small and very small towns there was a considerable penetration of Prague banks. In small towns, Prague banks were dominant with 0.63 branches and agencies per town, as opposed to Brunn banks with 0.33 and other Moravian banks with 0.40 branches and agencies per town. Taking into account that in 1925 there was an average of 1.36 branches and agencies per small town, it seems that the level of economic activity in small Moravian and Silesian towns was considerable. Apart from Sparkassen and credit cooperatives, there were 0.20 branches and agencies per very small town.⁹⁵

The balance sheet analysis

Savings continued to be the basis of Sparkassen liabilities. Reserves declined to between one and three per cent of the total. In 1925, the Sparkassen were also occasionally using different instruments to attract additional resources such as lombard credit and re-discount of bills of exchange.⁹⁶

After the First World War, the ratio of mortgage loans fell to a level of approximately 25 per cent. Regarding municipality loans, there was no appreciable difference in the general

⁹³ Table 73 – Moravia/Silesia 1913/1925 – structure of the banking system.

⁹⁴ See PROVBANK DATABASE – Moravia and Silesia 1925 – identification database.

⁹⁵ Table 73 – Moravia/Silesia 1913/1925 – structure of the banking system.

⁹⁶ Table 76 – Moravia/Silesia 1913/1925 – structure of liabilities.

tendency after the creation of Czechoslovakia. With the development of the banking system after the First World War, the importance of bills significantly decreased.⁹⁷

Following the creation of Czechoslovakia, the Sparkassen were better integrated into the financial system, and less locally oriented. The share of resources placed in securities increased significantly. In 1925, securities accounted for an average of 30 per cent of assets, while deposits in other banks retained around ten per cent. In 1925, most Sparkassen did not indicate any war losses, but the few that did, indicated 5 to 15 per cent of assets.⁹⁸

Conclusion

Moravia and Silesia give the impression of being 'too open' as a financial market. With Bohemian and Viennese economic centres nearby, they were influenced by the considerable level of economic activity there. The principal financial flows were successfully managed by branches of Viennese and Bohemian banks. After the war, the influence of Viennese banks was replaced by the influence of Prague banks. As a result of the 'openness' of the Moravian and Silesian economy both regions had problems in establishing their own strong financial centres.

At the same time, however, provincial financial institutions tended to fill that gap. Sparkassen in Moravia and Silesia provided the resources for financing infrastructure, but they also financed entrepreneurship in smaller towns and similar places. The business of Sparkassen both before and after the war was more locally oriented than in Bohemia.

⁹⁷ Table 77 – Moravia/Silesia 1913/1925 – assets structure of the Sparkassen.

⁹⁸ Table 77 – Moravia/Silesia 1913/1925 – assets structure of the Sparkassen.

Tables – structural data

Table 73 Moravia/Silesia 1913/1925 – structure of the banking system

Classification level	Brünn	Regional centres	Sub-regional centres	Small towns	Very small towns
1913					
Total towns	1	6	10	31	67
Sparkassen	2	7	10	33	67
Commercial banks (joint-stock)	4	2	0	0	0
Prague branches and agencies	5	13	4	3	0
Vienna branches and agencies	4	9	7	6	0
Moravian branches and agencies	0	3	4	1	0
Commercial banks as GMBH	3	1	3	6	3
Private banking houses	5	1	0	0	0
Special institutions	3	2	0	0	0
Credit cooperatives	29	37	23	52	75
<i>Prague branches and agencies /town</i>	<i>5.00</i>	<i>2.16</i>	<i>0.40</i>	<i>0.10</i>	<i>0.00</i>
<i>Vienna branches and agencies /town</i>	<i>4.00</i>	<i>1.50</i>	<i>0.70</i>	<i>0.19</i>	<i>0.00</i>
<i>Moravian branches and agencies /town</i>	<i>0.00</i>	<i>0.50</i>	<i>0.40</i>	<i>0.03</i>	<i>0.00</i>
<i>Credit cooperative/town</i>	<i>29.00</i>	<i>6.16</i>	<i>2.30</i>	<i>1.68</i>	<i>1.11</i>
1925					
Total towns	1	6	10	30	67
Sparkassen	2	7	10	33	66
Commercial banks (joint-stock)	5	1	1	0	0
Brünn branches and agencies	1	4	5	10	5
Moravian branches and agencies	1	2	2	12	4
Prague branches and agencies	20	47	19	19	5
Bohemian branches and agencies	1	2	0	2	0
Commercial banks as GMBH	1	0	1	3	1
Private bank	14	1	0	1	0
Special institutions	4	2	0	0	0
<i>Brünn branches and agencies /town</i>	<i>1.00</i>	<i>0.66</i>	<i>0.50</i>	<i>0.33</i>	<i>0.07</i>
<i>Moravian branches and agencies /town</i>	<i>1.00</i>	<i>0.33</i>	<i>0.00</i>	<i>0.40</i>	<i>0.06</i>
<i>Prague branches and agencies /town</i>	<i>20.00</i>	<i>7.83</i>	<i>1.90</i>	<i>0.63</i>	<i>0.07</i>

Calculated from PROVBANK DATABASE – Moravia and Silesia 1913/1925 identification database.

Tables – balance sheet analysis

Table 74 Moravia/Silesia 1913/1925 – financial resources of Sparkassen

Financial level	Total savings			Average savings	
	Moravia	Silesia	together/total	Moravia	Silesia
1913					
Brünn	68,460,772		0.123		
Regional centres	75,091,035	47,870,928	0.219	15,018,207	23,935,464
Sub-regional centres	77,203,226	5,913,403	0.148	8,578,136	5,913,403
Small towns	99,549,383	45,298,864	0.258	3,930,090	5,662,358
Very small towns	104,036,505	36,156,573	0.250	2,039,931	2,410,438
1925					
Brünn	330,580,809		0.143		
Regional centres	288,582,635	110,631,634	0.173	57,716,527	55,315,817
Sub-regional centres	354,251,324	43,908,775	0.172	39,361,258	43,908,775
Small towns	481,838,531	112,023,249	0.257	18,328,195	16,003,321
Very small towns	483,396,231	101,724,947	0.253	11,333,602	8,374,767

Calculated from PROVBANK DATABASE – Moravia and Silesia 1913/1925 balance sheets database.

Table 75 Moravia/Silesia 1913 – savings per head

Financial level	Savings per head		No of savers	
	Moravia	Silesia	Moravia	Silesia
Brünn	1,123		58,599	
Regional centres	2,180	1,443	7,721	16,720
Sub-regional centres	1,787	1,512	5,014	3,910
Small towns	1,391	1,263	2,873	3,909
Very small towns	1,327	1,171	1,493	1,917

Calculated from PROVBANK DATABASE – Moravia and Silesia 1913/1925 balance sheets database.

Table 76 Moravia/Silesia 1913/1925 – structure of liabilities

Financial level	Savings/total		Reserves/total	
	Moravia	Silesia	Moravia	Silesia
1913				
Regional centres	0.94	0.93	0.04	0.06
Sub-regional centres	0.93	0.92	0.05	0.08
Small towns	0.94	0.90	0.04	0.05
Very small towns	0.94	0.95	0.04	0.04
1925				
Regional centres	0.96	0.89	0.03	0.01
Sub-regional centres	0.90	0.94	0.02	0.01
Small towns	0.93	0.93	0.02	0.02
Very small towns	0.94	0.94	0.03	0.01

Calculated from PROVBANK DATABASE – Moravia and Silesia 1913/1925 balance sheets database.

Table 77 Moravia/Silesia 1913/1925 – assets structure of the Sparkassen

Financial level	Region	Average mortgage/ total	Average communal/ total	Average banks/ total	Average securities / total	Average bills/ total	War or amortis. / total
1913							
Regional centres	Moravia	0.64	0.09	0.03	0.17	0.00	
	Silesia	0.58	0.21	0.01	0.17	0	
Sub-regional centres	Moravia	0.56	0.12	0.03	0.16	0.04	
	Silesia	0.62	0.07	0.01	0.18	0.04	
Small towns	Moravia	0.56	0.09	0.04	0.12	0.13	
	Silesia	0.58	0.11	0.03	0.13	0.08	
Small towns	Moravia	0.53	0.10	0.07	0.13	0.12	
	Silesia	0.62	0.13	0.02	0.16	0.03	
1925							
Regional centres	Moravia	0.27	0.11	0.15	0.39	0.00	0.02
	Silesia	0.25	0.10	0.07	0.39	0.00	0.05
Sub-regional centres	Moravia	0.24	0.06	0.10	0.36	0.03	0.04
	Silesia	0.43	0.23	0.00	0.07	0.03	0.00
Small towns	Moravia	0.24	0.08	0.15	0.28	0.06	0.01
	Silesia	0.28	0.10	0.07	0.35	0.02	0.03
Small towns	Moravia	0.23	0.09	0.18	0.28	0.07	0.01
	Silesia	0.26	0.11	0.09	0.33	0.05	0.02

Calculated from PROVBANK DATABASE – Moravia and Silesia 1913/1925 balance sheets database.

COMPARATIVE ANALYSIS OF THE BALANCE SHEETS STRUCTURE OF SPARKASSEN IN CISLEITHENIA

This regional section concludes with a comparative analysis of the four Sparkassen banking subsystems – the German and Czech systems in Bohemia, the Moravian and the Silesian. Sparkassen in Cisleithenia were defined by two main factors – competition between branches of major commercial banks and the ability of Sparkassen to attract savings.

There were significant differences in the openness of provincial banking to branches of commercial banks. In 1913, all Cisleithenian regional economic centres were open to the branching policies of commercial banks. German towns in Bohemia and Moravia were among those which were well connected through branches of commercial banks, with an average of 4.4 – 4.5 branches and agencies per town, followed by Silesia which had 3.5 branches per town. Czech towns in Bohemia, which were smaller and economically weaker, had an average of two branches and agencies per town. In sub-regional centres, the differences were more pronounced; German towns in Bohemia and Moravia had 1.6 and 1.33 branches/agencies per town, while Czech sub-regional towns had only 0.76 branches/agencies per town. The Silesian data are statistically unreliable. It has to be concluded that in 1913 regional banking in Cisleithenia had good links to commercial banks situated in the principal metropolises and economic centres.⁹⁹

Small towns, in general, had weak connections to commercial banks. The best networks were found in Moravian small towns, which had an average of 0.39 branches and agencies per town, while Bohemian German and Czech towns had approximately one branch per four small towns. The ratio of Silesian small towns was rather small, with only 0.12 branches/agencies per town, demonstrating the relative isolation of Silesian local banking. Very small towns in Bohemia, Moravia and Silesia almost completely lacked branches and agencies of 'outside' banks.¹⁰⁰

After the First World War, the influence of metropolitan commercial banks on regional and sub-regional economic centres was much stronger and had more or less doubled both in regional and sub-regional centres. Post-war branch penetration did not bypass local

⁹⁹ Table 78 – Cisleithenia 1913/1925 – branches and agencies of all financial institutions/town.

¹⁰⁰ Table 78 – Cisleithenia 1913/1925 – branches and agencies of all financial institutions/town.

banking. There was a very strong network of branches and agencies (not necessarily of metropolitan banks) in small towns throughout the region. In 1925, Silesia had as many as 1.83 branches/agencies per small town, followed by Moravia and small German towns in Bohemia with 1.4 and 1.3 branches/agencies per small town. Small Czech towns in Bohemia remained relatively isolated, with 0.53 branches per town. There was a lack of branches and agencies in very small Czech Bohemian towns. However, very small German Bohemian towns had as many as 0.43 branches /agencies per town) and their Moravian and Silesian counterparts had 0.21 branch/agency per town.¹⁰¹

There was also a difference in the financial capacity of Sparkassen. In 1913, the average Sparkasse in a German regional centre in Bohemia was able to collect as much as K 28 m., followed by Silesian regional Sparkassen with an average K 24 m. Moravian and Czech Bohemian Sparkassen in regional centres attracted only an average of K 15 m. of savings. A similar relationship was maintained in sub-regional centres and small towns. These differences were smaller in very small towns, but were present. Differences were mostly a result of the urbanisation process and savings traditions. The number of savers per Sparkasse was also higher in German towns.

There were no substantial differences in the ratio of savings per head between regions. However, the ratio of savings per head declined with a lower urbanisation level. It is important to note that Moravian savers, in general, had somewhat stronger savings per head compared to other regions. It is interesting to note that the savings per head ratio is lower in the regional centres in German towns of Bohemian and Silesia – as a result of the competition between numerous branches of commercial banks.

After the First World War, a significant growth in German savers occurred in Bohemia and Silesia, while there was also a rapid growth of savers in Moravia and amongst Bohemian Czechs. This was the result of favourable economic conditions in post-war Czechoslovakia and the economic strengthening of the non-German populations.

By definition, the Sparkasse is a 'public bank', commonly managed by the municipality. One of the objectives of the Sparkasse was to be a 'municipal government lender'. This

¹⁰¹ Table 78 – Cisleithenia 1913/1925 – branches and agencies of all financial institutions/town.

was fulfilled by the Sparkassen in all assessed regions and at all financial levels, usually with eight to twelve per cent of assets both before and after the First World War.¹⁰²

The public interest of the Sparkassen is well indicated in their mortgage credit orientation. Sparkassen, as banks whose liabilities were based on savings – which, in banking practice, is a long-term deposit – had the possibility of offering long-term credit. Long-term credit is important for economic development and the quality of life of the broader population – long-term credits can be utilised to build houses and factories. Pre-war Sparkassen had, in all assessed regions, offered mortgage credits – on average around sixty per cent of their assets. From the balance sheets, it can also be deduced that it was not an expensive credit – the usual interest rate was only one or one and a half per cent higher than the interest on savings.¹⁰³

After the war, the mortgage credit policy of the Sparkassen changed in all assessed regions, and they only comprised 25 to 30 per cent of assets.¹⁰⁴ This change deserves future research. Was the problem connected with the fact that the Sparkassen had more resources than were required on their local market – taking into account the growth of the number of savers, could it be that there were more resources than the local economy required? Or did growing state and commercial banking networks tend to obtain more of the Sparkassen resources as a result of a growth of securities in the assets structure? Or, perhaps, the Sparkassen were afraid of the possibility of inflation, and, thus, attempted to reduce long-term credit?

Investment in securities is one of the 'intriguing' problems when analysing the balance sheets of the Sparkassen. From the data available in the *Compasses*, it is impossible to reach a conclusion about the structure of the securities which the Sparkassen retained in their portfolios – the item 'securities' included municipal, county and state securities, but also the securities of other banks, specialised institutions and even some local industry. Albrecht's data on the structure of the Czech Sparkassen in Bohemia indicates their complexity.¹⁰⁵ However, they clearly indicate the integration of the Sparkassen into the financial system. German Sparkassen in Bohemia held as much as 20-23 per cent of their

¹⁰² Table 83 – Cisleithenia 1913 – comparative assets structure – loans to municipality.

¹⁰³ Table 84 – Cisleithenia 1913 – comparative assets structure – mortgage credit.

¹⁰⁴ Table 84 – Cisleithenia 1913 – comparative assets structure – mortgage credit.

¹⁰⁵ See Table 71 – Bohemia 1905 / securities owned by Czech Sparkassen.

assets in securities in 1913, while Czech Sparkassen had only around ten per cent of their assets in securities. Moravia and Silesia had a securities ratio of 12-18 per cent on average, which could have been caused by the already mentioned conservative economic climate in Moravia. Local banking was less securities-oriented than more sophisticated regional banking. After the war, the ratio of securities in the assets structure significantly increased to 25-35 per cent on average. It is interesting to note that even in Czechoslovakia, it was the German Sparkassen in Bohemia and Silesia that were more securities oriented.¹⁰⁶

Sparkassen, being a type of 'public bank', were not risk-oriented. Banking common sense obliged their managements to maintain a reasonable level of liquidity and to have sound liquid resources. Because of this, the Sparkassen deposited a certain part of their assets in other banks. Before the First World War, this share was rather low. In regional and sub-regional centres, and in small towns, Sparkassen usually kept between one and four per cent deposited in other banks.¹⁰⁷ The only exceptions were the Czech Bohemian Sparkassen, whose ratio was much higher. Sparkassen in very small towns also had a slightly larger part of their assets in banks.

After the war the share of deposits in banks in the assets structure grew. However, there were significant differences between regions. In 1925 Sparkassen in regional and sub-regional centres of Czech Bohemia and Moravia kept 10-15 per cent of their assets in commercial banks. This ratio was much lower in Silesia and amongst German Bohemian Sparkassen in regional and sub-regional centres. In 1925 Sparkassen in small and very small towns deposited as much as 15-18 per cent of the assets in commercial banks. This ratio was only lower for Silesian Sparkassen in small and very small towns – with between seven to nine per cent on average.¹⁰⁸

In the context of the well-developed financial system of Cisleithenia bills of exchange could be considered a 'primitive' financial instrument. In 1913, bills as a credit instrument hardly existed amongst the assets of the Sparkassen in regional centres and were rather sparse in sub-regional centres – ranging from two per cent in Bohemian German Sparkassen to four per cent in Moravia and Silesia. However, the exceptions were the Czech Bohemian Sparkassen which more frequently used bills of exchange as a credit

¹⁰⁶ Table 85 – Cisleithenia 1913 – comparative assets structure – investment in securities.

¹⁰⁷ Table 86 – Cisleithenia 1913 – comparative assets structure – deposits to other banks.

¹⁰⁸ Table 86 – Cisleithenia 1913 – comparative assets structure – deposits to other banks.

instrument. Sparkassen in small and very small towns employed this credit instrument more often. On average they comprised between eight and thirteen per cent of their assets, with the exception of German Bohemian Sparkassen, whose use of bills was much lower. After the First World War, with the development of chequeing and giro accounts and specialisation in banking systems, bills almost completely lost their importance. This credit instrument remained only in very small towns – in 1925 bills made up an average of seven per cent of the assets of Sparkassen in very small towns in Moravia and Czech Bohemia, five per cent in Silesia and four per cent in German Bohemia.¹⁰⁹

Conclusion – opportunities of the Cisleithenian banking system.

'Savings banks were neither strictly humanitarian nor strictly capitalistic in orientation. Their policies reflected the tension between the ideal premises on which they were based and the real opportunities and constraints faced by savings bank directors'.¹¹⁰

In the analysis of Transleithenia, it was concluded that provincial banks were mostly institutions for the accumulation of capital. The main objective of the majority of provincial banks and credit cooperatives in Cisleithenia was the redistribution of capital. Being a safe place for savings deposits, strengthened by state supervision and support, through activities promoting savings, together with regional patriotism and national ideologies, the Sparkassen and the credit cooperatives successfully mobilised the savings of the population.¹¹¹ The distribution of those resources was shaped by political and economic agents of the local community. Since in the interest of social and economic development, the distribution of credit was more important than profit, such a banking system benefited the economy and society of Cisleithenia in the long run. As many interested economic and social actors had some institutional or political channels to influence the redistribution of these resources, there was an effective monetisation of all segments of the provincial economy.

¹⁰⁹ Table 87 – Cisleithenia 1913 – comparative assets structure – bills of exchange.

¹¹⁰ Albrecht, *Savings Banks in Bohemia*, p. 1.

¹¹¹ As opposed to Transleithenian economic writers, Cisleithenian contemporary literature does not mention the problem of house treasury.

Tables

Table 78 Cisleithenia 1913/1925 – branches and agencies of all financial institutions/town

Financial level	Bohemia German	Bohemia Czechs	Moravia	Silesia
1913				
Regional centres	4.40	2.00	4.50	3.50
Sub-regional centres	1.60	0.76	1.33	3.00
Small towns	0.28	0.26	0.39	0.12
Very small towns	0.03	0.03	0.00	0.00
1925				
Regional centres	8.60	5.50	9.75	8.00
Sub-regional centres	3.60	1.09	2.67	2.00
Small towns	1.31	0.53	1.40	1.83
Very small towns	0.43	0.00	0.21	0.21

Table 79 Cisleithenia 1913 – average savings of Sparkassen (K m.)

Financial level	Bohemia German	Bohemia Czechs	Moravia	Silesia
Regional centres	27.9	14.9	15.0	23.9
Sub-regional centres	16.8	9.2	8.6	5.9 ¹¹²
Small towns	8.8	4.9	3.9	5.7
Very small towns	3.2	2.2	2.0	2.4

Table 80 Cisleithenia 1913 – average number of savers

Financial level	Bohemia German	Bohemia Czechs	Moravia	Silesia
Regional centres	18,503	9,270	7,721	16,720
Sub-regional centres	9,668	6,184	5,014	3,910
Small towns	5,704	3,763	2,873	3,909
Very small towns	2,596	1,891	1,493	1,917

¹¹² Statistically irrelevant.

Table 81 Cisleithenia 1913 – savings per head (crowns)

Financial level	Bohemia German	Bohemia Czechs	Moravia	Silesia
Regional centres	1,493	1,688	2,180	1,443
Sub-regional centres	1,687	1,539	1,787	1,512
Small towns	1,442	1,294	1,391	1,263
Very small towns	1,241	1,135	1,327	1,171

Table 82 Cisleithenia 1913/1925 – growth of the number of savers – indicative values¹¹³

Financial level	Bohemia German	Bohemia Czechs	Moravia	Silesia
Regional centres	1.44	2.07	2.53	1.03
Sub-regional centres	1.19	2.15	2.92	-
Small towns	1.46	2.35	2.07	1.25
Very small towns	1.50	2.11	2.23	1.57

Table 83 Cisleithenia 1913 – comparative assets structure – loans to municipality

Financial level	Bohemia German	Bohemia Czechs	Moravia	Silesia
1913				
Regional centres	0.119	0.157	0.09	0.21
Sub-regional centres	0.097	0.098	0.12	0.07
Small towns	0.091	0.113	0.09	0.11
Very small towns	0.071	0.089	0.10	0.13
1925				
Regional centres	0.092	0.119	0.11	0.10
Sub-regional centres	0.124	0.104	0.06	0.23
Small towns	0.093	0.115	0.08	0.10
Very small towns	0.076	0.095	0.09	0.11

¹¹³ This calculation is based on incomplete data and can only be used as an indication.

Table 84 Cisleithenia 1913 – comparative assets structure – mortgage credit

Financial level	Bohemia German	Bohemia Czechs	Moravia	Silesia
1913				
Regional centres	0.579	0.508	0.64	0.58
Sub-regional centres	0.607	0.574	0.56	0.62
Small towns	0.591	0.579	0.56	0.58
Very small towns	0.576	0.582	0.53	0.62
1925				
Regional centres	0.337	0.314	0.27	0.25
Sub-regional centres	0.257	0.301	0.24	0.43
Small towns	0.262	0.263	0.24	0.28
Very small towns	0.259	0.266	0.23	0.26

Table 85 Cisleithenia 1913 – comparative assets structure – investment in securities

Financial level	Bohemia German	Bohemia Czechs	Moravia	Silesia
1913				
Regional centres	0.232	0.105	0.17	0.17
Sub-regional centres	0.213	0.127	0.16	0.18
Small towns	0.230	0.106	0.12	0.13
Very small towns	0.204	0.060	0.13	0.16
1925				
Regional centres	0.357	0.232	0.39	0.39
Sub-regional centres	0.375	0.280	0.36	0.07
Small towns	0.297	0.289	0.28	0.35
Very small towns	0.348	0.255	0.28	0.33

Table 86 Cisleithenia 1913 – comparative assets structure – deposits to other banks

Financial level	Bohemia German	Bohemia Czechs	Moravia	Silesia
1913				
Regional centres	0.036	0.040	0.03	0.01
Sub-regional centres	0.031	0.063	0.03	0.01
Small towns	0.030	0.084	0.04	0.03
Very small towns	0.054	0.101	0.07	0.02
1925				
Regional centres	0.069	0.130	0.15	0.07
Sub-regional centres	0.105	0.158	0.10	0.00
Small towns	0.154	0.186	0.15	0.07
Very small towns	0.145	0.182	0.18	0.09

Table 87 Cisleithenia 1913 – comparative assets structure – bills of exchange

Financial level	Bohemia German	Bohemia Czechs	Moravia	Silesia
1913				
Regional centres	0.008	0.150	0.000	0.000
Sub-regional centres	0.021	0.083	0.040	0.040
Small towns	0.023	0.090	0.130	0.080
Very small towns	0.060	0.129	0.130	0.080
1925				
Regional centres	0.012	0.031	0.000	0.000
Sub-regional centres	0.010	0.022	0.030	0.030
Small towns	0.028	0.022	0.060	0.020
Very small towns	0.039	0.070	0.070	0.050

Conclusion: Provincial banking and regional development

In this thesis I have tried to fill a gap in provincial banking historiography. The huge number of provincial banks in the Austro-Hungarian Monarchy and the successor states, the limited archive material and small number of quality case studies were obstacles for understanding the provincial banking phenomenon. The only way to enter the world of provincial banking was to exploit information available in printed sources – *Compasses*, contemporary economic publications and some statistical sources. By undertaking a statistical analysis of balance sheets data of provincial banks and information on the existence of financial institutions active in the provincial financial market of seven regions of Austro-Hungary and the successor states for the representative years of 1913 and 1925, it was possible to recognise a number of the legal, structural and business aspects of provincial banking. In the course of this research many characteristics of provincial banking have been recognised and analysed. The conclusion of this thesis is that provincial banking developed as a result of the rapid development of provincial economies whose needs for financial services could not be satisfied by the slowly developing branch networks of commercial metropolitan banks. Thus, provincial banking is equivalent to a form of widely adopted niche banking.

However, provincial banking also has to be seen as part of one larger picture. Throughout the nineteenth and most of the twentieth century, Eastern Europe was an arena where two different economic cultures met: the less monetised world of the non-market, subsistence peasant and the profit- and market-oriented capitalistic world.¹¹⁴ The structural change¹¹⁵ of Eastern Europe, the transformation from a non-market, subsistence peasant-culture based world into a market-oriented economy was a long process in which the banking system played a significant role. Provincial banking played an important role in this ‘great transformation’.

¹¹⁴ The word *culture* is used in order to highlight the difference. See Polanyi, Karl, ‘Aristotle discovers the economy’ in *Primitive, Archaic and Modern Economies. Essays of Karl Polanyi* (Boston, 1971); see also Jelić, ‘Economic structure, ‘office-seekers’ and production of Balkan identity’.

¹¹⁵ This process is usually called modernisation or economic development, but one has to be careful about their use. These terms contain moral positions. See Gábor Gyáni, ‘Modernity, Modernization and Modernisms’, paper at workshop *Social (Trans)formations in East-Central Europe, 1918-1968*, Warsaw, 18-20 March, 2005, Institut of History, Collegium Civitas, University of Warsaw.

The most common non-market economy exists in the form of subsistence agriculture.¹¹⁶ Such societies consisted of peasants and their families, who produced food, clothes and most of what they needed for themselves. With subsistence agriculture, the community lived in relative isolation – a factor which had consequences for the economic and social relationships within such a society. It was a society based on patriarchal rules, family traditions and informal cooperative relationships. In subsistence peasant communities life was not based on a desire for profit, and profit was not the main stimulant for economic and social relations.¹¹⁷ The economic and social activities of the subsistence peasantry were restricted to the village level, and such a society was characterised by little use of money. Economic relations with the outside world only fulfilled the function of maintaining the self-sufficiency of the village community.¹¹⁸ It was a traditional society and experienced only slow changes, but it was a stable and secure world.

Subsistence agriculture and its societies usually existed or emerged wherever there were geographical, political or economic hindrances to the development of the exchange of goods and services within a local or a wider market.¹¹⁹ In the early nineteenth century, most Eastern European societies lived in such 'communities'. Even in the period of

¹¹⁶ See Čajanov, Alexander, *The Theory of peasant Economy* (Madison, 1986).

¹¹⁷ One analysis of the difference between market and non-market economies started with almost philosophical suppositions. In his article 'Aristotle Discovers the Economy', Polanyi refers to two Roman law concepts, *Contract* and *Status*, as two fundamental dimensions of modern and ancient societies. *Status* determines the rights and duties of a person, especially his or her duties to the family, and is set by birth. *Contract* determines the rights and duties on the basis of a bilateral agreement. A similar concept can be found in 'Community and Society' by Ferdinand Tönnies. *Community* ('Gemeinschaft') corresponds to the concept of *status*, while *society* ('Gesellschaft') refers to a contract group. Malinowski's contribution to the analysis of this problem was his discovery that *status*, or *Gemeinschaft*, dominates in an economy where relations are shaped and influenced by non-economic institutions, while *contract*, or *Gesellschaft*, is a characteristic of a 'motivationally distinct economy in society'. *Contract* is the legal aspect of exchange, so a society that is based on *contract* should possess a sphere of exchange, i.e. a market. *Status* corresponds to an economy in which redistribution is not based on a market but rather on numerous non-economic (family, political or religious) institutions. See Karl Polanyi, 'Aristotle discovers the economy', p. 84.

¹¹⁸ Henri Mendras, *Seljačka društva* (Zagreb, 1986), p. 69.

¹¹⁹ This is not a necessary stage of economic development but rather a result of a certain constellation of various factors. More than once, subsistence-agriculture societies developed in regions which already had a strong market experience. One rather interesting example is a case in Kastavština, a small region near the town of Rijeka in Croatia, during the interwar period (at that time, this small Croatian territory became isolated due to the new state border with Italy). Losing all possibilities of marketised work (the strong port town Rijeka, the building work in Opatija, emigration to America and the exploitation of Kastavština

assessment studied here, 1913-1925, subsistence peasant cultures existed throughout Slovakia, Bosnia and Croatia. 'Mixed peasant society'¹²⁰ is a term that can be used for a society that still satisfied most of its consumption needs through subsistence production and the exchange of goods at village level but, due to pressure from the state apparatus and the beginning of urbanisation, had contacts with the market economy. 'Mixed peasant society' was the most common and the longest lasting economic-social formation in the process of transforming 'peasants into farmers'. It thus changed the village from subsistence-oriented to market-oriented. Most Eastern European peasantry at the beginning of the twentieth century belonged to this world.

The transformation of a non-market subsistence peasant culture into a market-oriented capitalistic economy faced one major barrier. The subsistence peasant does not buy and sell much on the market. Therefore, the process of industrialisation and urbanisation confronted a hindrance in the form of a limited domestic market – a world of subsistence peasants was not a sound foundation for the development of an economic superstructure.¹²¹ The existence of a consumption market in the neighbouring administrative, trade and industrial towns was of crucial importance for the monetisation of village life. Yet, without developed towns and industry, a village would not have had a market for its products. It was necessary for agents to force both the growth of the town and industry and push the village to break its subsistence.

State initiative and big business were not able to support such broad structural change. The development of state bureaucracy was an important agent that reduced village autonomy. The state intervened in villages by introducing a fiscal system, police forces and law courts. Through fiscal pressure the subsistence peasant economy was forced to sell some goods to the wider market. However, a growing state apparatus was not the most efficient agent with which to build infrastructure and industry – it was a social element which consumed rather than accumulated capital. Big businesses were able to set up industrial enterprises and build infrastructure – they were often especially developed to exploit natural resources which were not used by subsistence peasantry. Big businesses, often in

forests), the inhabitants turned back to subsistence agriculture, and consequently built up social relationships similar to those typical of agricultural subsistence peasantry.

¹²⁰ Term adopted from Trouton, Routh, *Peasant renaissance in Yugoslavia 1900-1950* (London, 1952).

¹²¹ See Sir Edward Dicey, *The Peasant State* (London, 1894), p. 40. See also Warriner, *Economics of Peasant farming*; The Royal Institution of International Affairs, *Agrarian problems from the Baltic to the Aegean* (London, 1944).

cooperation with the state apparatus, built railways, set up big factories and organised mines and forest exploitation. However, these enterprises employed only a small number of workers, as well as producing a limited consumption market which was not sufficient for the transformation of the subsistence village.

Population growth during the nineteenth and the beginning of the twentieth centuries unbalanced the economic basis of the subsistence peasant economy. Population growth in villages during the nineteenth century led to a situation in which the land could not offer a decent life any more, and young generations were 'pushed' to find a future away from the subsistence world of their parents and grandparents.¹²² The cultural barriers of the subsistence village were also breaking down through state intervention – education and military service weakened the strength of traditional patriarchal isolation. Once unbalanced, the subsistence peasant world could be and was forced to join the market economy.¹²³

However, there were numerous problems at the micro-level related to the reorientation of the village economy from subsistence to the market.¹²⁴ The credit cooperative movement assisted in resolving a number of these problems. The overpopulated subsistence economy was a great hindrance to the development of human capital – one of the most important elements for economic and social development. Subsistence peasants could not easily act on the market since they were tied to their small landholdings, with no experience in either trade, industry, the monetary economy or capitalistic micro-economy. Credit cooperatives played an important role in introducing capitalistic literacy to the village.¹²⁵ The impact of credit cooperatives was felt not so much in the amounts involved as in their ability to assist peasants to adapt their production for the market. Credit cooperatives often organised numerous educational activities and improved economic, entrepreneurial and agricultural knowledge. Most organised the joint purchasing and selling activity of their members,

¹²² Jozo Tomašević, *Peasants, Politics, and Economic Change in Yugoslavia* (Stanford, London, 1955), p. 319. Otto von Frangeš, *The problem of relative overpopulation in Yugoslavia*; Bićanić Rudolf, *Agrarna prenapučenost*.

¹²³ For one overview of economic and social problems related to the unbalanced subsistence peasant world see Jelić, 'Economic structure, 'office-seekers' and production of Balkan identity'.

¹²⁴ For detailed analysis of micro-level problems see Mirković, *Održanje seljačkog posjeda*. See also a very good comparative analysis between marketised and non-marketised agriculture in: Irvin Sanders' 'Bulgarian and Southern Rural Whites in Contrast' in *Social Forces*, XIX, No. 1, October, 1940.

¹²⁵ Tardy, M. Louis, *Report on Agricultural credit*, pp. 3-4.

which should not be underestimated. Overpopulated subsistence agriculture had a very weak economic equilibrium. Such a village was vulnerable to any external disturbance, bad crop or personal misfortune.¹²⁶ Raiffeisen credit cooperatives intended and often managed to resolve many of those 'small but big' problems at the micro-level.

Credit cooperatives were able to collect numerous small savings at the village level and mobilise these resources in propulsive entrepreneurial activities.¹²⁷ Credit cooperatives also provided an institutional form which could bring additional financial resources directly to a village. In such a way, villages could undertake the modernisation of agriculture, finance the purchase of land, set up productive cooperatives, finance emigration etc.¹²⁸ In regions where the credit cooperative movement was well developed, they successfully broke the monopoly of the local merchant as the intermediary between the village and market economy.

Provincial banks in small towns also had some impact on the marketisation of subsistence peasantry. Their business, if directed towards agriculture, was either financing the trade of agricultural products or offering investment credits to farmers. They supported the growth of farming as a capitalistic culture in villages, and in such a way they financed the modernisation of the village. The problem of credit for farmers was resolved in farming regions (such as Vojvodina) with the appearance of numerous very small, local banks in Transleithenia. There is no doubt that such credit was not as cheap as that from a specialised agricultural credit institution in Bohemia, but its modernising function could not be denied.¹²⁹

¹²⁶ Problems of the unbalanced subsistence village were presented in numerous pamphlets and novels of socially oriented writers of the late nineteenth and early twentieth century. Typical examples of such literature are Rudolf Bičanić, *Kako živi narod* (Zagreb, 1936); Mate Balota, *Tijesna zemlja* (Zagreb, 1946); Sabolić, Ivan (ed.), *Zbornik hrvatskih seljaka* (Zagreb, 1936).

¹²⁷ According to Žarko Lazarević, the role of these provincial credit cooperatives should not be undervalued. The typical situation in Slovenian villages was that after a credit cooperative was organised by a local priest or teacher, the peasants would eventually marketise their milk production by organising milk cooperatives.

¹²⁸ For one example see the structure of the spending of credits given by Serbian credit cooperatives in 1900 in Croatia and Vojvodina. Stojsavljević, *Povijest sela*, p. 305.

¹²⁹ For the reluctance of non-institutional usurers toward the formation of provincial banks see Bobik, *Vršačko bankarstvo*, p. 19.

Urbanisation was the main propulsive factor for the marketisation of the village.¹³⁰ The development of towns would help to absorb some of the surplus of the agricultural population and provide a demand for agricultural products.¹³¹ Urbanisation is a multifunctional process.¹³² In an economic sense, the town developed thanks to its intermediary and service function, and the concentration of capital.

The intermediary function of the town depended upon the existence of surplus goods beyond consumption needs in the neighbouring territory and a market for them. The most propulsive marketisation situation was when some natural resources found a market. In East-Central Europe during the late nineteenth century it was usually the exploitation of wood and mining materials for some distant markets. Transport facilities which assisted such an exchange of goods were necessary for an intermediary function.¹³³ Most towns developed at exchange points, such as river and sea ports, railway hubs or at rest points for continental transport. The service function of the town developed thanks to the needs of the surrounding area. The economic sphere of the town's services depended upon the consumption strength and the existing marketisation level of the service area.

For the development of the provincial town, it was necessary to resolve the problem of local infrastructure. All of Cisleithenia recognised the importance of municipal authorities in supporting local infrastructure. Municipal savings banks were one excellent model in the developmental initiative of de-centralising infrastructure, which gave municipal authorities both the instruments and the resources to assist economic development at a local level. The distribution of resources depended upon the needs of the town, and such de-centralisation was very fruitful for infrastructure development.

However, one of the most important economic urbanisation elements was the ability of the town to organise the accumulation and concentration of capital. Provincial banks allowed for the concentration and accumulation of capital in provincial towns in several ways. A provincial bank not only concentrated savings from the town, but also from the

¹³⁰ For an excellent analysis of the limits and opportunities of measures against agrarian overpopulation see Tomašević, *Peasants, Politics, and Economic Change*, pp. 326-343.

¹³¹ See Mirković, Mijo, *Seljaci u kapitalizmu* (Zagreb, 1952) and Colin Clark and Margaret Haswell, *The Economics of Subsistence Agriculture* (New York, 1967).

¹³² See Paul M. Hohenberg and Lynn Hollen Lees, *The making of urban Europe 1000-1950* (Harvard, 1985), pp. 215-248.

¹³³ Colin Clark and Margaret Haswell, *The Economics of Subsistence Agriculture*, p. 179-199.

neighbouring villages and smaller towns. Provincial banks, especially in Transleithenia, were institutions for drawing profits from the town's neighbourhood and bringing them into the provincial town. Taking into account the high profit/capital ratio of local banking in Transleithenia the role of banking as a capital concentrator cannot be undervalued. The provincial bank also supplied the institutional framework through which financial resources could move from distant metropolitan banks to provincial towns. In such a way, they provided the provincial town with concentrated financial resources. These were then allocated, either for the growth of the provincial economical elites, or for the financing of infrastructure.

Monetary 'refreshment' of provincial business by the provincial banks had a strong impact on the growth of the provincial urban entrepreneurial elites.¹³⁴ It is a well-accepted theory that banking and entrepreneurship were two of the main factors giving rise to the rapid economic growth of developing markets.¹³⁵ Provincial banks were institutional forms which assisted the growth and strengthening of provincial entrepreneurial elites. For provincial elites, the provincial bank was a profitable business. The joint-stock provincial bank was also an institutional framework for the cooperation of provincial entrepreneurs which linked them to bigger regional and metropolitan entrepreneurs. In Transleithenia, the main task of provincial banking was financing trade and concentrating financial resources for provincial undertakings and small-scale industry.¹³⁶ In Cisleithenia, the agents which supported entrepreneurial circles in provincial towns were not only Sparkassen, but also credit cooperatives.¹³⁷ Banks in regional and provincial centres often played an important role with their regional networks in the formation of regional

¹³⁴ It is not possible to reconstruct to a full extent the forms in which additional resources met business circles, either for long or short financing. I believe it is not such an important problem. The additional financial resources supporting business were crucial. If these took mostly the form of short-term credit, entrepreneurs would have been able to redirect more of the profit into capital accumulation and business infrastructure. The newly developed provincial transaction system would better assist merchant credit which could include investment goods.

¹³⁵ Lampe, *Balkan Economic History*, p. 203.

¹³⁶ Gal, 'The golden age of local-regional banking', p. 26.

¹³⁷ Albrecht, *Savings Banks in Bohemia*, p. 257.

industrial or trade centres. Moreover, they had sufficient human and financial resources to assist such regional industrialisation.¹³⁸

The impact of the banking system on economic development should be recognised at the level of the accumulation of human resources. Financial innovations developed and spread much more rapidly than other economic innovations.¹³⁹ Banks played an important role in building up a 'capitalistic' mind in the emerging societies of Central Eastern Europe by promoting thrift within the broader population and financial discipline in both business circles and the general population.¹⁴⁰

In the central Danube economic region, the marketisation of the agricultural world developed with strong regional differences. In general, Cisleithenia was the part of the Monarchy which started the marketisation and urbanisation process earliest. Taking into account regional differences in the process of marketisation and economic development within the Austro-Hungarian Monarchy it is not surprising to find extreme differences in the business structure and banking architecture of the banking system within the Monarchy. Cisleithenia and Transleithenia had profoundly different banking systems. The Cisleithenian system had a complex banking architecture where credit cooperatives, Sparkassen, mortgage houses and big commercial banks all played important roles within the banking system. The Transleithenian banking system was based on joint stock commercial banks where other financial institutions had only a marginal role. Thus, provincial banking in Transleithenia and Cisleithenia had different answers to the credit needs of provincial economies and different roles in the process of marketisation.

In Cisleithenia credit cooperatives were more developed than in Transleithenia. Austrian and Slovenian peasants were forced to marketise early because natural resources were too

¹³⁸ In his masterpiece on banking and industrialisation, Rudolph recognised the importance of the 'secondary financial system' for economic development. He wrote: 'Altogether, the savings banks, mortgage banks, credit cooperatives and postal savings made up what März and Socher have called a second credit sector. Although they were not directly important for industry, they did have a strong effect on the economy in several other areas, particularly in agriculture, housing construction and local infrastructure.' Rudolph. *Banking and Industrialisation*, p. 75.

¹³⁹ See the arguments in Gal, 'The golden age of local-regional banking'; Hietala, M. *Services and Urbanisation at the turn of the century: The diffusion of innovation* (Helsinki, 1965) Finnish Historical and Good D., 'Backwardness and the Role of Banking in Nineteenth-Century European Industrialisation', *Journal of Economic History*, 1973, pp. 845-850.

¹⁴⁰ It was Schulze-Delitzsch's idea that savings banks will make every man capitalist. Wolff, *People's Banks*, p. 2.

limited to allow the continuation of the subsistence peasant life. They received substantial support from the Raiffeisen credit cooperative organisation. The growing demands of the market in Bohemia, together with well-organised credit cooperatives, also played a role in the disappearance of the subsistence peasant economic culture earlier than in other regions. Credit cooperatives for artisans and small entrepreneurs were well developed to such an extent that they almost fulfilled the function of provincial banks. Provincial banks in Cisleithenia were mostly Sparkassen. Being mostly municipal or county institutions their main function was to resolve the problems of long term financing, while short term credit was satisfied by credit cooperatives and branches of commercial banks. It seems that provincial financial institutions in Cisleithenia were of crucial importance in provincial economic development, successfully providing the financial infrastructure necessary for provincial economic growth.

In Transleithenia, the marketisation of agriculture was most successful in fertile regions with effective transport connections to the market and which were not overpopulated, such as Vojvodina. In Transleithenia, the credit cooperative movement never reached the success of Cisleithenia. However, its effect should not be undervalued. Slovak cooperatives in Slovakia and northern Hungary, German settlers' local banks across Hungary, Serbian local banks and credit cooperatives in Croatia, Vojvodina and Bosnia – all raised the level of social solidarity in their communities and resolved many credit and human resources problems at the micro-level. In Transleithenia joint stock commercial banks had a universal function at the provincial level. They were more commercially oriented, and they were more a reflection of economic growth than a sound basis for provincial economic growth.

Banking is a very flexible business sector – research recognised the various metamorphoses and the extreme flexibility of provincial banking – both in legal forms, banking architecture and the businesses of the banks. In the course of this research we developed a number of financial indicators and had to conclude that in many aspects of banking it is hard to talk about “typical” or “average” results. Provincial banking, like all forms of banking, was never static – it varied according to time and geography. And each bank had its own history. The legal framework had a limited impact on the banking sector – the need for financial services as well as the financial market conditions shaped provincial banking. The business structure of banks could change rapidly, as was shown by the difference between the balance sheets structure for 1913 and 1925. The architecture [?structure] of the banking systems was equally flexible

Notwithstanding, the financial indicators and analysis shown in this thesis have a valuable role to play. The database analysis and the results of this research are not only useful in understanding provincial banking. They can also help us to understand past economies. Banks provided financial services, and absorbed and redistributed financial resources. The financial flows of one region were indicated by the main financial networks and banking businesses, and the location and capacity of banks and their branches. Information on banking can provide a source for national accounting and be an indicator for economic historical research. Provincial banking history can indicate a number of problems to be assessed in provincial economic history. Banking history can also surpass the limitations of national accounting historiography – regional and spatial analysis and the building of time series. Future research is needed to derive a methodology which will exploit banking history data for an understanding of the economic past.¹⁴¹

Provincial economies present one huge financial market. Another very interesting process identified in this thesis was the process of the financial integration of provincial economies. There was a complex relationship between metropolitan and provincial banks. Metropolitan and provincial banks both competed and co-operated in this market. The main instruments of financial linking between metropolitan financial centres and provincial economies were business links between provincial and metropolitan banks, and affiliations and branches of metropolitan banks within provincial economies. In this thesis, a distinction between financial centres, regional economic centres and small towns was highlighted and many differences in banking business links were recognised. In addition, the role of affiliations as linking instruments was recognised and measured. Metamorphoses in relationships – branches *versus* independent banks – are interesting, but while their implications were discussed in this thesis, the limitations of such analysis were also considered.

In the course of research we recognised the importance of economic nationalism and regional patriotism as ideological forces which supported the building of the provincial financial institutions. Financial weakness, a need to attract resources and customers and a need to strengthen their political and social position by non-financial instruments forced many of the provincial banks to use those ideological weapons. Ideologisation of financial institutions had an ultimately positive consequence on economic development – it

¹⁴¹ See Jelić, Damir, 'Balance sheets of banks as a historical accounting instrument' in Roumen Avramov and Sevkret Pamuk (eds) *Monetary and Fiscal Policies in South-East Europe* (Sofia, 2006).

supported the growth of the provincial sector. However, for the development of an internal market, it was necessary that all the segments of an economy grew in a similar manner. Because of their high flexibility and adaptability, provincial banks and credit cooperatives assisted economic growth in all segments of the economy.

Provincial banking was an enduring phenomenon. The business of provincial banks was based on the interaction of everybody who was interested in them: local savers and economic elites, municipal authorities and political forces, the staff of the provincial banks and their main owners, big commercial banks and the state. These interest groups competed for as much influence on provincial banks as possible, while, at the same time, they cared about the banks' stability and successful operations. Local savers could decide whether or not to bring their savings to the bank. Economic elites, who were interested both in financial resources and other financial services, tended to be in close contact with the bank, usually by means of different formal and informal personal relationships. The importance of professionals employed in provincial banks cannot be underestimated. Their interest was to stay employed, keep receiving benefits and maintain or improve their professional position. Municipal authorities and political forces had to take care of the stability of provincial banks. Urbanisation projects often depended on financial resources from provincial banks. From the perspective of big commercial banks, small provincial banks were particular kinds of independent branches, and provided an opportunity for them to expand their own business without establishing an expensive and inert network of branches. Having a strong commercial bank or umbrella institution in the background was crucial for the successful operation of provincial banks. Because of the sound resources and the economic importance of provincial banks, the state provided a legal framework and some supervision.

Thanks to all those interested subjects, most of our small provincial boats successfully navigated the turbulence of the first half of the twentieth century

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