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BULGARIA'S ECONOMIC POSITION

WITH SPECIAL REFERENCE TO THE REPARATION
PROBLEM AND THE WORK OF THE
LEAGUE OF NATIONS

No. 39

BY
LEO PASVOLSKY

WASHINGTON, D. C.
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1930

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DIRECTOR'S PREFACE

In a previous publication of the Institute of Economics—*Economic Nationalism of the Danubian States*—five of the countries which lie wholly or in part in the basin of the Danube were dealt with. These five included Austria, Hungary, Czechoslovakia, Rumania, and Yugoslavia. The present volume completes our studies of this region.

While Bulgaria's economic situation and problems since the war have been in many respects typical of other small European countries, there are two significant differences. Bulgaria has had more difficulty than any of the smaller belligerents on the side of the Central Powers in adjusting to reasonable dimensions the reparation burden imposed upon her by the treaty of peace, and she has availed herself more largely than any other country of the good offices of the League of Nations in her struggles to rehabilitate her economic life. This counsel and participation of the League disclosed the urgent need for thorough reorganization and modernization of the nation's economic life, and has been instrumental in bringing about many vital changes. Far-reaching plans involving international financial assistance and technical aid and supervision are now under discussion.

It is hoped that the present volume may be of some service in promoting better understanding of

the situation and of these plans. The author has presented not merely an economic history of Bulgaria and an analysis of her present-day problems, but has given a concrete illustration of the possibilities of economic collaboration which have been gradually evolving since the end of the war, especially through the efforts of the League of Nations.

The members of the staff who co-operated with the author in the preparation of this volume were H. G. Moulton, C. O. Hardy, and Cleona Lewis.

E. G. NOURSE,
Director.

Institute of Economics,
October, 1930.

AUTHOR'S ACKNOWLEDGMENTS

Much of the data contained in this book was gathered in the course of several extended visits to Bulgaria, and the author wishes to express his gratitude to numerous persons and institutions that have aided him in the collection of material and in the interpretation of events and developments in Bulgaria. He is under special obligation for the facilities and aid afforded him by the following persons in Bulgaria: Mr. A. Liapcheff, the Bulgarian Prime Minister; Professor A. Tsankoff, President of the Bulgarian Parliament; Mr. A. Bouroff, the Minister of Foreign Affairs; Professor W. Molloff, the Minister of Finance; Mr. D. Christoff, the Minister of Agriculture; Mr. R. Charron, Commissioner of the League of Nations; Mr. N. Stoyanoff, Director of the Public Debt; Mr. J. Bourilkoff, Vice-Governor of the National Bank; Mr. S. Dimitroff, Acting Director of the Central Statistical Office; Professor G. Danailoff, of the University of Sofia; Professor D. Mishaykoff, Director of the Higher Co-operative School; Mr. N. Momchiloff, Director of the B'lgarska Banka; Dr. A. Chakaloff, Director of the Economic Research Division of the National Bank; Mr. B. Ivanoff, Chief of the Budget Division of the Ministry of Finance; Mr. H. Prost, of the Bulgarian Mortgage Bank; and Messrs. I. Popoff and H. Levensson, of the Bulgarian Foreign Office. He also wishes to express his appre-

ciation of the aid rendered him by the following: Dr. S. Radeff, Bulgarian Minister to Washington; Mr. S. Bisseroff, Secretary of the Bulgarian Legation in Washington; Mr. M. B. Barnes, of the Division of Near Eastern Affairs, United States Department of State; Mr. T. Kodding, American *Chargé d'Affaires* in Sofia; and Mr. S. Green, American Consul in Sofia.

The author has observed the following rule with regard to documentation: if a work of reference on any particular point exists in English, French, or German, as well as in Bulgarian, the reader is usually referred, for the sake of those who may wish to follow up some of the points raised in the book, to the former rather than to the latter. It has not been found possible, in making comparisons with pre-war conditions, to use throughout the same dates and periods, because of lack of statistical material; so far as practicable, however, the author has sought to make the basis of comparison more or less uniform.

LEO PASVOLSKY.

March 25, 1930.

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BULGARIA'S ECONOMIC POSITION

CHAPTER I

INTRODUCTION

Bulgaria, the smallest of the belligerents on the side of the Central Powers during the World War, paid heavily for participation in the war. Although her territorial losses were not, proportionately, as great as those of her former allies, especially of Austria, Hungary, and Turkey, nevertheless the war imposed heavy economic burdens and produced, during the years following the cessation of hostilities, a period of economic disorganization and social and political upheaval. It was not until 1925-1926 that Bulgaria achieved political and social stability and, with outside financial assistance, entered upon a period of economic reconstruction. Numerous and difficult problems, however, remain for permanent solution, particularly in the domain of economic reorganization and development, where the situation has so far been greatly complicated by the economic provisions of the treaty of peace.

In this introductory chapter we shall sketch briefly the historical background of the Bulgarian nation, the march of events in the country's internal and external political relations, and the basic economic factors and conditions which constitute the Bulgarian setting. In the next two chapters we shall present, in somewhat greater detail, Bulgaria's pre-war eco-

conomic situation and the effects upon her economic position of the three wars in which she was engaged from 1912 to 1918. After that we shall analyze Bulgaria's post-war economic experience, and finally discuss the basic problems in her economic situation after the definitive settlement of her reparation problem, negotiated in 1929-1930.

I. HISTORICAL BACKGROUND

Placed in the heart of the Balkan Peninsula, Bulgaria occupies a geographical position which has given her greater importance among the smaller nations of Europe than might have been indicated either by her size or resources. On some occasions, portions of her territory have been the object of sharp contention among her immediate neighbors, as well as among larger powers. Bulgaria is one of the outposts of Europe on the frontiers of Asia: beyond her southeastern boundary lie Turkey and the Near East (see map on page 5). She thus represents an important connecting link between the West and the East. These factors have found a dramatic expression in the history of the country.

Bulgaria has had a tragic and turbulent history. The country derives its name from a tribe of Finno-Tartar origin, which migrated in the seventh century from the basin of the Volga to that of the Danube, encountered there a population consisting of a mixture of Slavs and of Thraco-Illyrian aborigines, conquered these scattered groups, and established under its own domination a state to which it gave the name of Bulgaria. In this manner all the inhabitants of the new state became known as

Bulgarians. In constant struggle with its neighbors, particularly with the Serbs and the Greeks, this Bulgarian state disappeared and reappeared, until with the westward sweep of the Turks it finally became submerged by Turkish domination. The territories

BULGARIA'S GEOGRAPHICAL POSITION IN RELATION TO
SURROUNDING COUNTRIES



inhabited by the Bulgarians remained a part of the Ottoman Empire from 1396 to 1878, when, at the termination of the Russo-Turkish war, Bulgaria once more emerged as a national state.

This emergence was, however, accompanied by circumstances which have had a profound effect on the modern period of Bulgarian history. Under the terms of the preliminary peace treaty concluded between Russia and Turkey at San-Stefano, Bulgaria was to be constituted an independent state, com-

prising practically all the territories in which there were Bulgarians in any considerable number. But a few months later, the San-Stefano arrangement was overturned by the intervention of the great powers, and the provisional Russo-Turkish treaty was superseded by the Treaty of Berlin. This treaty converted only a comparatively small portion of the so-called "San-Stefano Bulgaria," namely, a part of the territory lying north of the Balkan range, into an autonomous principality under Turkish suzerainty. The portion lying south of the Balkan range became a Turkish province under the name of Eastern Rumelia. The Bulgarian national aspirations, raised to a high pitch by the San-Stefano settlement, were shattered by the Congress of Berlin, but the possibilities indicated by that short-lived arrangement have remained the national ideal of the Bulgarians and have influenced profoundly the whole course of the country's policy.

In 1885, by means of a *coup-d'état*, Bulgaria effected the fusion, under one prince, of the autonomous principality and Eastern Rumelia. Turkey was too weak to oppose this action, but Serbia chose to regard it as cause for war, with the result that hostilities began between the two countries. Bulgaria emerged victorious and remained thenceforth a much enlarged principality, still under Turkish overlordship.

It was only in 1908, at the time of the Young Turk Revolution, that Bulgaria finally declared herself a fully independent state. This was, however, a merely formal act, since the autonomous principality—later on converted into a kingdom—really

exercised all the prerogatives of sovereignty, and was in fact only a tributary of the Sublime Porte.

The period between 1885 and 1912 was characterized for Bulgaria by a quiescent foreign policy and a very active development of domestic affairs. During these years, Bulgaria laid the foundations of a modern state, with parliamentary government, a system of education, a well-organized army, and the basic economic facilities of statehood.

In 1912 Bulgaria embarked upon an active foreign policy. In alliance with Serbia and Greece, she declared war on Turkey, and her troops fought their way almost to the gates of Constantinople. Through intervention on the part of the great powers, the war came to an end just short of a decisive victory on the part of the three allies. But when formal peace was concluded, an acrimonious dispute arose among them, especially between Bulgaria and Serbia, over the division of the spoils. The bone of contention was the Vardar Valley in Macedonia, and the dispute quickly translated itself into the second Balkan war, in which Greece and Serbia, aided by Rumania, fought against Bulgaria. The results of this war were disastrous for utterly defeated Bulgaria. In 1915, less than two years after the conclusion of the Balkan wars, Bulgaria was drawn into the orbit of the Central Powers and entered the World War on their side—to go down to a vastly more crushing defeat than that suffered at the hands of her Balkan neighbors.

After the World War Bulgaria passed through a period of social and political unrest. The armistice of Salonika, signed on September 29, 1918, ended

the war for Bulgaria almost six weeks before hostilities ceased on the western front. This early termination of the war was made possible by an important political shift which took place within Bulgaria several months earlier.

Under the pressure of widespread discontent, the political elements, headed by Prime Minister Radoslavoff, which had brought Bulgaria into the war on the side of the Central Powers, withdrew from power. They had favored alliance with Germany because they believed that in this way they would be able not only to change the situation created by the second Balkan war, but also to restore Bulgaria to the proportions indicated by the Treaty of San-Stefano. Their place was taken by the Democratic party, headed by Alexander Malinoff, which had been opposed to Bulgaria's entering the war on the side of Germany and Austria-Hungary, and which hastened to end the war. Four days after the signing of the armistice, King Ferdinand, who had identified himself with the Radoslavoff policy, abdicated, and his son, Boris, succeeded to the throne.

The Malinoff government remained in power until November 28, 1918, when it was superseded by a coalition government, with Todor Todoroff as Prime Minister. This coalition included the Agrarian party, led by Alexander Stamboulisky, who was to play a tragic part in Bulgaria's post-war history. The Todoroff government conducted peace negotiations at Neuilly but retired from office in the course of the negotiations rather than accept for Bulgaria the terms of the treaty of peace. Upon its with-

drawal, Stamboulisky took the reins of power and became Prime Minister.

Stamboulisky signed the Treaty of Neuilly and turned his attention to domestic affairs. The country was in disorganization and turmoil. Communist propaganda was making rapid inroads, especially among industrial workmen and government employees. The communist movement finally culminated in a general strike, attended by widespread disorders, which were suppressed by an energetic exercise of force. After that, Stamboulisky began to build up an agrarian régime in Bulgaria. According to his view of the political situation confronting his country, the fountainhead of all trouble lay in the fact that the urban elements, comprising but one-fifth of the total population of the country, held the power. Accordingly, he set out to destroy these elements as a political force, and to concentrate all power in the hands of his own party, based mainly on peasant support. Failing to obtain a parliamentary majority by means of an election, he resorted to repressive measures against the parties which opposed him, thus laying the foundation for the establishment of a class government, based on a quasi-peasant dictatorship.

A man of considerable ability and of great personal courage,¹ Stamboulisky, after coming to power,

¹Just before Bulgaria entered the war, King Ferdinand assembled a Council of State to which he submitted his plan of joining the Central Powers. Stamboulisky, who represented the Agrarian party at this meeting, sharply opposed the King's plan and warned his sovereign that "chopped-off heads would roll in the streets of Sofia" if the plan were carried out. The King replied, "My head is old, but yours is young. Take care of it." Stamboulisky was in prison through most of the war.

became more and more extreme in his aim and methods, and it was this that proved to be his undoing. On June 9, 1923, a revolution broke out in Sofia. Stamboulisky's political opponents, supported by the army, overthrew the agrarian régime, and established a government of democratic unity, headed by Professor Alexander Tsankoff as Prime Minister. Stamboulisky himself was killed in the revolution, and his supporters were exterminated or dispersed.

The Tsankoff government faced the difficult task of pacification and reorganization. It was based on a coalition of practically all political parties, with the exception of the agrarians and the communists. The Agrarian party, crushed by the revolution of 1923, gave the new government comparatively little trouble. The communists, on the other hand, continued an active opposition, which culminated in an uprising in April, 1925, when the Sofia cathedral was blown up by a bomb. This revolt was suppressed with much bloodshed, but it marked the last open attempt at organized political violence.

As time went on, the emergency coalition formed for the purpose of overthrowing the Stamboulisky régime gradually lost some of its more incongruous elements. The Socialist party separated from it, as well as the Malinoff Democratic party and several other groups. By 1926 the elements in the coalition capable of more or less lasting cohesion became crystallized into what amounted to a political party, known as the *Demokratichesky Sgovor* (Democratic League), which has since dominated the political life of Bulgaria. In January, 1926, the cabinet

representing this grouping was re-formed, with Andrew Liapcheff as Prime Minister. Since that time, the Liapcheff cabinet has been in power.²

Bulgaria is faced with a number of important difficulties in her international relations. This is especially true as regards her immediate neighbors. Of the four countries with which Bulgaria has a common frontier—Rumania, Yugoslavia, Greece, and Turkey—only with Turkey, a bitter enemy in the Balkan war, but an ally in the World War, are Bulgaria's relations quite amicable today. The two countries have no active controversies to settle, and apparently no rancor because of the past. With Rumania there are also no outstanding controversies, but there does exist in Bulgaria a continuing strong sense of resentment because of the territorial cessions which she was compelled to make to Rumania after the second Balkan war.³ With Yugoslavia and Greece, Bulgaria's relations are definitely strained: they bristle with controversial questions and are alive with bitterness on both sides. These difficulties have their roots in past history, as well as in the terms of the Treaty of Neuilly.

The relations between Bulgaria and Yugoslavia are particularly difficult and complicated. Serbia, now the dominant part of Yugoslavia, has long been

² For the history of Bulgaria and a discussion of the political and social problems confronting the country see the volume on Bulgaria in the series of historical studies edited by John Buchan, London, 1925; L. Lamouche, *La Bulgarie*, Paris, 1928; and an excellent series of articles by T. Tchitchovsky on "Political and Social Aspects of Modern Bulgaria," in *The Slavonic Review*, Nos. 20-22.

³ See Chap. III.

Bulgaria's rival for a prominent position in the Balkans. The two countries have engaged in recurrent struggles, both prior to their subjugation by Turkey and since the period of their liberation from the Ottoman yoke. These conflicts have, however, alternated with periods of close and friendly collaboration. Prior to their liberation from Turkey, the Serbo-Bulgarian accords usually took the form of joint action against their common oppressor. In 1905, they made an attempt, frustrated by outside interference, to form a Serbo-Bulgarian customs union;⁴ in 1912 and 1913 they fought together against Turkey; and, since the war, an attempt at a politico-economic *rapprochement* was made under the Stamboulisky régime. It is in the existence of these occasional periods of friendship between the two groups of the Balkan Slavs that some hope is found for an eventual adjustment of the differences that have periodically plunged them into fratricidal strife.

The Macedonian issue is the most crucial international problem now confronting Bulgaria. The controversy rages over the status of that vaguely defined portion of the Balkan territory known as Macedonia, which is now included partly in Bulgaria, partly in Yugoslavia, and partly in Greece. Traditionally, the Macedonians have more in common with the Bulgarians than with the people of either Yugoslavia or Greece. Macedonians living in Bulgaria have an exceedingly important position in the life of the country. In fact, they find themselves

⁴ Pasvolsky, L., *Economic Nationalism of the Danubian States* (Institute of Economics Series, 1928), pp. 57-58.

in the very forefront of the country's leadership, which is not the case in the other two countries. The San-Stefano treaty included most of Macedonia within the frontiers of Bulgaria, but the Treaty of Berlin restored it to Turkey. As a result of the second Balkan war, the major portion of Macedonia became a part of Serbia, and upon the termination of the World War it was definitely incorporated in Yugoslavia.

The Bulgarians resented bitterly the loss of Macedonia imposed upon them by the Treaty of Berlin, and even more bitterly the refusal on the part of Serbia to give up to them as much of the Macedonian territory detached from Turkey after the first Balkan war as they claimed they were entitled to under the Serbo-Bulgar convention signed prior to that war. This resentment has scarcely abated since the World War. It has been complicated all along by the growth in Macedonia of a militant autonomous movement which had its roots in a similar movement begun a half-century ago and directed at that time against Turkey.

Guided by the Internal Macedonian Revolutionary Organization (known as I. M. R. O.), the Macedonian movement has taken the form, since the war, of a violent opposition to the efforts made by Yugoslavia to assimilate its Macedonian districts with the rest of the country. Unable to operate in Yugoslav Macedonia, the leaders of the I. M. R. O. established themselves in Bulgaria and have conducted their activities from that side of the frontier. For domestic reasons, the Bulgarian government has found it impossible to suppress the activities of the

Macedonian leaders operating from its soil. Stamboulisky, during his régime, made an attempt to do this as a part of his program of *rapprochement* with Yugoslavia, and his efforts in this direction were an important factor in causing his downfall. The revolution of June, 1923, which overthrew him, drew a part of its support from the powerful I. M. R. O. Although the Bulgarian government has repeatedly disavowed the movement and denied categorically its own complicity with it, the failure on its part to suppress the directing headquarters of the movement has been an almost insuperable obstacle to an establishment of cordial relations with Yugoslavia. Affairs came to a crisis in the autumn of 1927, when following an important terroristic act committed by the Macedonian *komitadji** in Yugoslavia, the government at Belgrade ordered the Yugoslav-Bulgarian frontier closed for all local passenger traffic. The Bulgarian government did not retaliate in kind, and this anomalous situation continued for over a year, when the Yugoslav measure was finally withdrawn.*

To a smaller degree than in the case of Yugoslavia, the Macedonian question serves as a complicating factor in Bulgaria's relations with Greece, which are characterized by a resentment on the

* Literally, "committee"; local name of groups operating under the authority of the I. M. R. O.

* For the recent history of the Macedonian question see: Ancel, J., *Les Balkans face à l'Italie*, Paris, 1928, Chap. IV; *European Economics and Political Survey*, Nov. 15, 1928, which contains an exhaustive bibliography on the subject; and Bulgarian Ministry of Foreign Affairs, *The Bulgarian Question and the Balkan States*, Sofia, 1919.

part of Bulgaria over the loss to Greece (as a result of the war) of the Ægean littoral, by a number of vexatious financial problems growing out of the exchange of populations between the two countries, and by the difficult question of providing for Bulgaria an outlet to the Ægean arranged for in the Treaty of Neuilly.

As regards the great powers, Bulgaria's policy since the war has been consistently directed toward avoiding the most important mistake committed by her statesmen before the war, that of permitting her to be drawn into the orbit of a definite power or group of powers. The policy of seeking the friendship of first one, then another, has been superseded by a definite attempt to be on cordial relations with all great powers but to be allied with none. In a recent speech on Bulgaria's foreign relations delivered before the Parliament, the Bulgarian Minister of Foreign Affairs, Athanase Bouroff, defined as follows the basic principles of the foreign policy pursued by Bulgaria:*

First, to come to an understanding with her neighbors; second, to augment the moral capital of Bulgaria and raise her prestige with the Western powers; and third, to win the confidence and support of the League of Nations.

Bulgarian foreign policy has been definitely directed, in the last few years, toward a moral protectorate by the League of Nations. As a result of this, the League has played an increasingly impor-

* For a French translation of this speech, which was delivered on Nov. 29, 1928, see pamphlet entitled *La Politique extérieure de la Bulgarie*, Sofia, 1929.

tant rôle in the solution of some of the pressing problems confronting the country.^a

II. BASIC ECONOMIC FACTORS

The geographical position of Bulgaria furnishes the advantage of comparatively easy communication with the outside world. The river Danube, the great artery of trade in Central and Southeastern Europe, forms two-thirds of the country's northern boundary. The Black Sea, with two important ports, Varna and Bourgas, is the eastern boundary. The valley of the Maritza River in the southern boundary affords a gateway to the Ægean. From northwest to southeast the country is traversed by one of the most important railway lines in Europe, the route of the Simplon-Orient Express.

Bulgaria's principal economic resource is her soil. This gives the country a primarily agricultural character, but the portion of Bulgarian territory suitable for cultivation is relatively low because of the mountainous character of many sections. Two mountain ranges cross Bulgaria from west to east: the Balkan range, which divides the country into a northern and a southern half, and the Rhodopes, which constitute most of the southern boundary. North of the Balkan range, which runs roughly parallel to the Danube, is the large Danubian plain; south of the range, the mountain formations which connect it with the Rhodopes divide the country into a number of smaller plains.

While the mountainous character of her territory limits the extent of Bulgaria's agricultural areas, it

^a See Chap. V.

gives her varied climatic conditions, which permit of a considerable diversity of cultures. A large variety of agricultural products is grown, ranging from cereals to tobacco and cotton.

CHARACTER AND USES OF LAND IN BULGARIA *

Types of Land	Area in Thousands of Hectares	Percentage Distribution
Arable land.....	3,613.5	37.5
Meadows.....	399.4	4.2
Vegetable gardens and fruit or- chards	23.5	0.2
Vineyards and rose gardens.....	102.8	1.1
Pastures	913.1	9.5
Woods and forests.....	2,834.5	29.4
Others.....	95.4	1.0
Unexploited	1,652.4	17.1
Total.....	9,634.6	100.0

* Popoff, C. G., *La Bulgarie coopérative*, Sofia, 1924.

The table on this page shows the manner in which Bulgaria's land is utilized. While the figures are for the pre-war period the ratios have not greatly changed since the war. According to the data given only 37.5 per cent of the total area of Bulgaria is in arable land. The corresponding percentage for Hungary is 60, for Poland 47, for Czechoslovakia 45, for Rumania 42, for Germany 44, for France 42, and for Japan 15. Waste lands make up 17.1 per cent of Bulgaria's area, although in the opinion of agricultural experts perhaps one-third of this land is capable of improvement and cultivation. Timberlands comprise 29.4 per cent of the total.

Abundant supplies of timber represent Bulgaria's second important economic resource. Coal, with which the country is very well supplied, constitutes the third. Small amounts of metal minerals, principally copper, and a limited amount of water power exhaust the list of Bulgaria's known natural resources.

Bulgaria must provide for a rapidly increasing population. The growth of population has been abnormally rapid since the war, although its rate was quite high before the war. The table given below shows the increase of population in Bulgaria since the beginning of the century.

GROWTH OF POPULATION IN BULGARIA, 1901-1929^a

Year	Total Population (In thousands) ^b	Mean Annual Increase per Hundred during Preceding Period	Density per Square Kilometer
1901	3,744.3	1.55 ^c	38.9
1911	4,337.5	1.58	45.0
1921	4,847.0	1.17	47.2
1929	5,707.1	2.21	55.4

^a Data based on official censuses.

^b At the beginning of the year.

^c For 1892-1900.

During the first 28 years of the nineteenth century, the population of Bulgaria increased by nearly two millions, or by more than 50 per cent. The normal rate of increase of population before the war was a little more than 1.5 per cent a year. Because of war losses, this rate dropped down to 1.17 per cent during the decade from 1911 to 1920, but rose

during the following eight years to 2.21 per cent. The abnormally rapid rate of increase since the war has been the result of the fact that Bulgaria has turned from an emigration to an immigration country. There has been an influx of refugees from the territories ceded by Bulgaria to her neighbors. At the same time, the surplus of births over deaths has, since the war, been restored to the pre-war proportions: the average for the decade from 1901 to 1910 was 18.21 a thousand, while during the five-year period from 1921 to 1925 it was 18.24 a thousand.*

The density of population has also increased rapidly. Between 1901 and 1911 it rose from 38.9 to 45 per square kilometer. It became 47.2 in 1921, while by 1928 it reached the figure of 55.4. This gives Bulgaria a greater density of population than that of any of her neighbors, with the exception of Rumania.

Numerous problems of economic adjustment have confronted Bulgaria since the war. Three urgent problems have pressed for solution in the post-war years: the stabilization of the currency, the balancing of the government budget, and the meeting of foreign payments. These problems are naturally inter-related, since the government's inability to meet its expenditures out of its revenues and the country's inability to meet its international outgo out of its international income are the principal causes of currency instability. The need of making

* Bulgarian Central Statistical Office, *Annuaire statistique du Royaume de Bulgarie*, 1927, p. 46. The surplus of births over deaths in Bulgaria is larger than in any other European country with the exception of Russia; it is more than twice that of Germany.

reparation payments and of discharging other financial obligations growing out of the peace settlement, which involves both the budget and the international accounts, has played a significant rôle in the situation. Other problems of less immediate urgency but even deeper significance have engaged the attention of the Bulgarian leaders.

A reorganization of basic production and of the export trade based on it, necessitated by the territorial changes resulting from the war period, has been one of their important preoccupations. The development of a credit system capable of meeting the requirements of private finance has been still another difficult task. Finally, the absorption of refugees in the fabric of national life has presented distinct problems. A great deal has already been done toward the solution of Bulgaria's immediate difficulties. A great deal still remains to be done, particularly along the lines of far-reaching solutions for the second group of problems enumerated above.

Since the termination of the World War, Bulgaria has been going through the difficult process of adapting the national organization built up before 1912 to the requirements of the post-war period and to the special conditions which have arisen since her armies launched their attack on Turkey. This process is by no means completed, and a part of what has been done has been financed with foreign funds. This borrowing, together with the pre-war debts and the financial obligations imposed upon Bulgaria by the treaty of peace, has resulted in the accumulation of a large foreign indebtedness, a

substantial portion of which consists of short-term debts.

Prior to 1930, the national life of Bulgaria was dominated by the reparation problem, and especially by the uncertainty attaching to the existence of a manifestly unbearable, though for the time being merely potential, burden of reparation payments. Although in January, 1930, this burden was reduced to much smaller and definitive proportions, the problem of meeting even these payments is by no means simple. The main question which interests us in this book is how, in the light of her post-war economic experience, Bulgaria will be able to provide for the economic needs of her growing population and meet at the same time the annual charges on her accumulated indebtedness.

CHAPTER II

BULGARIAN ECONOMIC SITUATION PRIOR TO 1912

The economic history of Bulgaria as a national entity may be said to have begun with the unification of the two halves of the country under one prince, in the year 1885. Although the united country remained nominally under Turkish suzerainty until 1908, it was in reality a fully functioning state. The economic history of Bulgaria may, therefore, conveniently be divided into three periods: The first covers the quarter of a century ending with 1911, the last year preceding the outbreak of the first Balkan war;¹ the second extends from 1912 through 1918 and comprises the two Balkan wars and the world conflict; and the third begins with the year 1919. In this chapter we shall examine the economic structure and condition of Bulgaria during the quarter of a century preceding the Balkan wars.

I. ECONOMIC CHARACTER OF THE COUNTRY

At the time of the union of the principality of Bulgaria with the Province of Eastern Rumelia, the new political entity had a territory of 96,345 square kilo-

¹ Data relating to Bulgaria's pre-war period are given here from the year 1886, the first full year following the official unification of the two parts of Bulgaria.

meters and a population of slightly over three millions. It was exceedingly primitive in its economic development, possessing in 1887 but 693 kilometers of railways, and 3,727 kilometers of highways. It had inherited a certain amount of foreign indebtedness, and therefore faced the need of meeting such obligations, as well as the task of organizing along modern economic lines.

During the first quarter of a century of her existence as a nation, Bulgaria made considerable progress. By 1911 highways had increased in length to 8,945 kilometers, and the railway system comprised 1,931 kilometers of track. There was similar progress in the development of production, in municipal improvement, etc. The population had grown to 4.3 millions.²

Pre-war Bulgaria was primarily an agricultural country. In the late eighties of the past century, about 81 per cent of Bulgarian population was rural, and it is a rather remarkable fact that in 1911 the ratio between the rural and the urban population was practically the same. Agriculture and livestock raising thus constituted the principal pursuits of the population. Together they accounted for

² For the details of Bulgaria's pre-war economic situation see the following works: Popoff, C. G., *La Bulgarie économique, 1879-1911*, Sofia, 1920; Weiss-Bartenstein, W. K., *Bulgarisens Volkswirtschaft und ihre Entwicklungsmöglichkeiten*, Berlin, 1918; Iaranoff, A., *La Bulgarie économique*, Lausanne, 1919; Ishirkoff, A., *La Bulgarie: aperçue géographique*, Sofia, 1924; and Sakazov, I., *Bulgarische Wirtschaftsgeschichte*, Berlin, 1929.

about two-thirds of the country's total national income.³

Bulgaria was a country of small landed proprietors. Privately owned lands, that is, lands not in the hands of public institutions, comprised 4.6 million hectares and were divided into 933,367 holdings,⁴ as shown in the table on page 25.

Almost four-fifths of the privately owned land in pre-war Bulgaria was held in tracts of from 5 to 75 acres (20 to 300 decares). Of these, the small holdings averaged about 12.5 acres, and medium holdings about 38 acres. Together such holdings represented more than half of all private properties. Those smaller than five acres, which were

³ In Popoff, *La Bulgarie économique*, p. 516, the Bulgarian national income for 1911 is estimated as follows, in millions of gold francs:

Agriculture	723
Livestock raising.....	214
Industry and handicrafts.....	200
Commerce	80
Securities	15
Real estate.....	115
Salaries not included above.....	300
Total.....	1,647

This estimate is considered too high by a number of Bulgarian economists, with whom we are inclined to agree. The last two items appear to be especially open to question. They should probably be reduced by one-half. With this correction, we find that agriculture and livestock raising account for a little over 65 per cent of the total, and industry and handicrafts for about 14 per cent.

⁴ *Ibid.*, p. 97. The measure of land in Bulgaria is the decare, which is one-tenth of a hectare or approximately one-fourth of an acre.

considered below the minimum sufficient to provide their owners with a livelihood without some other earnings, constituted 45 per cent of all holdings. On the other hand, large estates were very few in number and comprised only 14 per cent of the total area of privately owned land.

LANDHOLDINGS IN PRE-WAR BULGARIA

Size of Holding	Percentage of Total Number of Properties	Percentage of Total Area of Private Holdings
Very small (below 20 decares)	45.52	6.9
Small (20 to 100 decares)	41.44	42.3
Medium (100 to 300 decares) .	11.96	36.5
Large (300 to 1,000 decares) .	0.98	8.8
Very large (over 1,000 decares)	0.10	5.5
Total	100.00	100.0

Privately owned holdings comprised almost all of the plow lands and of the meadows (98.3 per cent of the former and 97.5 of the latter), but only 11.2 per cent of the pastures and 15.5 per cent of the timberlands. The bulk of the pastures and timberlands, and small portions of other kinds of lands, were owned publicly, by the national and local governments, municipalities, village communes, or other public corporations.

Methods of cultivation in Bulgaria were very primitive. Agricultural machinery was used very little, and mostly on the larger estates. Even the common plows were largely of wood. In 1911 for

the whole of Bulgaria there were 114,000 iron plows as against 420,000 wooden ones.⁵

The smallness of landholdings was partly responsible for the inability of the peasants to make the necessary investments for the equipment of their land with even the simplest of modern agricultural implements. Conditions of agriculture were aggravated still more by the fact that even these small holdings were not always in one piece. The whole of the exploited land area in Bulgaria was divided into more than nine million small strips, and most of the peasants found their holdings scattered.

The bulk of the plow lands (79 per cent) was devoted to cereals, with wheat accounting for over 40 per cent of the cereal acreage. Next in importance, according to acreage, came fodder, fruit, grapes, and plants for industrial use.

Livestock raising was not an important independent branch of agriculture. It was rather a part of general agriculture, and as such was quite widespread. There were not over 9,000 farming establishments in the whole country devoted primarily to livestock raising.

Pre-war Bulgaria had only the rudiments of industrial development. Home production was widespread in Bulgaria at the time the country emerged from the Turkish yoke, but factory production began to grow during the nineties of the past century, under the influence of a series of protective measures taken by the Bulgarian government. These measures were dictated partly by a desire to emulate other European countries, most of which

⁵ Iaranoff, *La Bulgarie économique*, p. 23.

were just then entering upon a program of industrial development. In the main, however, they resulted from the views on the economic needs of the country held at the time by the Bulgarian leaders.

As part of Turkey, Bulgaria, even after 1878, remained subject to the trade régime which had become established in the Ottoman Empire. Complete freedom of import trade with an 8 per cent ad valorem duty on all incoming merchandise was allowed. The influx of foreign products disorganized home production in Bulgaria and at the same time placed before the country the difficult task of paying for these imports with the proceeds of agricultural exports. The backward state of agriculture kept the volume of the commodities that could be exported very small, and the Bulgarian leaders decided to embark upon a policy of encouraging industry, while at the same time developing agriculture.*

The first important protective measure taken by the government was the raising of the import duty to 10 per cent. This was done in 1894. In 1897 the duty was raised to 25 per cent. In 1906 Bulgaria introduced a tariff system based on specific duties, made high enough to afford protection to the rising industries of the country.

In addition to tariff protection, Bulgaria adopted the policy of offering direct encouragement to the creation of industrial enterprises. By the laws passed in 1894 and 1897, modified later by the legis-

* See "Le Développement de l'industrie bulgare," Bulgarian National Bank, *Bulletin mensuel*, January, 1929.

lation of 1905 and 1909, the following privileges were accorded to "protected" industries: exemption from certain taxes; exemption from customs duties for imported machinery; reduced railway rates; preference in the placing of government orders, provided the prices asked by "protected" enterprises did not exceed by more than 15 per cent general prices for similar commodities; and the granting of production concessions for limited areas. An industrial enterprise entitled to protection was defined by the law of 1894 as one with a capital of at least 25,000 leva,¹ employing no less than 20 workmen. By the law of 1905 the minimum of capital was reduced to 20,000 leva and the number of workmen to 15, but a provision was made establishing five horse power as the minimum mechanical force and six months in the year as the minimum period of activity. Finally, the law of 1909 raised the minimum of mechanical power to ten horse power but reduced the minimum for workmen employed to ten.²

Under the influence of this protection, factory production in a number of branches of industrial activity developed in Bulgaria. The government itself operated several mining and metallurgical enterprises. In 1909 the number of industrial enterprises operating in Bulgaria was 266; by 1911, it rose to 345. The industrial system of Bulgaria in 1911 is shown in the table on page 29.

¹ The Bulgarian unit of currency was the *lev*, plural *leva*, equivalent to the gold franc.

² Popoff, *La Bulgarie économique*, pp. 323-24.

Food-product industries, especially flour mills, represented the most important branch of industrial activity in pre-war Bulgaria. Together with industries producing drinks (beer, spirits, etc.) they accounted for over one-half of the total industrial output. They were based on domestic raw mate-

BULGARIAN INDUSTRIES, 1911

Branch of Activity	Establishments	Paid-up Capital (In thousands of leva)	Number of Workmen	Production (In thousands of leva)
Mines and quarries:				
Private.....	4	2,519	475	1,436
State.....	2	1,880	1,387	3,068
Metallurgy:				
Private.....	23	3,249	911	3,060
State.....	6	3,864	1,403	3,386
Ceramic.....	16	6,446	1,281	4,716
Chemical.....	27	3,446	655	4,171
Food and drinks...	146	36,567	3,126	67,407
Textiles.....	72	15,881	4,267	21,415
Wood and furniture	18	4,363	1,265	3,020
Leather.....	24	2,755	421	5,426
Paper products....	4	1,573	194	929
Electrical energy...	3	8,555	501	4,478
Total.....	345	91,098	15,886	122,512

rials. Wood-working, leather, and to a considerable extent the textile industries were also supplied largely with domestic raw materials. Metallurgy, except for copper, and a part of the textile industry had to depend upon imported raw materials.

In addition to these industrial enterprises, operated on the factory basis, Bulgaria had a large

number of handicraft shops. It was estimated that almost 150,000 persons were engaged in various types of handicrafts, mainly in manufacturing simple textile and metal products and in wood-working.⁹

Altogether, industrial activity accounted for about 14 per cent of Bulgaria's total national income.¹⁰ While developing with a fair degree of rapidity, it was clearly insufficient to supply the country's requirements.

The economic character of Bulgaria was reflected in the commodity composition of her foreign trade. Generally speaking, Bulgaria was an exporter of foodstuffs and of other agricultural products and an importer of manufactured goods.

The table on page 31 shows Bulgaria's principal exports in 1911. Corresponding figures are given for average exports during the five-year period 1886-1890, to indicate the development during the quarter of a century.¹¹

Exports of cereals and their derivatives were equal in 1886-1890 to 72.1 per cent of total exports; in 1911, in spite of a very substantial increase in the total volume of exports, they still equalled 70 per cent. All foodstuffs constituted at the beginning and at the end of the period about 87 per cent of total exports.

⁹ Sakazov, *Bulgarische Wirtschaftsgeschichte*, p. 277.

¹⁰ See footnote 3, p. 24.

¹¹ The foreign trade figures given in this chapter are from *Annuaire statistique du Royaume de Bulgarie*.

COMMODITY COMPOSITION OF BULGARIA'S EXPORT TRADE
(In millions of leva)

Groups of Commodities	Average for 1886-1890	1911
Cereals and their derivatives.....	45.0	129.4
Living animals and animal products	8.4	26.4
Fruits and vegetables.....	0.4	6.7
Perfumes.....	1.6	7.5
Textile materials.....	3.3	6.8
Hides.....	1.6	3.6
Miscellaneous.....	2.1	4.2
Total.....	62.4	184.6

Bulgaria's principal imports are shown in the following table, which again contains, in addition to the figures for 1911, the average for 1886-1890:

COMMODITY COMPOSITION OF BULGARIA'S IMPORT TRADE
(In millions of leva)

Groups of Commodities	Average for 1886-1890	1911
Textiles.....	25.9	58.0
Machinery.....	2.0	25.6
Metals and metal products.....	6.6	23.8
Colonial products.....	6.2	10.6
Chemical and medicinal products..	2.9	8.4
Oils, greases, wax, etc.....	3.2	8.2
Fuel.....	0.4	5.2
Leather and tanning materials....	6.2	16.3
Miscellaneous.....	17.0	43.2
Total.....	70.4	199.3

Textiles, machinery, metals, and other metal products accounted for about one-half of Bulgaria's

imports at the beginning of the period under consideration, and for over one-half of the total in 1911. A particularly noticeable increase in the importation of machinery reflected the growth of industrial activity and the gradual increase in the use of agricultural implements. Generally speaking, Bulgaria imported the large variety of manufactured products required by a primarily agricultural country with very little industrial development.

Government owned banks constituted the basis of the credit structure in Bulgaria. These were the National Bank, the Agricultural Bank, and later the Central Co-operative Bank. Fully owned and operated by the government, the first two of these banks were, in the early stages of Bulgaria's career as a nation, the only important credit institutions in the country.

The National Bank was founded in 1879, although it was not until 1885 that it became a bank of issue. Its initial capital was provided by the state, and as early as 1886 it was given the right to issue bonds for the purpose of obtaining operating funds. Throughout its pre-war career the Bank performed all commercial functions, and starting with 1906 it also acted as the state treasury.

In its capacity as the bank of issue, the National Bank attempted at first to operate on the basis of a double standard, modelled after the Latin Monetary Union system.²² The severe economic crisis which occurred in Bulgaria in 1899, however, compelled the

²² Under this system both gold and silver were used as cover for bank notes, which were exchangeable in the metal specified. See p. 122.

Bank to appeal to the government for a law which gave it the right to issue irredeemable currency. From that time on it operated on this basis, although after 1907 it had no difficulty in maintaining the parity of the lev.

The Agricultural Bank grew out of the agricultural savings banks, inaugurated in 1862 by the Turkish Governor of the Danubian *vilayet*, Midhat Pasha. With the passing of time the administration of these savings banks deteriorated to such an extent that in 1904 the Bulgarian government decided to reorganize them into branches of a central institution of agricultural credit, which became known as the Agricultural Bank. For similar reasons, the government organized in 1910 another state owned institution of credit, the Central Co-operative Bank, for the purpose of financing and controlling co-operative credit societies and small local banks.

Commercial banking developed in Bulgaria only during the last few years of the pre-war period. It is true that private credit institutions began to be established during the last decade of the nineteenth century, when banking, industrial, and insurance corporations came into existence in comparatively large numbers, financed mainly with domestic funds supplied to some extent by the National Bank itself. These funds, however, were very meager, and the credit structure thus created all but collapsed during the business depression which began in 1899. Caused partly by a series of bad crops and partly by the over-expansion of the credit structure without a sufficient foundation, the depression lasted until

1901. It was succeeded by a period of good crops, which helped to liquidate its disastrous effects. The recovery was made rapidly and was followed by another period of expansion, on a much sounder basis. This was the result of the influx of foreign capital into banking and industrial fields, the extent of which will be indicated in a later part of this chapter. As a consequence, the second half of the first decade of the twentieth century witnessed a very considerable growth of the Bulgarian credit structure.

DEVELOPMENT OF THE CREDIT STRUCTURE IN BULGARIA

Classification	1900	1905	1911
Number of banks:			
Private	27	34	58
State	1	2	3
Paid-up capital (millions of leva):			
Private	10.0	20.0	40.0
State	45.3	50.0	71.0
Bills discounted and advances: (millions of leva)			
Private	14.0	15.0	116.7
State	95.7	153.0	188.4

The table given above shows the development of credit in Bulgaria during the first decade of the present century.¹³ A remarkable growth of commercial banking took place between the years 1905

¹³ Figures from Popoff, *La Bulgarie économique*, p. 447. For the history of credit in Bulgaria see *ibid.*, Pt. IV, Sec. III, and Iaranoff, *La Bulgarie économique*, pp. 70-79. For the development of corporations in Bulgaria see Tsankoff, A., Mishaykoff, D., and Bocheff, S., *Aktsionernoto delo v stranstvo i u nas*, Sofia, 1925.

and 1911. At the beginning of that period the state credit institutions occupied a position of overwhelming preponderance, holding as they did more than nine-tenths of the commercial portfolio. Six years later their commercial portfolio represented only 62 per cent of the total. The state owned institutions of credit still continued to play a rôle of primary importance, but the development of private initiative, aided by capital brought in from abroad, was gradually creating in the country what might be considered as a normal credit structure under modern financial conditions.

II. GROWTH OF FOREIGN DEBT

Bulgaria borrowed abroad throughout the first quarter of a century of her national existence. Indeed, foreign capital played an exceedingly important rôle in the upbuilding and development of the country.

Both the Bulgarian government and private enterprises engaged in foreign borrowing. The bulk of the foreign funds entering the country came in the form of public loans, contracted by the central government, but local and municipal governments also borrowed abroad. In addition, important amounts were attracted by government owned banks, as well as by privately owned banking institutions and by industrial and commercial enterprises.

The first foreign loan contracted by the Bulgarian government was made in 1888, after negotiations lasting for two years. Between that year and 1909, when the last Bulgarian pre-war loan was floated, the Bulgarian government concluded eight foreign

loans, for the aggregate nominal sum of 752,537,500 leva, with interest rates varying between 4.5 and 6 per cent. Only two of the loans were issued at par, the issue price of the others ranging between 81.5 and 89, with the result that the net proceeds of the eight loans were 640,770,423 leva.

Besides these debts which the government contracted by direct borrowing, Bulgaria had a certain amount of inherited indebtedness. After the establishment of the country under the terms of the Treaty of Berlin, Bulgaria found herself a debtor to Turkey and Russia. The Turkish debt concerned only the Province of Eastern Rumelia, which was compelled by the treaty to pay Turkey an annual tribute of 2,951,000 leva. Russia imposed a charge of 10,618,250 rubles (about 28,300,000 leva) each upon the Principality of Bulgaria and the Province of Eastern Rumelia as compensation for the occupation of their territory. With the union of Bulgaria and Eastern Rumelia in 1885, the new country assumed the tribute to Turkey, as well as a debt of 10,910,000 francs owed by Eastern Rumelia to the Ottoman Bank.

The Bulgarian portion of the occupation debt to Russia was amortized by 1902, while the Rumelian portion remained in abeyance until 1912, when Bulgaria undertook to discharge it in 22 annual instalments. The Rumelian debt to the Ottoman Bank was discharged by 1908. The tribute to Turkey continued until 1909, when it was liquidated in connection with a loan extended to Bulgaria by Russia. In addition to these liquidations, Bulgaria amortized, during the years prior to the first Balkan

war, a portion of the original amount of her eight foreign loans, with the result that on December 31, 1911, the total public indebtedness, exclusive of the Rumelian debt to Russia, was 603,799,618 leva.

Local governments and municipalities, as well as the two state owned banks—the National Bank and the Agricultural Bank—also borrowed abroad. By the end of 1911, their outstanding debts were as follows: local governments and municipalities, 61.1 million leva; National Bank, 29.4 million leva; Agricultural Bank, 27 million leva.

Finally, foreign capital was invested in private banks and in industrial and commercial enterprises. The total of these investments was estimated in 1911 at 41.6 million leva.⁴⁴

Bringing together all these forms of foreign indebtedness, we find that in 1911 Bulgaria's obligations to foreigners were as follows (in millions of leva):

Government debt.....	603.8
Local and municipal debts.....	61.1
Borrowings of state owned banks.....	56.4
Foreign investment in private enterprises	41.6
	<hr/>
Total.....	762.9

The central government was thus responsible for four-fifths of the country's total indebtedness. The proceeds of these loans were expended through the

⁴⁴ Figures for Bulgaria's foreign indebtedness are from Popoff, *La Bulgarie économique*, pp. 445 and 492-97, and Banque Franco-Belge et Balkanique, *Situation économique et financière de la Bulgarie*, Sofia, 1929, pp. 94-96.

instrumentality of the government budget, the requirements of which caused the borrowing.

Throughout the period government expenditures exceeded government revenues. Bulgarian fiscal accounts, in accordance with the practice which had become established in the country,¹⁸ were divided into two parts, the ordinary and the extraordinary budgets. The former included all the current expenditures of the government, and all current revenues produced by taxation and by government enterprises. The latter comprised outlays for basic improvements and the proceeds of public loans. The table on page 39 shows the ordinary and extraordinary revenues and expenditures of the Bulgarian government during the years 1886-1911.¹⁹

The figures given in this table indicate that current revenues exceeded current expenditures during the first five years and the last six years of the period under consideration. During the intervening 15 years, current expenditures were in excess of current revenues, the deficits being especially heavy in the last five years of the nineteenth century. Extraordinary expenditures absorbed the small surpluses in the ordinary budgets and added greatly to the deficits. As a result, the fiscal accounts of the Bulgarian government showed an increasing net

¹⁸ Bulgarian financial administration was modelled after that of Russia, since its organizers were the Russian advisers to the Bulgarian government in the early years of the country's autonomous existence.

¹⁹ Budgetary figures are from Popoff, *La Bulgarie économique*. For the history of public finance in Bulgaria during the period under consideration see pp. 469-90 of the work cited, and Bainoff, I., *L'Imposition des sociétés en Bulgarie*, Paris, 1925, Chap. I.

deficit during the first 15 years under consideration. The amount of the deficit declined during the next five years, but again rose sharply during the last six years. The course of public borrowing generally followed that of budgetary deficits. There was one five-year period, 1896-1900, when the government floated no loans, because market conditions were

GOVERNMENT RECEIPTS AND EXPENDITURES, 1886-1911
(Totals for the periods indicated, in millions of leva)

Period	Ordinary Budget			Extraordinary Expenditures	Net Deficit (Both budgets)	Long-term Borrowing (Net proceeds)
	Revenues	Expenditures	Surplus or Deficit			
1886-1890	300.6	271.2	+29.4	110.5	81.1	72.5
1891-1895	395.9	403.7	- 7.8	85.5	93.3	107.3
1896-1900	416.9	462.2	-45.3	97.0	142.3	—
1901-1905	525.0	533.2	- 8.2	89.0	97.2	169.8
1906-1911	981.2	975.1	+ 6.1	280.7	274.6	291.3
Total..	2,619.6	2,645.4	-25.8	662.7	688.5	640.9

unfavorable. The deficits of these years created a floating indebtedness, which was largely paid out of the borrowings of subsequent years. For the whole period 1886-1911 the expenditures of the Bulgarian government exceeded current revenues by 688.5 million leva, while the net proceeds of long-term borrowings aggregated 640.9 millions. The difference of 47.6 million leva represented floating indebtedness, mainly in the form of arrears in the payment of salaries and bills.

The growing public debt represented an increasing burden on the budget. During the period from 1886 through 1911, the government made the payments shown in the following table on account of its various types of public obligations:

PAYMENTS ON GOVERNMENT DEBT
1886-1911
(In millions of leva)

Period	Liquidation of Russian and Turkish Debts	Interest Payments	Amortization Payments	Total
1886-1895..	40.6	38.3	7.9	86.8
1896-1905..	46.3	121.3	58.6	226.2
1906-1911..	10.3	147.1	85.9	243.3
Total....	97.2	306.7	152.4	556.3

The manner in which continued borrowing increased the share represented by debt payments in the total expenditures of the Bulgarian government may be seen from the table on page 41, which gives a comparison of the budgetary outlays in the years 1887 and 1911 (and also the intervening year 1900), classified by government departments.

The total budgetary expenditures of the Bulgarian government increased between 1887 and 1911 from 48.7 million leva to 202.8 millions. This meant an increase in per capita expenditures from 15.31 to 46.22 leva. Expenditures increased for the army and for education, though much more rapidly in the case of the latter than of the former. Outlays for railway construction and administration rose greatly. But by far the largest increase was in the

public debt payments, which grew from 2.1 million leva in 1887, when they absorbed only 4.3 per cent of the whole budget, to 39.9 million leva, or 19.7 per cent of the total budget, in 1911. these payments represented less than one lev per capita of the population in 1887 and 9.13 leva in 1911.

INCREASE IN BUDGETARY EXPENDITURES, 1887-1911

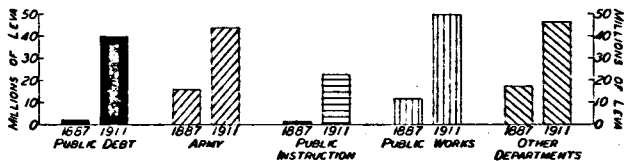
Government Department	Amount (In millions of leva)			Percentage Distribution		
	1887	1900	1911	1887	1900	1911
Public debt.....	2.1	24.6	39.9	4.3	22.4	19.7
Army.....	16.0	23.7	44.1	32.8	21.6	21.8
Public instruction..	1.6	7.9	22.7	3.3	7.2	11.2
Justice.....	3.5	4.3	6.0	7.2	3.9	3.0
Finance.....	8.0	12.7	13.6	16.4	11.6	6.7
Railways and ports..	6.3	16.6	33.7	12.9	15.1	16.6
Other construction..	5.5	6.7	16.1	11.3	6.1	7.9
Public health.....	1.1	2.6	4.7	2.3	2.4	2.3
Industry and com- merce.....	1.4	4.3	9.8	2.9	3.9	4.8
Other departments..	3.2	6.4	12.2	6.6	5.8	6.0
Total.....	48.7	109.8	202.8	100.0	100.0	100.0

The budgetary deficits and consequent foreign borrowings of the Bulgarian government were mainly the result of its policy of promoting internal development. One of the first tasks confronting Bulgaria after her establishment as an autonomous principality was the creation of the basic facilities for the economic development of the country and for national defense. It was necessary to construct and equip railroads, highways, ports, telegraph lines,

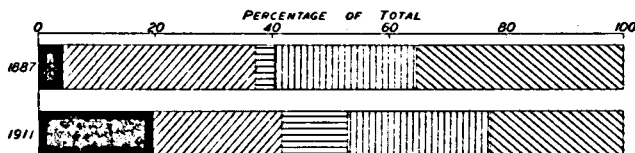
public buildings, schools, and essential military fortifications. Revenues were sufficient only for meeting the current expenditures of administration and the payments on the debts resulting from the liberation of the country. The small budgetary surpluses of the early years were utterly inadequate to cover the outlays for basic improvements. To obtain these funds, the Bulgarian government had to resort to borrowing, and since the country itself had practically no accumulations of liquid funds, loans had to be floated abroad.

PRINCIPAL CLASSES OF BUDGETARY EXPENDITURES,
1887 AND 1911

I. Item by Item Comparison



II. In Comparison with Respective Totals



Each foreign loan was contracted for a specific purpose, mainly in connection with the construction and equipment of transportation and communication facilities. The first loan, that of 1888, floated in London, was for the express purpose of purchasing from an English company the railroad line from

Rushchuk to Varna. The loans of 1889 and 1892, floated in Vienna, were partly for railway construction, and partly for port development. The loans of 1902, 1904, and 1907, all floated in France, were mainly for transportation needs, although a part of the proceeds was used for military equipment. Similarly, substantial portions of the two loans contracted in 1909—one in Austria and one in Russia—were used for transportation equipment.

These loans, as we saw above, were rapidly expanding the Bulgarian government's outlays for debt payments. Although government revenues were also increasing, our analysis of the Bulgarian budgetary situation (see page 39) indicates that at the end of the pre-war period the Bulgarian government was relatively in a fiscal situation similar to that in which it had been at the beginning: its current revenues were sufficient only for meeting its current administrative expenditures and the payments on its accumulated foreign indebtedness. But in the meantime, during the period of borrowing, the Bulgarian government had spent 320.9 million leva for the construction and equipment of railways and ports, and 283.3 millions for other constructive work. This represented a total of 604.2 million leva as against the net proceeds of the foreign loans (less the amortization payments during the period) amounting to 488.5 million leva.

The debts created for internal development required an ever increasing volume of foreign bills to meet interest payments. The obligations being foreign, the sums represented by the debt charges had to be converted into foreign currencies by

means of foreign bills of exchange, originating from the country's international trade and financial operations. An examination of these operations during the period 1886-1911 indicates the manner in which the transfer of growing interest payments was effected.

For the decade 1886-1895, we estimate Bulgaria's international trade and financial operations approximately as shown in the statement given below.¹⁵

NET OUTGO ON TRADE, SERVICE, AND SIMILAR ACCOUNTS, 1886-1895 (In millions of leva)	NET FOREIGN BORROWING 1886-1895 (In millions of leva)
Merchandise trade.... 70.5	Public loans..... 179.8
Government payments to Russia and Turkey 40.6	Less amortization..... 7.9
Purchase of Rushchuk-Varna railway ¹⁶ 46.8	<hr/> 171.9
Interest payments on government debts... 38.3	Loans of government banks 17.0
Interest payments on debts of government banks 4.0	
Increase in stocks of precious metals at the National Bank.. 4.8	
<hr/> Total..... 205.0	<hr/> Total..... 188.9

¹⁵In the discussion of Bulgaria's international financial operations, we assume that all other items of outgo (tourist expenditures, insurance, etc.) were balanced by other items of income (emigrant remittances, transit traffic, etc.). In any event, all these items were too small to affect materially the results presented here.

¹⁶The purchase of the railway is included in the current items because it represents outgo similar to that which might have been involved in a purchase of railway equipment.

In the course of this decade there was an excess of imports over exports in Bulgaria's merchandise trade, amounting to 70.5 million leva, some of the purchases being on government account. The government had to make a payment of 46.8 million leva for the purchase of the Rushchuk-Varna railway line, as well as to transmit to its foreign debtors the sum of 78.9 million leva on account of interest payments and debt obligations to Russia and Turkey. Government owned banks, which had also contracted some foreign debts during this period, had to meet interest payments amounting to 4 million leva. Finally, the National Bank increased its stock of precious metals by 4.8 million leva. The sum of 205 million leva was, therefore, required in foreign bills. Public loans produced a net amount (after the deduction of amortization) of 171.9 million leva, and the government banks' loans yielded 17 millions. The remaining 16.1 million leva were made up by floating indebtedness.

During the succeeding decade the situation was somewhat different, as may be seen from the estimates relating to Bulgaria's international accounts for 1896-1905 shown on page 46.

Bulgaria's merchandise trade during the decade 1896-1905 showed an export surplus of 128.5 million leva. The foreign bills thus made available were, however, insufficient even for government debt payments. The net outgo for the decade was 78.7 million leva. Against this, the net proceeds of government borrowing were 111.2 million leva, while government banks and local and municipal governments borrowed 28.5 millions, and private

NET OUTGO ON TRADE, SERVICE, AND SIMILAR ACCOUNTS, 1896-1905	NET FOREIGN BORROWING, 1896-1905
(In millions of leva)	(In millions of leva)
Government payments to Russia and Turkey 46.3	Public loans..... 169.8
Interest payments on government debts... 121.3	Less amortization..... 58.6
Interest payments on debts of government banks 10.0	<hr/> 111.2
Interest loans on debts of local and municipal governments.... 2.0	Loans of government banks 24.5
Interest and dividend payments on private investments 6.0	Loans of local and municipal governments. 4.0
Increase in stocks of precious metals at the National Bank.. 21.6	Private investments... 15.0
<hr/> 207.2	
Less export surplus in merchandise trade.. 128.5	
<hr/> Total..... 78.7	<hr/> Total..... 154.7

investments in Bulgaria were made by foreigners to the amount of 15 millions. At the end of the decade there was a net surplus of foreign bills, amounting to 59.9 million leva, after allowing for the paying off of the floating indebtedness incurred during the preceding decade.

The six-year period from 1906 through 1911 again shows a change in the situation, as may be seen from the estimates on page 47.

Bulgaria's merchandise trade during the six years immediately preceding the first Balkan war again showed an excess of imports over exports. Net

PRIOR TO 1912

47

NET OUTGO ON TRADE, SERVICE, AND SIMILAR ACCOUNTS, 1906-1911		NET FOREIGN BORROWING 1906-1911	
(In millions of leva)		(In millions of leva)	
Merchandise trade....	122.8	Public loans.....	291.3
Government payments to Russia and Turkey	10.3	Less amortization.....	85.9
Interest payments on government debts...	147.1		205.4
Interest payments on debts of government banks	12.0	Loans of government banks	26.3
Interest payments on debts of local and municipal governments	10.0	Loans of local and municipal governments..	55.3
Interest and dividend payments on private investments	18.0	Private investments...	26.6
Increase in stocks of precious metals at the National Bank.	30.5		
Total.....	350.7	Total	313.6

outgo on this account amounted to 122.8 million leva. Government debt payments during the same years aggregated 157.4 millions. All items of net outgo required foreign bills amounting to 350.7 million leva. The proceeds of all foreign loans during the period were 313.6 million leva, and the excess requirements of 37.1 million leva were covered out of the surplus remaining at the end of the preceding decade, leaving Bulgaria at the end of 1911 with a net surplus of foreign bills amounting to 22.8 million leva.

Taking the period as a whole, we find that government debt payments, exclusive of amortization, amounted to 403.9 million leva, while the net pro-

ceeds of government borrowing, after the deduction of amortization payments, equalled 488.5 millions. The government's requirements for foreign bills (for foreign merchandise purchases and the transfer of debt payments) were undoubtedly somewhat larger than the net proceeds of the loans, and these excess requirements were met by purchase of foreign bills rendered available by the merchandise trade operations and the borrowings of the government banks and of the local and municipal governments.

III. CONCLUSIONS

The first quarter of a century of Bulgaria's economic history may be considered as a period during which the government and the people directed their attention toward developing the country along modern lines. With the aid of foreign capital, a good deal was achieved in this direction. The country acquired some of the basic economic facilities of modern nationhood, expanded production and banking, and made a marked advance in education. These constructive processes were, however, far from completion at the end of the period. With the country's basic facilities still inadequate, the government revenues were as yet insufficient to provide funds for these indispensable improvements. The productive effort of the country was still incapable of providing an excess of exports over imports with which to meet interest and amortization payments on the foreign debts contracted during the quarter of a century.

In spite of these serious deficiencies, however, the outlook for further advancement was by no means

hopeless. But the process of development was interrupted by the outbreak of the first Balkan war, followed by the second Balkan conflict and, after a comparatively brief interval, by the World War. The disturbing effects of these abnormal years had a far-reaching influence on the economic life of Bulgaria. We may now turn to a consideration of the results produced by this influence.

CHAPTER III
THE EFFECTS OF WAR UPON BULGARIA
1912-1918

The economic life of Bulgaria was profoundly affected by a succession of wars beginning in 1912. The two Balkan conflicts were of short duration (the first extended from October, 1912, with the interruption of a two months' armistice, until May, 1913, and the second lasted only about one month in the summer of 1913). One year after the termination of the second Balkan war Europe plunged into the World War; and in September, 1915, Bulgaria entered the struggle on the side of the Central Powers. The effects of these conflicts upon Bulgaria are portrayed below.

I. TERRITORIAL CHANGES AND THEIR EFFECTS

Prior to the outbreak of the first Balkan war, Bulgaria had an area of 96,345.5 square kilometers. By the Treaty of Bucharest (1913), which terminated the second Balkan war, she lost to Rumania the Province of Southern Dobrudja with a territory of 7,695.8 square kilometers, but acquired from Turkey 23,187.2 square kilometers in Macedonia and Thrace. In 1915 Turkey ceded to Bulgaria an additional strip of territory, measuring 2,587.6 square kilometers, for the purpose of rectifying the Bulgaro-Turkish frontier in Thrace. Thus the area

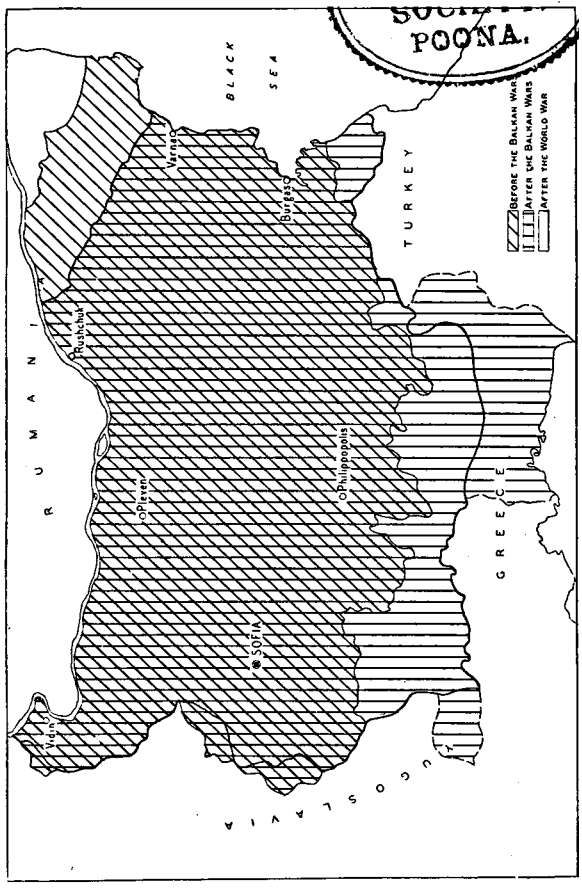
of Bulgaria, at the time she entered the World War, had increased to 114,424.5 square kilometers. By the Treaty of Neuilly in 1919 she ceded 2,566.3 square kilometers to Yugoslavia and placed 8,712.1 square kilometers of her Thracian possessions at the disposal of the Allied Powers, who subsequently gave this territory to Greece. At the end of the World War, Bulgaria's total area was still almost 10,000 square kilometers larger than it was before the outbreak of the first Balkan war.¹ The territorial changes mentioned are shown on the map facing page 50.

The territorial cessions to Rumania and Greece adversely affected the basic economic position of Bulgaria. Although the total area had increased by about 10 per cent, the economic value of the ceded areas exceeded in some important ways that of the newly acquired territory. In Bulgaria's pre-war foreign trade, as we saw on pages 30-31, cereals and their derivatives constituted the most important item of the country's exports. Most of the grain available for exportation came from Southern Dobrudja, which was agriculturally the best-developed part of pre-war Bulgaria. In it were located most of the large estates, the output of which had fed the stream of cereal exports. Its farms were much better equipped with livestock and agricultural machinery than those in the rest of the country. The following figures indicate the importance of Southern Dobrudja in the economic life of Bulgaria:

In 1911 in the whole of Bulgaria there were 111

¹ Ishirkoff, *La Bulgarie: aperçue géographique*, pp. 10-11.

CHANGES IN THE BULGARIAN FRONTIERS



estates of between 2,000 and 3,000 decares, and of these 71 were in Dobrudja; 66 estates of between 3,000 and 5,000 decares, with 40 in Dobrudja; 33 estates of over 5,000 decares, with 21 in Dobrudja. Almost 30 per cent of all agricultural machinery used in Bulgaria was in this lost section of the country. It contained 34 per cent of all landed properties with nine or more horses, 63 per cent of all properties with nine or more oxen, and 62 per cent of all properties with 500 or more sheep. While it comprised 8 per cent of the area of pre-war Bulgaria, it produced, on the average, about 20 per cent of the country's cereal crops.²

Important as was the loss of Dobrudja in 1913, its effects were largely neutralized by the acquisition of western Thrace, a strip of territory without large grain resources, but with excellent tobacco lands and having important commercial interests resulting from the fact that it comprised a portion of the Ægean littoral and contained two ports. While it would have required considerable expense and effort to develop this new territory and to incorporate it in the economic system of Bulgaria, Thrace eventually might have compensated Bulgaria for the loss of Dobrudja. Such consummation was prevented, however, by the provisions of the Treaty of Neuilly in 1919, which took away from Bulgaria the principal portion of her Thracian possessions, including the Ægean littoral.

² *La Situation financière de la Bulgarie et la dette bulgare des réparations*, document of the Bulgarian Commissariat at the Inter-Allied Commission, Sofia, 1923, p. 57.

Bulgaria was thus left without her Dobrudjan granary and without direct access to the Ægean. Later on we shall examine the influence which the loss of grain lands and the acquisition of tobacco lands (in Macedonia and the portion of Thrace which remained in Bulgaria's possession after the World War) had on the economic life of Bulgaria. As for the access to the Ægean, it is true that provisions were made in the Treaty of Neuilly for affording Bulgaria facilities in one of the Thracian ports which had been taken from her. But since these ports had not as yet been developed they could be of little value without extensive improvement and coordination with railway facilities. As a result, Bulgaria has preferred to concentrate her efforts on the development of her Black Sea ports.

An incidental, though none the less important, result of the rearrangement of territory was the influx of refugees. Hundreds of thousands of Bulgarians residing in the ceded territories moved across the borders of the rearranged state. This influx of refugees, as we shall see in Chapter V, created a serious social and economic problem.

II. ECONOMIC EFFECTS

The three wars exhausted Bulgaria economically. They produced enormous budgetary deficits, which were covered partly by foreign borrowing and partly by monetary inflation, the latter resulting in a progressive deterioration of the exchange value of the currency. They affected production and created conditions in the foreign trade situation which were highly detrimental to the well-being of the country.

The wars disorganized Bulgaria's finances and greatly increased her public debt. The table given below shows the budgetary situation in Bulgaria during the war period. During the seven years of the

BULGARIAN BUDGETS, 1912-1918 *
(In millions of leva)

Year	Receipts	Ordinary and Extraordinary Expenditures	Deficit
1912.....	170.0	310.3	140.3
1913.....	168.7	349.9	181.2
1914.....	224.3	292.8	68.5
1915.....	194.5	335.4	140.9
1916.....	193.0	578.0	385.0
1917.....	338.3	1,088.5	750.2
1918.....	566.9	1,548.6	981.7

* Figures from *La Situation financière de la Bulgarie*, pp. 58 and 61.

war period there were budgetary deficits aggregating 2,647.8 million leva. This figure does not, however, tell the whole story. In addition to the expenditures actually made out of the budgets, there were also requisitions which were not paid until long after the war, the total of which has been estimated at no less than 2 billion leva.*

The budget deficits were covered by an internal loan, a series of foreign loans, and the issue of paper money in the form of borrowings from the Bulgarian National Bank. The internal loan, issued in 1914, yielded the Treasury only 83.5 million leva. There

* Bulgarian National Bank, *Bulletin mensuel*, April, 1928. See also Chap. VII hereof.

were a number of foreign loans contracted during the course of the Balkan and World Wars. In 1912 and 1913, 75 million leva were placed at the disposal of the Bulgarian government by the Banque de Paris et des Pays-Bas, a credit of 30 million leva was granted by a group of Austro-Hungarian banks, and one of about 28 millions by the Russo-Asiatic Bank. After the summer of 1914, however, Bulgaria's credit requirements were supplied entirely by Germany.

In July, 1914, four contracts were signed with the Disconto-Gesellschaft of Berlin, which, as the head of an international banking syndicate, undertook to make Bulgaria a loan of 500 million leva.⁴ The first of these contracts dealt with the terms of the flotation; the second with an immediate advance to the Bulgarian Treasury of 120 million leva; the third with a concession to be granted the banking group for the exploitation of two coal mines; and the fourth with a concession for railway and port construction in Thrace. Only the second of these contracts was completely carried out, as the execution of the others was interrupted by the World War. It is of interest to learn that the contract concerning the loan carried a specific reservation regarding the contingency of a European war. The 500 million leva loan was divided into two equal parts. Of the first half, Bulgaria received only 120 million leva, which sum was used to cancel the Treasury advance of the same amount; of the second

⁴ This loan and the subsequent subsidy loans were expressed in francs. But since the lev was the equivalent of the franc, the amounts are given in leva for the sake of convenience.

half, she received but 150 million leva.⁵ Thus, Bulgaria received in all from the Disconto-Gesellschaft 270 million leva.

When Bulgaria entered the World War, she received from the German and Austro-Hungarian governments a war loan of 200 million leva in four monthly instalments of 50 million leva each. After the expiration of the four months, Germany, by agreement, undertook to supply the Bulgarian Treasury with a similar amount each month. Altogether, Bulgaria received from the German Treasury on this account 27 monthly instalments, aggregating 1,093,500,000 marks, equivalent at par of exchange to 1,350,000,000 leva.⁶

Finally, the government borrowed extensively from the Bulgarian National Bank. The Bank's accounts indicate that advances amounting to 873,000,000 leva were made to the government during the war period. The process of borrowing from the Bank involved the government's giving its promises to pay in the future to the Bank in exchange

⁵ The loan was secured on three specific fiscal resources, which fact played an important rôle in Bulgaria's negotiations for the stabilization loan of 1928. See pp. 104-6.

⁶ The instalments were paid by the German Treasury into German banks to the account of the Bulgarian National Bank. The latter then entered these amounts upon its books as deposits abroad and issued notes for an equivalent amount in leva which it turned over to the Bulgarian government. During the war the Bulgarian National Bank drew on these deposits to the extent of 298 million marks, and after the armistice to the extent of 170 million marks. The remainder of these balances in the German banks (625,500,000 marks) was lost with the devalorization of the German mark, and the notes issued by the Bulgarian Bank against these deposits were thenceforth without specific reserve.

for legal tender bank notes which were payable upon demand and thus available like ordinary currency for the meeting of government obligations.

Summarizing, we find that the Bulgarian government obtained 486.5 million leva from internal and regular foreign loans, an amount equivalent at par of exchange to 1,350 million leva from German subsidy loans, and 873 million leva from the Bulgarian National Bank—a total of 2,709,500,000 leva. This sum coincides roughly with budgetary deficits during the war period.

Bulgarian exchange depreciated during the war period by approximately 50 per cent. From 1912 through 1914, the lev remained at par. In 1915, the paper currency was worth about 80 per cent of its nominal gold value; in 1916, about 75 per cent; and in 1917, about 60 per cent. In 1918, it was approximately 50 per cent of par.⁷

The adverse economic consequences of the war were felt chiefly in the domain of agriculture. In 1914, after the loss of Southern Dobrudja, the production of grain in Bulgaria was 20 million quintals. It rose in 1915 to 24 millions, and then dropped rapidly until in 1918 it was only 12 millions.⁸ On the other hand, industry showed an increase of activity. The number of "protected" industrial enterprises increased from 345 in 1912 to 436 at the end of 1918. These were, however, enterprises designed primarily to supply war requirements.

⁷ For a discussion of Bulgarian war finances, see Prost, H., *La Liquidation financière de la guerre en Bulgarie*, Paris, 1925, Chap. II.

⁸ *Annuaire statistique*, 1926, p. 111.

The only branch of industry which showed a permanent improvement was coal mining. Stimulated by the disappearance of coal imports, the Bulgarian mines increased their output during the war period more than twofold.*

In the field of foreign trade, the situation during the war period was, ostensibly, favorable to Bulgaria. This was especially true of the years of the World War. The following table shows the Bulgarian exports and imports during the years 1912-1918:

BULGARIAN FOREIGN TRADE, 1912-1918 *
(In millions of leva)

Year	Exports	Imports	Balance
1912.....	156.4	213.1	- 56.7
1913.....	93.3	189.3	- 96.0
1914.....	154.4	241.5	- 87.1
1915.....	109.4	73.5	+ 35.9
1916.....	95.8	89.4	+ 6.4
1917.....	288.9	168.7	+120.2
1918.....	415.5	567.2	-151.7

* Figures from *Annuaire statistique*, 1926, p. 189.

For the three years 1912-1914 Bulgaria had a total excess value of imports over exports of 239.8 million leva, as compared with 114 millions during the preceding three years. During the years 1915-1918 there was a net export surplus of 10.8 million leva.

The favorable foreign trade situation during 1915-1918 did not, however, denote a basic improve-

* *La Situation financière de la Bulgarie*, p. 60.

ment in Bulgaria's economic condition. The diminution of exports in 1915 and 1916 reflected the contraction of agricultural production and the loss of Western European markets. The export tonnage for those years indicated this very clearly. From 664 million kilograms in 1914 exports dropped to 189 millions in 1915 and 96 millions in 1916. The increased exports for 1917 and 1918 reflected the substitution of tobacco for cereals. The tonnage for these two years was 60 million kilograms in 1917 and 64 millions in 1918. On the other hand, the small amount of imports in 1915 and 1916—with tonnage dropping from 628 million kilograms in 1914 to 122 millions in 1915 and 93 millions in 1916—was undoubtedly at the expense of vital domestic requirements. The rapid increase in both the value and the tonnage of imports during the last two years of the war (210 million kilograms in 1917 and 485 millions in 1918) reflected the need of making up for this exhaustion of consumption goods. An arrangement with Austria-Hungary, made in the later years of the war, for Bulgarian purchases of sugar was partly responsible for the increased tonnage.

III. ECONOMIC PROVISIONS OF THE TREATY OF PEACE

The Treaty of Neuilly produced an increase in the economic disorganization which Bulgaria had already suffered as a result of the war. Through its various reparation, financial, and economic clauses, it rendered necessary large expenditures, some of which had to be met within a very short

period of time. In later chapters we shall examine the effect of these outlays upon the economic life of the country. Here we shall merely describe the provisions contained in the treaty.

The treaty of peace imposed upon Bulgaria a fixed program of reparation payments. Article 121 of the treaty made Bulgaria responsible for all the damage done to the Allied and Associated Powers through her participation in the war on the side of the Central Powers, but stated that the total value of these damages was clearly beyond Bulgaria's ability to pay. It contained the following provision:

Bulgaria agrees to pay, and the Allied and Associated Powers agree to accept, as being such reparation as Bulgaria is able to make, the sum of 2,250,000,000 francs gold. This amount shall (except as hereinafter provided) be discharged by a series of half-yearly payments, on January 1 and July 1 of each year, beginning on July 1, 1920. The payments on July 1, 1920, and January 1, 1921, shall represent interest at the rate of 2 per cent per annum from July 1, 1920, on the total sum due by Bulgaria. Thereafter, each half-yearly payment shall include, besides the payment of interest at the rate of 5 per cent per annum, the provision of a sinking fund sufficient to extinguish the total amount due by Bulgaria in 37 years, counting from January 1, 1921.

The collection of these reparation payments was placed by the treaty in the hands of an Inter-Allied Commission, consisting of representatives of Great Britain, France, and Italy, which was to be set up under the authority of the Reparation Commission created under the Treaty of Versailles. The Inter-Allied Commission was instructed, in Article 122, to proceed to a thorough investigation of the Bulgarian

economic situation with the view of determining the best manner in which the reparation obligation could be discharged. It was also empowered to make changes, if it saw fit, in the program laid down in the treaty, subject to the approval of the Reparation Commission.

The treaty also made Bulgaria responsible for a program of restitution and of cession of property, rights, and interests. Some of the losses and payments involved in the execution of this program were to be credited against reparation payments. Others were in addition to these payments.

The following obligations belonged to the first category: (1) cession of materials of non-military value, surrendered under the terms of the armistice signed at Salonika; (2) cession of government property and possessions situated in the ceded territories; and (3) cession of Bulgarian claims against her former allies. In addition, the Allied and Associated Powers reserved to themselves the right to liquidate all property rights and interests within their territory belonging to Bulgarian nationals. After deducting from the proceeds of this liquidation the amount of compensation for damage or injury inflicted upon the property rights or interests of nationals of the Allied and Associated Powers in Bulgaria, the credit balance in favor of Bulgaria, if any, was to be credited against reparation payments.

The following obligations belonged to the second category: (1) restitution of objects and securities removed, seized, or sequestered in portions of Greece, Serbia, and Rumania which had been invaded by Bulgarian troops; (2) delivery to these three

countries of 70,826 head of cattle, in restitution for the animals taken away during the war; (3) delivery to Yugoslavia of 50,000 tons of coal yearly for five years, as compensation for the destruction of coal mines in Serbia; (4) compensation for damages inflicted upon the European Danubian Commission during the war; and (5) cession of arms, munitions, and war materials (except those specifically authorized to be retained by Bulgaria), of securities, moneys, etc., received as a result of the treaties of Brest-Litovsk and Bucharest,²⁰ and of certain vessels and materials in the Danubian ports. The expenditures involved in the execution of this program were to be in addition to the reparation payments.

To this second category belonged the obligation to compensate the Allied and Associated Powers for the expenses of the armies of occupation, as well as to defray all the expenses of the commissions set up for the execution of the treaty terms. Finally, Bulgaria was made responsible for a portion of the Ottoman pre-war external public debt, against which, however, were to be credited her claims against the powers to which she had ceded territory, in consideration of the assumption by them of a portion of her own pre-war debts.

Several important economic limitations were imposed on Bulgaria by the treaty of peace. Perhaps the most far-reaching of these was the provision under which the reparation creditors, acting through the Reparation Commission, acquired a first lien on

²⁰ Treaties of peace concluded in 1918 by the Central Powers with Russia and Rumania, abrogated by the Peace Conference after the termination of the World War.

all the assets and resources of the Bulgarian state as a guarantee of the fulfilment by Bulgaria of her treaty obligations. The Bulgarian government was in this manner deprived of all freedom of action in its international financial transactions. For example, during the continuation of the reparation liability, it was to have no right to negotiate a foreign loan without the permission of the Reparation Commission. Another provision in the treaty laid upon Bulgaria an obligation to extend to all the Allied and Associated Powers unilateral most-favored-nation treatment in commercial policy for five years from the entering into effect of the peace treaty.

An appreciable fiscal burden was imposed on Bulgaria by the provision of the peace treaty which forbade her to have a conscripted army. Her military forces were specifically limited, but an obligation was laid upon her to maintain her army as a volunteer or mercenary force, which involved much larger expenditures for salaries than would have been the case with a conscripted army of the same size.

CHAPTER IV

REPARATION ARRANGEMENTS AND THEIR FULFILMENT

Bulgaria's total reparation liability was fixed in the Treaty of Neuilly. But although the treaty stated the period within which the liability was to be discharged and the dates on which semi-annual payments were to be made, and provided for the interest charges to be added to the total amount, Bulgaria did not actually begin to make regular reparation payments until 1923, that is, three years after the ratification of the treaty. During these three years, however, she carried out, in whole or in part, many of the other liabilities assessed against her in the treaty. The inauguration of the regular payments was preceded by an important revision of the original reparation terms, and these terms underwent a further and far-reaching modification in the agreement which was signed at The Hague on January 20, 1930. In this chapter we shall describe the nature of these revisions and the fulfilment by Bulgaria of her financial treaty obligations during the years 1919-1929.

L. REPARATION ARRANGEMENTS PRIOR TO 1930

The Inter-Allied Commission arrived at Sofia on February 26, 1921, after the first two semi-annual

payments provided for in the treaty had fallen due and had not been met. The Commission took the necessary steps toward a regularization of the situation created by this delinquency, arranged for a one-year moratorium, to be applied retroactively, and then proceeded to a study of the economic and financial condition of Bulgaria with the view to determining the manner in which future reparation payments should be discharged. This study and the necessary negotiations with the Bulgarian government, however, lasted two years, and it was necessary in the meantime to grant extensions of the moratorium.

From the very first it was clear that the reparation provisions of the treaty would have to be revised. The Bulgarian government, although it had signed and ratified the Treaty of Neuilly, had done so under protest, and maintained consistently that the reparation clauses could not be fulfilled and required revision. The Inter-Allied Commission came to the same conclusion soon after it began its investigations in Bulgaria.

The Bulgarians pointed to the fact that their country had been greatly weakened economically by the war and by the loss of territory resulting from the treaty of peace. They showed that the reparation liability alone, fixed by the treaty at 2,250,000,000 gold francs,¹ represented about 22.5 per cent of the total national wealth of the country, that this percentage rose appreciably higher after

¹ The term "gold franc" as used in this book signifies a franc of the pre-war parity, or of the present-day parity of the Swiss franc.

the inclusion of other payments demanded by the treaty, and that the annual payments required for extinguishing this obligation within the specified 37 years would absorb no less than 55 per cent of the equivalent of the pre-war budget.²

The Inter-Allied Commission admitted the impossibility of integral reparation fulfilment, but delayed any pronouncement on the subject until the Bulgarian government had first taken certain steps demanded from it for a normalization of the economic and financial situation of the country—steps which were at the same time necessary to give effect to the reparation provisions of the treaty. There were two particularly important problems with which the Commission had to deal, one concerned with taxation and the other with trade regulation. In accordance with the terms of the treaty, Bulgaria undertook to reorganize her fiscal system and to earmark certain revenues for the meeting of reparation payments. The plans at first proposed by the Bulgarian government were rejected by the Commission as inadequate, and it required a long series of negotiations to reach a satisfactory agreement. As for trade, the Commission became convinced that the policy of the government in attempting to regulate the domestic grain prices by means of a high export duty was throttling the export trade,

² Authoritative discussion on this subject by Bulgarian economists is contained in Popoff, C. G., *Stopanska B'lgaria i finansovite i ikonomicheski klasi na proekto-dogovora za mir s B'lgaria*, Sofia, 1920; the same author's *Finansovite tiazhesti na B'lgaria po izp'nenieto na Neuillskiya dogovor*, Sofia, 1925; and Chakaloff, A., *Razreshenieto na reparatzionnata problema drugade i u nas*, Sofia, 1927.

and used its influence for an important modification of this policy. The required change was made in July, 1921.³

From the middle of 1921 to the end of 1922 the relations between the Inter-Allied Commission and the Bulgarian government remained strained. During this period vain attempts were made to find common ground for an agreement on a revised reparation program. It was not until the beginning of 1923 that the way was finally opened for a serious discussion of the problem. The Bulgarian government at that time consented to the demand of the Commission that customs receipts be earmarked for reparation payments. The Commission then submitted a definite plan of revision, which was accepted by the Bulgarian government and was embodied in a protocol, signed on March 21, 1923, by the Bulgarian Prime Minister, Stamboulisky, and the three members of the Commission.⁴

Under the revisions scheme of 1923 only a part of the reparation debt was funded. The total amount of the debt as fixed by the Treaty of Neuilly was retained, but provision was made for the liquidation of only about 25 per cent thereof. The amount

³ Colvin, Sir Elliott, "Bulgaria and Reparations," *The [London] Times Bulgarian Supplement*, Jan. 27, 1925.

⁴ For the text of the correspondence between the Bulgarian government and the Inter-Allied Commission during this period see Annexes 1-22 to *La Situation financière de la Bulgarie* cited above, and Annexes 1-7 to a supplementary document on the same subject issued by the Bulgarian Commissariat at the Inter-Allied Commission in August, 1924. The customs receipts were later released to serve as security for the stabilization loan, and other revenues were substituted for them. See p. 104.

funded was to be known as Tranche A. The remainder, under the name of Tranche B, was adjourned for 30 years, that is, until April 1, 1953. No interest was to be charged on this portion of the debt during the 30-year period, and no payments on account of the capital sum were to be asked of Bulgaria.⁵

All credit claims accruing to Bulgaria under the Treaty of Neuilly were made, by the protocol, chargeable against Tranche B. This rule applied particularly to Bulgarian claims for materials of non-military nature, surrendered under the terms of the Salonika armistice (Article 136 of the armistice agreement); to the credit balance in favor of Bulgaria on account of her claims against her former allies, after the deduction of counter-claims on the part of these powers (Article 145 of the Treaty of Neuilly); and to the value of all government property and possessions situated in the ceded territories (Article 142 of the treaty). All these credit items were to be given final evaluation at the same time that Tranche B came up for discussion and were to be deducted from the reparation balance without any interest for the intervening period.

Thus under the terms of the 1923 protocol Bulgaria was to be concerned only with the funded portion of the reparation debt, amounting to 550 million gold francs. The proceeds of the specified revenues, assigned as security for this debt, were to

⁵ It will be noted that the plan applied to the Bulgarian reparation liability was similar to that on which the London settlement of 1921 concerning the German reparation question was based.

be paid directly into the Bulgarian National Bank to the account of the Inter-Allied Commission. From the total sums paid into its account the Commission was to deduct every month an amount equivalent to one-twelfth of the current annuity and to turn the remainder over to the Bulgarian Treasury.^o

The funded part of the reparation debt was to be discharged in 120 graduated semi-annual payments. During the first five years, the payments were to rise slowly; then they were to remain stable for five years; and then rise again until reaching the maximum or standard annuity in the twelfth year, as may be seen from the following figures, given in gold francs:

October 1, 1923.....	2,500,000
April 1, 1924.....	2,500,000
October 1, 1924.....	3,000,000
April 1, 1925.....	3,000,000
October 1, 1925.....	3,500,000
April 1, 1926.....	3,500,000
October 1, 1926.....	4,000,000
April 1, 1927.....	4,000,000
October 1, 1927 to April 1, 1932 (each semi-annual payment) ^r	5,000,000
October 1, 1932.....	10,000,000
April 1, 1933.....	10,000,000
October 1, 1933.....	16,447,668
April 1, 1934.....	16,447,668
October 1, 1934 to April 1, 1938 (each semi-annual payment)	21,697,668

In accordance with this schedule of payments, Bulgaria would have paid, in the course of the 60

^o For the text of the 1923 protocol see Appendix, pp. 318 ff.

^r See pp. 79-80.

years, a total sum of 2,255,266,800 gold francs. This sum would have represented the original principal of 550 million gold francs and interest at the rate of 5 per cent. Since the payments for the first twelve years were to include no amortization and only a part of the interest charges, the nominal principal of the debt would have continued to grow, by the addition of unpaid interest, until it would have reached the maximum of 790.7 million gold francs on October 1, 1934. After that date the payments were to cover both interest and amortization.

The question of occupation costs was settled by means of a later protocol. The negotiation of this settlement proved to be as vexatious as that of the reparation revision. The Bulgarian government maintained that, in spite of the obligation imposed upon it by Article 133 of the Treaty of Neuilly, it owed nothing on this score, but was, on the contrary, entitled to a counter-claim against the Allied Powers. The Inter-Allied Commission, to which negotiation of the question had been entrusted by the Conference of Ambassadors, found itself in an exceedingly unpleasant situation in this controversy and finally accepted a settlement at a figure greatly below the claims put forth by the creditor powers.

The Bulgarian argument was based on the terms of the Salonika armistice, which provided merely for a temporary occupation of certain strategic points on Bulgarian territory. The Bulgarians had urged the same argument at the Peace Conference, but had not succeeded in preventing Article 133 from being written into the Treaty of Neuilly. Nevertheless,

they maintained that the text of the article in question was ambiguous and claimed that it really absolved them from any payment and even gave them the right to demand a refund of the sums they had already expended for the maintenance of the Allied troops in Bulgaria.*

The Inter-Allied Commission replied that it was not concerned with the terms of the Salonika armistice but with the relevant provisions of the peace treaty, which it considered clear enough. It demanded from the Bulgarian government the payment of 130 million gold francs, which was the evaluation made by the occupying powers of the expenditures they had sustained in the process of Bulgarian occupation.

After protracted negotiations, in the course of which it was even suggested that the case be placed before The Hague Court for an interpretation of the treaty provisions, Bulgaria finally offered to pay a lump sum of 25 million gold francs in full settlement of the Allied claims on this account. This offer was accepted by the Inter-Allied Commission, and a protocol embodying the settlement was signed on March 28, 1924.†

The occupation debt payments were spread over ten years. They began on October 1, 1924, and were to continue, at intervals of six months, until April

* These sums were estimated by the Bulgarian government at 65 million gold francs. See *La Situation financière de la Bulgarie*, p. 40.

† For the details of these negotiations see Prost, *La Liquidation financière de la guerre en Bulgarie*, Chap. VII.

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1, 1934, in accordance with the following schedule, given in gold francs:

October 1, 1924.....	1,250,000
April 1, 1925.....	1,250,000
October 1, 1925.....	1,500,000
April 1, 1926.....	1,500,000
October 1, 1926 to April 1, 1932 (each semi-annual payment)	2,000,000
October 1, 1932.....	500,000
April 1, 1933.....	500,000
October 1, 1933.....	500,000
April 1, 1934.....	476,663

The total amount which Bulgaria would have paid at the expiration of the ten-year period was 31,476,663 gold francs. The difference between this sum and the 25 million francs fixed in the protocol represents interest charged at the rate of 5 per cent.

These occupation debt payments were also secured by specific revenues and were to be effected through the Inter-Allied Commission in the same manner as reparation payments. They thus constituted in effect supplements to the reparation payments during the period when the latter were at their lowest.

Under the terms of the agreement between the Inter-Allied Commission and the Bulgarian government, the creditor powers reserved the right to apportion among themselves the payments received from Bulgaria on account of the occupation debt. The ratios worked out were as follows: France, 20 per cent; Great Britain, 44 per cent; Italy, 36 per cent. These were the only three Allied Powers whose troops were permitted, by the terms of the Salonika

armistice, to occupy any portion of Bulgarian territory.

Bulgaria regulated her accounts with Yugoslavia and Greece, growing out of the war, by means of special conventions. The Yugoslav claims against Bulgaria were based on the fact that a large volume of requisitions made in Serbia during the war by those in charge of the Bulgarian occupation remained unpaid. The accounts with Greece were over compensations involved in the exchange of population between the two countries.

Bulgaria protested against the Yugoslav claims on the ground that the reparation and restitution provisions of the treaty of peace specifically set the maximum limits of her liability for war damages. An agreement, however, was finally signed on November 26, 1923, whereby Bulgaria undertook to pay Yugoslavia the sum of 300 million leva in satisfaction of the latter's claims. Half of this sum was made payable in cash as follows: 30 million leva on May 1, 1924 and 40 million leva on May 1 of each of the succeeding three years. The other half was made payable in kind: 30 million leva's worth of wheat in 1924; 45 million leva's worth of maize in 1924 and 1925; and 75 million leva's worth of coal from 1924 to 1927, inclusive.²⁰

The accounts with Greece resulted from a special Greco-Bulgarian convention, signed at Neuilly simultaneously with the signing of the treaty of peace, in accordance with which Bulgarians living on Greek territory were to be removed to Bulgaria,

²⁰ Prost, *La Liquidation financière de la guerre en Bulgarie*, pp. 135-37.

and Greeks living on Bulgarian territory, to Greece. Each government was to reimburse the emigrants from its territory for the losses involved in the removal. An attempt to arrange a method of providing this compensation was made in 1922, when a convention was signed between Bulgaria and Greece. A definitive settlement of the question was not, however, made until December 9, 1927, when a new convention was signed at Geneva by the Bulgarian Minister of Finance, W. Molloff, and the Greek Minister of Finance, G. Caphandaris.

Under the terms of the Molloff-Caphandaris convention, each government was to issue to its new citizens arriving from the territory of the other, special bonds covering the amount of compensation in each individual case and bearing interest at the rate of 6 per cent per annum. The adjudication of individual claims was to be made by the Greco-Bulgarian Mixed Claims Commission, which had already been set up. After the completion of the bond issues in the two countries, the Mixed Claims Commission was to draw up an account as between the two governments, in order to determine which of them was the net debtor or the net creditor. Thereupon, the debtor government was to begin making semi-annual payments to the creditor government, each payment comprising interest at the rate stipulated in the convention and an amortization charge equal to one-sixtieth of the total amount. By the beginning of 1930, the Mixed Claims Commission had not as yet completed the evaluation of the claims, although preliminary calculations showed that Bulgaria would be in the position of a net

creditor, to an amount probably exceeding 1 billion leva.

II. PAYMENTS UNDER THE VARIOUS AGREEMENTS

The process of reparation fulfilment by Bulgaria may be divided into two periods. During the years 1919 to 1923 Bulgaria made a variety of payments prescribed by the treaty and otherwise fulfilled a number of treaty provisions, but did not make any payments under the reparation program proper. Starting with 1923 she began regular reparation payments under the revised schedule.

According to Bulgarian estimates, payments and financial losses prior to 1923 exceeded the total reparation liability. In a statement prepared for the Inter-Allied Commission,²¹ the Bulgarian government presented the following figures to indicate its expenditures and losses during the first four post-war years incurred in the execution of the armistice agreement and the Treaty of Neuilly:

I. EXPENDITURES NOT CHARGEABLE TO THE REPARATION LIABILITY

	Thousands of Gold Francs
Value of goods and war materials surrendered (the armistice convention and Articles 77, 80, 83, 87, 93, and 136 of the treaty).....	633,211.1
Expenditures of the commissions for the delimitation of frontiers.....	423.3
Expenditures of the Inter-Allied Commission of Military Control.....	299.7
Value of objects restored to Greece, Rumania, and Yugoslavia (Article 125 of the treaty).....	12,500.0

²¹ *La Situation financière de la Bulgarie*, pp. 40-44.

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I. EXPENDITURES NOT CHARGEABLE TO THE REPARATION LIABILITY—(Cont'd)

	Thousands of Gold Francs
Value of cattle delivered to Greece, Rumania, and Yugoslavia (Article 127 of the treaty).....	6,050.0
Value of coal delivered to Yugoslavia (Article 128 of the treaty).....	5,576.8
Indemnity to citizens of Allied and Associated Powers for damage done to their property, rights or interests in Bulgaria (Article 177 of the treaty)	197.8
Expenditures for the Mixed Arbitral Tribunals (Article 188 of the treaty).....	238.5
Expenditures for the Greco-Bulgarian Emigration Commission (Article 56 of the treaty and Article 13 of the emigration convention).....	288.1
Value of damage done to the state and to private individuals in Bulgaria by the Allied Occupation troops (Article 295 of the treaty).....	8,852.9
Total.....	667,638.2

II. EXPENDITURES AND LOSSES CHARGEABLE TO THE REPARATION LIABILITY

(Thousands of gold francs)

	Thousands of Gold Francs
Value of materials delivered under the armistice convention and Article 136 of the treaty.....	216,989.9
Value of public works constructed by Bulgaria on territories occupied by her troops at the time of the armistice and later ceded to the Allies (Article 136 of the treaty).....	49,284.6
Expenditures of the Allied troops on Bulgarian territory (Article 136 of the treaty).....	65,635.7
Expenditures of the Inter-Allied Commission (Article 130 of the treaty).....	3,510.8
Indemnity to citizens of Allied and Associated Powers for objects taken by the Bulgarian troops in the territories occupied by them.....	8,881.7

II. EXPENDITURES AND LOSSES CHARGEABLE TO THE
REPARATION LIABILITY—(Cont'd)

	Thousands of Gold Francs
Value of public property in the territories ceded by Bulgaria (Article 142 of the treaty).....	275,473.9
Bulgarian claims against Germany, Austria, Hun- gary, and Turkey on account of war conventions and of deliveries of materials, ceded to the Reparation Commission (Articles 124 and 145 of the treaty).....	3,237,772.0
Total.....	3,857,548.6

The statement given above indicates that Bulgaria's actual expenditures in fulfilment of the treaty of peace were not large prior to 1923. They comprised the cost of the armies of occupation, the value of the cattle and coal delivered to her three immediate neighbors, the indemnification of some of the claims for damages suffered by the citizens of the Allied and Associated Powers, and the cost of the various commissions. Some of these expenditures continued after the revision of the reparation program in 1923, and the total amounts paid up to 1930 will be shown later.¹⁹

The bulk of the financial losses listed above consisted of Bulgaria's claims against her former allies and of materials and property ceded to the victors. The major portion of the sums represented by such losses was, as the reader will recall from our discussion on page 62, to be credited against the unfunded portion of the reparation liability. No attempt was made by the creditor nations to subject

¹⁹ See p. 81.

the Bulgarian estimates of the above-enumerated items to a critical examination, and, as we shall see later, all these claims, together with Tranche B of the reparation liability, were finally cancelled.

Reparation and other treaty payments were regularly met up to October, 1928. After that postponements and reductions were authorized by the Inter-Allied Commission. The first 13 reparation instalments prescribed by the protocol of March 21, 1923 were met as follows:¹²

	In Millions of Gold Francs	Equivalent in Millions of Leva
October 1, 1923.....	2.5	49.5
April 1, 1924.....	2.5	64.2
October 1, 1924.....	3.0	80.5
April 1, 1925.....	3.0	80.5
October 1, 1925.....	3.5	93.9
April 1, 1926.....	3.5	93.9
October 1, 1926.....	4.0	107.3
April 1, 1927.....	4.0	107.3
October 1, 1927.....	5.0	134.1
April 1, 1928.....	-5.0	134.1
October 1, 1928.....	—	—
April 1, 1929.....	2.5	67.1
October 1, 1929.....	2.5	67.1
Total.....	41.0	1,079.5

When the eleventh payment fell due on October 1, 1928, the Inter-Allied Commission granted the Bulgarian government a postponement because of the disastrous earthquake which had occurred in southern Bulgaria in April of that year. In accordance with the Commission's decision of June 23, 1928, the payment due on October 1, 1928 was

¹² Official figures.

postponed until April 1, 1929, and all the subsequent payments were moved forward by six months, making the maturity date of the final instalment October 1, 1929 instead of April 1 of that year. By a later decision of the Inter-Allied Commission, Bulgaria's payments during the year 1929-30 were reduced by one-half, the uncollected portion to be added to Tranche B.

The following instalments on the occupation debt, prescribed by the protocol of March 28, 1924, were received by the Inter-Allied Commission:¹⁴

	In Millions of Gold Francs	Equivalent in Millions of Leva
September 30, 1924.....	1.25	33.5
March 31, 1925.....	1.25	33.5
September 30, 1925.....	1.50	40.2
March 31, 1926.....	1.50	40.2
September 30, 1926.....	2.00	53.6
March 31, 1927.....	2.00	53.6
September 30, 1927.....	2.00	53.6
March 31, 1928.....	2.00	53.6
September 30, 1928.....	2.00	53.6
March 31, 1929.....	2.00	53.6
September 30, 1929.....	2.00	53.6
Total.....	19.50	522.6

The postponements of payments granted Bulgaria by the Inter-Allied Commission did not apply to the instalments due on the occupation debt. These were met without any interruption.

In addition to the instalments enumerated above, Bulgaria met a number of other obligations resulting from the treaties of peace and subsequent

¹⁴ Official figures.

agreements. The following outlays were made during the years 1919-1929, in addition to the reparation and occupation debt payments:²⁸

	Millions of Leva
Armies of occupation.....	327.1
Inter-Allied reparation, military, frontier, etc., commissions.....	229.8
Value of cattle delivered to Greece, Rumania, and Yugoslavia	188.2
Value of coal delivered to Yugoslavia.....	231.4
Payments under Serbo-Bulgarian convention of 1923..	396.9
Cost of Greco-Bulgarian Emigration Commission....	153.3
Indemnity payments to private interests.....	567.0
Miscellaneous.....	30.3
	<hr/>
Total.....	2,124.0

The payments enumerated in this section represent the degree of Bulgaria's fulfilment up to 1930, of the financial obligations imposed upon her by the treaty of peace and defined by later agreements. For the first eleven post-war years, the actual outlays involved in this fulfilment, not counting the value of the various cessions of materials, buildings, etc., aggregated 3.7 billion leva. In later chapters we shall discuss the relation of these payments to the country's budget and international accounts.

²⁸ Figures based on data contained in Molloff, W., "The Financial Situation in Bulgaria," *The Banker*, March, 1928, p. 480, and in Annex XII to the *Memorandum* presented to the Bulgarian Subcommittee of the Committee for Non-German Reparations by the Bulgarian members. The text of the *Memorandum* was kindly placed at our disposal by the chief Bulgarian delegate, Professor G. Danailoff.

III. REPARATION SETTLEMENT OF 1930

The Bulgarian reparation problem came up for reconsideration at the end of 1929. In August of that year, The Hague Conference, called for the purpose of instituting the Young Plan, decided to proceed to a definitive settlement of the reparation problems of other countries than Germany which had become reparation debtors as a result of the treaties of peace. Accordingly, a Committee for Non-German Reparations was set up by The Hague Conference. This Committee met in Paris at the end of September and created, among others, a Bulgarian subcommittee, which was charged with the task of finding a definitive solution of the Bulgarian reparation problem.

The impossibility of an integral fulfilment by Bulgaria of her outstanding reparation liability was conceded from the start. Not only did Tranche B of the original amount stipulated in the Treaty of Neuilly never come up for serious consideration, but even Tranche A was generally regarded as impossible of fulfilment. The negotiations, lasting several weeks, were centered upon a series of attempts to devise an acceptable schedule of payments to take the place of the one provided in the protocol of March 21, 1923.

After prolonged conversations, in the course of which the Bulgarian case was ably presented in a series of memoranda by the chief Bulgarian delegate, Professor G. Danailoff,¹⁰ the creditor powers

¹⁰ The principal Bulgarian delegates were Professor Danailoff and Nicholas Stoyanoff, Director of the Public Debt. The Bulgarian Ministers of Foreign Affairs and of

made Bulgaria a verbal offer, involving the payment by her of 36 annuities, rising from 10 to 25 million gold francs, with the average annuity equal to 16,763,000 gold francs. A little later, a written plan was submitted to Bulgaria, in which the creditor powers offered to cancel Tranche B of the reparation liability and asked for 36 annuities, averaging 15 million gold francs. Both of these plans were rejected by Bulgaria, as exceeding her capacity to pay. Finally, a third attempt was made to reach an agreement, when an unofficial offer was made to the Bulgarian delegation in Paris by the chairman of the subcommittee and to the Bulgarian government in Sofia by the diplomatic representatives of Great Britain, France, and Italy, involving a cancellation of the unpaid portion of the occupation debt and 36 graduated annuities, averaging 12,500,000 gold francs. This offer, too, was rejected by Bulgaria, and on November 23, 1929, the Paris Committee reported to the President of The Hague Conference that no agreement appeared possible, since the Bulgarian delegation had rejected the official offer of an average annuity of 15 million gold francs and had not submitted a counter-proposal.

The discussion of the Bulgarian reparation question was resumed at The Hague Conference in January, 1930. After a series of negotiations, at which Bulgaria was represented by her Ministers of Foreign Affairs and of Finance, an agreement was

Finance, Messrs. A. Bouroff and W. Molloff, were also present in Paris through the whole period of negotiations, which lasted from Sept. 26 to Nov. 23, 1929.

finally reached and embodied in an accord signed on January 20, 1930.²⁷

The 1930 settlement represents a substantial reduction in Bulgaria's reparation liability. The total amount, fixed in the Treaty of Neuilly at 2.25 billion gold francs, was reduced to 550 millions by the cancellation of Tranche B. This sum, in turn, was reduced to 171.6 million gold francs, which is the capitalized value of the new annuities at a rate of interest equal to 5.5 per cent. The payments for which Bulgaria was made responsible are as follows (in gold francs) :

Period	Number of Annuities	Annual Payments
April 1, 1930.....	1	5,000,000
April 1, 1930—March 31, 1940.....	10	10,000,000
April 1, 1940—March 31, 1950.....	10	11,500,000
April 1, 1950—March 31, 1966.....	16	12,515,238

The annuities are payable semi-annually, on September 30 and March 31 of each year. For the 37 fiscal years, 1929-30 to 1965-66, the average annuity works out to be 11.2 million gold francs. This amount is reduced somewhat by the cancellation of the eight semi-annual instalments of the occupation debt remaining unpaid at the beginning of 1930 and aggregating 10 million gold francs. The table on page 85 shows the reduction in the annual payments resulting from The Hague agreement.

²⁷ The details of the negotiations are contained in Stoyanoff, N., "Vtorata Hagska Konferencia," *Spisanie na B'lgarskoto Ikonomichesko Druzhtvo*, January, 1930, pp. 5-17.

The major portion of the Bulgarian annuity is to go to Greece, which country was given the entire payment made on April 1, 1930, and is to receive 76.7 per cent of the subsequent annuities. Rumania's share of the annuities is 13 per cent; Yugoslavia's, 5 per cent; France's, 2.4 per cent; and Great

FUTURE REDUCTION IN BULGARIAN TREATY PAYMENTS
(In millions of gold francs)

Fiscal Years	Annual Payments under the 1923 Arrangements			Annual Payments under The Hague Settlement	Annual Reduction
	Reparation	Occupation	Total		
1930-31.....	10.0	4.0	14.0	10.0	4.0
1931-32.....	10.0	4.0	14.0	10.0	4.0
1932-33.....	20.0	1.0	21.0	10.0	11.0
1933-34.....	32.9	1.0	33.9	10.0	23.9
1934-35 to 1939-40	43.4	—	43.4	10.0	33.4
1940-41 to 1949-50	43.4	—	43.4	11.5	31.9
1950-51 to 1965-66	43.4	—	43.4	12.5	30.9
1966-67 to 1982-83	43.4	—	43.4	—	43.4

Britain's and Czechoslovakia's, 1 per cent each. The remaining nine-tenths of 1 per cent is to be divided among Italy, Belgium, Japan, and Portugal.

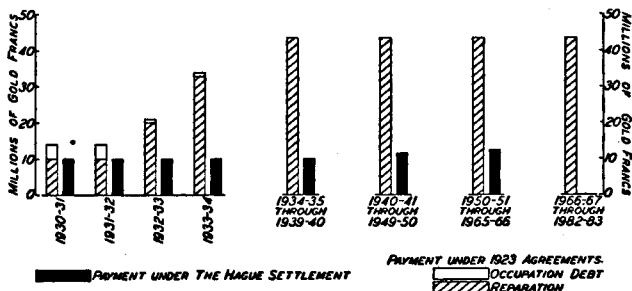
Several important modifications were introduced by the 1930 settlement into the character of the Bulgarian reparation problem. These concerned primarily the nature of Bulgaria's responsibility and the relations between Bulgaria and her creditors. Under Article 122 of the Treaty of Neuilly, Bulgaria's reparation liability was not made unconditional. On the contrary, the Reparation Commission, and its Sofia organ, the Inter-Allied Commission, were authorized, whenever they found

it necessary, to examine the economic situation of the country and decide whether or not the prescribed program was capable of execution.

The Hague agreement abrogated this provision. The annuities were declared "an unconditional obli-

REDUCTION OF FUTURE ANNUAL TREATY PAYMENTS

(Each bar group represents amount to be paid during designated fiscal year, 1930-31 through 1982-83)



gation," and the signatory powers agreed to "waive their right to demand the application of Article 122 of the Treaty of Neuilly." In exchange for this, however, The Hague agreement retained in full force the partial transfer guaranty established for Bulgaria in connection with the Refugee Plan.¹⁹

Moreover, a supplementary agreement was made, providing for Bulgaria an opportunity to benefit, in the same way in which such provisions were made for Germany in connection with the Young Plan, by any eventual reduction or cancellation of the Inter-Allied war indebtedness. The following declaration was attached to The Hague agreement:

¹⁹ See pp. 100-1.

The creditor governments have taken note of the Bulgarian government's request to benefit by a remission of a portion of its debts in the event of the creditor governments themselves obtaining remission of the Inter-Allied debts. They state their readiness collectively, if necessary, to consider favorably the possibility of allowing Bulgaria to have the benefit of advantages proportional to those which the Special Memorandum of the experts of the principal creditor powers and Germany concerning out-payments, appended to the Experts' Report of June 7, 1929, grants to Germany, without, however, any power having its share in Bulgarian annuities reduced by more than 50 per cent as a result of this possible reconsideration.

So far as the security for the payments is concerned, The Hague agreement abrogated the general lien on all the assets and resources of the Bulgarian state provided in the treaty of peace. It retained, however, the specific guaranties which were in force at the time the new settlement was made.¹⁹ In this way, Bulgaria regained her financial freedom, of which she had been deprived by the Treaty of Neuilly.

The manner in which the annuities are to be paid was retained at The Hague in the same form which existed at the time of the signing of the agreement. The Bulgarian National Bank will continue to be the agency to receive from the Bulgarian government the amounts necessary for the semi-annual payments in domestic currency and to convert these sums into foreign currencies. However, instead of delivering these foreign currencies to the Inter-Allied Commission for distribution among the creditor powers, the Bank will henceforth turn them

¹⁹ See pp. 68 and 104.

over to the Bank for International Settlements. The Inter-Allied Commission was liquidated by the new settlement, and all the rights and powers conferred upon it and upon the Reparation Commission were transferred to the Bank for International Settlements.

The creditor powers agreed to accept the annuities stipulated in the agreement "in full and complete satisfaction of the total amount of Tranche A," remaining unpaid at the time of the signing of the agreement. They, moreover, waived "their right to retain and liquidate the property, rights, and interests of Bulgarian nationals," in so far as such property had not as yet been liquidated. An exception was made in the case of Rumania, to which Bulgaria agreed to pay the sum of 110 million *lei* for the waiving of this right. In exchange for these concessions, Bulgaria agreed that "with the exception of claims which have been the subject of previous special agreement or of a convention concluded in pursuance of the Treaty of Neuilly and also of claims arising out of Article 141 of that treaty, all claims of the Bulgarian government against the creditor powers or their nationals and also all claims of Bulgarian nationals against the creditor powers based on the provisions of the Treaty of Neuilly are completely cancelled."²⁰

Thus the agreement signed at The Hague substituted 36 annuities for the complex mass of claims and counter-claims existing between Bulgaria and her creditors as a result of the treaty of peace,

²⁰ For the text of The Hague agreement see Appendix, pp. 333 ff.

restored to Bulgaria freedom of action in financial matters so far as that freedom had been restricted by the provisions of the treaty, and removed the collection of the payments from the hands of a political commission into those of the Bank for International Settlements. How far even the reduced payments are within Bulgaria's paying capacity is a question which we shall discuss in later chapters.

CHAPTER V

THE LEAGUE OF NATIONS AND BULGARIAN FINANCE

The League of Nations has played a prominent rôle in the post-war situation in Bulgaria. It occupied itself with Bulgarian affairs on three different occasions, once in connection with a political controversy and twice for the purpose of helping Bulgaria with the solution of pressing economic and financial problems. Two Bulgarian loans have been floated under the auspices of the League, and in connection with these loans the public finances of Bulgaria have been placed virtually under the control of the League.

I. REFUGEE SETTLEMENT PLAN, 1926

The first appearance of the League of Nations in the rôle of Bulgaria's financial mentor grew directly out of the circumstances attending a Bulgaro-Greek frontier incident, which took place during the night of October 19, 1925, and threatened for a time to plunge the two countries into war. In fact, hostilities had already begun, when the League of Nations Council intervened successfully to avert a catastrophe. Following this intervention, the League Council sent a special commission to investigate the situation on the spot. The investigation disclosed the fact that the trouble was largely the result of the

presence near the Bulgaro-Greek frontier of large numbers of Bulgarian refugees from Greece. It opened the way for League assistance in handling the vexatious refugee problem which had confronted Bulgaria for several years.¹

The refugee problem presented serious difficulties for Bulgaria, as well as for peace in the Balkans. It first appeared after the Balkan wars, when Bulgarians living in Macedonia and in other formerly Turkish territories which had fallen to Serbia and Greece began to leave their homes and come to Bulgaria. It grew after the World War, when Bulgarians moved to Bulgaria from territories detached by the treaty of peace—a movement partly voluntary and partly under the system of exchange of populations which was being applied in the Balkans and in the Near East. It assumed really acute proportions after the Greek rout in Asia Minor, when the Greek government, faced with the necessity of finding shelter and livelihood for the hundreds of thousands of Greek refugees fleeing to Greece, began to speed the emigration of Bulgarians. Bulgaria thus found herself confronted with the need of absorbing some 200,000 refugees, practically all of them completely destitute.

The task of placing these refugees proved to be beyond the powers of the Bulgarian government. An effort was made to provide land for a certain number of them, some of whom settled down to more or less productive occupations. But most of them

¹ For the story of the frontier incident see *Commission of Enquiry into the Incidents on the Frontier between Bulgaria and Greece*, League of Nations document, Geneva, 1925.

remained homeless and idle wanderers, roaming about the country, especially through the districts adjoining the territories from which they had been driven. In their embittered mood they constituted a lawless element and also became easy prey for Macedonian revolutionary propaganda. Their presence was largely responsible for a series of incidents along the Greek and Yugoslav borders, which culminated in the armed clash between the Greek and the Bulgarian frontier guards and led to intervention by the League of Nations. They were thus a constant menace to peace and a thoroughly disorganizing factor in the life of Bulgaria. Only permanent settlement could transform them from an element of danger into one of usefulness. But while the Bulgarian government, as we shall see,³ possessed land capable of settlement, it lacked the organization and financial resources necessary for a program of settlement.

A League of Nations loan made it possible for Bulgaria to solve the refugee problem. It was clear, from the time that the question was first broached in connection with the inquiry into the frontier incident, that a foreign loan would be necessary for the solution of the problem. After a study of the needs of the situation conducted on the spot by M. René Charron, acting for the Financial Committee of the League, the Committee decided that the sum of 2,250,000 pounds sterling would be required. A plan under which to carry on the work was devised, and on September 7, 1926, the Council of the League

³ See Chap. X, p. 206.

approved it. At the same time the Council authorized the issue, under League auspices, of a loan which would yield the sum mentioned above. The plan was embodied in a protocol, which was formally signed the following day by the Bulgarian Minister of Finance, acting on behalf of his government.

The protocol provided for a central organization which would deal with all refugee matters, including those previously handled through various governmental agencies. This organization was to direct the utilization of the settlement loan, under the supervision of a commissioner for the settlement of refugees appointed by the League of Nations Council and responsible to the Council. The protocol also provided for the issue of a Bulgarian government loan, under the auspices of the League, for a net amount sufficient to cover the work of refugee settlement and "to satisfy the claims of the holders of the Bulgarian Treasury bills issued in France in 1912 and 1913." The proceeds of the loan were to be placed in a special account under the control of the commissioner, to be released by him as necessary. The service of the loan was secured by a first charge on the excise duty on salt and alcohol and the net receipts of the match monopoly. Provisions were made to supplement these revenues from other sources, if their yield should prove insufficient.

The necessities for which the proceeds of the loan were to be used were defined as follows in the protocol:

1. Supplies in kind to refugees of agricultural imple-

* See p. 56.

ments and other requirements of their settlement on the land;

2. Housing of refugees to be settled on the land;
3. Drainage and in general reclamation of land to be used for the settlement of refugees;
4. Such improvements in communications as are required for the contemplated settlement of refugees;
5. In exceptional cases, loans in cash to refugees for the purpose of their settlement on the land provided by the Bulgarian government;
6. Such other purposes connected with the settlement of refugees on the land as the commissioner might approve.

All these expenditures were to be made on terms of repayment, except in the case of disbursements of a general or social nature in connection with settlements on a large scale. Nor was any part of the loan to be used for the purchase of land. The Bulgarian government, in accordance with the protocol, undertook to provide not less than 132,000 hectares of land "which is or may be made suitable for agricultural settlement," for the purpose of settling the refugees. The character and the location of this land were made subject to approval by the commissioner.⁴

The work under the protocol began in September, 1926, with M. Charron as the League commissioner. The loan was floated on December 21, 1926, simultaneously in London and New York. The face

⁴ For the text of the protocol see Appendix, pp. 340-50.

value of the loan was 2,400,000 pounds sterling and \$4,500,000. Of these amounts, 1,750,000 pounds sterling were offered in London, 650,000 pounds in Italy, Switzerland, and Holland, and the whole dollar block in the United States. The loan was of the 7 per cent type, redeemable not later than January 1, 1967, and was offered to the public at 92. The net yield of the loan was 2,873,091 pounds sterling (86.4 per cent), of which 2,247,201 pounds became available for refugee settlement, after the deduction of the amount necessary for the liquidation of the 1912-1913 Treasury bills.⁵

The settlement of the refugees has proceeded steadily under League direction. A great deal of preliminary work had to be done and a detailed plan of operations devised before the real task could be undertaken. Appropriate legislation and extensive studies and investigations were essential. These were accomplished in a comparatively brief period of time.

The enabling legislation consisted mainly of the ratification of the Geneva protocol and of the passing of a refugee settlement law. Under this law, framed on the basis of the general lines laid down in the protocol, a General Directorate for the Settlement of Refugees was created, headed by a Director-General, appointed by the Prime Minister and responsible directly to him. Rules were elaborated for the activities of the General Directorate through specially created communal and district commissions. The

⁵ *Report of the Commissioner of the League of Nations, No. 2.* The cost of the loan to Bulgaria works out at about 8.5 per cent.

refugees themselves were given a share in the work of the commissions through their elected representatives. The General Directorate was entrusted, as its first task, with the formulation of a plan of settlement, which was to be submitted for approval to the League commissioner.

The law defined the conditions under which land was to be given to the refugees. The necessary land was to be taken from the Land Reserve, created under the terms of the agrarian reform.⁶ The allotment assigned to each family was to be on the average about 40 decares (approximately 10 acres), but was in no case to exceed 50 decares. Factors such as locality and fertility were to be considered in apportioning the land. From the time of his settlement on the allotted area, the refugee was to be given full ownership of the property, with an obligation to repay to the state the assessed value of the land and the buildings already in existence or to be erected. The rights of the state were to be protected by means of mortgages, payable in instalments, and bearing interest at the rate of 8.5 per cent per annum. No payments were to start before the expiration of two years from the signing of the contract. During these two years the settler was to be exempted also from all direct taxes and duties.⁷

The plan of settlement provided for assistance to 31,271 families. Of these 2,050 were to be removed from the frontier zones—442 from the Greek zone, 1,029 from the Yugoslav, and 579 from the

⁶ See p. 206.

⁷ For the text of the law see *Reports of the Commissioner of the League of Nations*, Nos. 1 and 2.

Rumanian. The plan involved a distribution among the families of about 1,750,000 decares of land. This area was in excess of that provided for in the protocol, but the Bulgarian government agreed to furnish it. The preparation of the land for settlement required surveying, clearing, deforestation, and some drainage, and the plan provided for these operations. Settlement of the land called for the construction of 16,019 new houses, the repair of several thousand existing ones, and the construction of necessary outbuildings. Finally the utilization of the farms required the distribution of 23,257 plows, 7,645 harrows, 19,758 carts, 28,564 head of livestock, and a certain amount of fishing tackle.^a

The results of the application of this plan during the years 1927-1929 indicate substantial accomplishments. By the beginning of 1930, the area surveyed for allotment was 1,164,787 decares, and the area actually allotted was 1,008,755 decares. This land was divided among 28,249 families; the average allotment was 35.7 decares. Building operations under the plan, carried on in almost 200 villages in various parts of Bulgaria, were as follows at the beginning of 1930:

	Completed	In Process of Construction
Houses	3,731	1,962
Sheds	2,869	1,468
Byres	3,257	1,736

The amount of seed distributed during the years 1927-1929 was 6,912,260 kilograms. The number of

^a Report of the Commissioner of the League of Nations, No. 2.

farm animals distributed was 18,552. In addition, carts, plows, harrows, and other implements were supplied.*

Constructive work of a general character has also been done in connection with refugee settlement. This work has consisted of the preparation of the soil for the use of the refugees and general improvement of the land allotted to them; the draining of marshes in some of the districts of settlement; the construction of a railroad line and of roads; and efforts toward stamping out malaria in some of the disease-infested areas.

Some of the land allotted to the refugees had never before been used for planting purposes and required deforestation and clearing in general. The General Directorate worked out a system whereby the refugees themselves clear the land allotted to them and receive compensation from the settlement funds. It was found that breaking the land first by mechanical plowing brought better results from subsequent tilling. By the beginning of 1930, consequently, 50,570 decares of ground had been broken by tractor.

The draining of marshes has been undertaken in two swampy districts. When completed, this work will make 28,000 decares of land available for agricultural purposes, besides improving conditions in the surrounding territory. Similar work is being undertaken for a low-lying plain, stretching for 24 kilometers (15 miles) along the Danube. This work

* *Reports* of the Commissioner of the League of Nations, Nos. 13-14.

involves the construction of a dike and of a system of canals.

In connection with the settlement plan, it was found necessary to construct a railway line from Rakovsky to Mastanla in the territory lying north of the Greek frontier. This work was financed out of refugee settlement funds and is being carried on by the General Directorate in conjunction with the administration of the Bulgarian state railways. It was also found necessary to construct cart roads in some of the districts chosen for refugee settlement, and authorization was obtained to supplement the efforts made in this direction by the Bulgarian government itself with road construction work paid for out of the settlement funds.

The campaign against malaria, which is a prevalent disease in several important districts in Bulgaria, was begun by the Health Section of the League of Nations as a part of the settlement scheme, since some of the land allotted to refugees is located in malarial districts. Later, the co-operation of the Rockefeller Foundation was secured and the scope of the work was greatly enlarged. At the present time, the anti-malaria campaign is being carried on in two districts through collaboration by local agencies with the Health Section and the Rockefeller Foundation.²⁰

The refugee settlement plan had several important general consequences for the economic life of Bulgaria. As a matter of fact, these consequences grew out of conditions which had to be fulfilled before

²⁰ *Reports of the Commissioner of the League of Nations, especially Nos. 3, 4 and 9.*

foreign banking groups agreed to float the refugee loan. There were three main conditions: first, that Bulgaria undertake to reorganize her National Bank; second, that she undertake to regulate her pre-war government debts; and third, that an important modification be introduced into the operation of the reparation settlement. Of the reorganization of the National Bank and the regulation of pre-war debts we shall speak later, in connection with the currency question and the discussion of the public debt in general.¹¹ As for the reparation question, the refugee settlement plan brought with it the creation of a partial transfer guaranty for Bulgarian reparation payments.

The refugee loan could not be floated without previous action on the part of the Reparation Commission and its Sofia organ, the Inter-Allied Commission. The reparation payments were still secured by a general mortgage on all the revenues of the Bulgarian state, and the specific revenues to be assigned as security for the refugee settlement loan had to be released by the Reparation Commission. The release was readily granted. The Reparation Commission, on the recommendation of the Inter-Allied Commission, also took steps "to protect the securities assigned to the loan against any loss of value which might result from an instability of the exchange caused by reparation transfers."¹²

¹¹ See Chaps. VI and VII.

¹² The recommendation of the Inter-Allied Commission was in response to a request made by the banking group handling the loan. In this request the group was strongly supported by the League of Nations authorities.

In its decision dated July 23, 1926 the Reparation Commission declared:

The Bulgarian government will have the right at any time during the existence of the said loan to make to the Inter-Allied Commission a request that, in the interest of the stability of the Bulgarian exchange, purchases of foreign currency necessary for the payment of reparations under the protocol signed at Sofia on March 21, 1923, be suspended either in whole or in part.

In the schedule attached to the decision, provisions were made for the steps to be taken if such a request were made by the Bulgarian government. Immediately upon the receipt of such a request, a transfer committee would be created to take over the operation of transfers. This committee would consist of a chairman, required to be a citizen of the United States or of a country which was neutral during the World War, appointed by the unanimous decision of the Reparation Commission, or, failing such unanimity, by the President of the Permanent Court of International Justice; a member appointed by the trustees of the refugee settlement loan; and a member appointed by a majority vote of the Reparation Commission. All three members of the transfer committee would be required to be recognized experts on questions of exchange.²⁵

II. STABILIZATION PLAN, 1928

At the time when the refugee settlement plan went into effect and the foreign loan on which it was based was issued, Bulgarian public finances were in

²⁵ For the text of the decision of the Reparation Commission see Appendix, pp. 321-26.

a condition of approximate equilibrium. This was true of both the currency and the government budget. In the course of the year 1927, however, certain disquieting features, affecting particularly the possibility of maintaining monetary stability, manifested themselves. Prompted to some extent by the negotiations which were then in progress between the League of Nations and Greece for the inauguration there of a stabilization plan under League auspices, Bulgaria decided to apply to the League for a similar arrangement.

The Bulgarian stabilization plan was the result of exhaustive study and long negotiation. On September 12, 1927, the Bulgarian Ministers of Foreign Affairs and of Finance addressed a joint letter to the Council of the League of Nations, in which they said:

The Bulgarian government, having settled, with the valuable help of the League of Nations, the serious and urgent problem of the settlement of Bulgarian refugees, is continuing its policy of peace and stabilization, and considers the fixing of its finances on a firm basis as an essential step in this direction. In this work, however, the government is encountering considerable difficulties. Having carefully examined the country's financial and economic possibilities, the government has come to the conclusion that this task can only be accomplished with the help of a foreign loan. As the League of Nations has, on several occasions, given its valuable patronage and assistance to similar work for the consolidation and reconstruction of countries whose finances have been undermined by the war, we venture to ask the Council to be good enough to instruct its organs to study a plan for the financial reconstruction of Bulgaria through the issue of a foreign loan.

Acting on this application, the Council asked the Financial Committee and the Secretariat of the League "to undertake an examination of the financial position of Bulgaria." Accordingly, a delegation of the Financial Committee and several experts of the Secretariat visited Sofia and drew up a plan which, however, proved unacceptable to the Bulgarian government in several particulars mainly concerned with the reorganization of the National Bank. It was only six months after the original request of the Bulgarian government was transmitted to the League Council that the terms of the stabilization plan were agreed upon, and the main features of the plan itself were embodied in a protocol, signed at Geneva on March 10, 1928.

The protocol provided for the issue of a Bulgarian government loan for a net sum of 4,500,000 pounds sterling, which was increased by a later decision of the League Council to 5 million pounds to meet the requirements of earthquake relief. The issue of the loan was made conditional upon two important actions to be undertaken by the Bulgarian government. These were a far-reaching reorganization of the National Bank, and a reform of the budgetary system. In addition, several technical investigations concerning the utilization of a part of the loan proceeds for the improvement of means of transportation and other purposes¹⁴ had to be made. The problem of security for the loan also had to be resolved. As a result, it was not until November, 1928 that the stabilization loan was finally issued.

¹⁴In later chapters we shall deal with these problems in detail.

The question of security for the stabilization loan caused serious difficulties. Under the terms of the protocol, customs revenues were to be pledged as a guaranty for the loan. But these revenues were already pledged, under the protocol of March 21, 1923, as security for reparation payments. A double release, therefore, had to be obtained from the Reparation Commission: a general permission for the Bulgarian government to issue a loan secured by state revenues and the freeing of the customs receipts as the specific revenue to be pledged. Moreover, a special difficulty arose over the claims put forth, in connection with the pledging of this revenue, by the German Disconto-Gesellschaft on account of its pre-war loan contract with the Bulgarian government.

The Inter-Allied Commission was willing to grant general permission for the issue of the loan and to release customs revenues from first charge in favor of reparation and occupation payments, but the negotiations concerned with the substitution of other revenues as security for these payments lasted until September 24, 1928. On that day an agreement was finally reached between the Bulgarian government and the Commission, under which the Commission accepted as its security a first charge on the following revenues: the tax on professions, the supplementary tax on total income, the tax on companies, and the tax for exemption from compulsory labor. It retained, moreover, a second charge on the customs receipts. The agreement was approved by the Reparation Commission on October 6.

The controversy with the Disconto-Gesellschaft was very complicated. The reader will recall from Chapter III that on the eve of the World War Bulgaria signed a series of contracts with an international banking group, headed by the Disconto-Gesellschaft, providing for a loan to Bulgaria of 500 million francs, secured by a first charge on customs receipts and by other resources. Only a portion of these contracts was actually executed, and Bulgaria received in all 270 million francs. The treaties of peace²⁵ reserved to the Reparation Commission the right to demand the cession to it of all claims and privileges accruing to Bulgaria's creditors under these contracts. Since the Reparation Commission had not exercised this privilege,²⁶ the Disconto-Gesellschaft declared itself a valid creditor, still legally possessed of a first charge on the customs revenues of Bulgaria—a claim which it did not urge when these revenues were assigned as security for reparation payments, but which it asserted when the question arose of a re-assignment of these revenues as security for a new Bulgarian loan. Before releasing the customs revenues from its claims, the Disconto-Gesellschaft demanded from the Bulgarian government a definite settlement of the advances made under the 1914 contracts. This the Bulgarian government refused, taking the position that its debt to the Disconto-Gesellschaft was in reality merely a part of a very complicated series of accounts

²⁵ Articles 235 and 260 of the Treaty of Versailles; corresponding articles of the Treaties of St. Germain and Trianon; Article 139 of the Treaty of Neuilly.

²⁶ It merely declared in 1921 the validity of the contracts.

between Bulgaria and Germany, which had to be considered as a whole. After long negotiations, the Disconto-Gesellschaft finally agreed to postpone its claims in favor of the stabilization loan, and the last formal obstacle to the issue of the loan was removed.¹⁷

The stabilization loan provided the means for solving a number of pressing economic problems. The loan was issued simultaneously in eight countries. It bore interest at the rate of 7.5 per cent, and was amortizable within 40 years. The bonds were in three blocks, issued respectively in dollars, pounds sterling, and French francs. The issue price and the net proceeds in each country were determined by taxation and other local conditions. The total nominal amount of the loan was 5,517,939 pounds sterling, and the amount which Bulgaria received was 5,005,718 pounds sterling, or 3,378,859,650 leva.¹⁸

¹⁷ These claims were adjusted in May, 1929. See p. 167.

¹⁸ The conditions under which each of the eight sections of the loan was issued are shown below:

Country	Nominal Amount	Issued Price (Rate per cent)	Received by Bulgaria (Rate per cent)
Great Britain.....	£1,500,000	96.0	90.00
Holland	£200,000	96.0	90.75
Czechoslovakia	£100,000	96.0	90.00
United States.....	\$9,000,000	97.0	92.00
Italy	\$1,500,000	97.0	91.80
Switzerland	\$1,500,000	97.0	90.25
Belgium	\$1,000,000	97.0	90.00
France.....Fr. francs	130,000,000	98.2	89.50

Thus Bulgaria received, on the average, 90.72 per cent of the nominal amount of the loan. The cost of the loan to her

Under the terms of the Geneva protocol, the proceeds of the loan were to be distributed as follows:

	Pounds Sterling
National Bank.....	1,500,000
Agricultural Bank.....	500,000
Central Co-operative Bank.....	150,000
Budget arrears.....	1,100,000
Means of communication.....	1,250,000
Earthquake relief.....	500,000
	5,000,000
Total.....	5,000,000

Part of the proceeds of the loan was to be used for improving the monetary cover position of the National Bank and in this manner affording it an opportunity to place the currency on a permanently stable basis; and part for strengthening the operating resources of the two large government owned banks. Still another portion of the loan was to provide for an improvement of the fiscal situation by a liquidation of budgetary arrears. One-fourth of the yield of the loan was to be used for improvement of the means of communication, such as construction and repair of railroads and highways. Finally a substantial sum was to be applied to relief in the areas which had suffered from the ravages of earthquakes.

Thus the loan aided the Bulgarian government in handling pressing problems which it did not have the resources to meet. At least so far as the fiscal and monetary position of the country was concerned,

is 8.49 per cent, or approximately the same as the cost of the refugee loan.—Bulgarian National Bank, *Bulletin mensuel*, December, 1928.

the loan provided the means for consolidation and stabilization. Moreover, the stabilization plan introduced important safeguards for a continued maintenance of this stability.

The stabilization plan has placed Bulgarian public finances under the control of the League of Nations. In this respect, the plan was modelled after the procedure of the League in Austria, Hungary, Greece, and elsewhere, although it differed in some respects.¹⁹

The Bulgarian plan vests the control functions in a foreign technical adviser to the National Bank, appointed by the Bulgarian government on the nomination of the Council of the League of Nations. This adviser is given important and far-reaching powers. They are defined as follows in the revised statutes of the Bank:

The adviser shall have the right to attend in a consultative capacity all meetings of the Board of Directors, the Executive Committee and the Bodies constituted under Article 21. In the event of his being of the opinion that a decision taken by the Governor, the Executive Committee or the Bodies constituted under Article 21 is contrary to these statutes, he may require that the question be submitted forthwith to a meeting of the Board of Directors.

Should he be of the opinion that a decision taken by the Board of Directors is contrary to these statutes, he shall exercise a suspensive veto, and no action shall be taken on the decision until either an agreement has been

¹⁹ For the details of the League financial control in Austria and Hungary see Pasvolsky, L., *Economic Nationalism of the Danubian States*, Chaps. VI and XIV; for the details of the Greek plan see *Greek Stabilization and Refugee Loan*, League of Nations document, Geneva, 1927.

reached between the Board of Directors and the adviser on the question or it has been decided by a third party to be mutually agreed upon, or, failing such agreement, by the President of the High Court of Administration.

Any alteration of this law [Bank statutes] shall require the specific approval of the adviser during the period of his office.

In addition to his duties at the National Bank, the adviser is given a certain amount of general supervision over public finances. His consent is necessary for the institution of the reform in the system of budget accountancy prescribed in the stabilization plan protocol. He must be consulted by the Minister of Finance on all questions regarding the regulation of borrowing by public authorities (which is placed by the plan under the Minister's control) and "on all legislative and other measures of a general character in matters of money and credit." Finally, he is given full control over the expenditure of the portion of the loan assigned to the liquidation of budgetary arrears.

The Council of the League of Nations nominated M. René Charron, Commissioner for Refugee Settlement, as technical adviser to the Bank, and M. Charron was duly appointed to this post by the Bulgarian government. Thus all control functions exercised by the League under the refugee settlement and the stabilization plans are now concentrated in the hands of a single commissioner.

The termination of League control is made contingent, in the case of the refugee settlement plan, upon the completion of expenditures of the refugee loan proceeds; and in the case of the stabilization

plan, upon the establishment of secure financial and monetary stability and the transformation of the National Bank from a government owned institution into a private corporation, as prescribed by the stabilization plan protocol. In the language of the protocol, "the functions of the adviser shall continue until such time as the Council [of the League of Nations] shall have ascertained that the financial and monetary stability of Bulgaria is assured, and in any case, for not less than two years after the transformation of the Bulgarian National Bank shall have been completed."²⁰

Certain features of the stabilization plan met with strong opposition in Bulgaria. There was scarcely any disagreement in responsible Bulgarian circles as to the need of a foreign loan, and comparatively little objection to temporary financial control on the part of the League. But there was, in Parliament and in the press, much criticism of the fact that the reparation question was left out of account in the formulation of the stabilization plan, and violent opposition to the demand of the Financial Committee of the League for a transformation of the National Bank from a government owned to a private institution.

It was pointed out that in the case of Austria the issue of the reconstruction loan was accompanied

²⁰ For the text of the stabilization plan protocol see Appendix, pp. 350-68. For other relevant documents on the subject see *Bulgarian Stabilization Loan*, League of Nations document, Geneva, 1928. This document contains also a survey of the League activities in Bulgaria by Sir Arthur Salter, Director of the Economic and Financial Section of the League Secretariat.

by a 20-year moratorium on reparation payments, while in the case of Germany the service on the loan issued in connection with the 1924 settlement was included in the reparation annuity. In the case of Bulgaria no attempt was made in connection with the stabilization loan to consolidate the country's foreign public obligations. As a result of this, it was argued, much of the usefulness of the loan would be lost through the fact that its proceeds would probably be absorbed, in a very few years, by the requirements of the international financial transactions resulting from reparation and other treaty payments.²¹

The arguments against the transformation of the National Bank, which formed the real core of the opposition to the plan, were not so much on economic grounds as on those of political and social expediency. It was pointed out that the mere transformation of the Bank was no guarantee whatever against possible fiscal inflation, since, as has happened in other countries, the government could still, in case of emergency, use the Treasury for the issuing of currency. It was shown that, in view of the general economic backwardness of the country, there would be great difficulties in selling the Bank stock to the public, and consequently in safeguarding the ownership of the Bank from falling into either foreign hands or those of a few rich Bulgarians. The opponents of the transformation scheme there-

²¹ This argument was urged especially by Professor D. Mishaykoff, a noted Bulgarian economist and member of Parliament. See his speech on the subject, published *in extenso* in his magazine, *Zveno*, April 22, 1928.

fore maintained that the possible benefits to international prestige resulting from bringing the Bulgarian National Bank into conformity with other central banks—one of the principal arguments urged upon Bulgaria in favor of transformation—would scarcely compensate for the effort involved. The general feeling among a number of outstanding Bulgarian leaders was that, in the absence of compelling advantages, there was no reason for so radical a change.²²

The insistence of the Financial Committee of the League on the transformation of the Bank as an indispensable condition to the granting of League patronage to Bulgaria finally placed before the Bulgarian government a choice between accepting this demand or giving up the whole loan plan. It compromised by accepting the transformation idea in principle and making a solemn promise to carry out the idea at a later date. After considerable difficulty, the Bulgarian government finally succeeded in steering this compromise through Parliament, and the stabilization plan was launched.²³

²² Among the opponents of the transformation of the Bank were such influential members of Parliament as Professor Tsankoff, President of the Parliament; Professor Danailoff, Chairman of the Budget Committee; Professor Mishaykoff; and others.

²³ See pp. 134-5 for the plan of the transformation of the Bank.

CHAPTER VI

THE PROCESS OF MONETARY STABILIZATION

The most pressing problem engaging the attention of Bulgaria during the post-war period has been that of the currency. The reader will recall from our discussion in Chapter III that Bulgaria emerged from the World War with her currency already depreciated by almost one-half and definitely on the downward trend. During the years that have elapsed since the war, Bulgaria has passed, so far as her currency situation is concerned, through two periods. The first period (1919-1923) was characterized by a progressive deterioration of the exchange value of the Bulgarian lev; the second, by a *de facto* stability of the currency. This stability was finally given legal form at the end of 1928, and the Bulgarian currency was thereby placed on a sound basis.

I. DEPRECIATION AND STABILIZATION

The Bulgarian currency began to depreciate very rapidly after the termination of the war. In 1918, the average rate of exchange of the Bulgarian lev with respect to the Swiss franc was 1.2, while by the end of 1922 a Swiss franc was worth, on the average, 28.65 leva.

Fiscal inflation and general uncertainty were responsible for the depreciation of the Bulgarian currency. For reasons which we shall explain in the next chapter, the Bulgarian post-war budgets showed large annual excesses of expenditures over revenues. In the absence of any normal borrowing ability on the part of the Bulgarian government,

INFLATION AND CURRENCY DEPRECIATION ^a

Year	Note Circulation ^b (Millions of leva)	Treasury Debt to the National Bank ^b (Millions of leva)	Average Exchange Rate in Relation to Swiss Franc (Parity: 1 lev=1 franc)
1919.....	2,858	1,771	4.39
1920.....	3,354	2,964	10.91
1921.....	3,615	3,702	19.77
1922.....	3,886	3,797	28.65
1923.....	4,139	3,828	22.99

^a Figures for the note circulation and the Treasury debt are from the annual reports of the National Bank; exchange rates are from Bulgarian National Bank, *Bulletin mensuel*, April, 1928.

^b Figures are for the end of the year.

these budgetary deficits had to be covered by means of inflation, that is, by Treasury borrowing from the National Bank. But the inflation of the note issue resulting from the increase of the Treasury debt to the Bank is not alone sufficient to explain the rapidity and extent of depreciation. The table on this page shows the note circulation of the National Bank, the Treasury debt to the Bank, and the rate of exchange of the lev during the first five post-war years.

During the five-year period, the note circulation increased by one-half, the Treasury debt to the National Bank a little more than doubled, while the exchange rate of the currency depreciated by more than five-sixths between 1919 and 1922, and, despite a recovery in 1923, by four-fifths for the whole period. There is no doubt that the continuing budgetary deficits, as reflected in the rapid growth of Treasury borrowing from the National Bank during the years 1919-1921, had a direct effect on the currency. But this factor is not sufficient to explain the sharp drop in the exchange during the year 1922, nor the appreciation during the year 1923. Reasons for these must be sought in other factors.

The international trade and financial operations of the country at this period did not in themselves exercise any depressive influence on Bulgarian exchange. While the trade data, as we shall see later, are not reliable, nevertheless there is evidence to show that Bulgaria did not have any great difficulty in meeting her foreign obligations. Regular reparation payments did not begin until 1923. The payments made under the treaty up to the end of 1922 did not involve any appreciable transfers in foreign currencies. Interest payments on the pre-war debts were made intermittently and on a comparatively small scale. Some foreign investments entered the country during this period (see pages 174-75). Finally, the National Bank maintained throughout the period sizable stocks of foreign bills; under the item "Foreign Correspondents," the Bank had 990.8 million leva in 1919, 1,368.7 millions

in 1920, 1,080.9 millions in 1921, 764.5 millions in 1922, and 919.8 millions in 1923.

But these were the years during which the financial future of Bulgaria was highly uncertain. An obviously unbearable burden of potential reparation debt hung as a constant menace over the country. The relations between the Bulgarian government and the reparation authorities were particularly strained in 1922. There is every reason to believe, therefore, that the rapid depreciation of the Bulgarian currency was largely the result of an unfavorable discounting of the uncertainties in the country's post-war situation.

Speculative influences were strongly at work. They were responsible for wide fluctuations in the Bulgarian exchange. These fluctuations were especially violent during the year 1923, in the course of which the index of depreciation fluctuated between 3,570 in February and 1,870 in June.¹

The violent fluctuations in the exchange rate led the government to the adoption of drastic measures. Toward the end of the year 1923, a special Currency Commission, under the chairmanship of the Minister of Finance, was appointed to study the exchange problem. While this Commission was at work, on December 12, 1923 a situation approaching a panic developed on the Sofia Bourse; for no accountable reason, during that day the rate of exchange showed a precipitous drop. Fearing a disaster, the Bourse authorities closed their doors and reported the situa-

¹ "Index of depreciation" is used here to signify the index number of the Bulgarian rate of exchange on Zurich, the rate for 1913 being taken as 100.

tion to the Currency Commission. After a hurried consultation, it was decided to keep the Bourse closed indefinitely and to establish a monopoly of the sale and purchase of foreign bills and currencies to be administered by the National Bank. An ordinance to this effect was issued that same day and became operative immediately, although it was not until May, 1924 that it was invested with the dignity of a special law.

As a result of these measures, the National Bank received the exclusive right to purchase and sell foreign bills at rates fixed by itself. Private banks were forbidden to effect such operations, except through the National Bank, and in each particular case they were required to prove the legitimate nature of the transaction. Exporters were required to deliver to the Bank all bills resulting from their sales abroad within ten days after their receipt of such bills, while importers were required to furnish proof of their requirements of foreign bills.

Under the system of monopoly in foreign bill transactions, the National Bank succeeded in keeping the lev stable from 1924 on. After some slight fluctuations during the year 1924, the exchange rate of the lev was finally stabilized at about 2,700 as the index of depreciation, or 139 leva to the dollar. It remained stable during the subsequent years, in spite of the continuing budgetary deficits and a definite turn for the worse in the country's international trade and financial operations.

The Treasury debt to the National Bank continued to grow through the years 1924 and 1925. It stood,

at the end of 1924, at 3,911 million leva, and at the end of 1925, at 4,591 millions. By that time the Treasury had reached the statutory limit of its borrowing from the Bank. In 1922, under pressure from the Inter-Allied Commission, the Bulgarian Parliament passed a law, setting 4,700 million leva as the maximum limit of loans that could be extended to the Treasury by the National Bank, and 5,400 million leva as the maximum limit of fiduciary issue. At the time of its passage, this law had a nominal, rather than real, importance; neither the note circulation nor the Treasury debt was nearly as large as the limits set. The note circulation never did reach its legal limit. The Treasury debt attained its maximum in 1925, the figure mentioned above being the difference between this maximum and the amortization fund which the Treasury had in the meantime accumulated at the Bank, in accordance with the 1922 law.

In 1926 the Treasury ceased to borrow from the Bank. It began to cover its excess of expenditures from other sources, and budgetary deficits ceased to exercise any influence on the rate of exchange.

The situation with regard to the international accounts was just the reverse. The exigencies of foreign payments rapidly exhausted the stocks of foreign bills which the National Bank had at its disposal when it entered upon its functions in connection with the monopoly of transactions in foreign bills. From 919.8 million leva in its "Foreign Correspondents" item at the end of 1923, the Bank passed to 822.8 millions at the end of 1924; 455.1

millions at the end of 1925; and 378.5 millions at the end of 1926. As a matter of fact, the situation in this regard was even worse than is indicated by these figures. The following data (in millions of leva) show the total volume of the transactions of the bank in foreign bills during the years 1924-1929: *

Year	Purchases	Sales	Excess of Sales over Purchases	Excess of Purchases over Sales
1924.....	7,003	7,118	115	...
1925.....	7,019	7,570	551	...
1926.....	6,299	7,060	761	...
1927.....	8,408	7,573	...	835
1928.....	11,057	8,676	...	2,381
1929.....	8,125	9,754	1,629	...

Thus during the three years 1924-1926, the Bank's sales of foreign bills exceeded its purchases by 1,427 million leva. Only a part of this deficit (about 500 million leva) was made up out of the Bank's own resources. The remainder was covered by means of short-term borrowing, mainly from the foreign owned commercial banks operating in Bulgaria.

In 1927 the situation in this respect improved somewhat. Thanks largely to the refugee settlement loan, the Bank's purchases of foreign bills exceeded its sales by over 800 million leva, but this amount was barely sufficient to liquidate the arrears of the preceding three years. At the end of 1928 the position of the Bank improved very greatly, because a large volume of foreign bills was placed at its disposal out of the proceeds of the stabilization loan. However, in 1929 the situation again took a turn for the worse. A large increase in the excess of imports

* Figures furnished by the Bulgarian National Bank.

over exports, of which we shall speak later, produced an unprecedented drain on the foreign exchange resources of the Bank, with the result that during that year the Bank's sales of foreign bills again exceeded its purchases. Although the Bank's supplies of foreign exchange were still sufficient to ensure the stability of the currency, the sudden drop in their volume led to a number of important measures, to which we shall presently refer.

After the stabilization of the currency, the National Bank had to contend with a sharp rise in prices. The table given below shows the movement of currency circulation, wholesale prices, and currency depreciation from 1924 to 1929.

CURRENCY CIRCULATION, WHOLESALE PRICES, AND CURRENCY DEPRECIATION, 1924-1929
(1913 = 100)

Year	Index of Note Circulation ^a	Wholesale Price Index ^b	Index of Currency Depreciation
1924.....	2,401	2,688	2,685
1925.....	1,937	3,052	2,685
1926.....	1,845	2,781	2,685
1927.....	1,975	2,943	2,685
1928.....	2,211	3,210	2,685
1929.....	1,912	3,076	2,685

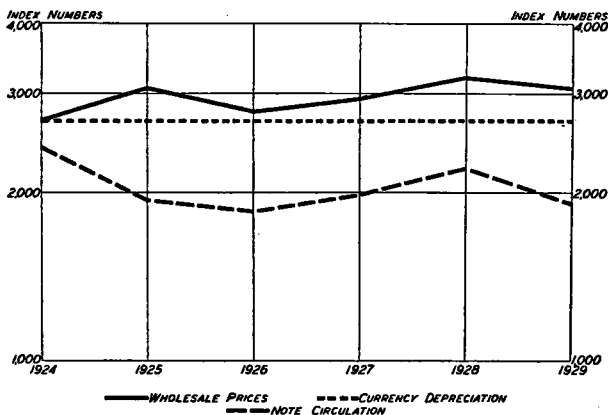
^a Figures for December 31.

^b The National Bank index for the month of December.

The sharp rise in prices in 1925, together with a turn for the worse in the country's international accounts, led the National Bank to inaugurate a policy of deflation. By attracting private deposits

through the offer of high interest rates, and by restricting loans to commercial borrowers, the Bank succeeded in compressing the note circulation. This brought prices down somewhat, but the deflation resulted in accentuating the already existing conditions of business depression.

INDICES OF WHOLESALE PRICES, NOTE CIRCULATION,
AND CURRENCY DEPRECIATION



Starting with 1927, the general situation improved, and the Bank began to diminish its hold on the note circulation. Prices again began to go up, but the rise was no longer considered dangerous, because the Bank had, for the time being, sufficient resources in foreign bills to maintain the stability of the exchange rate. Moreover, even with the rise which took place in 1928 the Bulgarian internal prices, expressed in gold, at the end of that year were still only 16 per cent above the pre-war prices, that is, considerably

below the post-war level of gold prices in world markets generally. However, toward the end of 1929, the National Bank was again forced into a policy of deflation by the drain on its foreign exchange resources, and the operation of this policy found its reflection in the new fall in prices, which occurred that year.*

II. PROGRESS TOWARD THE GOLD STANDARD

At the termination of the World War, the Bulgarian monetary system was still officially based on the double standard introduced by the legislation of 1880 and 1885: both gold and silver coins were full legal tender, and paper money was secured by one or the other and convertible into the metal specified. In reality, this system was not operative, since the convertibility of bank notes had been in suspension for some years prior to the outbreak of the first Balkan war, while during the war period gold and silver coins had entirely disappeared from circulation. By the law of December 18, 1918, the suspension of convertibility was reaffirmed, and notes issued by the National Bank were made legal tender irrespective of their metal cover. This was, in fact, the basis of post-war fiscal inflation.

During the period of currency stability several important steps were taken toward a gold currency basis. The most important of these steps were those represented by the provisions of the laws regarding the National Bank, passed in 1924 and 1926.

* See a discussion of this problem in *Reports of the Commissioner of the League of Nations*, Nos. 13-14.

The law of 1924 stipulated that only gold or bills of exchange expressed in gold currency could be used by the Bank as a basis for the issue of bank notes. Since the Bank was still operating in its monetary policy on the basis of fiat money, this provision had a theoretical, rather than a practical, value. It merely indicated the direction in which the country expected to develop its monetary policy.

The law of 1926, introduced in connection with the refugee settlement loan, went much further. It not merely provided that only gold and foreign bills and currencies expressed in gold could be admitted as cover for the bank notes, but it specifically gave silver coins the character of subsidiary currency. If used as a part of the metal cover, silver was to be counted only at its commercial market value.

The law made not only the bank note circulation but also all sight liabilities of the Bank subject to a proportional gold cover. It set the ratio at 33½ per cent, with a stipulation that, if possible, this ratio should be raised to 40 per cent.

Finally, the law of 1926 provided for an eventual resumption of convertibility, by stipulating that "the convertibility of bank notes into gold will be governed by a special law." In this respect, the law of 1926 became a substitute for the law of 1897, which had provided for the introduction of the gold standard but had left the application of this principle to a decision of the Council of Ministers, and which was never put into effect.

Legal stabilization of the currency was accompanied by the introduction of a full gold exchange standard. The special law stipulated in the National

Bank Act of 1926 was passed in November, 1928 and, together with the new statutes of the Bank approved in September of that year, constitutes the basis of the new monetary system in Bulgaria, founded on monometalism. The special law establishes the value of the Bulgarian lev in relation to gold, by making 92 leva the equivalent of one gram of fine gold. This relation was worked out on the basis of the exchange value with respect to the dollar which had been maintained in Bulgaria for the preceding five years.

Under the new monetary system no provisions are made for the coinage and circulation of gold coins. Article 6 of the special law makes the notes issued by the National Bank legal tender for any amount. The law provides for silver coins, 0.680 fine, and for token money of base metals. The former are declared acceptable in payment of amounts not exceeding 2,000 leva, and the latter of amounts not exceeding 200 leva.

The Bank is authorized to buy and sell gold, but it is not obligated to exchange its bank notes for gold. By the convertibility provisions of its new statutes, the Bank is bound to sell or purchase "in exchange for legal tender currency of Bulgaria the legal tender currency of such foreign gold-standard country or countries as is by law and in practice convertible into exportable gold, and such as may be notified in the *Official Gazette*, for immediate delivery in such foreign country or countries." The minimum of a single transaction of this sort is an amount of foreign currency equivalent to 50,000 leva.

The Bank statutes give the following definitions of the rates at which foreign currencies are to be sold or purchased by the National Bank :

For the purpose of determining the rate applicable to the *sale* of foreign currency under this article, the amount in leva which represents 1,000 grammes of fine gold in accordance with the stabilisation rate shall be deemed to be equivalent to such sum in that foreign currency as is required to purchase 1,000 grammes of fine gold in that foreign country, at the rate at which the principal currency authority of that country is bound by law to sell gold in exchange for currency, after deduction from such of an amount to be fixed by the Bank representing the normal cost per 1,000 grammes of transferring gold bullion in bulk from Sofia to that foreign country, including interest and insurance of its value during transit.

For the purpose of determining the rate applicable to the *purchase* of foreign currency under this article, the amount in leva which represents 1,000 grammes of fine gold in accordance with the stabilisation rate shall be deemed to be equivalent to such sum in that foreign currency as is realised by the sale of 1,000 grammes of fine gold in that foreign country at the rate at which the principal currency authority is bound by law to purchase gold in exchange for currency, after addition to such sum of an amount to be fixed by the Bank representing the normal cost per 1,000 grammes of transferring gold bullion in bulk from that foreign country to Sofia, including interest and insurance on its value during transit.

The mechanism of convertibility was intended to supplant the monopoly in transactions in foreign bills and currencies. Under the terms of the Geneva protocol, the monopoly was to be abolished within six months—"or within such further period as may be approved by the adviser to the Bulgarian National

Bank"—after the day on which legal stabilization went into effect.

The six-month period expired on June 4, 1929; but prior to that date the authorities of the National Bank, in agreement with the foreign adviser, decided to remove the monopoly restrictions gradually rather than suddenly. As the first step toward the relaxation of restrictions, they have authorized private banks to sell foreign bills and currencies in amounts up to 100,000 leva on simple declaration. These represent about one-third of the total transactions. Obligation to pay into the National Bank within the established period the proceeds of export sales remains unchanged, but while the Bank retains control over the exchange transactions of private bankers and money-lenders, many formalities in connection with this control will be abolished or simplified.⁴

The maintenance of an adequate metal cover is secured by statutory provisions. On this point the 1928 statutes of the Bank, while they leave the reserve ratio on the same level as the 1926 law, namely 33½ per cent, go far beyond the provisions of the latter in prescribing the ways in which the maintenance of this ratio is to be safeguarded.

The 1926 law merely stated that whenever the

⁴ *Report of the Commissioner of the League of Nations, No. 11.* A sudden abolishing of the monopoly has been strongly opposed by some Bulgarian economists, for fear that it would open the way again to speculative influences. See, for example, Mishaykoff, D., "Monopol't v'rkhу t'rgoviata s chuzhdi platezhni sredstva," in *Zveno*, No. 14, 1928. Professor Mishaykoff was a member of the 1923 Currency Commission.

reserve ratio fell below the statutory level, the Governor of the Bank was bound to call a special meeting of the Board of Directors or of the Executive Committee and propose an increase in the Bank's discount rate and "any other measures which appear to him to be likely to restore the prescribed cover proportion without delay." This provision was never applied during the two years of the operation of the law, in spite of the fact that the cover proportion remained consistently below the prescribed level.

Counting as cover the stocks of gold and silver (the latter at the commercial market value), bank notes of foreign gold-standard countries, and foreign bills expressed in similar foreign currencies and maturing within not more than three months, but excluding foreign short-term credits (3-6 months) used by the Bank, and as liabilities the notes in circulation and all other sight liabilities, the cover proportion fluctuated during 1927 and the first seven months of 1928 between a low of 20 per cent and a high of about 32.5 per cent.⁵ This represented an

⁵ The cover proportion during the 18 months under consideration was as follows:

	Per Cent		Per Cent
January 7, 1927..	20.22	January 7, 1928...	30.58
February 7.....	21.44	February 7.....	28.57
March 7.....	24.30	March 7.....	28.63
April 7.....	26.72	April 7.....	27.80
May 7.....	28.32	May 7.....	26.74
June 7.....	27.70	June 7.....	24.14
July 7.....	26.60	July 7.....	29.95
August 7.....	27.45		
September 7.....	30.97		
October 7.....	32.46		
November 7.....	32.06		
December 7.....	32.50		

improvement over the year 1926, during the second half of which the cover proportion dropped from 22.17 per cent to 19.25 per cent, but was clearly below the prescribed limit.

The question of raising the discount rate, as provided for in the statutes, came up for discussion several times, but the Bank management decided against it every time. It was felt that an increase in the rate would not bring the desired results and might easily have unfavorable consequences. Through this whole period the rate remained at 10 per cent. In spite of the fact that this was, with the sole exception of that of Greece, the highest bank rate in Europe, it did not attract any appreciable amounts of foreign capital and was not likely to do so if raised. On the other hand, even a slight increase in the rate would probably have been attributed to the fact that the Bank had been recently reorganized, and would have been taken to indicate that the real economic situation in the country was worse than it appeared to be. Moreover, the tendency among private banks, especially in 1928, was to reduce interest rates, and a further development of this tendency might have been impaired by a rise in the National Bank rate.

The Bank preferred to wait until the stabilization loan placed at its disposal the stocks of foreign currencies which were intended for it out of the loan proceeds. With the issue of the loan, the cover resources of the Bank increased almost threefold and the reserve ratio, for the time being, rose far above the statutory limit.

The 1928 statutes removed from the discretion of

the management of the bank the decision with regard to the increase of the discount rate as an instrument for restoring the reserve ratio to the prescribed level. The Bank is given the right to petition the government for permission to reduce the reserve ratio below this level, and such permission may be granted for a period of 30 days, renewable thereafter every 15 days, but on condition that during this period the Bank pay a tax on the excess amount, calculated daily at the following rates: the minimum current discount rate for three-month bills plus 1.5 per cent, if the cover proportion is between 33½ and 30 per cent; the same rate plus 2 per cent if the cover proportion is between 30 and 25 per cent; the same rate plus 3 per cent if the reserve is less than 25 per cent. Simultaneously with the payment of the tax the Bank is obligated to add at least the same percentages to its minimum current discount rate.*

III. REORGANIZATION OF THE NATIONAL BANK

In addition to changes in the country's monetary system, various other features of the Bulgarian National Bank have undergone reorganization since the war. The whole process of reorganization has been directed toward making the administration of the Bank and its operations conform to practices which have become established in the majority of the central banks of the world. From a government bank, which combined with its note-issuing functions those of a government treasury, as well as

* The bank rate was lowered to 9 per cent at the end of 1928, but was again raised to 10 per cent in July, 1929.

those of a commercial and mortgage credit institution, the National Bank has been transformed into a bank of issue, and far-reaching changes in the character of its ownership are in contemplation.

Various provisions in the statutes of the Bank are designed to liquefy its credit resources. As we saw in Chapter II, the Bulgarian National Bank, before the war, performed all types of banking operations from the extension of short-term commercial credits to long-term mortgages. Long-term credits loomed large in its balance sheet, and placed the Bank in the position of having comparatively large frozen assets. The situation in this respect became much worse during and after the war period, when the Bank's activities became increasingly absorbed by the discounting of Treasury bills for budget needs.

At the end of 1926 the government debt to the Bank was 4,584.7 million leva and long-term and mortgage credits aggregated 560 millions. The commercial portfolio of the Bank amounted to 677 million leva, but even a part of this portfolio represented credits granted for longer terms than are considered customary for banks of issue. Although in principle the Bank did not discount for longer than three months, in practice it extended credits for periods up to six months, secured by bills of that duration.¹ Finally, the Bank participated in the ownership of certain enterprises (principally the Central Co-operative Bank and the International Bank of Bulgaria) to the extent of 39 million leva.

¹ Charron, R., "Report on the Settlement of Refugees in Bulgaria," *Scheme for the Settlement of Bulgarian Refugees*, League of Nations document, Geneva, 1926.

Under the terms of its first reorganization, in accordance with the statutes of 1926, the Bank gave up its long-term credit activities and undertook to proceed immediately to a liquidation of its mortgage investments and participations.

The Bank undertook to lend no more funds, directly or indirectly, to the state, the provinces, communes, municipalities, or other public bodies. The only exception made in this respect was the permission granted to the Bank "to discount for the temporary requirements of the state, . . . Treasury bonds with a maturity of six months up to the amount of 300 million leva, which must be repaid by the state before the end of the first half of the financial year following that in which the advance is made." The rate of interest on these advances was fixed at a minimum of 5 per cent.

Finally, the Bank undertook to enforce rigidly the three-month limit in its discount and loan operations. In accordance with the 1926 statutes, no bills, warrants, and such paper in the Bank's portfolio could be of a longer duration than three months, and they could not be renewed. Longer term credit operations were permitted only in the case of the granting of "advances and open current accounts against the pledging of commodities." Such advances could be made for nine months. But it was expressly stipulated that this arrangement should be considered temporary, or "only until separate institutions have been constituted to transact such business."

The 1928 statutes carried the process of liquefying the Bank's resources still further. Although they

increased the maximum limit of temporary government borrowing to 400 million leva, such borrowing was made more difficult because the maturity of the Treasury bills discounted for this purpose was reduced to three months, the bills themselves were made repayable "not later than at the end of the quarter following the close of the fiscal year in respect of which such accommodation is afforded," and the rate of interest was made 2 per cent below the current bank rate, though not above 7 per cent. Moreover, the operation of the temporary provision regarding nine-month advances against merchandise was limited to two years. The only permanent exception to the three-month maturity principle left in the new statutes was the provision, under which the Bank retained the right to discount, purchase, or sell inland agricultural bills and notes with a maturity up to nine months, provided that the total volume of such bills and notes did not exceed one-third of the Bank's portfolio of inland bills and notes.

The relations between the National Bank and the government have undergone a radical change. Up to the time that the 1926 statutes went into effect, the Bank was entirely under the control of the Minister of Finance, who appointed the governor and the administrative council and had far-reaching powers in controlling their activities. Under the new statutes, the Bank was given an autonomous position with regard to the government.

The administration of the Bank was placed in the hands of a Board of Directors, consisting of a gov-

ernor and two deputy governors (who constitute the Executive Committee), four members chosen from among the managing directors serving on the central administration of the Bank, and four members elected from outside the Bank. The governor and his deputies are appointed by royal decree on the recommendation of the Minister of Finance, but are removable only by Parliament after an adequate hearing. The directors chosen from among the Bank's personnel are appointed by the Executive Committee. The four elected members are chosen by the Chambers of Commerce, the Council of the Bourse, and the agricultural organizations.

The government renounced all rights to issue notes and agreed to issue subsidiary and token coins only through the Bank and in agreement with it. It agreed to keep at the National Bank all public accounts, including those of state enterprises. In exchange for this, the Bank undertook to manage without remuneration the receipts and disbursements of the government.

The Minister of Finance retained the right of general supervision and audit. The interests of the government are represented by a government commissioner, enjoying the power of suspensive veto, which he can exercise as a "protest against any decision of the Board of Directors or of the Executive Committee which he considers contrary to the law or to the regulations."

Finally, the statutes declared the Bank "not subject to any regulation made by the government or its subordinate authorities, except as provided in the statutes." The drawing up of the Bank's inter-

nal regulations was left to the Board of Directors, and such regulations were given legal force as though they formed an integral part of the statutes.

The 1928 statutes introduced only minor variations into these provisions.

The transformation of the National Bank into a private corporation is prescribed by the Geneva protocol. The statutes of 1926 and 1928, while placing the Bank in a position of complete autonomy with respect to the government, left the ownership of the Bank in the hands of the government as theretofore. But the Bulgarian government, after the struggle which we described in the preceding chapter, agreed in principle to the transformation of the Bank, at a later date, into a private corporation. The manner in which this transformation is to be effected is described in an annex to the Geneva protocol.*

The Bank's paid-up capital of 500 million leva is to be divided into 500,000 shares of 1,000 leva (\$7.20) each. These shares are to be offered for public subscription by the National Bank itself. The proceeds of the sales are to be applied to the reduction of the government debt to the Bank. All shares must be registered in the name of the holders, and only Bulgarian nationals can be so registered. At the general meeting of the shareholders, which is to constitute the supreme authority of the Bank, each ten shares entitle their holder to one vote, but no shareholder is to be entitled to more than 25 votes in his own right and the same number

* See Annex 2 to the Geneva protocol of 1928 in Appendix, pp. 364-66.

as proxy. The governor and his two deputies are to be appointed as heretofore by royal decree, but the eight directors are to be elected by the general meeting.

It is expected that after the transformation the National Bank will have a larger degree of independence from political influence than at the present time. It is rather difficult to see, however, in what way the independence of the Bank can be made more complete than it is under the existing statutes. In any event, the question of the Bank's actual transformation is for the future, and in the meantime the Bank has ample safeguards from government interference to make a continued maintenance of currency stability quite secure from that point of view.

As for the economic basis of continued currency stability, its tests lie in the general economic situation of the country, especially from the point of view of the government budget and of the country's international trade and service operations. And it is to the consideration of these two problems that we can now turn our attention.

CHAPTER VII

THE PROBLEM OF A BALANCED BUDGET

The task of bringing government expenditures into balance with government revenues has been an exceedingly difficult one for Bulgaria during the post-war period. As we saw in Chapters II and III, the Bulgarian budget was not balanced before 1912 because of large outlays for basic improvements, while during the war period the discrepancy between revenues and expenditures increased rapidly. After the termination of hostilities, Bulgaria faced the need of liquidating the effects of the war, and simultaneously fulfilling the obligations placed upon her by the treaties of peace. This involved the rehabilitation of the basic economic services disorganized during the war years, the payment of the floating indebtedness in the form of war requisitions, and the payment of at least some of the Allied claims growing out of the peace settlement. On the other hand, because of the economic exhaustion of the country resulting from the war, there was comparatively meager basis for revenue collection, so that the balancing of revenues and expenditures proved impossible for some years after the war. Moreover, financial administration was on a low level of efficiency, and required far-reaching improvements in budgetary technique. In this chapter we shall trace

the process by which Bulgaria succeeded in balancing her budget, the improvements which she introduced in her budgetary technique, and her public debt position.

I. ACHIEVEMENT OF BUDGETARY EQUILIBRIUM

Until 1929 Bulgaria continued the same budgetary system as that employed prior to 1912. All current revenues and expenditures went into the so-called "ordinary" budget. Supplementary expenditures not included in the "ordinary" budget, but specially authorized, went into another budget. Outlays for basic improvements, such as railways, ports, and roads, went into the "extraordinary" budget. Finally, there were special "funds," administered independently by separate ministries. Bulgaria thus had an exceedingly complicated budgetary system, which, however, in connection with the stabilization plan, she began to consolidate and simplify.

The post-war ordinary budgets usually showed surpluses, which were absorbed by the supplementary and extraordinary budgets. The table on page 138 indicates all the actual receipts and expenditures of the Bulgarian government, with the exception of the special "funds," for the years 1919-1929.¹ For the nine years from 1919-20 to 1927-28, the excess of revenues over ordinary expen-

¹ The budgetary data used in this chapter were supplied by the Chief Audit Department of the Bulgarian Ministry of Finance. They are the latest revised figures and therefore differ somewhat, in some instances, from figures published in the League of Nations *Memorandum on Public Finance* and elsewhere.

BULGARIAN BUDGET, 1919-1929
(Closed accounts, in millions of leva)

Year ^a	Revenues ^b	Expenditures				Surplus (+) or Deficit (-)
		Ordinary	Extraordinary	Supplementary	Total	
1919-20	844.2	644.6	10.2	361.1	1,015.9	-171.7
1920-21	2,005.5	1,600.7	20.2	405.4	2,026.3	-20.8
1921-22	2,845.5	2,696.3	434.0	730.8	3,861.1	-1,015.6
1922-23	4,423.4	4,056.7	125.2	336.2	4,518.1	-94.7
1923-24	5,361.7	4,956.0	229.3	296.1	5,481.4	-119.7
1924-25	6,952.4	5,899.0	521.5	1,966.4	8,386.9	-1,434.5
1925-26	6,364.6	6,284.7	562.4	291.7	7,138.8	-774.4
1926-27	6,234.6	6,122.7	316.5	316.0	6,755.2	-520.6
1927-28	6,643.4	6,222.4	93.2	424.0	6,739.6	-96.2
1928-29	7,171.4	6,570.9	52.8	116.3	6,740.0	+431.4

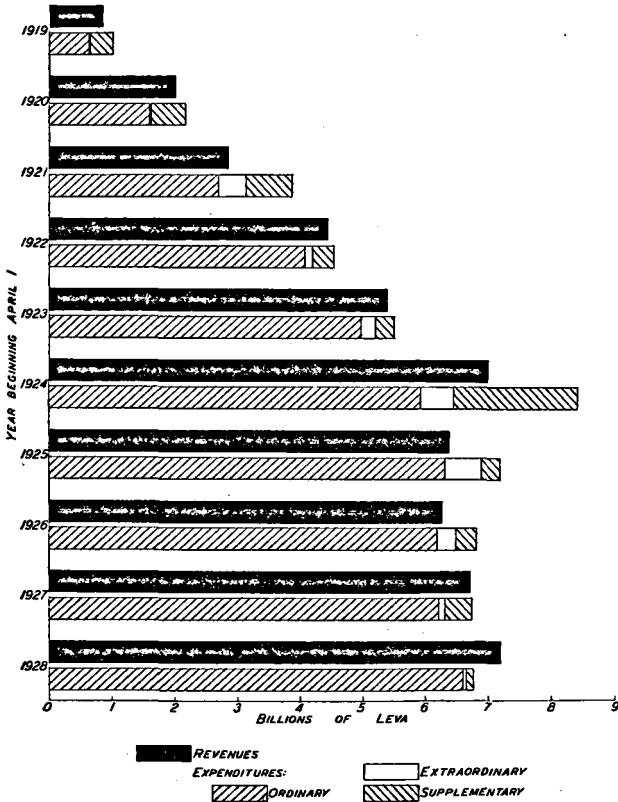
^a The Bulgarian fiscal year extends from April 1 to March 31.

^b The revenues shown here represent only receipts from taxation and from government enterprises; the only exception is the year 1924-25, the figure for which includes profits from exchange of bank notes, amounting for the year to 105.3 million leva.

ditures was 3,192.2 million leva. But during this same period, extraordinary outlays amounted to 2,312.5 million leva, and supplementary credits aggregated 5,127.7 millions. As a result, the net deficit or the nine-year period was 4,248.0 million leva.

Complete budgetary equilibrium was attained in the fiscal year 1928-29. Prior to that year, through the whole post-war period under discussion, the budgets showed deficits, fluctuating between 20.8 million leva in the year 1920-21 and 1,434.5 millions in 1924-25. It was only in the tenth fiscal year since

POST-WAR BUDGETARY RECEIPTS AND EXPENDITURES,
1919-20 THROUGH 1928-29



the war that the revenues of the Bulgarian government proved to be sufficient to meet all budgetary expenditures.

The nominal value of revenues increased rapidly between the years 1919-20 and 1924-25. These years, however, formed the period of currency depreciation. The exchange value of the lev fell from about 4 to 1 (in terms of gold) in 1919 to approximately 27 to 1 at the time of the *de facto* stabilization in 1924. The actual rise in revenues was, therefore, not nearly as great as is indicated in the table on page 138. Reduced to gold values, the increase of revenue during the six-year period was a little over 20 per cent. During the subsequent four years, with the exchange value of the lev stable, the revenues showed the following fluctuations: in 1925-26, they dropped substantially from the high figure reached during the preceding year; in 1926-27, they dropped still more; in 1927-28, they rose again; and in 1928-29 they continued to rise, the figure for that year being somewhat above the figure for 1924-25.

Ordinary expenditures showed a rapid rise during the period of currency depreciation, that is, up to the fiscal year 1925-26. They fluctuated slightly during the three-year period from 1925 to 1928, and rose again in 1928-29. Thus, current expenditures, generally speaking, followed the course of the revenues. Extraordinary and supplementary outlays, however, showed wide fluctuations. The extraordinary outlays were very small during the years 1919-20 and 1920-21, but quite large during the next six years, especially in the years 1921-22, 1924-25, and 1925-26. They were brought back to almost negligible proportions in the year 1928-29.

As for supplementary expenditures, they were especially large in the years 1921-22 and 1924-25. These were the two years during which the total budgetary deficits reached especially large figures.

The budgetary equilibrium attained in the year 1928-29 was achieved mainly through the operation of two factors. In the first place, revenues increased through the raising of customs duties and of some direct taxes, and through improvement in methods of tax collection.² In the second place, extraordinary and supplementary expenditures decreased during the year to comparatively small amounts.

The yield of both direct and indirect taxation increased during the years 1926-1929. The increase of revenue from indirect taxes has been much larger, in absolute figures, than from direct taxes. The table on page 142 shows the budgetary revenues of the Bulgarian government, as they appear in the final accounts for the years 1926-27, 1927-28, and 1928-29.

While indirect taxes, both at the beginning and at the end of the three-year period, represented about one-half of the total revenue, direct taxes furnished in 1926-27 slightly over 7 per cent of the total revenue, and in 1928-29, almost 11 per cent. During the whole period, the yield of indirect taxation increased by 16.8 per cent, while the yield of direct taxation grew by 67.5 per cent.

The principal sources of direct taxation are the land tax and the income tax. The land tax which existed before the war was quadrupled after the

² Bulgarian Ministry of Finance, *Bulletin d'information sur les finances publiques*, April, 1929.

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war, at the same time that other direct taxes, such as those on building property, sheep and goats, etc., were increased. It was abolished in 1922, during the agrarian régime, and a tax on agricultural income was substituted for it. It was re-introduced at the beginning of the fiscal year 1924-25, however, at four times the 1921-22 rate (16 times the pre-war

BUDGETARY REVENUES, 1926-1929
(In millions of leva)

Source	1926-27	1927-28	1928-29
Direct taxes.....	465.2	523.9	779.3
Indirect taxes and duties.....	3,124.9	3,276.6	3,650.1
Receipts from railways and ports	1,071.5	1,097.9	1,222.3
Receipts from postal, telegraph, and telephone services.....	227.1	266.7	275.7
Receipts from public domains and capital	321.9	314.6	240.5
Contributions from communes and provinces for salaries of teachers.....	397.2	495.4	449.5
Miscellaneous receipts.....	192.9	190.0	114.6
Receipts from previous years....	433.9	478.3	439.4
Total.....	6,234.6	6,643.4	7,171.4

rate) for the old districts of the country, and at twice that rate for the districts acquired in 1913. The income tax was introduced in 1920, in place of the pre-war professional tax, and received its present form in the law of June 26, 1925. Greater productivity in both of these taxes was responsible for the increase in the yield of direct taxation.

The principal sources of indirect taxation are import and export duties, particularly the former;

excise duties, especially those on tobacco, salt, and alcohol; and stamp duties. In addition there are various other excise duties and taxes. Most of these levies have been continued in the same form as during the pre-war period, except that they have been increased to make up, more or less, for the depreciation of the currency. An important modification was made in the fiscal year 1925-26 in the duty on tobacco, when a very complicated pre-war system of taxes and duties was consolidated and simplified.*

Only minor modifications in the level of these taxes have been made in recent years. The one exception has been in the case of import duties, which were raised about 25 per cent in November,

*"In the year 1925-26, a single proportional general tax on tobacco took the place of the taxes, duties and contributions previously imposed on behalf of the State, the communes and the departments on native leaf tobacco and on tobacco articles exported abroad, among others: the Customs export taxes, the excise duty of 3 per cent for exchange differences, the taxes imposed on behalf of the communes and departments, the professional tax, the supplementary income tax and the tax on companies engaged in the leaf-tobacco trade. The new proportional tax on the purchase price of tobacco amounts to 14 per cent when the purchase price of leaf tobacco does not exceed 50 leva per kilogramme and 10 per cent when it is above 50 leva. By purchase price is meant the price at which leaf tobacco is offered for sale by the producer. The proportional general tax must be paid by persons or commercial firms irrespective of whether the tobacco is intended for exportation or manufacture. The tax thus imposed is distributed as follows: 1 per cent to the communes of the territory on which the tobacco is grown, 1 per cent to the general council, 1 per cent to the fund for the promotion of tobacco cultivation and trade in Bulgaria; the remainder (7 or 11 per cent) is state revenue."—League of Nations *Memorandum on Public Finance, 1927*. For the details of the Bulgarian taxation system see also Bainoff, *L'imposition des sociétés en Bulgarie*, pp. 79-95.

1928, through a readjustment of the coefficient of currency depreciation.⁴ On the whole, the increase in the yield of both direct and indirect taxation has been due partly to improved conditions and partly to improvements in budgetary technique, of which we shall speak below. There seems little doubt, however, that the whole taxation system in Bulgaria needs a thorough revision and modernization.

The Bulgarian budget includes the gross receipts of the fiscal monopolies, public domains, and government enterprises. The monopolies—which cover four commodities, namely, matches, cigarette paper, playing cards, and quinine—do not play an important rôle in the budget. The principal public domains are forests and mines, the gross receipts from which show a substantial diminution in the last three fiscal years.⁵ The receipts from the railways (which were placed in 1929 on the footing of an autonomous enterprise), the ports, and the communication services show a steady increase during the three-year period.

Finally, the budget includes contributions from local authorities in the communes and provinces made for the purpose of providing salaries for teachers, the system of education being centrally controlled and administered. The amount of these

⁴ See p. 255 for a discussion of the Bulgarian tariff system and policy.

⁵ The only government owned property which was, until 1929, operated as an independent undertaking with an autonomous administration was the important state owned coal mine at Pernik, which was given this status in 1925. Only the net profit or deficit from the operation of the mine is entered in the budget.

contributions increased substantially in the year 1927-28 by comparison with the preceding year, but fell off somewhat in the year 1928-29.

Public debt payments represent an increasing share of budgetary expenditures during the years 1926-1929. The table on page 146 shows the current budgetary expenditures of the Bulgarian government, as they appear in the final accounts for the years 1926-27, 1927-28, and 1928-29.

In the fiscal year 1927-28, as compared with the preceding fiscal year, a number of important adjustments were made in the expenditures of the various administrative departments. Substantial reductions were made in the disbursements of the Ministry of War, the Ministry of the Interior, the Ministry of Agriculture, and the Ministry of Public Works. On the other hand, there were important increases in the credits allotted to the Ministry of Education and the Public Health Administration. On the whole, reductions exceeded increases, and total administrative expenditures in 1927-28 were 127.2 million leva smaller than they were during the preceding year.

In the fiscal year 1928-29 there was again an adjustment of expenditures in all administrative departments. However, reductions only slightly exceeded increases, and the total administrative expenditures in the two years were almost equal.

The public debt payments (including pensions which do not, however, represent very large amounts) show a steady growth during the three years. In 1927-28 they were 226.9 million leva larger than in the preceding year, and in 1928-29 they exceeded the 1927-28 figure by 385 million leva.

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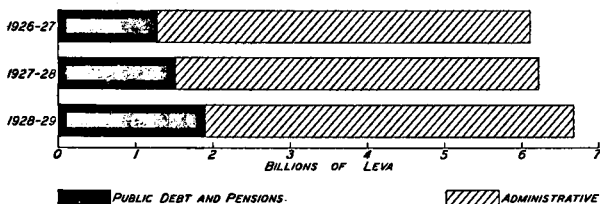
ORDINARY BUDGETARY EXPENDITURES, 1926-1929
(In millions of leva)

Classification	1926-27	1927-28	1928-29
I. ADMINISTRATIVE EXPENDITURES			
Supreme Administration.....	69.6	60.6	76.5
Central Audit Court.....	22.2	23.1	21.5
Ministry of Foreign Affairs...	90.8	92.8	93.1
Bulgarian Orthodox Church...	45.0	45.9	45.7
Ministry of the Interior.....	308.4	274.1	269.2
Public Health Administration.	114.7	139.7	148.3
Ministry of Education.....	794.2	848.1	873.1
Ministry of Finance.....	194.3	175.6	170.4
Ministry of Justice.....	179.1	182.9	187.6
Ministry of War.....	1,169.4	1,042.7	1,039.0
Ministry of Commerce, Indus- try and Labor.....	120.9	117.8	131.9
Ministry of Agriculture and Public Domains.....	196.6	169.1	177.0
Administration of Public Works	209.1	167.1	207.4
Administration of Compulsory Labor *.....	141.7	147.2	158.2
Administration of Railways and Ports.....	841.8	871.0	760.1
Administration of Posts, Tele- graph, and Telephone.....	238.2	222.2	217.8
Administration of Aeronautics.	33.4	45.5	35.8
Bulgarian Reparation Commis- sariat.....	50.9	62.7	44.0
Refugee Work.....	—	5.0	—
Total administrative expendi- tures.....	4,820.3	4,693.1	4,656.6
II. PAYMENT ON THE PUBLIC DEBT AND PENSIONS.....			
	1,302.4	1,529.3	1,914.3
GRAND TOTAL.....	6,122.7	6,222.4	6,570.9

* Compulsory labor service was introduced in Bulgaria in 1920. For the details of the system see Lazard, M., *Compulsory Labour Service in Bulgaria*, International Labor Office document, Geneva, 1922.

There appears to be no reason to expect that future reparation payments are likely to threaten the equilibrium of the Bulgarian budget. Until 1930, payments under the treaty of peace increased more rapidly than total budgetary expenditures. However, taking the first ten fiscal years since the end of the war as a period, we find that Bulgaria paid during these years on account of her reparation liability, occupation charges, and all other obligations resulting from the treaty of peace,

COMPARISON OF BUDGETARY EXPENDITURES FOR DEBT PAYMENTS AND FOR GENERAL ADMINISTRATION, 1926-27 THROUGH 1928-29



a sum aggregating approximately three billion leva. During the same period, her total budgetary expenditures, exclusive of special funds, were slightly under 53 billions. Reparation and related payments have, therefore, absorbed a little over 5.5 per cent of the total budgetary disbursements of the Bulgarian government. If expenditures under the special funds were also taken into account, this percentage would become somewhat reduced. However, the share of total disbursements absorbed by treaty payments during the later years of the period was

considerably higher than the average indicated above. In the budget for 1927-28, reparation and other treaty payments absorb 7.9 per cent of the total regular expenditures, while in the budget for 1928-29 they total over 8 per cent.

There is another item that ought properly to be added to the burden imposed upon Bulgaria by the treaty of peace; namely, the cost of maintaining a volunteer rather than a conscripted army. Estimates as to the extent of this additional cost vary widely, but it appears that the sum of approximately 230 million leva a year, determined after a careful study by the Inter-Allied Commission of Military Control, is not far from the truth. This means that the burden borne by Bulgaria during the ten-year period was over 9 per cent, and in 1927-28 almost 12 per cent, of the regular budget.

Nevertheless, the 1928-29 budget was fully balanced in spite of the outlays for treaty payments. Since from now on such payments are going to be below the 1928-29 level, their discharge ought to present no difficulty from the budgetary point of view. On the other hand, although they constitute but a small percentage of the government expenditures, the treaty payments are bound, nevertheless, to represent something of a drain on the Bulgarian budget, which is a purely consumption one and now includes almost no provision for basic improvements.

Both the extraordinary and the supplementary expenditures have shown a tendency to decrease. These outlays, the first for basic improvements and the second mainly for repaying requisitions made

during the war period, have been authorized by special legislation, outside the regular budget laws. They have been budgeted for periods extending over a number of years, and have been entered in the accounts of the years during which they were actually made.

The first extensive program of extraordinary expenditures was embodied in the law of May 2,

EXTRAORDINARY BUDGETS, 1922-1926
(In millions of leva)

Department of Government	Credits Authorized for the Four-year Period	Actual Expenditures				
		Total	1922-23	1923-24	1924-25	1925-26
Public Health.....	10.0	7.0	—	—	1.9	5.1
Education	51.8	28.1	—	0.8	10.9	16.4
Finance	100.0	4.8	2.2	2.6	—	—
War	200.0	175.9	—	—	82.2	93.7
Commerce, Industry, etc.....	190.0	—	—	—	—	—
Agriculture	285.4	14.7	0.3	4.7	5.4	4.3
Public Works.....	268.0	85.5	—	5.0	36.1	44.4
Railways and Ports	2,926.1	1,024.0	115.3	206.5	357.1	345.0
Posts, Telegraph, and Telephone..	145.0	91.3	7.4	9.7	24.5	49.7
Aeronautics	7.0	7.0	—	—	3.4	3.8
Total.....	4,183.3	1,438.3	125.2	229.3	521.5	562.4

1922, amended later on by the law of July 19, 1924, which provided for a four-year extraordinary budget, extending from the fiscal year 1922-23 to the fiscal year 1925-26, inclusive. These laws authorized ten ministries and administrations to make, during the four-year period, certain extraordinary expenditures, stipulating that these expenditures were to

be covered by the proceeds of domestic and foreign loans and by other assigned revenues. Only a part of the expenditures authorized in this program was actually made, and even this part was not covered, except to a comparatively small degree, by means of the revenues stipulated in the laws. The table on page 149 shows the operation of the four-year extraordinary budget.

Out of the total program of authorized extraordinary expenditures equal to over 4 billion leva, only 1,438.3 million leva were actually expended during the four-year period. The extraordinary receipts of the character stipulated in the laws of 1922 and 1924, aggregated only 442.4 million leva. The remainder, or almost 1 billion leva, represented a deficit which was covered by means of new issues of paper money.

Expenditures for transportation improvement, especially for the railways, accounted for nearly three-quarters of the authorized credits. They represented over 70 per cent of the actual outlays. Of the other departments, only the Ministry of War and the Administration of Posts, Telegraph, and Telephone availed themselves of a substantial portion of their respective shares of the authorized program.

A special law, dated July 15, 1926, authorized extraordinary expenditures during the fiscal year 1926-27 to the amount of 686.7 million leva. The actual extraordinary outlays during that year were only 316.5 millions. During the following year, extraordinary outlays amounted to but 93.2 million

leva, and in the year 1928-29 they dropped to 52.8 millions.

Supplementary expenditures were especially heavy in the year 1924-25, when a particularly large volume of floating war indebtedness was liquidated. They dropped sharply in the year following, rose gradually through the two subsequent years, and dropped again in 1928-29 to the lowest figure in the whole post-war decade.

In the special funds, revenues and expenditures have usually balanced. These funds provide for such government services as pensions, social insurance, relief of war invalids and orphans, sanitary work, certain phases of highway construction, educational and technical training work, and so on.* These expenditures are not included in the general budget, but are administered by different ministries with the approval of Parliament. They are covered by specially assigned supplementary taxes, duties, state subsidies, and voluntary gifts. That the expenditures have been kept more or less within the limits of available revenues may be seen from the table on the next page.

The table on page 152 indicates a rapid growth of the special funds. Between the years 1924-25 and 1926-27, the expenditures on account of these funds increased more than twofold. The largest increases in outlay have been in the funds administered by the Ministries of Education and of Finance, which constitute the largest funds. Increased expenditures by the Ministry of Education were primarily for

* League of Nations *Memorandum on Public Finance*, 1927.

SPECIAL FUNDS, 1924-1928
(In millions of leva)

Ministry	1924-25		1925-26		1926-27		1927-28 ^a	
	Revenues	Expenditures	Revenues	Expenditures	Revenues	Expenditures	Revenues	Expenditures
Interior and Public Health.	0.5	0.3	7.0	6.3	1.5	4.5	3.0	5.5
Education	0.4	0.4	0.9	0.9	428.3	428.3	447.5	444.0
Finance	466.3	429.7	594.6	582.0	905.9	925.8	983.1	990.9
War	0.1	0.1	0.4	0.5	98.2	98.2	107.7	107.5
Justice	—	—	—	—	—	—	68.6	36.0
Commerce, Industry and Labor.....	80.0	82.4	103.3	51.6	136.7	81.6	182.1	77.2
Agriculture.....	119.1	90.4	156.3	163.8	261.1	246.3	271.3	278.1
Public Works.....	62.1	62.1	109.8	109.8	82.8	81.6	116.1	115.8
Railway, Posts, Telegraph, etc.	18.0	17.2	38.1	33.5	211.3	184.3	288.8	292.5
E. and Ch. Georgieff Trust ^b	8.4	8.7	10.4	10.7	9.1	9.2	6.2	13.1
Total.....	754.9	641.3	1,020.8	959.1	2,134.9	2,059.8	2,474.4	2,360.6

^a Budgetary estimates.

^b This is a foundation created by the brothers E. and Ch. Georgieff for the establishment of a university, a higher technical school, a national museum, and a national library. It is administered by a special board of trustees.

supplementary salaries to teachers, and those by the Ministry of Finance for additional salaries to government employees generally, for social insurance, etc.

The table also indicates that the revenues of the various funds have generally exceeded the expenditures. The surpluses remain under the control of the respective ministries, and are used for making up deficits whenever expenditures exceed revenues.

II. IMPROVEMENT OF BUDGETARY TECHNIQUE

In the course of the past few years, the Bulgarian government has made a certain amount of progress in improving its budgetary technique and financial administration in general. This improvement, which has been greatly stimulated and advanced by the recommendations on the subject made to Bulgaria by the financial experts of the League of Nations in connection with the stabilization plan, has taken the form of a consolidation and simplification of the budgetary system and of the introduction of better budgetary administration and control. Other important reforms have been introduced or are in the process of introduction, while still others remain to be undertaken.

The Bulgarian budget has been almost completely unified. This unification is the direct consequence of reforms introduced in conformity with recommendations made by the League of Nations experts, the most important of which were indicated in the Geneva protocol of March 10, 1928.⁷ Under the

⁷ For text of protocol see Appendix, pp. 350-68.

terms of this protocol, the Bulgarian government undertook to include in its current or ordinary budget "all expenditures, except such capital outlays for productive purposes as may be provided for from sources other than current revenue." This undertaking was carried out in the drafting of the budget for the fiscal year 1929-30.

In accordance with this reform, not only the disbursements which had been until then included in the ordinary budget, but also those that had been hitherto made under the supplementary and most of those that had been made under the extraordinary budgets, were to be provided for in the current expenditures. The budget for the fiscal year 1929-30 thus contained all government expenditures, except those capital outlays which were to be met out of the proceeds of the stabilization loan.

An important step has also been taken in the direction of merging the special funds with the general budget of the state. The Geneva protocol provided for a gradual unification of the special funds with the general budget. Under its terms, the Bulgarian government undertook to incorporate in the budget all special funds with the exception of ten specified funds, the administration of which it was believed could be carried on more conveniently for the time being outside the general budget. This undertaking was also carried out in the drafting of the budget for the fiscal year 1929-30.

More efficient budgetary control is being introduced. Under the terms of the Geneva protocol, the

Bulgarian government undertook "to maintain the existing system of monthly budgets; to establish a complete and permanent system of Treasury control, and until such system is established, to maintain the existing system of control by the Budget Commission; and to publish regularly every month under appropriate heads returns of receipts and expenditures provided for in the budget, the cash position and the liabilities of the Treasury, and the position of the public debt."

The system of control by a budget commission came into existence in 1926, although it was not formally sanctioned until an appropriate provision was introduced into Article 14 of the budget law for the fiscal year 1928-29. The commission consists of the Chief of the Budget Section of the Ministry of Finance, and representatives of the Audit Court and of the National Bank. It meets each week for the purpose of considering all expenditures exceeding 50,000 leva, approves expenditures only so far as they can be covered by receipts, and investigates the possibilities of effecting economies.

Somewhat later, the system of monthly budgets was introduced, and the Budget Commission was given the task of preparing these budgets. Upon their completion, the monthly budgets are submitted to the Council of Ministers for its approval, and then become obligatory for the respective ministries and administrations, their execution being placed under the strict supervision of the Audit Court. In the second half of each month, the Ministry of Finance announces in the "Official Journal" the cash

account for the budget covering the preceding month.⁵

Through the system of monthly budgets, the Ministry of Finance has acquired a greater degree of control over the expenditures of the different ministries than it had before. In addition to the activities of the Budget Commission and of the Audit Court, the Ministry of Finance has a representative attached to each of the ministries and administrations. The incorporation in the general budget of a large part of the special funds has served to increase the control of the Ministry of Finance over the disbursements of the separate departments of government.

Consistent efforts have also been made by the Ministry of Finance to introduce a better system of accountancy for both receipts and expenditures. The effect of better accounting on the collection of taxes and on the elimination of unnecessary expenditures has already been very marked. The whole system of financial administration is being overhauled with a view to making it more efficient. The process is facilitated by the fact that the disorganizing element of budgetary arrears, carried over from one fiscal year to another, which had been a great detriment to orderly financial administration, has been eliminated. The stabilization loan made it possible for the Bulgarian Treasury to liquidate the existing

⁵ See *Note* presented by the Bulgarian Minister of Finance to the Financial Committee of the League of Nations on Aug. 16, 1928; also Charron, R., "Report on the Settlement of Refugees in Bulgaria," *Scheme for the Settlement of Bulgarian Refugees*.

arrears, and the Bulgarian government has undertaken not to permit in the future a recurrence of this method of financing current expenditures.

An important extension of the control functions of the Ministry of Finance is needed in the field of local administrative finances. At the present time, the finances of provinces, communes, and other local governments are under the control of the Police Department of the Ministry of the Interior. A method to be followed in transferring these control powers to the Ministry of Finance, where they properly belong, is now being worked out.

The financial operations of the railways and other government enterprises are being removed from the budget. This represents another step in the direction of more efficient financial administration, for upon their separation from the budget, such enterprises are being placed on a quasi-commercial footing, which permits the introduction of more business-like methods of management.

As we have already noted, the Pernik coal mines were reorganized into an autonomous enterprise in 1925. A much more important reorganization was provided for in connection with the budget for the fiscal year 1929-30. On January 15, 1929, the Council of Ministers approved a project for the reorganization of the Bulgarian railways, which are state owned, into an autonomous enterprise. The financial operations of the enterprise are to be managed independently of the budget; only the profit and loss accounts are to be incorporated in the latter. The project was later submitted to Parliament and approved by it, with the result that in the budget for

the fiscal year 1929-30 only the estimated net profits of the railway system were included, rather than its gross receipts and expenditures as theretofore.

Plans are being worked out for a similar separation from the general budget of the financial operations of the telegraph and telephone services. Later on, other government enterprises may be treated in a similar manner.

Efforts are being made by the Bulgarian government to reduce the number of government officials and employees. The administrative personnel of the government increased greatly after the war by comparison with the pre-war situation. The data for the two periods are not strictly comparable, because the post-war budget includes two important groups—the rank and file of the army and the railroad employees—which were excluded from the pre-war budget. Even making allowance for these two groups, however, it is clear that the number of officials and employees of the Bulgarian government is larger than it was before the war. The Bulgarian government, therefore, has been making steady efforts toward a reduction of personnel.

The table on page 159 shows the personnel of the Bulgarian government in the years 1911, 1924, and 1928, excluding from the figures for the last two years volunteer troops, and including in the figure for 1911 the employees of the transportation and communication services who were not included in the administrative personnel for that year.

A BALANCED BUDGET

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GOVERNMENT OFFICIALS AND EMPLOYEES IN BULGARIA^a

Department of Government	1928	1924	1911
Supreme Administration.....	95	92	37
Direction of the Public Debt....	128	133	55
Audit Court.....	481	433	120
Ministry of Foreign Affairs and Religion.....	2,601	2,669	2,520
Ministry of the Interior and Public Health.....	10,136	10,228	5,486
Ministry of Education.....	21,687	24,559	12,310
Ministry of Finance.....	4,153	5,512	3,467
Ministry of Justice.....	3,804	3,913	3,081
Ministry of War.....	7,099	7,204	7,068
Ministry of Commerce, Industry and Labor.....	1,891	2,295	2,469
Ministry of Agriculture and Public Domains.....	3,953	4,091	
Administration of Public Works and Welfare, and Compulsory Labor.....	2,624	3,716	3,005
Railways, Ports, Posts, Telegraph, Telephone, and Aeronautics...	24,935	23,993	10,990 ^b
Total.....	83,587	88,838	50,608

^a Figures for 1911 from *Zveno*, April 29, 1926, pp. 13-14; for 1924 and 1928 from the official budgets.

^b Including 3,680 employees not included in the budget.

The table shown above indicates an increase of 38,230 in the administrative personnel of the Bulgarian government as between the years 1911 and 1924. Of this increase, the transportation and communication services accounted for 13,003 and the Ministry of Education for 12,249. Other large increases were shown by the Ministry of the Interior and Public Health and the Ministries of Commerce and Agriculture. As between 1924 and 1928 the government personnel showed a decrease of 5,251.

Among the separate departments of government, the Ministry of Education showed a decrease of almost 3,000 and the Ministry of Public Works of over 1,000, while the other departments showed smaller decreases. The only exceptions were the transportation and communication services, where the personnel increased by nearly 1,000.

It is considered that the present number of government officials and employees still is excessive. Under the terms of the Geneva protocol, the Bulgarian government undertook to reduce this number gradually by a total of about 10,000. Whether or not it will be possible to carry out such a reduction without crippling some of the essential government services remains to be seen. One of the elements in the situation is that such reduction in the personnel will make it possible to increase the salaries of the remaining officials. It is estimated that, in spite of supplementary allowances, the real income of a government official was in 1929 less than two-thirds of what it was before the war. The meager character of their income undoubtedly lowers their economic efficiency.

III. THE PUBLIC DEBT

The public debt of Bulgaria is of three general categories. First, there are the obligations incurred by the Bulgarian government prior to 1912, that is, before the outbreak of the first Balkan war. Second, there are the loans made during the war and the post-war periods for the purpose of covering budgetary deficits, providing for refugee settlement, and similar charges. Finally there are the obligations

imposed upon Bulgaria as a result of the treaty of peace and the various agreements growing out of it.

The major portion of Bulgaria's public debt is of war and post-war origin. The statement given below shows the obligations of the Bulgarian government, foreign and domestic, outstanding on January 31, 1930. According to this statement pre-war debts constitute 38 per cent of the total public debt of Bulgaria. We shall presently describe the scheme in

BULGARIA'S PUBLIC DEBT, JANUARY 31, 1930^a
(In millions of leva)

I. PRE-WAR DEBTS—

Foreign Consolidated:

6	per cent	1892 loan ^b	97.5	
5	"	" 1902 " ^b	2,141.4	
5	"	" 1904 " ^b	2,132.5	
4.5	"	" 1907 " ^b	3,424.3	
4.5	"	" 1909 " ^b	2,041.4	
4.75	"	" 1909 " ^c	430.1	
			10,267.2	

II. WAR AND POST-WAR DEBTS—

Foreign Consolidated:

1926	Refugee loan	2,204.1	
1928	Stabilization loan	3,726.2	
		5,930.3	
	Foreign Non-consolidated	486.5	

Domestic Consolidated:

6	per cent	1914 loan	63.6	
6.5	"	" 1921 " ^d	158.9	
			222.5	

Domestic Non-consolidated:

Debts to various funds	163.0	
Debt to the National Bank	3,124.1	
Other debts	6.2	
	3,293.3	
	9,932.6	

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BULGARIA'S PUBLIC DEBT, JANUARY 31, 1930^a
(In millions of leva)—(Cont'd)

III. DEBTS RESULTING FROM PEACE TREATIES—		
Foreign Consolidated:		
Reparation debt ^b	4,617.0	
Other debts.....	291.5	
	<hr/>	4,908.5
Foreign Non-consolidated.....		77.0
Domestic Consolidated.....		1,710.0
		<hr/>
		6,695.5
		<hr/>
TOTAL.....		26,895.3
		<hr/>

^a Based on the data supplied by the Bulgarian Directorate of Public Debts.

^b Debts in respect of which interest and amortization payments were fixed by the convention of December 11, 1926.

^c Debt to Russia, service on which has been discontinued pending the establishment of diplomatic relations with that country. The non-interest-bearing debt to Russia on account of indemnity for the occupation of Eastern Rumelia, of which 3,618,250 rubles were outstanding on January 31, 1930, is omitted.

^d Exclusive of the portion for which the communes are directly responsible.

^e The Hague agreement annuities, capitalized at 5.5 per cent.

accordance with which payments on these debts were resumed after the war.

Obligations incurred during the war and the post-war periods aggregate 37 per cent of the total. The two periods are treated together, because it is almost impossible to distinguish between them, since budgetary arrears and the floating debts of the war period were, to a considerable measure, regulated after the war and entered in the expenditures of the years during which they were liquidated. The aggregate budgetary deficit during the years 1912-1929 was

about 7 billion leva, while the total borrowings during the period were 9.9 billions. The difference is explained primarily by three factors: First, the bulk of the proceeds of the refugee loan has been and is being spent outside the regular state budget for the special purpose of refugee settlement; second, a substantial portion of the stabilization loan is still available; and third, the refugee and the stabilization loans were floated below par, while the amount entered in the public debt account is the nominal value of the loans. Obligations resulting from the treaties of peace represent, after The Hague settlement, one-quarter of Bulgaria's public indebtedness and consist primarily of the reparation debt.

Three-fourths of the Bulgarian public debt is foreign. The figures below summarize the foreign and domestic public debt (in millions of leva) outstanding on January 31, 1930.

Foreign debts:		
Consolidated.....	21,106.0	
Non-consolidated.....	563.5	
	<hr/>	21,669.5
Domestic Debts:		
Consolidated.....	1,932.5	
Non-consolidated.....	3,293.3	
	<hr/>	5,225.8
Total.....		<hr/> <hr/> 26,895.3

Out of a total public indebtedness, outstanding on January 31, 1930, of 26,895.3 million leva, only 5,225.8 millions represented domestic debt. The bulk of this domestic indebtedness was in the form of Treasury obligations to the National Bank and of

bonds issued to the immigrants from Greece under the compensation arrangements. Prior to the flotation of the stabilization loan, the Treasury debt to the Bank was much larger than it appeared on January 31, 1930; but a part of it was paid out of the proceeds of the loan. Moreover, a part of the stabilization loan was also used for paying off some of the Treasury debts to the various funds. In this manner Bulgaria has converted a part of her domestic debt into a foreign debt. The debt on account of the compensation bonds will be partly offset by the receipts from Greece under the Molloff-Caphandaris agreement.

Bulgaria is now making payments on nearly all of her foreign obligations. In Chapter III we described the manner in which she arranged payments on her obligations resulting from the treaty of peace and the various agreements based on the treaty. The regulation of her pre-war debts came about through a long process of negotiations, which culminated in a definitive agreement on the major portion of these debts in connection with the refugee loan, and in another settlement growing out of the stabilization plan.

At the outbreak of the Balkan wars, Bulgaria had outstanding eight funded foreign loans issued by the Bulgarian government or guaranteed by it. Interest payments on these loans continued up to the time of Bulgaria's entry into the World War, when payments to bondholders belonging to the Allied and neutral countries were suspended. But this suspension applied only to the transfer of the payments.

The sums due were regularly entered in the budget and kept on deposit at the Bulgarian National Bank, and soon after the war steps were taken for their liquidation and for the resumption of current interest payments.

Negotiations were first begun with the holders of the three loans (those of 1902, 1904, and 1907) which had been issued through the intermediary of French banks. Interest on these loans was stated on the coupons in leva, but was payable, at the choice of the bondholders, in leva or in foreign currencies. In view of currency depreciation, the Bulgarian government refused to make these interest payments in gold, but offered to make them in French francs. This offer was accepted by the French bondholders, but on condition that creditors in other countries should fare no better. Negotiations covering these and three other loans were carried on with bondholders in other countries, and finally led to the following arrangement: Bulgaria undertook to pay interest in French francs to bondholders in countries whose currencies were on a par with or above the franc; for countries with lower currencies, the bondholders were given a choice between their national currency and the Bulgarian lev.

This arrangement broke down before long because abuses developed in the transfer of bonds from countries with lower currencies to London and Paris. Whenever such transfers could be traced, the Bulgarian government refused to make payments, drawing up so-called "black lists." The introduction of these "black lists" led to a conflict between

the Bulgarian government and French brokers, and finally resulted in a breakdown of the whole arrangement.*

A new convention was concluded on July 23, 1925, for the three years from April 1, 1924 to March 31, 1927. Under the terms of this convention, Bulgaria undertook to pay from 30 to 42 per cent of the nor-

INTEREST TO BE PAID ON BULGARIAN PRE-WAR DEBTS,
CONVENTION OF 1926

(In percentages of full interest rates)

Period	6% Loan of 1892	5% Loan of 1902, 5% Loan of 1904, and 4.5% Loan of 1907	4.5% Loan of 1905
April 1, 1927 to April 1, 1930..	37	49	35
" " 1930 " " " 1933..	43	56	40
" " 1933 " " " 1936..	48	63	45
" " 1936 " " " 1939..	53	70	50
" " 1939 " " " 1942..	59	77	55
" " 1942 " " " 1945..	64	84	60
" " 1945 " " " 1948..	69	91	65
" " 1948 " " " 1951..	76.5	100	71.5
April 1, 1951 on.....	100	100	100

mal interest payments. The final settlement regarding all of the pre-war loans, except the Russian loan of 1909, was signed on December 11, 1926, in connection with the refugee loan.

Under the terms of the 1926 convention, Bulgaria agreed to resume interest payments in the highest

* Prost, *La Liquidation financière de la guerre en Bulgarie*, pp. 59-66.

currency stipulated in the original contracts at the choice of the bondholder—that is, in effect, in gold—starting with April 1, 1927. Taking into account, however, the difficulties of Bulgaria's present economic position, provisions were made for the partial resumption of interest payments, on a graduated scale, as shown in the table on page 166.

Thus full interest payments on three pre-war loans will begin in 1848, and on two loans in 1851.²⁰ No payments on principal are to be made until 1933.

As we have already noted,²¹ the Treasury bills, discounted in France in 1912 and 1913, that is, during the Balkan wars, were paid out of the proceeds of the refugee loan. The advances made by the Disconto-Gesellschaft, the regulation and final settlement of which were under discussion at the time of the negotiations for the stabilization loan, were funded in May, 1929. Under the terms of the agreement signed in Berlin, the Disconto-Gesellschaft accepted in settlement of its claims an undertaking on the part of the Bulgarian government to pay 17 million Swiss francs, the first payment of two millions to be made on July 4, 1929, and the remainder to be paid by means of 30 equal semi-annual payments with interest at the rate of 5 per cent. All pledges of security originally made by the Bulgarian government in connection with its

²⁰ Payments on the loan contracted in 1896 by the Agrarian Bank and guaranteed by the Bulgarian government were arranged at the same time on the same terms as the 6 per cent loan of 1892.

²¹ See p. 93.

arrangement with the Disconto-Gesellschaft were freed by the agreement.

This leaves still unregulated the Russian loan to Bulgaria made in 1909 and the debt to Russia on account of indemnity for the occupation of Eastern Rumelia. Arrangements regarding these debts are in abeyance, pending the establishment of normal relations between the two countries.

CHAPTER VIII

INTERNATIONAL INCOME AND OUTGO

Serious difficulties in balancing her international income and outgo were encountered by Bulgaria during the first post-war decade. Such a balance is a matter of vital importance in the maintenance of currency stability, and is consequently a determining factor in the general economic condition of the country. It is of special significance in the case of Bulgaria, because she has a fairly large volume of foreign indebtedness, and is, in addition, under obligation to make reparation and other payments under the treaty of peace. The annual outlays needed for discharging interest, amortization, and reparation charges, if they are to be covered out of Bulgaria's own resources, require that her net income from international trade and service operations (other than loans) be at least equal to these outlays. In this chapter we shall examine Bulgaria's international financial transactions, in order to determine the manner in which she has thus far met her foreign obligations.

Imports exceeded exports in Bulgaria's merchandise trade during the first post-war decade. The precise volume of the import excess is somewhat difficult to ascertain, because of the unreliability of the trade data. The official trade statistics of Bul-

garia for the early post-war years, like those of other countries, are open to question. The inaccuracies result from the methods of valuation. The Bulgarian Central Statistical Office derives the values by expert verification of import and export declarations. The declarations of exporters under the conditions prevailing during early post-war years were typically under-statements, and the declarations of importers were over-statements. The reason for this was that, in the face of unstable exchange, the government sought to prevent the flight of capital by requiring exporters to turn over to a government agency all foreign bills received from their sales. Fearing a fall of the exchange, the exporter was desirous of keeping some of his funds in foreign currency, and, in order to retain this foreign currency, his declaration of the value of exports was under-stated. On the other hand, the importer was tempted to over-estimate his foreign bill requirements on a given date because he believed that their purchase subsequently might require a larger number of leva. He was also fearful that the needed supply of bills might not be available later. Expert verification of these declarations was fairly easy in the case of imports, which consisted chiefly of manufactures of more or less standard grades, the values of which could be readily determined by reference to world prices. In the case of exports, however, verification was more difficult because of the great variation in the quality of the produce, especially of tobacco. At the same time, the Statistical Office was not well organized for the difficult task in hand.

INTERNATIONAL ACCOUNTS

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BULGARIAN FOREIGN TRADE, 1919-1929

(In millions of leva)

I. Official Figures

Year	Exports	Imports	Excess of Exports (+) or Imports (-)
1919.....	552.3	963.9	- 411.6
1920.....	1,643.0	2,213.8	- 570.8
1921.....	2,217.3	2,921.1	- 703.8
1922.....	4,329.7	4,037.7	+ 292.0
1923.....	3,537.1	5,123.8	-1,586.7
1924.....	4,902.2	5,557.3	- 655.1
1925.....	5,642.2	7,283.5	-1,641.3
1926.....	5,617.6	6,246.9	- 629.3
1927.....	6,627.1	6,129.0	+ 498.1
1928.....	6,232.6	7,040.9	- 808.3

II. Corrected Figures

1924.....	5,930.6	5,557.3	+ 373.3
1925.....	6,214.3	7,398.8	-1,184.5
1926.....	5,566.3	6,092.5	- 526.2
1927.....	6,684.2	6,173.7	+ 510.5
1928.....	6,379.4	7,192.4	- 813.0
1929.....	6,097.4	8,162.0	-2,064.6

In order to correct the errors in the official figures as published, the Economic Research Division of the Bulgarian National Bank subsequently made a thorough revaluation of foreign trade figures. These figures may be regarded as reasonably accurate. Since 1927, the valuations of the Central Statistical Office have varied but slightly from those made by the National Bank. The table on this page shows

the official statistics of Bulgarian foreign trade during the decade 1919-1928, and the corrected valuations for the period 1924-1929.¹

According to the official statistics, Bulgaria had a net excess of imports over exports during the first five post-war years equal to 2,980.9 million leva, an amount which is probably considerably exaggerated because of the inaccurate valuations discussed above. In the light of the differences between the official figures and the corrected figures for 1924 and 1925, it would appear that the excess of imports was considerably less than the official figures would indicate.

For the second five-year period, according to the corrected figures, the excess of imports over exports was 1,639.9 million leva. The large trade deficits in 1925 and 1928 were chiefly the result of extraordinarily heavy imports and this was also the case in 1929.

Payments on account of foreign public debts have been increasing since the war. In the preceding chapters we described the manner in which Bulgaria resumed interest payments on her pre-war foreign debts, the process by which she regularized the annual instalments required for the liquidation of obligations imposed upon her by the treaty of peace, and the circumstances under which she contracted government loans since the war. We also indicated the extent of her present-day public foreign indebted-

¹ Official figures from *Bulletin mensuel de statistique*, Sofia, February, 1929; corrected figures furnished by the Economic Research Division of the Bulgarian National Bank.

BULGARIAN FOREIGN PUBLIC DEBT PAYMENTS, 1919-1928*
(In millions of leva)

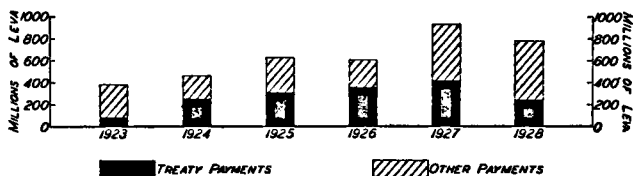
Debts Classified	1919	1920	1921	1922	1923	1924	1925	1926	1927	1928
Pre-war debts	116.6	193.0	253.0	506.1	200.7	92.6	251.0	189.8	239.9	259.4
Reparation debt.....	—	—	—	—	79.8	156.3	180.5	207.9	254.8	134.1
Occupation debt.....	—	—	—	—	—	50.3	77.1	100.6	107.2	107.2
Serbo-Bulgarian convention....	—	—	—	—	—	40.7	52.6	52.6	52.6	—
Advance of Banque de Paris....	—	—	—	139.7	94.1	118.6	60.2	48.2	—	—
Refugee loan.....	—	—	—	—	—	—	—	—	180.1	168.8
Stabilization loan.....	—	—	—	—	—	—	—	—	—	28.1
Other obligations.....	0.8	2.0	2.2	2.7	2.4	1.3	10.4	11.9	96.7	84.2
Total.....	117.4	195.0	255.2	648.5	377.0	459.8	631.8	610.5	931.3	781.8

* Figures furnished by the Bulgarian National Bank.

edness.⁴ The table on page 173 shows the payments made by Bulgaria during the years 1919-1928 on account of the various classes of this indebtedness.

During the years 1920-1923 comparatively large amounts were paid on the pre-war debts, as indicated by the table given on page 173, partly because these payments were made in French francs when

TREATY PAYMENTS COMPARED WITH TOTAL FOREIGN DEBT PAYMENTS, 1923-1928



the franc was at a relatively high parity, and partly (especially in 1922) because of the liquidation of arrears accumulated during the war. The drop in the total payments in 1928 was the result of the postponement of one-half of the reparation annuity.

Private foreign investments in Bulgaria require large annual outlays for interest and dividend payments. Foreign capital is invested in a number of Bulgarian business enterprises, and this investment has been increasing gradually since the end of the war, necessitating larger and larger payments in the form of dividends. Moreover, the high interest rates prevailing in Bulgaria have attracted a comparatively large amount of short-term credits, which also require annual foreign payments for interest.

⁴ See pp. 161-63.

The table given below shows the influx of long-term foreign investments into Bulgaria during the years that have elapsed since the war.

There was a steady increase in the amount of foreign capital brought into Bulgaria between 1921 and 1924. In 1925 there was a sharp drop, due to uncertain political conditions connected with a communist uprising, but in 1926 the influx of foreign

NEW LONG-TERM FOREIGN INVESTMENTS IN BULGARIA
1920-1926 *
(In millions of leva)

Type of Enterprise	1920	1921	1922	1923	1924	1925	1926	Total
Credit and Banking.....	30.9	7.8	1.0	35.0	51.2	41.0	23.4	190.3
Industries.....	23.4	42.4	82.0	72.7	48.0	7.0	67.0	342.5
Transportation..	0.9	—	1.1	4.5	—	—	—	6.5
Commerce.....	14.5	3.3	11.8	16.0	40.9	1.7	33.5	121.7
Insurance.....	1.8	2.3	3.0	—	0.3	4.5	—	11.9
Total.....	71.5	55.8	98.9	128.2	140.4	54.2	123.9	672.9

* Bulgarian National Bank, *Bulletin mensuel*, January, 1928.

capital again increased. The amount of foreign capital brought into Bulgaria during 1927 has been estimated at about 150 millions, while during 1928, partly because of the establishment of a mortgage bank, it probably rose to about 400 million leva. The total of foreign investments in Bulgaria between 1920 and 1928 was, therefore, approximately 1,250 million leva. Adding to this sum the pre-war investments and allowing for errors, we get a figure

of about 1,500 million leva as the probable total of long-term foreign investments in Bulgaria.

The volume of foreign short-term credits, extended through the foreign owned banks by the end of 1928, has been estimated at something over 2 billion leva. The proceeds of these credits are often reported by Bulgarian banks as foreign deposits.³ In addition, there is a short-term commercial indebtedness of probably well over 3 billion leva.

The outlays required for the dividend and interest payments on all this foreign capital operating in Bulgaria have been increasing as more foreign money has entered the country. For the first five years following the stabilization of the currency (1924-1928) we estimate the total payments on this score as 3.2 billion leva. Against this amount we have to set off about 300 million leva as the amount received during the period by Bulgarians who own foreign securities, making the net disbursements 2.9 billion leva.⁴

All other international service operations, taken as a whole, have been yielding Bulgaria a small net income. The largest of these items are emigrant remittances and the sums which Bulgarian seasonal workmen bring in from other countries. In addition, refugees have brought considerable sums into

³ See Chap. XI.

⁴ Dr. S. Zagoroff, in "Opit za izchisliavanie v'nshnia platezhen balans na B'lgaria za 1924 godina," *Spisanie na B'lgarskoto Ikonomichesko Druzhtvo*, Nos. 3-4 for 1925, estimates interest and dividend payments on foreign capital operating in Bulgaria at 425 million leva for the year 1924. The estimate of the Bulgarian National Bank was 650 millions for 1926 and 1,250 millions for 1928. We believe that the last figure is probably too high and estimate it at between 800 and 900 million leva.

Bulgaria during the post-war period. Against these items of income must be set off the comparatively smaller sums taken out by emigrants and by the nationals of surrounding countries leaving Bulgaria under the system of the exchange of populations, and the sums taken out by foreign workmen.

Of somewhat smaller proportions are the earnings of Bulgaria from the tourist trade, an item of income which is more than offset by the expenditures of Bulgarians abroad. The number of foreigners coming to Bulgaria is very small, the number in 1926, for example, being less than 1,500. But at the same time, many Bulgarian students go abroad every year to study in foreign universities, and these together with tourists, business representatives, and government officials, make the number of Bulgarians traveling in other countries comparatively large. As a consequence, the expenditures of Bulgarian nationals (including legations) in other countries, represent a much larger sum than the expenditures of foreigners (tourists, business travelers, legations, missions, etc.) in Bulgaria.

Finally, Bulgaria has a small income from the transit trade carried by her railways. But against this must be set the payments she must make abroad for insurance and reinsurance, for moving picture films, and for a miscellany of minor items.

Bringing together all international trade and service items, we find that Bulgaria's income since the war has fallen short of her requirements. Because of the unreliability of the foreign trade data we have made no attempt to examine in detail the country's trade and service operations prior to the

stabilization of the currency. It is a safe assumption, however, that there was an excess of outgo over income, in view of the fact that exports were less than imports—although, as we have pointed out, this deficiency was smaller than is indicated by the official trade figures. For the five years following stabilization (1924-1928), however, we have brought together data concerning the various items of income and outgo. These are presented in the summary statement on page 179.⁵

We have estimated emigrant remittances and the sums brought in by seasonal workmen during the five-year period at 1,500 million leva; the funds taken out by new emigrants, refugees, and foreign workmen at 600 millions; and the funds brought in by refugees at 300 millions. Net income from these various items thus amounts to approximately 1,200 million leva for the period.

Merchandise imports, according to the corrected figures shown on page 171 above, totaled 32,400 million leva for the five years; and exports, 30,800 millions. The net outgo for the commodity trade was thus 1,600 million leva.

Payments on reparation and other treaty obligations totaled 1,600 millions for the five years and payments on account of other public debts, 1,800 millions⁶ while net payments on account of foreign long-term and short-term investments in Bulgaria,

⁵ All these evaluations are based on the studies by Dr. Zagoroff and by the Bulgarian National Bank, quoted above, and on information obtained from other sources.

⁶ Detailed figures are given on p. 173.

INTERNATIONAL ACCOUNTS

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BULGARIA'S INTERNATIONAL INCOME AND OUTGO, 1924-1928

(Totals for the five-year period, in billions of leva)

Net income from:

Emigrant remittances and seasonal labor in other countries	1.5	
<i>Less</i> funds taken out by new emigrants and foreign workmen.....	.6	
		<u>.9</u>
Funds brought in by refugees.....		.3
		<u>1.2</u>

Net outgo for:

Imports of merchandise.....	32.4	
<i>Less</i> exports of merchandise.....	30.8	
		<u>1.6</u>
Payments on account of reparation and other treaty obligations.....		1.6
Payments on account of other public debts..		1.8
Payments on account of foreign long-term and short-term investments in Bulgaria	3.2	
<i>Less</i> foreign dividends received by Bulgarians .....	.3	
		<u>2.9</u>
Expenditures of Bulgarians abroad.....	1.4	
<i>Less</i> expenditures of foreigners in Bulgaria .....	.5	
		<u>.9</u>
Transportation and other services.....		.2
		<u>9.0</u>
Net outgo for all items.....		<u>7.8</u>

as we have shown on page 176, amounted to about 2,900 million leva.

Expenditures of Bulgarian nationals abroad (including legations) are estimated at 1,400 millions, while expenditures of foreigners (tourists, business travelers, legations, missions, etc.) in Bulgaria are

set at 500 millions. Net outgo for this class of operations thus approximated 900 million leva.

For the miscellaneous services, including income from the transit trade, it is estimated that outgo exceeded income during the period by about 200 million leva.

The figures given above and in the statement are, of course, approximate estimates. They are, however, sufficiently near the probable truth to indicate the character of Bulgaria's international trade and financial operations. They show that for the five-year period the deficiency in Bulgaria's foreign trade was in excess of her income from all service operations, even if annual charges on debt and investment account are not taken into consideration. With interest and dividends included in the reckoning, the international payments required of the country totaled about 7,800 million leva more during this period than her income from all sources.

Bulgaria covered the net outgo in her trade and service operations by means of new borrowing. During the years 1924-1928, the amount of foreign capital brought into the country in the form of long-term investments aggregated about 875 million leva.¹ The amount released during these years out of the refugee and the stabilization loans (not including the sum of 2.6 billion leva from the stabilization loan, since it was not placed at the disposal of the National Bank until December, 1928) was 798 million leva. As compared with the 7,800 million leva deficit to be covered, these loans left a little over 6

¹ See p. 175 for more detailed figures.

billion leva to be made up out of short-term credits of various kinds.

During the year 1929, the international account of the country showed an even greater divergence between the income due from foreigners and the payments to be made to foreigners. In that single year the excess of imports over exports was considerably larger than the total trade deficit for the five years 1924-1928. The net outgo for all items in 1929 was, therefore, substantially larger than the average for the preceding five years. For this year the deficit was in large part covered out of the proceeds of the stabilization loan.

CHAPTER IX

CHANGES IN THE CHARACTER AND DIRECTION OF FOREIGN TRADE

Bulgarian foreign trade has today the same general character as before the war; agricultural products still constitute the bulk of the country's exports, and manufactured goods make up most of its imports. During the war and post-war period, however, important changes have taken place in the kind of agricultural commodities exported, and to a lesser extent, in the kind of manufactured goods imported. These changes in the commodity composition of Bulgarian foreign trade have resulted in significant shifts in the geographical distribution of sales and purchases, which again are more marked with exports than with imports. These shifts, as we shall see later, have given Bulgaria a larger variety of markets and increased the possibilities of foreign trade expansion.

I. SIGNIFICANT DEVELOPMENTS IN EXPORT TRADE

The most important items in Bulgaria's export trade are cereals, tobacco, eggs, and skins and hides. The table on page 183 shows the classified exports for the six-year period 1924-1929.

Tobacco has become the principal Bulgarian export of the post-war era. The reader will recall

FOREIGN TRADE DEVELOPMENTS 183

COMMODITY COMPOSITION OF BULGARIAN EXPORTS, 1924-1929*
(In millions of leva)

Commodity	1924	1925	1926	1927	1928	1929
Tobacco.....	2,715	2,947	1,914	2,117	2,113	2,672
Corn.....	1,110	649	414	566	286	398
Barley.....	80	107	107	474	209	83
Rye.....	9	5	68	120	143	23
Wheat.....	93	233	297	314	160	22
Wheat flour.....	124	198	497	171	90	13
Beans.....	383	82	110	55	48	133
Livestock and poultry.	196	382	242	266	182	93
Eggs.....	553	574	713	730	638	786
Cheese.....	12	7	8	146	61	81
Colza (rape seed) ^b	—	—	—	42	407	—
Sunflower seed.....	1	1	—	22	88	126
Attar of roses.....	109	113	202	124	165	221
Silk cocoons.....	129	223	191	177	284	187
Skins and hides.....	104	229	309	335	336	268
Minerals.....	21	33	28	36	17	43
All others.....	292	381	466	989	1,152	948
Total.....	5,931	6,214	5,566	6,684	6,379	6,097

* Corrected statistics of the export trade, supplied by the Economic Research Division of the Bulgarian National Bank.

^b Amounts for 1924-1926 are very small and are included in "all others"; figures for 1927 and 1928 are from official statistics; the amount for 1929 is very small and is included in "all others."

^c Included in "all others."

from our discussion of Bulgaria's pre-war foreign trade,¹ that prior to the outbreak of the first Balkan war cereals and their derivatives constituted by far the largest export group. In 1911 they accounted for 70 per cent of the total exports. Since the war, however, they have seldom accounted for as much as one-quarter of the total, and in years of poor

¹ See Chap. II.

crops have even fallen considerably below 20 per cent. Tobacco, on the other hand, which was practically non-existent among the country's pre-war exports, now outranks all other items in the list. This shift from cereal to tobacco exports began during the World War, when Germany and Austria-Hungary, deprived of their other sources of supply, made large purchases of tobacco in Bulgaria, at very remunerative prices. After the war, Bulgaria lost most of the tobacco lands which had been in her possession since the termination of the Balkan wars, but she began to grow tobacco on a large scale in several parts of her pre-war territory (Philippopolis, Dupnitsa, Haskovo, etc.), which now supply a substantial part of the better sorts of tobacco grown and exported by her.

Several other articles have acquired considerable importance from the point of view of the Bulgarian export trade. Chief among these have been colza and sunflower seed, silk cocoons, skins and hides. Eggs are also an important item in the Bulgarian export trade, although the volume of egg exports has not as yet reached the pre-war level.

We find that from 1924 to 1927 there was an almost continuous growth in the volume of exports, interrupted only by the drop in 1926 when tobacco exports declined sharply. From 1927 to 1929 there was a steady decrease in the volume of exports. The most marked decreases took place in the exportation of cereals and of livestock. They are accounted for partly by increased consumption and partly, in the case of cereals, by the fall in world grain prices.

FOREIGN TRADE DEVELOPMENTS 185

With the change in the commodity composition of Bulgaria's exports has come an important shift in their geographical distribution. Before the war, Turkey and Belgium were Bulgaria's principal markets, followed in importance by Germany, Great Britain, Austria-Hungary, and France. Today Germany, Austria, and Italy represent Bulgaria's best customers.

GEOGRAPHICAL DISTRIBUTION OF BULGARIAN EXPORTS
(In percentages of total value for each year)

Pre-War Countries of Destination	Average 1909-1911	1924	1927	1928	Post-War Countries of Destination
Austria-Hungary..	7.0	8.2 3.9 7.8	16.0 3.1 4.7	14.5 3.2 2.9	..... Austria Hungary Czechoslovakia
Rumania.....	0.5	0.6	0.7	2.1	..... Rumania
Serbia.....	0.2	0.2	0.3	0.3	..... Yugoslavia
Turkey.....	25.2	4.6	2.6	4.7	..... Turkey
Belgium.....	21.9	4.2	4.9	4.2	..... Belgium
Germany.....	11.9	20.0	23.1	27.5	..... Germany
Great Britain.....	11.2	0.5	1.0	1.9	..... Great Britain
France.....	5.9	12.9	5.7	5.5	..... France
Greece.....	3.4	9.5	14.8	7.9	..... Greece
Italy.....	1.9	10.2	7.3	10.8	..... Italy
Other countries...	10.9	17.4	15.8	14.5	..... Other countries
Total.....	100.0	100.0	100.0	100.0	..... Total

The table given above shows Bulgaria's exports by country of destination in the years 1924, 1927, and 1928, as compared with the average for the years 1909-1911.

There has been a definite shift of Bulgarian exports into Central Europe. During the years 1909-1911, the average share of Austria-Hungary, Rumania, and Serbia in Bulgaria's exports was 7.7 per cent. The five Danubian countries, comprising

essentially the territory of the former Austro-Hungarian monarchy, Rumania, and Serbia, took 20.7 per cent of Bulgaria's exports in 1924; 24.8 per cent in 1927; and 23 per cent in 1928. Germany, which before the war took 11.9 per cent of Bulgarian exports, increased this amount to 20 per cent in 1924, to 23.1 per cent in 1927, and to 27.5 per cent in 1928. Another striking increase has been in the case of Italy, which took 1.9 per cent of Bulgaria's exports before the war and 10.8 per cent in 1928. Purchases by Greece from Bulgaria also show a large increase. On the other hand, Turkey and Belgium, which were important purchasers of Bulgarian grain before the war, have reduced their share of Bulgarian exports, the first from 25.2 per cent before the war to 4.7 per cent in 1928, and the second, from 21.9 per cent to 4.2 per cent. British purchases from Bulgaria, which were quite important before the war, disappeared almost completely after the war, although they have shown a slight increase in recent years.

The change in the direction of the export trade has been an accompaniment of the development of the growth of tobacco exports. Germany, Austria, Italy, and Czechoslovakia are the principal purchasers of Bulgarian tobacco. Together, they take about three-quarters of Bulgaria's tobacco exports, with Germany alone taking about one-third. The principal markets for eggs are in Austria and Germany; these two countries purchase almost three-fourths of the egg exports, while the remainder goes to the countries of Western Europe. Wheat and wheat flour go primarily to Greece; rye to Austria and

Germany; barley to Belgium and Germany; corn to Austria, Greece, France, and Hungary. The largest markets for Bulgarian hides and skins are in Austria, Germany, and France, and for silk cocoons in Italy.

II. CHANGES IN THE IMPORT TRADE

Bulgaria's import trade has likewise undergone some significant developments during the post-war period, chiefly as a result of the development of manufacturing within the country. The table on page 188 shows the principal imports during the five-year period 1924-1928.

The import figures indicate a substantial industrial development within the country. This is especially true of the textile industry. The general growth of textile imports, which in 1911 constituted 30 per cent of the total imports, and in recent years, from 35 to 40 per cent, is attributable to the growth of the country's population. But the increase in the relative importance of raw materials and semi-manufactures, as compared with finished products, is the result of the development of textile manufacturing within the country. The significant change in this direction is indicated by the following figures: Imports of raw cotton increased from 6 metric tons in 1924 to 1,362 in 1927, and imports of cotton yarn from 4,187 tons to 7,515 tons; whereas imports of cotton cloth during the same period showed a decline from 2,727 to 1,991. Imports of textile machinery also increased from 499 tons in 1924 to 936 tons in 1927. The bulk of the machinery imported into Bulgaria consists

of agricultural implements and of machines required in mining and in the wood and ceramic industries.

The import figures also indicate growing consumption within the country. This is especially true of the recent years. The importation of the articles of general consumption increased in 1928 over 1927, and, while detailed figures for 1929 are not available, the data which have been compiled for some of the principal articles imported indicate an even

COMMODITY COMPOSITION OF BULGARIAN IMPORTS, 1924-1928 *
(In millions of leva)

Commodities	1924	1925	1926	1927	1928
Textiles and their manufactures.	2,095	2,719	2,101	2,459	2,639
Machinery and implements.....	469	744	840	749	1,058
Metals and their manufactures..	932	945	1,020	763	898
Rolling stock, vehicles, and boats	73	109	273	72	165
Skins, hides, furs, and their manu- factures.....	226	358	248	324	314
Minerals oils, gums, etc.....	171	193	234	220	238
Wood and its manufactures.....	295	285	197	163	223
Paper and its manufactures.....	119	174	163	167	204
Tannins, dyes, paints, and var- nishes.....	126	153	125	180	179
Chemical products.....	114	116	158	163	173
Stone, earth, and glass products.	144	133	134	128	136
Colonial goods.....	123	141	135	115	123
Rubber and its manufactures....	47	83	69	72	94
Vegetable oils, wax, etc.....	214	248	227	218	^b
All others.....	409	883	323	336	597
Total.....	5,557	7,284	6,247	6,129	7,041

* The figures in this table are from the official statistics compiled by the Bulgarian Central Statistical Office. The totals differ somewhat from those given in the table of corrected statistics on p. 171, the latter being supplied by the Economic Research Division of the Bulgarian National Bank. Details for the various groups of imports as evaluated by the National Bank are not available, but the differences in the totals are not sufficiently large to affect the relative importance of the various commodity groups as given in this table. See pp. 169-70 for a discussion of Bulgarian trade data.

^b Included in "all others."

greater increase in that year over 1928. For example, the importation of metals and metal manufactures (exclusive of machinery and implements) increased from 749 million leva in 1927 to 898 millions in 1928 and to 1,291 millions in 1929; the importation of paper products rose from 167 million leva in 1927 to 204 millions in 1928, and to 348 millions in 1929.

Sources of Bulgaria's imports have changed since the war, but not so much as her export markets. The table on page 190 indicates these shifts, as well as the present-day distribution of Bulgarian imports. This table shows that the territory comprising the five Danubian states has somewhat decreased in importance as a source of Bulgarian imports. Before the war, Austria-Hungary alone supplied Bulgaria with 25.1 per cent of her imports, while the Danubian states combined accounted for nearly 30 per cent of the total—as compared with 28.1 per cent for the Danubian territory in 1924, 26.8 per cent in 1927, and 26.5 per cent in 1928. Of the individual countries in this group, Czechoslovakia's share has been steadily increasing, while that of the other four countries has been decreasing.

Germany's share in the import trade of Bulgaria has shown a gradual, but steady, increase since the war. Before the war she occupied second place with Austria-Hungary first; since the war she has held first place. Great Britain, the third largest source of Bulgarian imports before the war, still occupied the third place in 1924; but her share has steadily diminished, and in 1928 she dropped to

fourth place. Italy, on the other hand, which supplied Bulgaria before the war with only 3.9 per cent of her imports, expanded her sales after the war to such an extent that in 1924 she occupied second place in the list of countries from which Bulgaria makes her foreign purchases, supplying 14.2 per cent. She has continued to occupy the second place, with 15.2 per cent as her share in 1928.

GEOGRAPHICAL DISTRIBUTION OF BULGARIAN IMPORTS
(In percentages of total value for each year)

Pre-War Countries of Origin	Average 1909-1911	1924	1927	1928	Post-War Countries of Origin
Austria-Hungary..	25.1	9.6 2.8 5.6	8.2 2.8 9.8	8.0 1.9 10.7	..... Austria Hungary Czechoslovakia
Rumania	3.5	7.4	5.4	5.3	..... Rumania
Serbia	1.3	2.7	0.6	0.6	..... Yugoslavia
Germany	19.0	19.6	21.1	21.2	..... Germany
Great Britain.....	14.8	13.0	12.1	10.4	..... Great Britain
Turkey	10.7	3.5	2.5	2.2	..... Turkey
France	9.4	7.5	7.3	7.7	..... France
Belgium.....	3.9	5.5	3.1	3.7	..... Belgium
Italy	3.9	14.2	14.6	15.2	..... Italy
Greece	1.1	2.0	1.5	1.1	..... Greece
United States....	0.6	1.2	1.6	2.4	..... United States
Other Countries..	6.7	5.4	9.4	9.6	..Other Countries
Total.....	100.0	100.0	100.0	100.0	..... Total

The bulk of Bulgaria's imports of textile materials and manufactures comes from Italy and Great Britain, while Czechoslovakia, France, and Germany supply smaller amounts. Metals and metal manufactures come primarily from Germany, Czechoslovakia, Austria, and Belgium. Machinery and implements are supplied largely by Germany, Great Britain, Czechoslovakia, Austria, and the United States.

CHAPTER X

AGRICULTURAL AND INDUSTRIAL PRODUCTION

Agriculture is today, as it was before the war, the principal branch of economic activity in Bulgaria. While the growth of the urban population has been slightly faster since the war than that of rural population, nevertheless the latter still constitutes practically four-fifths of the total. The census of 1920 showed a ratio of 19.94 to 80.06, while that of 1926 showed one of 20.66 to 79.34. The increase of the total population, however, has raised a very important problem in view of the fact that, in the course of the territorial adjustments produced by the wars, the area under cultivation in Bulgaria has been reduced by 100,000 hectares and constitutes today 37 per cent of the country's territory as against the pre-war figure of almost 41 per cent.¹ This relative diminution of agricultural resources has necessitated the use of better agricultural methods in order to overcome the contraction of production resulting from the decrease of the area under cultivation.

Compared with agriculture, industry is a relatively unimportant branch of economic activity in Bulgaria. It provides employment for but a small

¹ *Annuaire statistique* for 1927, p. 109.

percentage of the population and is responsible for only a minor share of the country's national income. Nevertheless, extracting and manufacturing industries render it possible for Bulgaria to export some of her agricultural products in worked rather than raw condition, to supply her requirements of fuel and of some of the basic construction materials, and to produce at home some of the simpler manufactured goods which would otherwise be imported from other countries.

In this chapter we shall analyze Bulgaria's post-war situation with regard to agricultural and industrial production. We shall also discuss the possibilities of increased output and the measures being taken for its stimulation.

I. AGRICULTURAL PRODUCTION AND SURPLUS

Bulgaria produces all of the principal cereals, as well as some rice, which is grown in the southern portion of the country. The growing of cereals, of which wheat and corn are the most important, is diversified by the cultivation of a number of plants for industrial use,³ chief among these so-called industrial crops being tobacco and certain varieties of oil-bearing plants.

The Bulgarian production of the principal cereals is slightly larger than it was before the war. The table on page 193 shows for the various cereal crops the area planted and the yields during the post-war years in comparison with the last five-year period

³ Following European usage, we employ this term to cover crops, other than cereals, the products of which undergo some form of industrial processing.

before the war. This table shows a remarkable recovery of Bulgarian cereal production during the last three years of the first post-war decade. The average area planted to all cereals was, during the years 1921-1925, only 90 per cent of the average

PRODUCTION OF CEREALS IN BULGARIA *

I. Area Planted
(In thousands of hectares)

Cereal	Average for 1908-1912	Average for 1921-1925	Average for 1926-1928	1929
Wheat.....	1,079.2	967.4	1,088.5	1,058.9
Rye	207.4	179.0	189.5	212.6
Barley.....	250.9	218.2	231.1	223.0
Corn	613.0	590.1	629.5	780.1
Oats	195.8	146.4	126.7	153.4
Rice.....	3.0	4.4	7.2	6.2
All others.....	111.1	111.5	130.5	134.4
Total.....	2,460.4	2,217.0	2,403.0	2,568.6

II. Yields
(In thousands of quintals)

Wheat.....	11,096.7	8,545.6	11,795.2	9,019.4
Rye	1,979.7	1,481.1	1,973.2	1,956.7
Barley.....	2,592.9	2,017.5	2,880.8	2,344.3
Corn	6,555.9	5,339.8	5,635.6	9,161.8
Oats	1,466.8	1,030.6	986.1	1,501.4
Rice.....	38.9	62.5	84.7	94.3
All others.....	1,140.2	1,007.8	1,103.1	1,341.2
Total.....	24,871.1	19,484.9	24,458.7	25,421.1

* Official figures of the Central Statistical Office.

area planted during 1908-1912, while the average yield was only 78 per cent of the pre-war figure. During the years 1926-1928, both the average area planted and the average yield rose to 98 per cent of the figures for 1908-1912.

The post-war increase was very marked in the case of wheat, which is Bulgaria's largest and most important cereal crop. After falling to 77 per cent of the pre-war average in 1921-1925, the production of wheat increased to 106 per cent in 1926-1928, although in 1929, because of adverse weather conditions, it dropped to only 81 per cent of the pre-war crop. An even larger relative increase occurred in the case of barley: from 78 per cent of the pre-war average in 1921-1925, its yield rose to 111 per cent in 1926-1928, but fell somewhat in 1929. The production of rye attained approximately the pre-war figure in 1926-1928 and in 1929. In the case of corn, the yield during 1926-1928 was larger than during 1921-1925, but was still below the pre-war figure; in 1929, however, a record crop carried it far above that figure. The same was true of the less important cereals, such as millet, spelt, etc. The production of oats showed a steady decrease until 1929. The yield of rice, which is not as yet cultivated on a large scale, showed a steady and marked increase over the pre-war figure.

Altogether, taking into account the increases in the yield of wheat, rye, and barley, and the decrease in the production of corn, we find that the total average yield of the principal bread grains was, in 1926-1928, just above the average for 1908-1912. In 1929 it was slightly above the pre-war average.

In the meantime, however, there was a large increase in the country's population.

The per capita production of the principal cereals is still substantially below the pre-war level. Taking as 100 the average figures during 1908-1912, for the country's population and for wheat, rye, barley, and corn production, we obtain the following indices of total and per capita production during the post-war years:

INDICES OF CEREAL PRODUCTION
(Average for 1908-1912 = 100)

Cereal	Total Production		Per Capita Production *	
	Average for 1921-1925	Average for 1926-1928	Average for 1921-1925	Average for 1926-1928
Wheat.....	77	106	65	82
Rye.....	75	100	64	78
Barley.....	78	111	66	86
Corn.....	81	86	69	67
All cereals.....	78	98	66	76

* The index of population (the average for 1908-1912 being equal to 100) was 118 for 1921-1925, and 129 for 1926-1928.

These indices show clearly that there was an enormous drop in the per capita production of the principal grains during the years 1921-1925, as compared with the pre-war situation. They also show that the recovery in 1926-1928 was not nearly sufficient, even in the case of wheat and barley, to give Bulgaria the same per capita production that she had before the war.

The falling off in the per capita production of grain has been reflected in both the exports and the domestic consumption of cereals. Bulgaria has continued to sell abroad a part of her crops. And although the volume of her exports has not been nearly so large as before the war, the amount left for domestic consumption has also been substantially below the pre-war level. In the year 1927, for example, the amount of the four principal grains exported by Bulgaria was only one-half of the amount exported in 1912, yet the supplies retained by the country for domestic consumption and seed were, during that year, substantially below those which were available in 1912. Following are the comparative figures for the two years (and also for the year 1924) of the per capita amounts of the principal grains available for domestic consumption and seed (in kilograms) :

Cereal	1912	1924	1927
Wheat	205	124	197
Rye	36	21	28
Barley	57	27	35
Corn	98	80	73

A relatively larger amount of wheat than of the other cereals was retained in the country in 1927, with the result that the amount of that grain available for domestic uses was nearer to the pre-war figure than was the case with rye, barley, or corn. And although the year 1927 shows a marked improvement over 1924 so far as the satisfaction of the consumption requirements of the population is concerned, nevertheless it is clear that on the present level of production Bulgaria can maintain her

exports of cereals only at the expense of domestic consumption.

The industrial crops have developed far above the pre-war level. Before the war, the area planted to such crops constituted less than 1 per cent of the total area under cultivation; at the present time, more than 2.5 per cent of the whole arable land is planted to such crops. The table on page 198 shows the post-war changes in the area devoted to the various industrial crops and in yields.*

The yield of tobacco, the most important of Bulgaria's industrial crops, expanded enormously after the war. The average annual yield in 1921-1925 was more than six times greater than the average for 1908-1912. In 1926-1928, the yield of tobacco fell off sharply, but rose again in 1929. The production of sugar beets increased rapidly during the early post-war years, and continued to grow at a slower rate in 1926-1929. The production of sunflower seed is a post-war development. Prior to the war, it was not grown for industrial purposes, while since the war its cultivation has been expanding very rapidly. There has also been in the last few years a very large increase in the production of rapeseed, the cultivation of which was considerable before the war, fell off in the early post-war years, rose far above the pre-war level in 1926-1928, and almost disappeared in 1929 because of weather conditions. Cotton, still cultivated on a small scale, has been steadily increasing in output. The production of flax and hemp has been increasing slowly.

* Official figures of the Central Statistical Office.

INDUSTRIAL CROPS IN BULGARIA

I. Area Planted
(In thousands of hectares)

Crop	Average for 1908-1912	Average for 1921-1925	Average for 1926-1928	1929
Tobacco.....	7.8	43.5	25.7	34.4
Sugar beet.....	2.3	13.7	17.4	20.0 ^a
Sunflower.....	—	10.6	37.7	70.2
Colza (rapeseed).....	6.9	1.1	19.7	.7
Cotton.....	0.8	2.0	4.3	5.4
Flax and hemp.....	3.5	3.8	4.3	3.7
Potatoes.....	3.0	9.0	11.1	^b
Roses.....	7.6	4.9	5.1	5.9

II. Yields
(In thousands of quintals)

Tobacco.....	59.6	371.5	196.6	249.7
Sugar beet.....	405.2	1,992.5	2,071.6	^b
Sunflower seed.....	—	83.6	293.4	660.6
Rapeseed.....	63.1	6.6	177.4	5.0
Cotton.....	1.8	2.9	7.3	9.4
Flax and hemp seed....	12.9	12.4	13.5	16.0
Flax and hemp fiber...	12.6	13.2	15.7	16.7
Potatoes.....	114.7	325.0	406.7	^b
Attar of roses.....	663.9 ^c	314.5 ^c	414.8 ^c	^b
Silk cocoons.....	1.8	1.4	2.0	2.4

^a Preliminary figure.^b Data unavailable.^c In *muscales* of 5 grams.

The production of potatoes increased rapidly in the post-war period. The cultivation of roses, which are used for the manufacture of perfumes, is the only instance of an industrial crop which has not as yet recovered its pre-war position.

The yield of most of Bulgaria's industrial crops is much too large for domestic consumption. A substantial part of the annual production of tobacco, attar of roses, and oilseeds (sunflower, rape, flax, and hemp seed) is exported. With the increase in the cultivation of these crops there has been a rapid expansion of their exportation.

Bulgaria can increase her production of food-stuffs and agricultural raw materials. This can be achieved by an extension of the area under cultivation, an improvement of the land planted to various crops, and the introduction of better agricultural methods. Only four-fifths of the land capable of cultivation is actually utilized. While the percentage of the arable area which lies fallow is slightly smaller at the present time than before the war, fallow lands still constitute about 20 per cent of the total. Moreover, Bulgaria has large areas of land which are not fit for cultivation either because they require drainage, or because they lack water. Utilization of fallow lands and reclamation through drainage and irrigation can, therefore, add to the area under cultivation.

More important, however, than the extension of the area under cultivation is improvement in the utilization of the land already under plow. The agricultural methods in use in Bulgaria are still extremely primitive. Of the 750,000 plows in use in the country, only 292,000 are made of iron. The remaining 60 per cent are wooden. As a result of this, land in Bulgaria is, generally speaking, plowed to an insufficient depth. Other modern agricultural implements are even more scarce. Moreover, there

is little in the way of careful selection of seed for planting, or of proper rotation of crops. Finally, the use of artificial fertilizers is practically unknown in Bulgaria.

The inevitable consequence is that the yields of various crops per unit of area in Bulgaria are very low. This is especially true of cereals. For example, the wheat yield per hectare of land is somewhat larger in Bulgaria than in Rumania, but it is smaller than in such countries as Hungary and Poland. The same is true of corn, which represents Bulgaria's other important cereal crop. A similar situation exists with regard to many of the industrial crops grown in Bulgaria. Increased yields are possible in almost every phase of agricultural activity.

Measures are being taken by the Bulgarian government to increase agricultural production through an improvement of methods. There now exists in the country a comprehensive law for the encouragement of agricultural production and for the protection of the land. This law, which was introduced largely through the influence of the former Minister of Agriculture, Professor I. Molloff, has unified a large body of separate laws, passed prior to and during the agrarian régime, covering such questions as the promotion of agriculture generally, cattle raising, grape production, and the protection of landed property. Under it, several special funds have been created at the Ministry of Agriculture for the encouragement of various branches of agricultural production. As applied by the present

Minister of Agriculture, Mr. D. Christoff, this law has made it possible for the Bulgarian government to engage in a number of important activities for the purpose of increasing the production of cereals.

The Ministry of Agriculture has devoted a great deal of attention to improving the wheat crop. After careful study, several districts have been chosen for intensive development, and the population of these districts has been given special assistance, through agricultural specialists provided by the Ministry, to place their grain production on a more modern basis. A better system of crop rotation, better selection of seed, and a greater use of agricultural machinery and of artificial fertilizers have resulted in a marked improvement of output in these model communities. The Ministry itself maintains a number of model farms on which improved seed is produced for distribution to various sections of the country.⁴

A special fund is being created by the Ministry of Agriculture for the purpose of constructing grain elevators, which would enable the grain destined for exportation to be properly cleaned and graded. Absence of standardization of grain has been an important difficulty in the Bulgarian export trade so far as cereals are concerned.

The importation of agricultural machinery is being facilitated through the instrumentality of the

⁴ The description of the work of the Ministry of Agriculture in this section is based primarily on a comprehensive memorandum prepared by the Minister of Agriculture, a copy of which he kindly placed at our disposal. See also the chapter on agriculture in *Situation économique et financière de la Bulgarie*, 1927.

Agricultural Bank, which was authorized, by a special law passed in June, 1927, to purchase abroad a large quantity of agricultural implements and sell them to agricultural co-operatives at 20 per cent below their market value and to individual peasants at 15 per cent below. Similar services are performed by the Bank in connection with the importation and distribution of seeds.

Efforts are being directed toward the stimulation and improvement of industrial crops. The Bulgarian tobacco growers, for example, are beginning to concentrate their attention on the production of the better grades of tobacco, since the cheaper grades cannot be sold in the foreign markets. The vine growers, similarly, are attempting to organize their production with the view to finding foreign markets for their grapes, which are of excellent quality, and for their wines.

The Bulgarian government has embarked upon an irrigation program. The problem of water presents difficulties in Bulgaria not from the point of view of rainfall, which is considered adequate,⁵ but rather from that of regulation of the supply. The mountainous nature of the country renders the Bulgarian rivers very swift, and the abundant rainfall of the summer months is carried off without benefiting sufficiently the country's agriculture. An important step in the direction of a regulation of the water supply in the southern part of Bulgaria, which is especially in need of it, was taken on

⁵ According to Ishirkoff, *La Bulgarie: aperçue géographique*, p. 26, it is 700 liters per square meter.

December 25, 1928, when the Bulgarian Parliament passed a bill providing for the construction of the necessary works for the irrigation of 20,000 hectares in the valleys of the Maritza and the Topolnitza Rivers.

Of the land to be irrigated, 52 per cent is now in cereals, principally wheat and barley; 5 per cent is in corn, and 7 per cent is in rice. It is expected that the output of the cereal lands will be increased through irrigation by one-fourth, of the corn lands by one-third, and of the rice fields by one-fifth. Some of the lands to be irrigated under the present plan are planted to tobacco and to oil-bearing plants, and it is expected that the output of these lands will be greatly increased by the availability of water.*

The irrigation project which is now being carried out is only a part of a much larger scheme, which in itself represents but a part of the irrigation possibilities in the country. A comprehensive plan for the irrigation of the lands lying in the valley of the Maritza River and of its tributaries was worked out in 1906. This system of supplying water for the 130,000 hectares of cultivable land in the valley was to take the place of the primitive system of irrigation canals constructed in this portion of the country by the Turks almost 600 years ago for the purpose of watering rice fields. The old Turkish canals, which remain almost as they were centuries ago, are insufficient to provide for the needs of this region. The water available now is sufficient to supply, on the average, 5,000 hectares of rice fields and to make

* Minister Christoff's speech in Parliament, XXII Sess., published in the stenographic report for Jan. 23, 1929.

it possible to grow certain other crops in rotation spread over four or five years. There is, however, enough water to irrigate the whole valley, if proper measures are taken for its conservation.

The 1906 project, as modified by later surveys, calls for the construction of six artificial reservoirs in the mountainous portions of the valley. In these reservoirs sufficient water could be stored to provide even for years of protracted droughts. The scheme calls also for a certain amount of reclamation work, for a program of reforestation, and for the construction of a power-generating station.

Several foreign proposals for the performance of this work have been made to the Bulgarian government since the war, but none of them has so far been found acceptable.¹ In the meantime, the Bul-

¹ The most serious of these proposals was made by Messrs. Ulen and Company of New York. In September, 1924, they submitted the following offer: to undertake the whole Maritza project at a cost of about ten million dollars, to be provided by Ulen and Company in the form of an 8 per cent loan to the Bulgarian government, issued at 85 and redeemable at par in 20 years. The work was to be done on a "cost-plus" basis, Ulen and Company receiving \$1,500,000 for their services. This offer was rejected by the Bulgarian government, and in March, 1926, Ulen and Company made a modified offer: They proposed to supply the whole amount in the form of a 7 per cent loan, issued at 85 and redeemable in 31 years. The other conditions remained the same, except that the time during which the work was to be completed was extended from five years as in the original offer to seven years. The Bulgarian government decided that even in this modified form the offer was unacceptable, because of the excessive cost of financing it. The amount available for actual construction work would have been about seven million dollars, which would have been insufficient in any event for carrying out the whole project.—See Minister Christoff's speech, quoted above.

garian government has decided to undertake on its own account a part of the original scheme. It is expected, however, that as soon as circumstances permit, irrigation work will be extended to other areas.

The irrigation project now being carried out affects less than 1 per cent of Bulgaria's total area under cultivation. The larger irrigation scheme will affect about 4 per cent of the total. While the improvement of agricultural land through irrigation and drainage is necessarily a slow process, such land, when once improved, will be capable of greatly increased yields and will eventually augment appreciably the country's agricultural production.

By means of the agrarian reform, an attempt is being made to improve the system of land tenure. The character of the system of landholding, which we described on page 24 for pre-war Bulgaria, is largely the same at the present time. Not only is there still a very large number of exceedingly small properties, but practically all the holdings are cut up into strips, in some cases widely separated from each other. The agrarian reform, embodied in the basic law passed in 1921 and in the modifying law enacted in 1924, represents a step in the direction of remedying some of these defects.

The object of the agrarian reform is to provide each rural family with sufficient land to yield it a livelihood. In order to attain this object, the right of land ownership is limited to 30 hectares (75 acres) for a family of four, with 5 more hectares for each additional person in the case of larger

families. It is stipulated, however, that the proprietor and his family must themselves cultivate the land, engaging outside assistance only in exceptional cases. Proprietors who do not cultivate their land are allowed a maximum of 5 hectares, if single, 10 hectares if married but childless, and 15 hectares if married and with children.

Under the agrarian law, all privately owned lands in excess of the above-mentioned maximum amounts are subject to expropriation.⁹ A land reserve has been formed, which comprises these expropriated lands together with lands owned by the National Bank and the Agricultural Bank, government and communal lands and forests not used for scientific or economic purposes, lands owned by monasteries which are not already exploited, lands formerly belonging to Turkish or Greek emigrants, and properties confiscated by the government. At the beginning of 1926 this reserve totaled 142,000 hectares. About half of it was allotted to the refugees, under the League of Nations settlement scheme;⁹ the other half is subject to distribution among landless peasantry and proprietors with insufficient holdings.¹⁰

It is doubtful whether the amount of land available for distribution will be sufficient to meet all the desires of the Bulgarian peasants. It is, however, a step toward the alleviation of the condition of some

⁹ For payment equal to 50 per cent of the 1923 market value, less 5 per cent of the sum involved, which is retained for the Land Reserve Fund.

⁹ See pp. 95-99.

¹⁰ For a description of the agrarian reform see the *Near East Year Book*, London, 1927, pp. 523-24.

of the poorer peasants. Moreover, there are still government owned and communal lands, most of them not under cultivation at the present time, which can be made available for distribution and rendered tillable.

The agrarian reform represents an important step in the direction of commassation, or concentration of holdings. Under its provisions, lands distributed out of the land reserve must, as far as possible, represent one whole piece. A peasant receiving an addition to his holdings is obliged, when it is deemed necessary, to exchange some of his present land in order to concentrate his holdings. The Commission, charged with the distribution of land, is authorized to facilitate the exchange of scattered holdings whenever the owners desire it.¹¹ The process of commassation of holdings, however, proceeds very slowly, partly because of a widespread traditional belief among the Bulgarian peasants that scattered holdings are an insurance against the inclemencies of the weather. Its speeding up is largely a matter of education of the peasant masses.

II. LIVESTOCK RAISING

Livestock raising is an important branch of Bulgarian agriculture. The mountainous character of the country affords grazing facilities, which, however, need to be supplemented with fodder. Bulgaria possesses very considerable livestock resources, and, as we saw from our analysis of Bulgarian foreign trade, animal products are coming to play an increasing rôle as export commodities.

¹¹ Articles 39, 40, and 41 of the law of May 9, 1921.

*Bulgaria's livestock resources have been increasing since the war, but not as fast as the country's population. As a result of this, although the country possesses a larger number of domestic animals than before the war, the number of such animals per capita of the population is actually smaller for nearly all groups of livestock. The livestock resources of Bulgaria may be seen from the following data (in thousands of head):*²⁴

	1910	1920	1927
Horses	478	398	411
Mules and asses..	131	181	187
Buffaloes	413	418	430
Cattle	1,606	1,877	1,867
Sheep	8,669	8,923	9,906
Goats	1,465	1,332	1,639
Swine	527	1,090	1,118

It will be seen from this that for all kinds of livestock, except horses, the post-war figures are in excess of those for 1910. And as far as the two sets of post-war figures are concerned, we find a marked increase in 1927 in the number of sheep and goats, a slight increase in the number of swine, and a slight decrease in the number of cattle.

Generally speaking, Bulgaria's livestock resources compare favorably with those of her neighbors, although they are meager when compared with those of well-developed countries. She has, for example, a larger number of cattle and sheep per thousand

²⁴ Figures for 1910 from Iaranoff, *La Bulgarie économique*, p. 39; for 1920, from the livestock census for that year; for 1927, from the memorandum of the Minister of Agriculture quoted above.

of the population than either Rumania or Yugoslavia and a larger number of swine than Rumania. She has, however, fewer horses than either of these countries. On the other hand, Denmark has two and one-half times as many cows per thousand of the population as Bulgaria, and four times as many swine.¹⁴

Bulgarian exports of live animals may be seen from the following data (in thousands of head):¹⁴

	1911	1924	1927
Cattle	10.7	13.8	37.9
Sheep, goats, and lambs..	414.2	134.4	235.1
Swine.....	4.5	1.2	4.7

The exports of cattle have grown steadily, while those of sheep fell off during the war and the period immediately following, although they rose in 1927 well above the 1924 figure. The exportation of swine, which is not, however, very important, attained in 1927 the pre-war volume. Although the post-war exports of livestock were probably somewhat larger than these figures indicate, because there is undoubtedly a large amount of smuggling of animals into the surrounding countries, especially into Turkey, nevertheless they are still very small

¹⁴ The comparative data for the livestock resources of these countries are as follows, the numbers being per thousand of the population during the year specified:

Country	Year	Horses	Cattle	Swine	Sheep
Bulgaria	1927	74	339	203	1,800
Rumania	1927	108	253	171	719
Yugoslavia	1926	93	309	234	661
Denmark	1927	149	832	1,066	66

¹⁴ *Annuaire statistique* for 1928, p. 161.

in comparison with the livestock resources of the country. This is largely accounted for by increased consumption of meat within the country. No data are available for the pre-war consumption of meat, but the amount of meat consumed in Bulgaria has been growing steadily since the war. It was 11.3 million kilograms, or 24.9 kilograms per head of the population, in 1920, and 24.5 million kilograms, or 39.7 per head, in 1928.¹⁵

A still more important reason is that the increase of livestock—especially the two most important classes, cattle and sheep—has not kept pace with the growth of the population. If we take the figures for 1910 as 100, we find the following comparative indices for the livestock population in the post-war period:

INDICES OF LIVESTOCK RESOURCES
(1910 = 100)

Specie	Total Livestock		Livestock per Capita *	
	1920	1927	1920	1927
Horses.....	83	86	74	67
Cattle.....	117	116	104	90
Sheep.....	103	114	92	88
Swine.....	207	212	185	164

* The index of population (the figure for 1910 being equal to 100) was 112 in 1920, and 129 in 1927.

¹⁵ Figures for 1920 are from *Situation économique et financière de la Bulgarie*, 1927, p. 30; those for 1928 are from *Bulletin mensuel de statistique*, April, 1929.

It will be seen from these data that the livestock situation in Bulgaria was, on the whole, better in 1920 than in 1910, but worse in 1927 than in 1920. Leaving aside the question of horses, the number of which was greatly reduced during the war and has not even now recovered to the pre-war size, we find that the increase of both cattle and swine between 1910 and 1920 was faster than the increase of population, but lagged in the case of sheep. Between 1920 and 1927, the population increased by 17 per cent, while the number of sheep grew by 11 per cent, that of swine by 5 per cent, and that of cattle decreased by 1 per cent.

As regards poultry, a comparison of pre-war and post-war figures shows a development in the exportation of live fowls. In 1911, Bulgaria exported 744,000 fowls; in 1924, 333,000; and in 1927, 875,000.¹⁰ Finally, as may be seen from the table on page 183, there has been an expansion in the post-war period of exports of such animal products as eggs and cheese, as well as of skins and hides.

Livestock raising is capable of further development, and measures are being taken for its stimulation. Generally speaking, livestock raising in Bulgaria is, like the rest of Bulgarian agriculture, in a primitive condition. Just as before the war, it is carried on rather as a part of general farming, than as a separate industry. If better organized, so far as methods and breeding are concerned, it can become a much more important phase of pro-

¹⁰ *Annuaire statistique* for 1928, p. 161.

ductive activity in the country and consequently an increasing source of exports.

One of the great difficulties in the development of Bulgarian livestock has been insufficient production of fodder crops. The area sown to such crops averaged 541.3 thousand hectares in the last pre-war five-year period. For the years 1921-1925, the average dropped to 531.8 thousand hectares, but in 1926 the figure rose to 552.6 thousands. The production of fodder has shown the following fluctuations: for the years 1908-1912, the average was 10,892.2 thousand quintals; in 1921-1925 it fell to 9,557.8 thousands; and for 1926 the figure was 11,439.4 thousands.¹⁷ Altogether, counting the straw and other fodder left after the harvesting of grain, Bulgaria produces approximately 16 million quintals of fodder. This amount represents scarcely one-half of what are probably the minimum requirements for a proper feeding of the livestock which Bulgaria now has. The result is that Bulgarian cattle are underfed and that there is no basis whatever for any expansion of the cattle industry. The Bulgarian Ministry of Agriculture is therefore directing a part of its efforts toward improving this phase of Bulgarian agriculture—by distributing better hay-seed, by encouraging the planting of feed-grass on the lands which now lie fallow, and by similar methods.¹⁸

Efforts are being made for the improvement of stock. For this purpose, the Ministry of Agriculture has selected a number of localities for the

¹⁷ Official figures of the Central Statistical Office.

¹⁸ Memorandum of the Minister of Agriculture, quoted above.

establishment of experimental breeding stations. Special privileges, such as the use of government owned pastures, free services of government veterinaries, etc., are accorded to co-operatives engaged in cattle raising as reward for their efforts in improving their stock.¹⁹ A special epizootic fund exists for the purpose of combating animal diseases.

Finally, the efforts of the Ministry of Agriculture are devoted to the modernization of poultry farming, which is now at a rather low level of development. It is estimated that an average hen in Bulgaria lays 60 eggs a year. The specialists of the Ministry of Agriculture believe that with the improvement of poultry stock, the construction of hen houses (which are almost non-existent in Bulgaria), etc., the average number of eggs laid by the Bulgarian hens can be greatly increased. An experimental station for poultry farming has been established in Sofia, and its work shows the technical feasibility of such an increase.²⁰

III. INDUSTRIAL DEVELOPMENT

In Chapter II we discussed the rise of industrialism in Bulgaria, the measures taken by the Bulgarian government to further its development, and the reasons for the introduction of these measures. We saw that between the year 1909—when legislation for the encouragement of domestic industry assumed its final expression—and the year 1911, the number of industrial enterprises in Bul-

¹⁹ *Situation économique et financière de la Bulgarie*, 1927, pp. 39-40.

²⁰ Memorandum of the Minister of Agriculture, quoted above.

garia increased from 266 to 345. In the latter year, the number of workmen employed in all branches of industrial activity, including mining but excluding transportation, was about 16,000.

Industrial production has made marked progress in Bulgaria during and since the war. The industrial census of 1921 showed 1,404 industrial enterprises, employing 90,000 workmen, in existence in Bulgaria. By the end of 1927, the number of industrial enterprises in Bulgaria rose to more than 2,500, employing about 156,000 workmen.²²

Most of these enterprises are very small, scarcely differing from home industries, which are still, as before the war, widely prevalent in Bulgaria. The number of enterprises comprising so-called large-scale industry—which, of course, is large only in relation to the general level of industrial development in Bulgaria—is not over 500. The growth of manufacture is indicated by the fact that the 1921 industrial census showed a much larger increase of workmen in general industry than in mining. The number of mine workers, though doubling in the course of the decade, constituted but one-ninth of the total number of workmen in 1921.

The tobacco industry, which is almost wholly of post-war origin, engages the largest number of industrial workmen. After it, in order of importance so far as the number of workmen is concerned, are the food-working industries (principally flour milling); the textile industries; coal

²² The industrial statistics used in this section have been supplied primarily by the Economic Research Division of the Bulgarian National Bank.

INCREASE IN INDUSTRIAL PRODUCTION

Commodity	Unit (In thousands)	1909	1921	1925	1926	1927	1928
Cotton cloth.....	meters	*	1,076.7	2,317.0	5,409.4	9,078.7	*
Woolen cloth....	"	947.1	1,016.6	1,868.3	1,512.8	1,824.2	2,140.4
Sugar.....	kilograms	3,950.1 ^b	12,738.5	37,826.7	32,000.8	38,201.9	26,551.0
Vegetable oils....	"	269.5	804.3	1,255.2	2,633.7	3,125.7	*
Leather.....	"	500.6	405.5	1,497.0	1,515.2	1,957.1	1,685.0
Cement.....	"	800.0	32,175.0	80,784.0	87,779.0	112,247.0	*

* Data not available.

^b Figure for 1910.

mining; the production of bricks, tiles, and other ceramic products; the cement industry; and the metal industry. Other important branches of industrial activity in the country are sugar refining, wood-working, paper, and leather.

From the point of view of capital investment, the most important industries in Bulgaria are those devoted to food-products, textiles, and the production of ceramic materials and cement. From the point of view of value, the first place again belongs to the food-products group, followed by textiles, ceramic and cement, tobacco, and metal.

The table on page 215 shows the increase in production over a period of years in some of the Bulgarian industries.

All of the six branches of industry enumerated in the table show a very large increase of output, not only over the pre-war period, but also over the period immediately following the war, which in itself represented a great advance over the pre-war years.

The war and post-war period witnessed an expansion of the mining and timber industries. The table on page 217 shows the growth of mineral production.

In coal production there has been a very great expansion, which started during the war. The bulk of the coal output comes from the government owned mines at Pernik. In the last few years, however, there has been a considerable development of coal extraction from mines operated by private capital. The production of copper ore, which dropped off after the war, increased rapidly in 1925 and 1926, and dropped again in 1927 and 1928. The same

was true of lead ore. On the other hand, Bulgaria began in 1927 to exploit her deposits of copper-lead and zinc-lead ores. The extraction of salt is also of recent origin.

Practically all the mineral resources of Bulgaria are owned by the state. Exploration and exploitation can be carried on only on the basis of

POST-WAR INCREASE IN MINERAL PRODUCTION
(Figures are in thousands of tons)

Commodity	1909	1921	1925	1926	1927	1928
Coal:						
State mines.....	*	871.8	1,095.2	1,051.0	1,064.9	1,239.4
Private mines...	*	39.9	124.4	154.8	172.7	190.9
Total.....	221.5	911.7	1,219.6	1,205.8	1,237.6	1,430.3
Copper ore.....	20.2	14.0	28.3	35.5	10.9	10.9
Copper-lead ore...	—	—	—	—	16.8	8.8
Lead ore.....	7.5	2.5	9.0	11.1	1.2	1.3
Zinc-lead ore.....	1.5	—	—	—	6.7	14.8
Manganese ore.....	—	—	0.6	0.5	0.7	*
Salt.....	—	—	—	4.6	4.0	4.1

* Data not available.

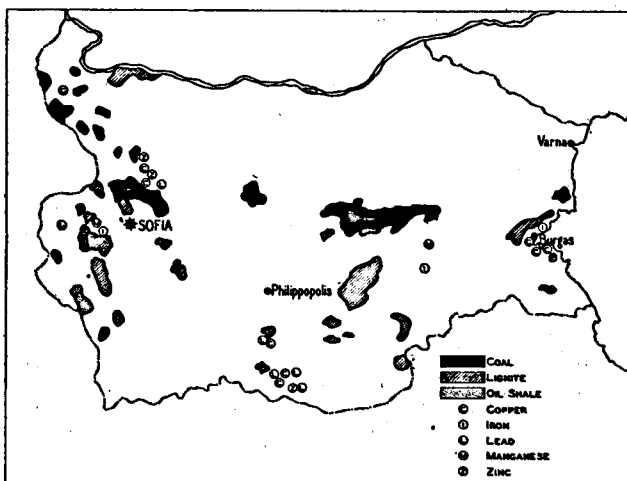
concessions granted by the government. Up to 1929, 36 such concessions had been granted, mostly for the mining of coal. Only a few of these concessions are in actual operation. Most of them are either in the exploration stage or are unable to operate because of lack of necessary capital.

As regards timber production, no recent statistics are available. But between 1915 and 1926, the production of construction timber increased from 389.1 thousand to 1,236.6 thousand cubic meters, that of firewood rose from 2,388.3 thousand to 3,237.5

thousand cubic meters, and that of charcoal, from 570 to 6,558 metric tons.

The timber resources of Bulgaria are extensive, since 29 per cent of the country's territory is under

MINERAL RESOURCES OF BULGARIA



forest. The character of Bulgaria's forest wealth may be seen from the following classification:

Type of Forest	Area in Thousands of Hectares	Percentage Distribution
Coniferous	306.8	10.6
Tall trees.....	676.0	23.4
Medium trees.....	72.0	2.5
Dwarf trees.....	1,555.1	53.9
Mixed	276.3	9.6
Total.....	2,886.2	100.0

Although the Bulgarian forests are not of a very valuable type, the country nevertheless possesses greater forest wealth, in comparison to its population, than many other European countries.²² A large part of the Bulgarian timberlands are publicly owned, as may be seen from the following data:

Type of Ownership	Area in Thousands of Hectares	Percentage Distribution
State.....	788.1	27.3
Communal.....	1,500.9	52.0
Other public institutions	56.2	2.0
Private.....	541.0	18.7
Total.....	2,886.2	100.0

The exploitation of Bulgarian forests is not highly advanced, mainly because of the lack of transportation facilities that would render the mountain timber areas easily accessible. As a result, Bulgaria is an importer, rather than an exporter, of timber products, although as we shall see below she has since the war developed the production and exportation of some types of wood materials.

Bulgarian industries are based only in part on domestic raw materials and fuel. The table on page 220 shows the consumption of domestic and imported raw materials and fuels in nine branches of industry, comprising altogether 312 enterprises.

²² "Considering its population, Bulgaria is richer in forests than Italy, Rumania, Spain, Portugal, or Greece, and vastly better off than Hungary."—Zon, R., and Sparhawk, W. N., *Forest Resources of the World*, 1923, Vol. I, p. 84.

CONSUMPTION OF RAW MATERIALS AND FUEL, 1927
(In thousands of gold leva)

Type of Industry	Primary Raw Materials		Secondary Raw Materials		Fuel	
	Domestic	Foreign	Domestic	Foreign	Domestic	Foreign
Flour milling.....	42,793.3	—	10.2	72.6	298.5	203.1
Vegetable oil.....	3,522.0	683.4	190.5	403.0	55.8	15.2
Tobacco.....	2,565.5	—	1,312.6	2,160.2	53.8	22.3
Textile.....	5,821.1	21,758.9	219.3	1,254.8	966.8	95.8
Wood-working...	981.8	—	53.3	64.2	70.8	—
Metal.....	375.9	3,133.2	269.0	430.5	151.7	119.7
Leather.....	1,808.2	5,306.7	143.1	1,725.5	175.2	6.9
Brick and tile....	389.3	—	137.6	515.7	2,375.2	89.1
Chemical.....	2,530.1	2,794.1	535.1	437.6	177.7	16.6
Total.....	60,787.2	33,676.3	2,870.7	7,064.1	4,325.5	568.7

Of the branches of industry enumerated in the table on page 220, the milling, tobacco, and brick and tile industries obtain all of their primary raw materials from domestic sources, import a large part of their secondary raw materials, and, except in flour milling, use domestic fuel. The vegetable oil and the wood-working industry use mainly domestic primary raw materials and fuel, but import a considerable part of their secondary raw materials. The textile and the metal industries are dependent very largely upon imported raw materials, both primary and secondary; the textile industry uses mainly domestic fuel, while the metal industry imports almost half of its fuel requirements. The leather and the chemical industries also depend to a substantial degree upon imported raw materials, both primary and secondary, but use domestic fuel almost exclusively.

For the whole group, 64 per cent of the primary raw materials and 29 per cent of the secondary raw materials are supplied from domestic sources. As regards fuel, almost 90 per cent of the total requirements are produced at home, although the growing tendency to use oil engines, especially Diesel motors, is rapidly increasing the proportion of imported fuel. If we omit flour milling, however, we find that, for the group under consideration, the volume of imported primary raw materials is substantially larger than that of similar domestic products.

This means that for the purpose of operating most of her existing manufacturing industries, Bulgaria has to import comparatively large quantities of

raw materials. The volume of these imports increases with the growth of industry, except in those cases in which domestic production of the necessary raw materials expands. As regards some of these materials, Bulgaria has succeeded either in decreasing her imports or in developing or increasing her exports.

For example, in 1912 Bulgaria imported 116 thousand tons of soft construction timber and exported 900 tons; in 1927 she imported 46,000 tons, and exported 1,000 tons. At the same time, she almost ceased importing hard construction timber, and more than doubled her exports of firewood. Again, in 1912 Bulgaria imported 189,000 tons of coal, while in 1926 she exported 37,000 tons, and in 1927, 10,000 tons.

The growth of industry has been reflected in the volume of imports of certain finished products. We have already spoken of the shift in the textile imports from finished products to raw materials and semi-manufactures.²⁸ The imports of vegetable oils decreased from 5,200 tons in 1911 to 3,900 in 1927. Sugar, of which Bulgaria was an importer in 1911 to the extent of 13,900 tons, has practically disappeared from the list of her imports and has appeared on the export side of the ledger. The volume of imported hides and skins, both raw and prepared, has decreased appreciably. Of small metal products, such as nails, bolts, smaller implements, and the like, of which in 1911 Bulgaria imported 7,000 tons, in 1927 she imported only 3,900 tons.

²⁸ See p. 188.

These decreased imports, in the light of a large increase of population, indicate that Bulgarian industry is supplying today a somewhat larger proportion of domestic requirements in at least some lines of manufacture. To be sure, so far as the total volume of imports is concerned, these decreases have been more than made up by increases in the imports of raw materials and of machinery. But such imports are the necessary accompaniments of a growing industrial activity, which still supplies but a small part of the country's total requirements of finished goods.

Bulgaria is capable of further industrial development. This is true alike of the production of raw materials and fuels, and of the manufacturing industry. While her natural resources are by no means extensive, they constitute nevertheless the basis for a considerable expansion of industrial activity. Moreover, she has a sufficient supply of industrious and easily adaptable labor.

Among the extractive industries, coal mining—in spite of the large expansion which has taken place in it since the war—can easily be developed considerably beyond its present level. The extraction of metal ores is still in its infancy. While as yet it presents a field for exploration rather than exploitation, it is very probably capable of much greater development than exists at the present time. The extraction of salt on a considerable scale has only begun.

Timber, both for industrial and for fuel purposes, is exploited in Bulgaria to a very small degree in

comparison with the country's forest resources. Judging by the exports of timber products, it too has had a very large increase since the war and is capable of much greater expansion. Water power is scarcely used in Bulgaria, in spite of the fact that the abundance of mountain streams indicates large possibilities of development in the production of electricity.

Bulgaria is a country whose requirements are primarily for simple rather than elaborate finished products. The bulk of her population consists of peasants, whose wants require the cheaper and cruder types of wearing apparel and household goods. Her cities are small, the largest, Sofia, having a population of about 200,000. Luxuries and manufactured articles which require high skill in their production are very little in demand. At least for a part of the products which the Bulgarian population requires, domestic industry, if efficiently organized, can perhaps suffice, and efforts have been directed toward the encouragement of industrial activity.

On the whole, however, industries based on agricultural raw materials were before the war, and are likely to remain in the future, the core of industrial activity in Bulgaria. Flour milling, which has always been the principal branch of this type of production, may expand, if foreign markets develop for its surplus output. There is a large and untouched field of development in canning, especially of fruit and vegetables. The production of dressed meats and meat products is also capable of substan-

tial expansion.* The growth of these industries is important both from the point of view of satisfying the domestic requirements and of providing profitable articles of export, which can be marketed with comparative ease. We shall describe in Chapter XII methods employed by the Bulgarian government for the stimulation of industrial development.

* A concession in this field was recently granted to a British company, but has not as yet become operative.

CHAPTER XI

BANKING AND CREDIT

The financing of economic activity in Bulgaria has presented great difficulties since the war. The country was never abundantly supplied with liquid capital resources, although in the years immediately preceding the first Balkan war there was a marked expansion of credit, based on the growth of savings within the country and on an influx of foreign capital. This process was interrupted by the war, while the currency depreciation which set in during and after the World War wiped out a large part of existing savings and rendered further accumulation difficult. Since the stabilization of the currency in 1924, savings again began to accumulate, but at too slow a pace to meet the country's financial requirements. All this resulted in a shortage of liquid funds and a consequent rise in interest rates. On the other hand, the high interest rates attracted to Bulgaria comparatively large quantities of foreign funds.

Under the influence of post-war conditions, the banking and credit structure of Bulgaria has undergone important modifications, while the rôle which foreign capital plays in the economic life of the country has increased considerably. At the same time, the course of development taken by the Bulgarian credit system during recent years led to the

appearance of a number of unhealthy features, which finally brought on a severe crisis at the end of 1929.

I. POST-WAR CHARACTER OF THE BANKING AND CREDIT SYSTEM

The Bulgarian banking and credit system still consists, as it did before the war, of three government owned banks, of privately owned banking institutions, of a large number of credit co-operatives, and of numerous savings institutions. The post-war period has witnessed, however, far-reaching changes in the relative importance of the first two groups of banks, which constitute the really significant part of the credit structure of Bulgaria. The reader will recall from our discussion of the Bulgarian pre-war banking situation that prior to 1905 the privately owned commercial banks were of minor importance as compared with the government owned banks. Then they began to expand, and this growth has continued so rapidly since the war that at the present time the government owned institutions, while still of great importance, have definitely yielded the position of predominance to the privately owned banks.

In the post-war, as well as in the pre-war, period, the government owned banks have been the largest institutions of credit. Two of these banks, the National Bank and the Agricultural Bank, are of pre-war origin; the third, the Central Co-operative Bank, while it was established in 1910, has really developed during and since the war period. Each

of these banks operates in a definite field, and in its field, each is pre-eminent.

The National Bank is rapidly acquiring the character of a bank of issue. Prior to its reorganization in 1926, it engaged in all types of general banking, but in the process of liquefying its resources, it has lost many of its general banking functions. It has given up its mortgage department, and has begun the liquidation of all its long-term loans. It has also given up some of its commercial activities.¹

The Agricultural Bank, as its name signifies, is engaged in financing agriculture. Under its charter, the bank is authorized to perform three groups of operations: (1) to make loans to peasants and farmers on mortgages secured by land, cattle, standing crops, agricultural implements, and the like, on securities issued or guaranteed by the state, on commercial bills, and on personal notes bearing sufficient endorsement, and to make advances for the purpose of purchasing equipment or improving the land; (2) to make advances to agricultural co-operatives; and (3) to purchase and sell agricultural equipment, cattle, and seed. The Bank may also perform all general banking functions, including loans to the government. The resources of the Bank consist of its own capital and of various kinds of deposits.

On January 1, 1929, the principal investments of the Agricultural Bank were as follows (in millions of leva):²

¹ For a description of the bill-discounting functions of the National Bank see p. 236. See also p. 233 for a discussion of the Bank's commercial activities.

² Bulgarian Ministry of Finance, *Bulletin d'information sur les finances publiques*, April, 1929.

Loans against equipment, merchandise, etc.....	1,073.2
Loans to co-operatives.....	1,037.9
Personal loans.....	617.3
Mortgage loans.....	209.6
Loans to the state and the communes.....	177.0
Loans on bonds and securities.....	22.2

Thus the funds of the Agricultural Bank are mainly employed in financing the requirements of individual peasants and of agricultural co-operatives. Among the latter, credit co-operatives and the organizations of tobacco growers are the principal borrowers.

The Bank operates through its 97 branches and numerous agencies. So far as its capital, its resources, and its operations are concerned, it is much larger than any one of the privately owned banks.

The Central Co-operative Bank is also engaged in financing co-operatives, more in cities and towns, however, than in the rural districts. It is much smaller in the scope of its operations than the Agricultural Bank, although it compares quite favorably with some of the larger private banks in size and in the volume of its activities.

Commercial banking expanded markedly during and since the war. In 1911 there were in Bulgaria 58 privately owned banks. This number rose to 122 in 1922. It declined gradually to 110 in 1926, but rose again in 1927 to 116, and in 1928 to 127. The growth in the number of banks took place particularly during the period of inflation, and was especially rapid during the years 1918-1922, when the fluctuations in the rate of exchange were most

violent. While the increase in the resources of these banks has not been nearly as large as in their number, nevertheless, it too indicates an expansion in commercial banking, as may be seen from the following table, which shows the principal items in the combined balance sheet of all Bulgarian commercial banks in the years 1911, and 1924-1928:¹

PRINCIPAL ITEMS IN THE COMBINED BALANCE SHEET OF THE
BULGARIAN COMMERCIAL BANKS
(In millions of leva)

Item	1911 *	1924	1925	1926	1927	1928
Cash and deposits at the National Bank	120.6	501.0	545.6	597.0	601.6	781.6
Commercial bills	1,230.1	889.5	1,237.6	1,513.7	2,110.2	2,965.5
Loans	2,108.2	2,563.4	2,874.3	2,792.9	2,880.5	3,482.8
Paid-up capital	895.1	577.3	679.8	726.3	790.8	857.9
Reserves	117.9	77.4	90.7	114.0	127.7	149.2
Deposits	2,599.6	3,438.6	4,088.9	4,198.3	4,983.4	6,562.6

* Converted at the present-day rate of exchange for purposes of comparison.

All of the principal items in the combined balance sheet, with the exception of paid-up capital, show a substantial increase in 1928 over 1911. Depreciation of the currency has been responsible for the diminution of the paid-up capital. On the other hand, deposits increased more than 150 per cent. The table also shows a steady growth for all items, with the exception of "loans," between the years 1924 and 1928. The diminution of capital and the increase in deposits have resulted in a striking

¹ Based on data furnished by the Economic Research Division of the Bulgarian National Bank.

change in the relation between the banks' own resources and funds brought in from the outside. Whereas in 1911 the deposits of the banks under consideration were equal to 250 per cent of their paid-up capital and reserves, in 1928 this percentage increased to 650.

Most of the Bulgarian commercial banks are small. They were, at the beginning of 1929, divided into three groups: eight large banks; 24 smaller banks located in Sofia; and 95 smaller banks outside the capital. During 1929, the number of banks increased still more, but toward the end of that year

RELATIVE IMPORTANCE OF LARGE AND SMALL BANKS
(Figures for December 31, 1928, in millions of leva)

Group of Banks	Capital and Reserves	Deposits	Commercial Bills	Loans
8 large banks.....	426	4,461	1,777	2,440
24 small Sofia banks...	284	1,192	531	738
95 provincial banks....	297	909	658	305
Total.....	1,007	6,562	2,966	3,483

a process of consolidation began. Only four of the large banks are of pre-war origin; two were established in 1918, one in 1919, one in 1920, and one in 1921.

The large Sofia banks occupy a predominant position in the Bulgarian banking system. All of the large banks and most of the really important small ones are located in the capital of the country. It is the Sofia banks, especially the large ones, that carry

on the bulk of the country's commercial banking activities. The table on page 231 shows the relative importance of these groups of banks.

In 1928 the large banks' share of the total paid-up capital and reserves was 42 per cent, and that of all Sofia banks, 70 per cent; of deposits, the large banks held 68 per cent, and all Sofia banks, 86 per cent; of commercial bills, the large banks' share was 60 per cent, and that of all Sofia banks, 78 per cent; of loans, the large banks' share was 70 per cent, and that of all Sofia banks, 91 per cent.⁴

The privately owned banks have come, since the war, to dominate the commercial and industrial credit situation in Bulgaria. Before the war, the government owned banks were the dominant factor: the National Bank controlled a little over one-third, and the Agricultural Bank slightly under one-third, of the total volume of discounts and advances in the country. The amount of credit controlled by the government banks was, therefore, double that controlled by the privately owned banks, with the National Bank's share approximately equal to that of the privately owned banks. Since the war, the relative importance of these banks in the credit structure of Bulgaria has undergone important changes, as may be seen from the table on page 233.

The share of the Agricultural Bank in the volume of short-term credits outstanding in Bulgaria in 1926-1929 was about one-quarter; that of the National Bank was less than 10 per cent; while that of the privately owned commercial banks was slightly

⁴The rôle of foreign capital in the Bulgarian banking system will be discussed in the next section of this chapter.

under one-half. The reason for this displacement of the National Bank by the privately owned commercial banks in the credit structure of the country lies partly in the effects of war and post-war conditions, and partly in the structural changes undergone by the Bank in the process of its reorganization.

SHORT-TERM CREDIT IN BULGARIA, 1926-1929^a
(In millions of leva)

Type of Bank	1926	1927	1928	1929
National Bank.....	1,255	976	1,282	1,423
Agricultural Bank.....	2,223	2,425	2,961	4,137
Central Co-operative Bank...	284	289	372	606
Commercial banks.....	4,307	4,991	6,448	7,358 ^b
Popular banks.....	829	1,044	1,429	1,930 ^b
Union of Agricultural Co-operatives.....	353	405	487	487 ^b
Total.....	9,251	10,130	12,979	15,941

^a Based on data furnished by the Bulgarian National Bank.

^b Preliminary figures.

During the war and the years immediately following, nearly all the resources of the Bank were used for financing the needs of the government. By the time the government ceased borrowing from the Bank (1926), the latter was already burdened with a huge government debt, which practically immobilized its resources. Moreover, having achieved a *de facto* stabilization of the exchange rate in 1924, the Bank found itself constrained, in the absence of adequate supplies of foreign bills which could be used as monetary reserves, to follow a severely restricted credit policy. The gap thus produced in the country's

short-term credit had to be filled in some way, and the task fell to the privately owned commercial banks. This they did very largely by attracting funds from abroad.

The reorganization of the National Bank at the end of 1928 introduced important modifications into the character of its balance sheet, as may be seen from the following statement:

COMPARATIVE BALANCE SHEET OF THE BULGARIAN NATIONAL BANK, 1927-1929

(Figures for December 31 of each year, in millions of leva)

ASSETS:	1927	1928	1929
Gold.....	1,277	1,323	1,389
Silver.....	165	170	170
Foreign bills.....	479	3,270 ^a	1,319 ^b
Commercial bills.....	296	588	907
Treasury bonds.....	250	—	—
Advances.....	680	700	517
Treasury debt.....	4,221	3,735	3,470
Long-term investments.....	450	336	270
Other assets.....	729	270	344
Total.....	8,547	10,392	8,386
LIABILITIES:			
Paid-up capital.....	474	500	500
Reserves.....	1,115	1,149	1,201
Notes in circulation.....	3,727	4,173	3,609
Demand deposits.....	2,412	3,390	2,175
Time deposits.....	504	473	359
Liabilities in foreign currencies.....	128	484	152
Other liabilities.....	187	223	390
Total.....	8,547	10,392	8,386

^a Of which 2,736 million leva are counted as part of the note circulation cover.

^b Of which 1,063 million leva are counted as part of the note circulation cover.

The most striking feature in the position of the National Bank during the years 1928 and 1929 was the fact that, although the government debt to the Bank decreased substantially through repayments (partly out of the budget, but mainly out of the proceeds of the stabilization loan), the Bank was not able to expand the volume of its commercial credit to anything like the same extent. During the two years, the government debt decreased by 751 million leva, while the total amount of discounts and advances increased by only 418 millions. The two movements were almost balanced on October 31, 1929, when the Bank's volume of commercial credit reached 1,709 million leva, the highest level since the war. During the last two months of 1929, however, the Bank found itself compelled to reduce its loans very considerably.

The explanation of this must be sought to some extent in the Bank's position with regard to foreign bills. The increase in the Bank's stocks of such bills resulting from the stabilization loan carried the cover ratio from 31.3 per cent on December 31, 1927, to 49.5 per cent on December 31, 1928. But the drain on the foreign bill resources of the Bank which occurred during the year 1929 reduced the ratio, by October 31 of that year, to 42.6 per cent, which, in view of the visible foreign commitments, brought the Bank too close to the margin of safety so far as the continued maintenance of the exchange rate was concerned, and forced it into a policy of deflation. By November 30, the ratio dropped to 39.7, but by December 31 it was restored to 42.7.*

* See *Reports of the Commissioner of the League of Nations*, Nos. 13-14.

There is, however, another extremely important factor in the situation. The Bank, as a result of its reorganization, is now committed to a policy of strengthening its commercial portfolio, rather than of continuing the practice of granting loans in the form of book credits. It has been following this policy consistently: On December 31, 1927, discounts constituted 30 per cent of the total volume of the Bank's loans; on December 31, 1928, they were 46 per cent; and on December 31, 1929, they were 64 per cent. But conditions of trade in Bulgaria are so primitive that there is, comparatively, very little commercial paper in use. Money is needed in production and trade before the goods are ready for sale. Therefore, Bulgarian industrialists and traders are compelled to finance their operations by means of bank loans in the form of current accounts, granted against raw materials or against notes of about six months' maturity, usually with two or more guarantors. The volume of bills eligible for discounting by the National Bank under its present charter is limited, and that of really prime bills is still smaller. These latter bills are concentrated mainly in the hands of the large commercial banks, and are seldom offered to the National Bank for rediscount. The latter is therefore compelled to accept bills of more doubtful security, and this constitutes an important element of weakness in its position.*

The post-war period has witnessed a large development of co-operative credit in Bulgaria. The formation of co-operative credit organizations pro-

* See pp. 280-2 for further discussion of this point.

ceeded rapidly before the war and still more rapidly during and after the war. At the beginning of 1928, there were in Bulgaria 1,493 credit co-operatives, of which 1,356 were in the rural districts and 137 in urban communities. Of the rural co-operatives, 59 per cent were formed between 1911 and 1927, and of the urban co-operatives, 86 per cent. The total membership of the credit co-operatives at the beginning of 1928 was 237,662, with 144,660 in the rural districts and 93,002 in the urban communities.

Credit co-operation developed particularly during the years of unstable currency conditions, and this fact was largely responsible for the direction which their activity assumed. While the rural co-operatives have done a certain amount of useful work in promoting agriculture, in supplying the peasants with implements, seeds, and other agricultural necessities, and in collecting small savings which would not otherwise appear as such, they have also acted to a very large extent as speculative purchase and sales agencies. Similarly, the urban co-operatives, especially the popular banks, while they have also performed useful services in promoting the accumulation of savings and in organizing co-operative effort generally, have likewise engaged in buying and selling operations. In addition they have stimulated building activity and municipal improvements, especially in the smaller towns. In this way, the co-operatives have served to expand consumption credit in the country and to divert available funds from productive to consumptive purposes.

The activities of the credit co-operatives are, to a great extent, financed by the Agricultural Bank for

the rural districts and by the Central Co-operative Bank for the urban communities. Both of these institutions have been perhaps too liberal in the amount of support they have given the credit co-operative movement in view of the character of activities pursued by the co-operatives, and have thus immobilized a substantial part of their own very considerable resources. For example, the Central Co-operative Bank, which had received, at the end of 1928, out of the stabilization loan, a sum equivalent to about 100 million leva, found itself by September, 1929, almost entirely devoid of liquid operating resources. It was forced to apply for assistance to the National Bank and obtain funds by rediscounting with the latter a part of its portfolio. The situation of the Agricultural Bank has been very similar.¹

Mortgage credit in Bulgaria has been greatly advanced by the establishment of a special bank. This has been the result of the reorganization of the National Bank, in the process of which the Bank's mortgage department was made subject to liquidation. Prior to 1927, the National Bank was the principal source of mortgage credit in Bulgaria. In addition to it, the Agricultural Bank, as well as several small banks and insurance companies, advanced money on mortgages and were permitted by law to issue their own mortgage bonds. On December 30, 1927, a special law was passed, authorizing the creation of a Bulgarian Mortgage Bank, to take

¹ *Report of the Commissioner of the League of Nations, No. 13.* For further discussion of the Bulgarian co-operative system see p. 276.

over the mortgage activities of the National Bank, and to develop mortgage credit in general.

The need for such an institution was dictated mainly by the utter inadequacy of existing mortgage credit resources. The total volume of mortgage credit outstanding at the end of 1926, in millions of leva, was as follows:*

National Bank.....	330.9
Agricultural Bank.....	143.0
All other institutions.....	159.3
Total.....	<u>633.2</u>

This gave Bulgaria in 1926 a volume of mortgage credit equal to about 24 million Swiss francs. The total value of privately owned real estate in Bulgaria was estimated, before the war, at 6 billion Swiss francs, of which 3,700 millions represented buildings. Since the war, there has been a good deal of new building, especially in the cities. In Sofia alone, the number of buildings increased from 11,482 in 1910 to 15,936 in 1915 and to 31,848 in 1926.†

The Bulgarian Mortgage Bank was established on the basis of a contract, signed on December 17, 1927, by the representatives of the Bulgarian government, the Agricultural Bank, the Central Co-operative Bank, a group of Bulgarian insurance companies, Messrs. Blair and Company of New York, and Messrs. Lazard Brothers and Company of London. These institutions are the founders and the shareholders of the Bank. Under the terms of the law

* *Situation économique et financière de la Bulgarie*, 1927, p. 144.

† *Report of the Bulgarian Mortgage Bank for 1928.*

approving the contract, the Bank was created for the purpose of "furnishing credit, repayable by means of annuities, to real estate owners, communities, districts, and other public bodies who desire to borrow on mortgages or on the security of taxes and other permanent revenues."

The Bulgarian government granted the Bank a monopoly for a 25-year period and undertook not to authorize the creation of any other mortgage institution during that time. Moreover, the shares of the Bank have all the rights and privileges of government bonds, and the government has guaranteed a minimum dividend of 7 per cent for a period of five years, to be repaid out of the profits of later years.

The Bank's capital of 10 million Swiss francs is divided into 20,000 shares, which are distributed as follows: 2,000 shares each to the Bulgarian government, the Agricultural Bank, the Central Co-operative Bank, and the insurance companies; the remaining 12,000 shares to the two foreign banks. The Bank's operating resources consist of its capital, deposits, and the proceeds of bonds issued against mortgages.

The Bank began its operations on May 1, 1928. It announced that it would consider only requests for loans on real estate located in the central portions of large cities. During the eight months of its operating year in 1928, it received 1,251 requests for a total of 21.5 million Swiss francs. The number of loans granted during the period was 589, or the sum of 8.5 million Swiss francs. By the end of the year 1929, the number of loans granted by the Bank

increased to 988, or a total of 13 million Swiss francs. Until July, 1929, the rate of interest charged was 10.75 per cent, and after July, 11.5 per cent. The amounts advanced have been kept well under 50 per cent of the appraised value of the property mortgaged.³⁰

II. FOREIGN AND DOMESTIC OPERATING RESOURCES

While the Bulgarian banking system extended its facilities under the influence of currency depreciation, it also found that, as one of the inevitable consequences of depreciation, it was confronted with a rapid contraction of its operating resources. This was reflected in a diminution of savings deposits, as well as of all other deposits in the Bulgarian banks. Foreign short-term credits attracted by high interest rates, made up a part, but by no means the whole, of the deficiency, and the Bulgarian banks operated during the period of unstable currency conditions with thoroughly inadequate resources. They entered the period of *de facto* currency stabilization, which began in 1924, with their operating resources at a very low ebb.

Liquid funds are gradually accumulating in Bulgaria as the country recovers from the effects of currency depreciation. The table on page 242 shows the growth of Bulgarian bank deposits during the

³⁰ *Reports of the Bulgarian Mortgage Bank* for 1928 and 1929. For the details of the Bulgarian banking and credit system in general see Chakaloff, A., "Stokoviat i bankoviat kredit v B'lgaria," *Spisanie na B'lgarskoto Ikonomichesko Druzhtvo*, January, 1930, and Spissarevski, K. D., *La Bulgarie au travail*, 1930, pp. 203-34.

years 1925-1928 and corresponding figures for the year 1911, covering all bank deposits with the exception of those with the National Bank. The deposits with the National Bank are omitted, because they represent partly a duplication of other bank deposits and partly public funds. The deposits with private banks include for the year 1911 foreign deposits, which are believed to have been very small. For the post-war years, the total figures for deposits at the commercial banks are taken from the official balance sheets, while their division into domestic and foreign is based on the best available estimates.

BANK DEPOSITS IN BULGARIA, 1911 AND 1925-1928
(In millions of leva)

Type of Bank	1911 *	1925	1926	1927	1928
Savings institutions.....	1,485	299	356	508	638
Commercial banks:					
Domestic	2,582	2,249	2,498	2,833	4,223
Foreign	—	1,840	1,700	2,150	2,340
Popular banks	—	569	711	983	1,386
Central Co-operative Bank.	162	311	260	252	363
Agricultural Bank.....	1,890	1,832	2,157	2,501	3,399
Union of Agricultural Co-operatives	—	463	448	562	725
Total.....	6,119	7,563	8,130	9,789	13,074

* Figures for this year converted at the present rate of exchange for purposes of comparison.

The figures given in the table shown above contain a certain amount of duplication, for the elimination of which sufficient data are not available. Nevertheless, they indicate the tendency in the situation. Con-

sidering the increase in population and the rise in gold prices, the amount of deposits in the Bulgarian banks, even including foreign funds, was still, in 1925 and 1926, appreciably smaller than in 1911. In 1927, it approximately equalled the pre-war figures, while in 1928, it substantially exceeded the pre-war figure. Complete figures are not available for 1929, but the tendency appears to have been in the direction of a further increase.

Foreign capital plays a rôle of great importance in the economic life of Bulgaria. From our discussion of the Bulgarian public debt we saw that foreign capital has been supplying the bulk of the credit requirements of the government. So far as private finance is concerned, foreign capital operates in Bulgaria to some extent in the form of long-term investments, but especially in the form of bank deposits and other types of short-term credits.

The table on page 242 indicates the estimated size of foreign deposits in commercial banks. The inflow of these funds has been facilitated by the fact that foreign owned banks constitute a very important part of the Bulgarian banking system. These institutions are not numerous. Foreign capital is invested in only 13 Bulgarian banks, and in only four of them to the extent of more than one-half of the total capital; but they are among the largest banks in Bulgaria. The importance of the four predominantly foreign banks in the banking system of Bulgaria may be seen from the table on page 244, which shows the relative importance of foreign and domestic banks in the year 1928.

244 BULGARIA'S ECONOMIC POSITION

RELATIVE IMPORTANCE OF FOREIGN AND DOMESTIC BANKS, 1928
(In millions of leva)

Item	Four Large Foreign Banks	All Other Banks	Total
Capital and reserves.....	242	765	1,007
Deposits	2,692	3,871	6,563
Commercial bills.....	902	2,064	2,966
Loans	1,648	1,835	3,483

The four large foreign banks represented in 1928 about one-fourth of the total capital of all commercial banks, more than two-fifths of deposits and loans, and about one-third of the commercial portfolio.

The newly established Mortgage Bank is also a primarily foreign institution. Three-fifths of its capital is owned by foreign banking interests. The operating resources of the Bank in 1928 consisted of one-third of its nominal capital, paid in during the period, and of an advance of 6,660,000 Swiss francs made to it by the participating foreign banks.

So far as all foreign long-term investments in Bulgarian enterprises are concerned, they constituted 25 per cent of the aggregate capital invested in Bulgarian corporations in 1924, 26 per cent in 1925, and 30 per cent in 1926. At the end of the year 1926, the participation of foreign capital in various branches of economic activity in Bulgaria was as shown in the table on page 245.

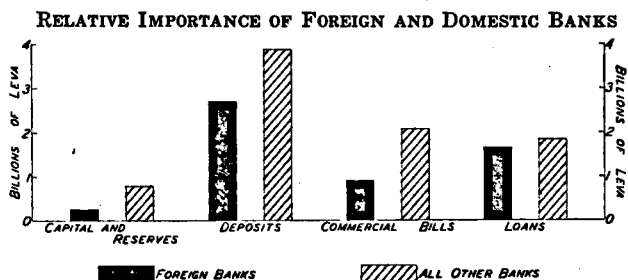
In the year 1926, therefore, of all capital invested in banks and other credit institutions, 34.3 per cent

FOREIGN AND DOMESTIC INVESTMENTS IN BULGARIAN CORPORATIONS
(Figures for the end of 1928)^a

Branch of Activity	All Corporations		Domestic		Foreign		Foreign Capital' as a Percentage of the total
	Number of Enterprises	Paid-up Capital in Millions of Leva	Number of Enterprises	Paid-up Capital in Millions of Leva	Number of Enterprises	Paid-up Capital in Millions of Leva	
Credit	131	784	118	515	13	269	34.3
Industries	291	1,299	247	972	44	327	25.2
Transportation	15	25	10	12	5	13	62.0
Commerce	105	314	70	190	35	124	39.5
Insurance	24	54	15	49	9	5	9.3
Total.....	566	2,476	460	1,738	106	738	29.3

^a Bulgarian National Bank, *Bulletin mensuel*, January, 1928.

was foreign; in industry, 25.2 per cent; in transportation, 52 per cent; in commerce, 39.5 per cent; and in insurance companies, 9.3 per cent. It is interesting to note that foreign capital was invested primarily in the larger enterprises in all branches of activity, and that industrial investments constituted the largest single group.



No recent data are available as to the distribution of foreign capital in Bulgarian industry. According to the industrial census of 1921, the largest investment at that time was in the sugar industry, the tobacco industry, and mining. Of the first of these industries, foreign capital controlled, according to the census, 37 per cent; of the second, 34 per cent; and of the third, 47 per cent.

French and Belgian capital, acting in collaboration or independently, account for the most important individual shares of the foreign investments. German and Italian capital follow in importance, and after them come Austrian, Hungarian, and Czechoslovak investments. British and American investments are quite small, except that the Mortgage

Bank is in the hands of an important American-British banking group.²¹

Interest rates are very high in Bulgaria. During the years following the war, the interest rate situation was so chaotic and the rates charged so high, that in 1927 the Bulgarian government promulgated a law, fixing the maximum which could be charged in ordinary transactions at a rate six points higher than the discount rate of the National Bank. Since the National Bank rate was 10 per cent until the end of 1928, this represented a permissible interest rate of 16 per cent on ordinary transactions. The interest rates fell off somewhat in 1928, and first-class commercial paper could be discounted toward the end of that year at 11-13 per cent. For paper with poorer security or for open credits, ways are usually found—for example, in the form of commission charges—for raising the interest rate considerably above this percentage.

During the period of currency instability, the risk attaching to long-term investments led to an almost universal substitution of short-term for long-term credit. And this situation continued in Bulgaria, as in many other European countries, even after the currency became stabilized. The Bulgarian market for industrial securities, for example, has been exceedingly small. During the year 1927, the net increase of paid-up capital of all Bulgarian corpora-

²¹ For details of foreign investments in Bulgaria see "Les Capitaux étrangers en Bulgarie," in Bulgarian National Bank, *Bulletin mensuel*, January, 1928; *Aksionernoto delo v stranstvo i u nas*, Section IV, Part II, Chap. V; and Bocheff, S., "B'lgaria i chuzhdite kapitali," in *Spisanie na B'lgarskoto Ikonomicheskoto Druzhatvo*, Sofia, February, 1928.

tions was 221 million leva,¹² while the rise in bank deposits during that year was over a billion and a half leva. Bulgarian enterprises are thus compelled to operate mainly with borrowed funds, obtained in the form of high interest open-book credits extended by commercial banks. Similarly, in agriculture, the almost complete absence of mortgage credits has forced the peasants to rely on short-term loans.

However, these short-term loans have, in reality, become fairly long-term investments through postponements of payment or through renewals. Thus short-term credits in Bulgaria, as in many other countries of Europe since the war, are made to do the work of long-term investments. In this manner liquid funds become immobilized. And, as a consequence, there is a scarcity of operating resources, which in turn leads to a continuation of high interest rates.

Another factor in keeping interest rates high in Bulgaria is the high level of overhead expenses at banking institutions. Banking facilities in Bulgaria are undoubtedly too large for the available volume of business, and in order to meet expenses, the banks are forced to keep the spread between the rate paid on deposits and that charged for loans very wide. For the lowest rate discounts, this spread is seldom less than five points; usually it is considerably more.¹³

¹² *Annuaire statistique* for 1927, p. 300. There was a somewhat greater amount of activity in 1928; according to *Izvestiya na b'lgarskata narodna banka*, No. 10 for 1928, new issues of securities aggregated 255 million leva during the first nine months of that year, as against 199 million leva during the corresponding period of 1927.

¹³ Bulgarian National Bank, *Bulletin mensuel*, October, 1929.

Unsound utilization of operating resources was largely responsible for the crisis of 1929. For some time prior to October of that year, when the critical economic situation reached its culminating point, the volume of short-term credit in Bulgaria had been rapidly expanding. This expansion did not, however, proceed with any degree of uniformity in the various phases of economic activity. As may be seen from the table on page 233, during the years 1926-1929, the volume of credit extended by the Agricultural Bank increased by 1,914 million leva, while that of the commercial banks grew by 3,051 millions. In addition, the volume of credit extended by the popular banks, which operate primarily in the urban communities, increased by 1,101 million leva. There was, therefore, a much greater increase of credit in industry, commerce, and urban building than in agriculture. In short, financial resources were insufficiently provided for the basic branch of national production. In the other branches of economic activity they were over-abundant in view of the total volume of resources, resulting there in a veritable credit inflation.

The existence of this inflation is apparent from an examination of the position of the commercial banks. The table on page 250 shows the movement of the ratio of cash to deposits in the Bulgarian commercial banks during the years 1926-1928.

It is clear from this table that generally speaking the position of the Bulgarian commercial banks from the point of view of the ratio between cash and deposits was precarious and was getting worse during the three-year period. For all banks, the

ratio decreased from 14.2 in 1926, to 12.1 in 1927, and to 11.9 in 1928. The large Sofia banks, after decreasing their ratio between 1926 and 1927, maintained it at slightly over 13 in 1928. The smaller Sofia banks, starting with an exceptionally low ratio of 5.5 in 1926, increased it by 1928 to 10.5, which was still much too low. On the other hand, the provincial banks, starting with a ratio of 10.6 in 1926, brought it down to only 6.4 in 1928. The

RATIO OF CASH TO DEPOSITS IN BULGARIAN COMMERCIAL
BANKS, 1926-1928
(In percentages)

Group of Banks	1926	1927	1928
Large Sofia banks.....	16.8	13.2	13.4
Small Sofia banks.....	5.5	9.6	10.5
Provincial banks.....	10.6	8.7	6.4
All banks.....	14.2	12.1	11.9

situation in this respect during the first half of 1929 was even worse. Considering the fact that the funds of Bulgarian commercial banks are invested in paper of comparatively long maturity or in credits granted for comparatively long periods, and that even these long maturities are often extended through renewal and postponement of payments, a ratio of cash to deposits of even 13 per cent must be considered inadequate. But when for some of the banks it drops to 10, or even to 6 per cent, the situation must be regarded as decidedly precarious.

What happened in Bulgaria, therefore, was that the over-numerous commercial banks, in their

scramble for business, pushed the level of their liquidity far below the point of safety. The continued expansion of the volume of credit in spite of high interest rates showed clearly that the demand for credit was great as compared with the supply. But credit expansion and the attenuation of the margin of liquidity put a greater and greater strain on the Bulgarian banking institutions, and that strain was bound to reach the breaking point sooner or later.

This breaking point was reached in October, 1929, when a long-established firm went into liquidation, and something amounting to a panic set in. For several weeks deposits were withdrawn from the banks, and business in general was adversely affected. The extent of the crisis may be seen from the fact that during the last quarter of 1929 the protested paper amounted to 937 million leva, as compared with 411 millions during the corresponding period of 1928.

A number of factors operated in the situation. From the point of view of agricultural production, 1929 was a poor year for Bulgaria. The wheat crop was small and was badly marketed. Exports of wheat practically disappeared and in fact a comparatively large quantity was actually imported. The corn crop was very large, but could not be sold profitably because of a sharp drop in the price of that cereal both in the world markets and in Bulgaria. Bulgarian exports during the year dropped below the 1928 level. At the same time the expansion of credit rendered possible a large increase in imports despite a real decrease in purchasing power

within the country. The resulting excess of imports over exports diminished the National Bank's stocks of foreign bills, and led to a contraction of the Bank's note circulation. This deflationary process had its inevitable repercussions on the whole credit structure of the country, which, because of its precariously inflated condition, could not stand the added strain.

But while the crisis of 1929 was extremely painful, it undoubtedly served a useful purpose in focussing attention on the dangerous tendencies that had been developing in the banking and credit system of the country. Moreover, it definitely brought to the fore the need of remedying at least some of the more important defects. In the last chapter we shall deal with the needs of the Bulgarian economic situation from the point of view of the banking and credit system.

CHAPTER XII

ECONOMIC POLICY

The question of the objectives toward which Bulgaria should direct her economic development has occupied in the past, and continues to engage at present, the attention of the country's leaders. Economic policy is, accordingly, a topic of serious discussion in Bulgaria. In this chapter we shall consider the character of the policy pursued by Bulgaria since the war, especially in the following fields: stimulation of production, establishment of commercial treaty relations, and improvement of the transportation system. We shall leave for discussion in the next chapter the question of the future requirements of the Bulgarian situation from the point of view of economic policy.

The emphasis in Bulgaria's economic policy has shifted several times in the last two decades. During the pre-war period, it was pointed toward "the introduction of modern methods in agriculture and the creation, on the ruins of the old handicrafts, of a national industry better in keeping with the new needs of the population."¹ Increase of cereal production was the center of attention in the carrying out of this policy. Then came the territorial adjustment resulting from the Balkan wars, which

¹ *Memorandum* submitted to the World Economic Conference by the Bulgarian delegation.

brought with it the loss of the most fertile grain lands, but the acquisition of the Ægean littoral and of the important tobacco lands of Thrace and Macedonia. Accordingly, the center of attention shifted to the commercial possibilities of these rich acquisitions; and on the eve of the World War, there was contemplated an extensive program of development for which the Disconto-Gesellschaft loan was to furnish the financial basis. The Treaty of Neuilly deprived Bulgaria of a part of these compensatory acquisitions, and the center of gravity in the country's economic policy had to shift again.

During the first half of the post-war decade there developed in Bulgaria a point of view which might be termed a doctrine of agricultural transformation. The advocates of this point of view, over-impressed, perhaps, by the sudden emergence of tobacco culture as a dominantly important source of exports, urged, as the country's principal need, an orientation of economic policy in the direction of a stimulation of industrial crops, rather than of foodstuffs, and the transformation of Bulgaria into an exporter of these more costly products rather than of cereals. This point of view suffered a severe setback when the tobacco market collapsed in 1926 without any apparent hope of adequate recovery. Moreover, the condition of grain production in Bulgaria clearly foreshadowed the possibility that, without increased production and with the growth of population, Bulgaria might find herself unable even to provide for her own food requirements and so compelled to import cereals. All this led to an important modification in the emphasis of economic policy. While

still directed to a considerable extent toward a development of industrial crops, it is now focussed very largely on a modernization and expansion of the two basic phases of agricultural production, cereal growing and livestock raising. The work of the Bulgarian Ministry of Agriculture, which we described in Chapter X, is an expression of this latest orientation of policy.

Bulgaria has also continued after the war her pre-war policy of stimulating and encouraging industrial development. Efforts are being directed toward the expansion of production of raw materials, as well as of manufactured goods. As an expression of this phase of her economic policy, in 1928, Bulgaria introduced a far-reaching law for the encouragement of domestic industry.² Modelled on similar pre-war legislation, this law contains important provisions directed toward the stimulation of industries in general, and particularly of those which are based on agricultural raw material. In addition, tariff protection is employed as a means of encouraging industry.

Bulgarian customs tariff policy has been traditionally protectionist in character. For more than two decades after the emergence of the country from complete subjugation to Turkey, Bulgaria directed her efforts toward freeing herself from the tariff régime which was imposed upon her by the fact that she still remained legally a part of the Ottoman Empire. In Chapter II we described the steps by means of which she finally attained complete freedom of action in this respect through the intro-

² The text of this law is given in the Appendix, pp. 368 ff.

duction of a customs tariff system based on specific duties. Modified slightly in 1910, this tariff was still operative during the years immediately following the World War, except that the coefficient for converting the rates expressed in leva of the pre-war parity was periodically adjusted to the depreciation of the currency.

An important post-war modification in the customs tariff was made in 1926, when during the night of March 22 the Bulgarian Parliament passed a tariff law, which had been prepared in complete secrecy. The new law had a double object. In the first place, it repealed many of the prohibitory measures introduced during and since the war, and in the second place, it increased nearly all duty rates. Basically, however, it followed the general structure of the pre-war tariff.

In submitting the project of the law, officially described as "A Bill to Amend and Supplement the Law Relating to Customs Tariff on Imported Goods," the Minister of Finance stated the purpose of the bill in the following terms:

The necessity to give a more efficacious protection to our national industry and handicraft production, as well as to balance our foreign trade, which is of a great significance for the stabilization of the rate of our lev, imposes a considerable increase of import duties, particularly for the goods, which are not of prime necessity, the prohibition of the import of which under the circumstances becomes useless and must be revoked. In submitting to you the necessary Bill, in which, besides the increase of the import duties and the revocation of the prohibition of importing goods not of prime necessity, there are made several corrections in the text of the

import tariff, I have the honor to request you to examine it and to pass it in the present session of the Sobranie.

In this new form the customs tariff is being applied today. The basic rates are expressed in gold leva of pre-war parity, which are multiplied by a coefficient of 20 (in some cases, 15) for the purpose of determining the amount of duty to be paid in paper leva.³ In other words, for each gold lev of duty the importer has to pay 15 or 20 paper leva. This coefficient does not reflect the entire depreciation of the currency, since the lev is worth today in gold only one twenty-seventh of its pre-war value and a full coefficient of depreciation would have been 27. Consequently, had the basic rates remained unchanged, the Bulgarian tariff level today would have been lower than before the war. But so large has been the post-war increase in the basic rates that the present tariff level is, in spite of only a partial coefficient of depreciation, actually higher in gold values than was the pre-war level. In this manner, the Bulgarian tariff affords a very large degree of protection to almost every branch of manufacturing industry, which already enjoys the protective privileges of the law for the encouragement of local industry.

Bulgaria has so far concluded only one commercial treaty. The treaty of peace deprived Bulgaria of the right to conclude independent commercial agreements for a period of five years from the date on which the treaty went into effect. During that period,

³ This coefficient of depreciation was raised at the end of 1928 from 15 to 20 for most commodities.

which ended in 1925, her commercial relations with the outside world remained unregulated. Starting with the latter part of the year 1925, however, Bulgaria began to conclude provisional agreements based on general most-favored-nation treatment. She now has some 25 such agreements. But she has only one regular treaty of commerce and navigation, that with Turkey, concluded at the beginning of 1928.

The treaty with Turkey was for one year only, with the stipulation that after the expiration of that period it continue in force by mutual agreement. Two lists are appended to the treaty, specifying the reductions from the existing rates mutually granted by the signatories. The principal Turkish products which enjoy privileges when imported into Bulgaria are fish, figs, raisins, oranges, and olives; on the side of Bulgaria, privileges are accorded to cattle, firewood, charcoal, cheese, wheat, rye, flour, vegetables, sugar, and cloth.

With her other neighbors, Bulgaria has had sporadic negotiations, but only with Greece has she concluded even a provisional agreement. Bulgaro-Greek negotiations for a commercial treaty have so far been prevented by the refusal on the part of Greece to abolish the decree issued by the government of General Pangalos restricting the importation into Greece of wheat flour, which the Bulgarians regard as a measure directed against them. Between Bulgaria and Yugoslavia, preparations for the opening of negotiations for a commercial treaty were in progress in the latter half of 1927, but were interrupted by the incident of Macedonian activities in southern Serbia which led to the closing of the

Yugoslav-Bulgarian frontier. They have not been resumed since the settlement of this difficulty early in 1929. With Rumania, Bulgaria has a large number of controversies to settle before the ground can be cleared for commercial negotiations.

Apart from these formal reasons for delay, which do not exist, of course, in the case of other countries — including the United States — with which Bulgaria also has no commercial treaties, Bulgaria has not been eager to engage in serious negotiations regarding long-term commercial treaty arrangements. She has considered that her present customs tariff structure is by no means permanent and requires revisions in the light of the economic changes which have taken place in the country during the quarter of a century since the original tariff system was introduced. But in the meantime, lack of regularized commercial treaty relations has constituted an important obstacle to the development of Bulgarian foreign trade.*

Bulgaria has made serious efforts toward rehabilitating her transportation system. At the present time, the country possesses 2,367 kilometers of standard gauge railways (all single-track lines), and 488 kilometers of narrow-gauge roads. It has a highway system, consisting of about 8,000 kilometers of government roads and 12,000 kilometers of communal roads. Finally, it has eight ports on the Black Sea and ten on the Danube River, of which two on the sea and five on the river are served by railways. For a country of Bulgaria's size and present economic development, this is a very considerable

* See Chap. XIII for a further discussion of this subject.

transportation equipment, but it is in such poor condition that it urgently demands a large amount of repair and improvement to make it adequate even for present-day needs. Under the stabilization plan, one-quarter of the proceeds of the loan (1,250,000 pounds sterling or 845 million leva) was earmarked for the improvement of the means of transportation, and M. Regnoul, Chief Engineer of the Paris-Lyons-Mediterranean Railways, was sent to Bulgaria to examine the situation and work out a plan for the utilization of this sum. His report⁵ is now the basis of the work being done in Bulgaria for the rehabilitation of the transportation system.

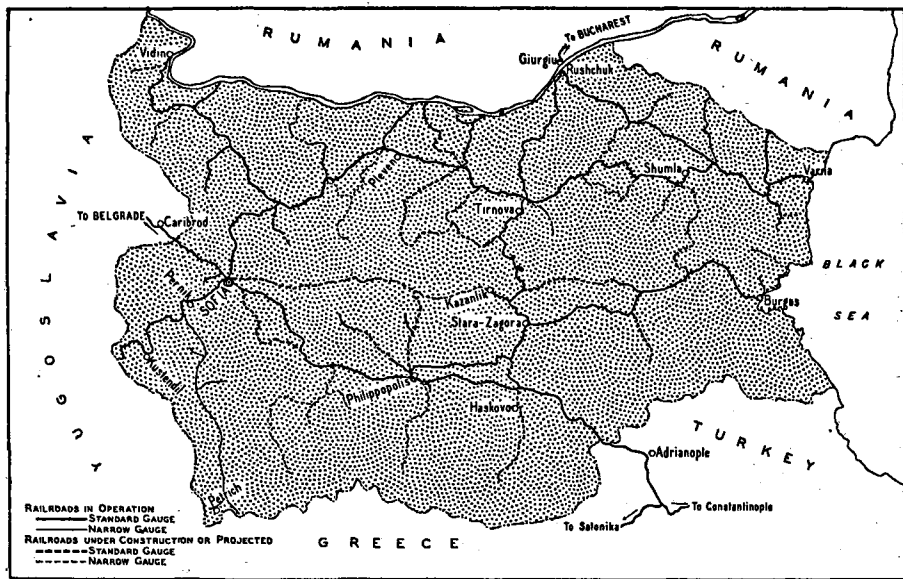
M. Regnoul proposed the following expenditures (in thousands of leva) for restoring the existing railway system to normal operating condition:

Repair of the track.....	162,265
Construction and repair of bridges.....	41,968
Repair of engines and cars.....	35,000
Extensions and improvements in stations...	163,164
Safety apparatus	13,000
Construction of new passing-places.....	8,224
Purchase and improvement of rolling stock..	111,228
Enlargement and construction of workshops and depots.....	33,639
Total.....	568,488

In addition, M. Regnoul proposed the expenditure of 72,312,000 leva for the completion of two short lines now under construction, and an outlay of 31,500,000 leva for the improvement of terminal

⁵ "Report on the Improvement of Means of Communications in Bulgaria," in *Bulgarian Stabilization Loan*, League of Nations document, 1928, pp. 33-53.

EXISTING AND PROJECTED RAILWAY LINES



facilities at the two Black Sea ports and the five Danubian ports. Altogether, therefore, M. Regnoul proposed that 672,300,000 leva out of the available total of 845 millions, be spent on railway and port improvements. The whole work is to be completed in five years. This program has been accepted and is now being carried into effect.

M. Regnoul also recommended that the management of the Bulgarian railways be reorganized, especially from the point of view of accountancy. This is being done now through the reorganization of the railway system into an autonomous enterprise.*

Apart from the work to be done under the stabilization plan, the Bulgarian Directorate of Railways has worked out a program for a substantial extension of the existing railway system. This program calls for the construction of 1,048,600 kilometers of railways, as shown on the map on page 261. A law was passed by the Bulgarian Parliament in 1925, giving effect to this program, and large sums have been devoted out of the extraordinary budgets for this purpose. The total cost of new railway construction is estimated at 2.9 billion leva.

* So far as the system of highways is concerned, M. Regnoul's plan calls for the expenditure of 172,700,000 leva mainly for the repair and replacement of bridges, and the completion of 110 kilometers of roads already under construction. This is admittedly only "the first stage of the general work of restoring the road system," which is in a truly deplorable condition. Before the war, the highways were kept in good repair, but they deteriorated

* See p. 157.

during the war and have been almost completely neglected since. In his report, M. Regnoul says:

In far too many places even the most important roads have degenerated into tracks, whose traffic is diverted on the neighboring ground. One-tenth of the length of the principal arteries, the Sofia-Svilengrad and Sofia-Varna roads, is in this state; four-tenths are in a very poor condition and five-tenths may be regarded as normal. The situation is still worse on the majority of the other government roads, particularly in the mountainous districts, where good roads are especially necessary owing to the scarcity and costliness of railways and to the necessity, in many cases, of meeting the requirements of forestry undertakings and quarries in addition to the needs of the population.

The result of this is that for months at a stretch during each year many sections in Bulgaria find themselves completely isolated because of the impassability of the roads. This renders deliveries to and from the railway centers difficult and interrupted.

The Bulgarian government budgets 100 million leva a year for the upkeep of the public highways, and assigns a large part of the compulsory labor force to the work of road construction and repair. Because of a shortage of funds, however, actual expenditures are usually very much below this, often amounting to but one-quarter of the figure inscribed in the budgets. In the next chapter where the general needs of the Bulgarian economic situation are considered we shall again take up the question of the transportation system.

CHAPTER XIII

BASIC ECONOMIC NEEDS

The year 1929 marked a turning point for Bulgaria. By the conclusion of the new reparation settlement¹ a new and important element was introduced into the country's economy, for thereby Bulgaria's financial obligations arising out of the Treaty of Neuilly are reduced to proportions believed to be "manageable." Prior to this, the country faced the prospect of a rapid rise in reparation payments to a magnitude manifestly beyond her paying capacity. Bulgaria lived, therefore, in a state of continued uncertainty. Thus the new reparation settlement has brought about not only an improvement in the economic situation but also in the psychology of the people.

Emerging from the disorganization and chaos of the years immediately following the war, Bulgaria found herself confronted by three major problems: an unstable currency, unbalanced budgets, and an excess of outgo over income in her international trade and service accounts. With the aid of the League of Nations, Bulgaria has succeeded in solving the first two of these problems; she now has a stabilized currency and a balanced budget. The

¹ While this agreement was not signed until January 20, 1930, its negotiation extended back several months into the year 1929. See Chap. IV of this study.

third—that of foreign payments—is still far from solution. An additional problem of providing for a rapidly increasing population has arisen since the war. This problem has thus far been only partially solved and remains an outstanding task for the future.

The expansion of national production is, consequently, the central problem in Bulgaria's present-day economic situation. On it depends even the continuation of fiscal and currency stabilization, although the stability that has been achieved provides the formal basis for a further expansion of production.

In a sense Bulgaria faces today a situation very similar to that which confronted her after her liberation from the Turkish yoke. Then, as now, the level of economic development was too low to meet the requirements of the population. Then, as now, the economic policy of the country had to be directed toward a raising of this level. And then, as now, she faced the problem of meeting payments on an accumulated foreign debt. But the pressure of circumstances today is much greater than it was 50 years ago, and the tempo of development has to be correspondingly faster. Moreover, there are in the present Bulgarian situation several complicating factors, which were not present then; chief among these are an abnormally large increase of population in the last few years and a relatively much larger accumulation of foreign indebtedness.

Needless to say, the carrying out of any economic program presupposes the maintenance of peace. The wars in which Bulgaria engaged between 1912

and 1918 brought her nothing but disaster, and the road to her national well-being clearly lies not along the path of further military adventure, but along that indicated in her present foreign policy.² Equally important for the carrying out of an economic program is the continuation of internal stability. In this respect Bulgaria has had some tragic experiences since the war, which have undoubtedly taught her a severe lesson. At the same time, social stability is usually the accompaniment of economic well-being: a successfully carried out program of economic development is probably the best insurance of social stability. Finally, political stability—with an efficient and far-seeing administration, carrying out, in a determined manner, a consistent and statesmanlike economic policy—is clearly an essential prerequisite of economic development.

I. EXPANSION OF PRODUCTION AND EXPORTS

Our analysis of Bulgaria's post-war economic experience has brought out one fact of cardinal importance: National production, although it has shown a remarkable recovery since the war, has not only failed to furnish a sufficient volume of exports for the purpose of meeting foreign debt payments, but has not enabled the country to meet the consumption requirements of the population on even the pre-war scale. As regards basic production, the output per capita in cereals and livestock at the end of the first post-war decade was appreciably smaller than before the war although it was somewhat larger

² See Foreign Minister Bouroff's speech, quoted on p. 15.

than before the war in industrial crops, mining, and some branches of the manufacturing industry. The physical volume of both exports and imports was, per capita of the population, smaller in 1927-1928 than in 1910-1911. Even in the absence of any precise data on consumption, these comparisons justify at least a strong presumption that the standard of living in Bulgaria is somewhat lower today than it was before the war. Furthermore, estimates of national income, which we shall presently discuss, show that per capita income today is approximately equal (in gold values) to that of 1911, and this, in view of the post-war depreciation of gold, also indicates a substantial lowering of real income. It is true that the consumption of certain articles (for example, sugar, and in some sections of the country, wheat) has, no doubt, increased, and that a certain amount of substitution (for example, cheap, factory-made clothes for homespun) gives the appearance of increased consumption. However, such statistical evidence as is available leads one to the conclusion that the general level of the standard of living is lower than it was before the war.*

An expansion of production is imperative for Bulgaria in order to enable her to meet pressure for increased domestic consumption. This pressure comes primarily from two important sources: the growth of population and the rise of new consumption wants.

* This opinion is shared with the author by the Bulgarian economists with whom he has had an opportunity to discuss the matter.

With a normal annual increase of population equal to slightly under 2 per cent, between 90 and 100 thousand persons a year are added annually to the population of the country. Even assuming that the movement of refugees (which in some post-war years has increased the figure considerably) is practically at an end, the almost complete absence of emigration means that the number of consumers is augmented by practically all the natural increase. This requires a steady expansion in production, particularly of foodstuffs and of the other prime necessities of life.

The low level of the standard of living is indicated by the fact that the national income of the country, per capita, is only about \$60 a year.⁴ The burden of taxation, taking into account the national and local budgets, represents no less than 20 per cent of this amount, leaving the net income approximately \$48, whereas the minimum of existence is estimated at about \$51 a year. It is extremely doubtful whether this low standard of living can continue long without bringing about serious social consequences. As a matter of fact, it has been rising steadily from the

⁴Dr. A. Chakaloff, Director of the Economic Research Division of the Bulgarian National Bank, estimates the national income of Bulgaria for the year 1926 at 41 billion leva, or about 280 Swiss francs per head of the population. The Bulgarian delegation to the Paris Reparation Conference of 1929, in a statistical memorandum presented to the Conference, gives the per capita income for 1928 as 240 Swiss francs. We believe that the latter figure is an under-estimate. Making an allowance in Dr. Chakaloff's figure for an increase of production during the intervening years, we obtain for the present-day per capita income a figure of slightly over 300 Swiss francs, or about \$60.

very low level to which it had fallen after the war, and this movement is bound to continue.

There are many factors which operate to increase consumption wants. In cities and towns, the development of industry and trade and of municipal improvement—long overdue because of the character of post-war conditions—is bound to increase consumption requirements. The spread of moving pictures (in Sofia alone there are at present about 30 moving picture theatres) and of similar channels through which knowledge of ways of living in other countries becomes more or less general, is making its contribution. The much needed fiscal reform which will gradually bring about an increase in the salaries of government officials and employees will be another influence working in the same direction. In the villages and other rural communities, the development of communications and the resulting closer contacts with the urban centers are already affecting the character of wants.

Bulgaria must expand her production if improved standards of domestic consumption are to be attained. And in turn this expansion will in itself, for some time to come, be a powerful stimulus to increased consumption demand, until a general standard of living, appreciably higher than at the present time, is reached.

The existence of a large foreign indebtedness requires increased production to provide an expanding volume of exports. The payments resulting from treaty obligations represent only a part of Bulgaria's foreign debt. From the discussion in Chapter VIII we have seen that hitherto Bulgaria

has had to resort to new foreign borrowing not only for the purpose of transferring reparation and other treaty charges, but also for meeting interest and dividend payments on various foreign investments and loans. Furthermore, although her per capita imports are smaller than those of any country in Europe (except Russia) and although only comparatively insignificant sums must be paid for services (other than loans) rendered her by other countries, Bulgaria has not as yet succeeded in developing a sufficient volume of merchandise and service exports to meet even her import needs. In short, the net result of Bulgaria's trade and financial operations during the post-war decade has been a steady increase in the foreign indebtedness of the country, on which, in the last analysis, payments can be made only out of an excess of exports over imports. The following table shows the foreign payments which Bulgaria will have to meet during the years 1931-1935 on account of her public debt:

ANNUAL PAYMENTS ON THE FOREIGN PUBLIC DEBT
(In millions of leva)

Year	Pre-War Debts	Refugee and Stabilization Loans	Other Public Debts	Reparation Payments	Total
1931.....	279	466	214	270	1,229
1932.....	279	466	168	270	1,183
1933.....	313	466	107	270	1,156
1934.....	313	466	83	270	1,132
1935.....	313	466	57	270	1,106

In addition to these payments, Bulgaria has to meet interest and dividend charges on the various private

foreign debts accumulated during the first eleven post-war years—charges amounting probably to 800 or 900 million leva a year. Without any further foreign borrowing, therefore, Bulgaria has to make foreign debt payments amounting to something over 2 billion leva annually. Assuming that her outlays on account of other service operations will, as in the past, be balanced by her income from similar operations, and, perhaps, continue to yield a small net income, this means that, in order to make these payments out of her own resources rather than out of new borrowings, Bulgaria must have an excess of exports over imports in her merchandise trade equal to about 2 billion leva a year. This might conceivably be achieved either by a reduction of imports, or an expansion of exports, or by both.

It is doubtful whether Bulgaria can develop an excess of exports over imports by a reduction of the latter. In 1927, Bulgarian imports equalled \$8.00 per head of the population; in 1928, they were \$9.40; and in 1929, they were \$10.10. In 1910, Bulgarian imports were \$8.00 per head of the population, and in 1911 they were \$9.00. Taking into account the rise in gold prices, we find that since the war imports per inhabitant have been less than before the war, when Bulgaria's imports were very small, indeed. There are almost no luxuries in Bulgaria's post-war imports. Of the aggregate volume of foreign products imported into the country during the five-year period 1924-1928, about 14 per cent represented machinery, rolling stock, and other equipment, while

37 per cent represented textile products and materials. This means that during this period Bulgaria's imports of all other foreign products, finished and unfinished, averaged annually between four and five dollars per capita. It is difficult indeed to find here any margin for reduction. On the contrary, with an increase of domestic consumption there is likely to be an increase, rather than a decrease, of imports.

This leaves the expansion of exports as the sole means of achieving the excess of exports over imports necessary for the purpose of meeting the annual payments on the existing foreign indebtedness. If Bulgaria were to keep her imports during the next few years at approximately 7 billion leva a year—that is, slightly below the level of 1928 and 15 per cent below that of 1929—she would have to have a volume of exports equal to about 9 billion leva. The largest volume of exports achieved by Bulgaria since the war was 6,684.2 million leva in the year 1927. Since then, her exports have diminished, until they were but slightly over 6 billion leva in 1929. The gap between the actual and the required volume of exports is, therefore, very considerable. It can be closed only by an increase of exports based on an expansion of national production. Since this must of necessity be a gradual process, the deficit in the meantime must be covered by means of new foreign borrowing, the annual charges on which would tend to keep the gap open by increasing the required volume of exports; hence the imperative need for as rapid as possible an expansion of production.

II. ECONOMIC STABILIZATION AND REORGANIZATION

Expansion of national production is very largely a matter of economic policy. In earlier chapters⁵ we described the character of the economic policy pursued by the Bulgarian government since the end of the war and the principal measures taken for the stimulation of production. While some results have been achieved in this manner, much more work along these lines appears urgently needed, and in some respects such work, in order to be effective, must take the form of a far-reaching economic stabilization and reorganization.

A speedy increase of production can probably be best achieved on the basis of a general plan of economic development. Thus far Bulgaria's economic policy has been sporadic. Yet the needs of her situation are so great and the resources at her disposal comparatively so meager that only by means of a well-devised and well-executed plan of development can she hope to achieve speedy improvement.

In her economic policy, Bulgaria needs an even greater than heretofore emphasis on agricultural production. The most promising outlet for her economic activity is in fuller utilization of her soil through a general reorganization of agriculture and the employment of better methods. Here the requirements of increased consumption and of increased exports practically coincide. Both necessitate a more or less parallel expansion of cereal growing, livestock raising, and production of industrial crops.

⁵ Especially Chaps. X and XII.

Bulgaria may be able to feed herself without making any special efforts toward increasing her cereal output, but it is extremely doubtful whether she can develop, in a comparatively short period of time, a sufficient volume of exports without expanding her production of grain and augmenting her exports of cereals and their derivatives. During the years 1926-1928, all her exports, exclusive of cereals and their derivatives, averaged 4,900 million leva a year. In 1929, these exports were 5,629 million leva. The increase which would be required in order to bring the total of such foreign sales up to the necessary volume would probably be much too great to be achieved in a comparatively brief period of time, and in all probability would necessitate an expansion of cereal output, as well as of other agricultural production.*

But while a sound and progressive agriculture is her primary requirement, Bulgaria also needs a development of her natural resources other than her arable soil. Moreover, her industries, both extractive and manufacturing, and her transportation system are indispensable factors in her national organiza-

* It is worthy of note that the European countries (Russia, Rumania, Bulgaria) which before the war were primarily exporters of cereals have not been able, since the war, to develop the exportation of other commodities in sufficient volume to take the place of their grain exports. It appears likely that they will find it imperative to seek to regain their pre-war markets, irrespective of the movements of the world grain prices, and may gradually push out of the grain market those exporting countries which, like the United States, have too high a standard of living to permit them to meet the falling prices, and which at the same time rely only to a small extent upon their exports of cereals.

tion. Her credit structure, her marketing facilities, her fiscal system, and her commercial policy play rôles of great importance. A coordination of all these elements of economic well-being can probably best be attained on the basis of a general plan of development.

It is not our purpose to indicate with any degree of precision the sort of general economic plan that Bulgaria needs. That is a large task, which should be undertaken by competent authorities. In this connection we shall discuss merely some of the phases of the Bulgarian economic situation in which the work of reorganization is urgently required.

Further basic improvements in the organization of agriculture are needed in Bulgaria. Here the task is partly governmental and partly that of private initiative. It requires a certain amount of legislative enactment and of work which can be performed only by governmental agencies. To this category of measures belong the establishment of an adequate system of cadastral records, the introduction of new forms of legislation dealing with co-operative organizations, and a general program of agrarian education. These measures would, no doubt, promote the extension to agriculture of long-term credit facilities which are badly needed.

A thorough survey of all landed property in Bulgaria would be an important factor not only in the development of rural mortgage credit, but also in the stimulation of concentration of holdings. At the present time, cadastral records are in a most primitive and chaotic condition, but the Bulgarian government has not so far felt able to devote the

necessary means to the work of remedying this serious defect.

Important reform is needed in the system of co-operative organization and of agricultural credit based on it. The Bulgarian co-operative movement is of ancient origin, and, in its primitive stages, antedates the liberation of the country from the Turkish domination. Its principal development, however, began after the termination of the World War, when it assumed forms which now necessitate its thoroughgoing reorganization.

There are three fundamental weaknesses in the Bulgarian co-operative system: (1) its primarily urban rather than rural character; (2) the preponderance of credit co-operatives; and (3) the scarcity of producers' organizations. The table on page 277 shows the Bulgarian co-operative organizations at the beginning of 1928, divided into rural and urban, and classified according to the character of their activity.

There were in Bulgaria in 1928 over 2,800 co-operative organizations (not counting 41 unions of co-operatives) with a total membership of over 600,000, that is, more than 10 per cent of the entire population. Rural co-operatives constituted almost three-fourths of the whole number of organizations, but their membership was only slightly over one-third of the total membership. The Bulgarian co-operative movement may thus be considered as primarily urban.

Of the rural co-operatives, two-thirds of the number and of the membership were in the field of credit. The membership of the producers'

BULGARIAN CO-OPERATIVE ORGANIZATIONS, 1928.*

Type of Activity	Rural		Urban		Total	
	Number	Membership	Number	Membership	Number	Membership
Credit	1,356	144,660	137	93,002	1,493	237,662
Consumers', building, etc.	78	12,224	193	73,124	271	85,348
Purchase and sale....	89	12,021	137	56,121	226	68,142
Producers'	550	19,416	46	148,447	596	167,863
	61	30,789	165	14,120	226	44,909
Total.....	2,134	219,110	678	384,814	2,812	603,924

* *Annuaire statistique* for 1928, pp. 436-43.

co-operatives was only one-seventh of the total membership.⁷

In an earlier chapter⁸ we described the activities and defects of the Bulgarian credit co-operatives. If properly organized, co-operative credit may become an important factor in Bulgarian agriculture. But it is in the field of production and marketing that co-operative effort is particularly necessary. With the comparatively primitive system of agriculture, which is likely to remain for some time the dominant type in Bulgaria, the smallness of individual holdings constitutes a very serious detriment to increased production. Only with a pooling of landholdings for the purpose of cultivation, based on some form of producers' co-operation, will it be possible for Bulgarian peasants to apply modern agricultural methods on anything like an adequate scale. The smallness of landholdings renders it very difficult for individual peasants to obtain the necessary long-term credits for the purchase of modern equipment, since the security thus offered is in most cases inadequate. One of the needs of Bulgarian agriculture is a legal system of collective responsibility for groups of peasants, united into producers' co-operatives, which would serve as a basis for the purchase of equipment on long-term credit. The widespread existence of credit co-operation ought to provide an incentive for the development of producers' co-operatives, to the stimulation of which

⁷ For the history of the co-operative movement in Bulgaria see the *Near East Year Book*, pp. 598-600; Popoff, *La Bulgarie coopérative*; and the *Agricultural Co-operatives* (publication of the Bulgarian Agricultural Bank), Sofia, 1924.

⁸ Chap. XI, p. 237.

a definite policy on the part of the Bulgarian government and well-directed activities on the part of the Agricultural Bank might contribute materially.⁹

The development of commercial farming is a pressing need of Bulgarian agriculture. At the present time most Bulgarian peasants work their small and scattered holdings mainly with a view to supplying their own consumption requirements. The production of marketable surpluses is rather incidental, since few farming establishments are operated on a commercial basis.¹⁰ A marked change in this phase of the Bulgarian agricultural situation will probably come only as a result of education, especially through the dissemination of knowledge of better agricultural methods among the peasants. Efforts in this direction are being made by the Bulgarian Ministry of Agriculture, although its work along these lines is at present on too small a scale to have any noticeable effect.

Bulgaria also needs a better organization of her marketing facilities, especially in the disposal of

⁹ It is true that in a country like Denmark, one of the world's models of agricultural co-operation, there is comparatively little development of producers' co-operatives. The Danish co-operative movement concerns itself primarily with the preparation and marketing of such worked food products as butter, bacon, lard, etc. The situation in Denmark, however, is fundamentally different from that in Bulgaria in at least two important respects: (1) There is very little extensive farming in Denmark, and the cultivation of large areas by individuals or groups is not essential. (2) The existing equipment of Danish farms is already so good that the basic problem of equipment, which is so pressing in Bulgaria, does not exist.

¹⁰ Michael, L. G., "Agricultural Survey of Europe," *Technical Bulletin* No. 126 of the U. S. Department of Agriculture, October, 1929, pp. 129-30.

agricultural products. At the present time, marketing is done in a primitive manner, and occasionally with disastrous results. For example, the 1929 wheat crop, while unusually small because of weather conditions, was nevertheless large enough to cover at least the country's own requirements. However, a part of the crop was withheld from the market for speculative reasons, with the result that the country found itself compelled to import, during the year, large quantities of wheat. Early in 1930, the wheat which had been withheld appeared on the market, only to sell at even lower prices than those which had prevailed at the time when it normally should have been marketed. If cereal exports are to play a significant rôle in the country's foreign trade, they must be much better organized than heretofore. Facilities must be provided for the cleaning and grading of the grain and for its storage. Similarly better marketing is needed for industrial crops, as well as for fruit and vegetables. Here again the problem is partly that of government activity, partly of properly directed co-operative effort, and partly of general agricultural education.

Bulgaria needs a thorough reorganization of her whole credit system. The problem is threefold. It involves the position of the National Bank in the credit structure of the country, the organization of agricultural credit, and the organization of industrial and general commercial credit.

As we saw in our discussion of the Bulgarian banking and credit situation, the National Bank, which occupied a powerful position in the credit structure of the country before the war, lost that

position after the war. This was partly because of the immobilization of its resources through its financing of the government during and since the war, partly because of certain features of its reorganization, and partly because of the banking developments in the country outside its sphere of influence. A return to pre-war conditions is neither possible nor desirable. The National Bank has been moving steadily, through the various stages of its reorganization since 1926, toward a thorough modernization of its structure and activities. But in order to be effective in the form which it has gradually assumed, it must strengthen its intrinsically weak position, and it must have an appropriate credit structure in the country through which it can operate.

The intrinsic weakness of the Bank's position lies in the fact that it has no manœuvring margin in its reserves. An important part of its stocks of foreign bills represents the proceeds of short-term credits from abroad, withdrawable almost at a moment's notice; a consolidation of at least some of these credits into long-term obligations would greatly strengthen the Bank's position. Moreover, the Bank's statutes do not permit it to endorse inland commercial bills in its portfolio for the purpose of offering them in foreign markets. But even if it had this privilege, its present commercial portfolio is such that it contains practically no bills which would be acceptable in such an operation. As we said before, the bills of this character in the country are few and scarcely any of them find their way into the Bank's portfolio. An important step in the direction of improving the Bank's portfolio was taken at the

end of 1929, when the Board of Directors, under the influence of the foreign adviser, established a special committee for the purpose of a careful scrutiny of all paper brought to the Bank for discount. This will minimize the acceptance by the Bank of unsound paper and may eventually increase its capacity for obtaining good paper.

The field of agricultural credit is controlled primarily by the Agricultural Bank and, to a lesser degree, by the Central Co-operative Bank. There are two main weaknesses in the work of these institutions. In the first place, their policy of lending liberal support to the over-abundant credit co-operatives has resulted in an immobilization of their resources, and in the second place, their credit policy has little coordination with that of the National Bank. A partial solution of these defects lies in the establishment of a close contact between these institutions and the National Bank. A move in this direction was taken at the beginning of 1930, when an agreement was made between the Central Co-operative Bank and the National Bank under which any support given by the latter to the former will be conditioned on its (the National Bank's) approval of the particular operation for which credit is asked and of the Co-operative Bank's general credit policy.²¹

Another move in the same direction is now under discussion involving the concentration of all public funds at the National Bank. These funds aggregating usually something over a billion leva, are at

²¹ *Report of the Commissioner of the League of Nations, No. 14.*

present divided between the National Bank, the Agricultural Bank, and the Central Co-operative Bank. Their concentration at the National Bank has been hindered by the fact that under its statutes, the Bank cannot pay interest on deposits, and it has been felt that the funds should not be unproductive so far as the institutions to which they belonged were concerned. Indeed, in the case of the postal savings institutions this would have been impossible in any event. It is proposed to solve this difficulty by the creation of a special committee at the National Bank to take charge of the investment of the funds in strict conformity with the credit policy of the National Bank. The committee would consist of the Governor or one of the Vice-Governors of the Bank, and a representative of each of the following institutions: the Agricultural Bank, the Central Co-operative Bank, the Ministry of Finance, the Direction of the Public Debt, and the Administration of Savings Institutions.

Such coordination of policy between the National Bank on the one hand and the central institutions of agricultural and co-operative credit on the other, cannot, however, be regarded as more than a palliative. The real solution probably lies in a thorough reorganization of the activities of the two institutions. In the case of the Agricultural Bank, excellent results might be achieved through its transformation into a corporation with government participation. This form of organization already exists in the Mortgage Bank, which is partly government owned, but is

conducted efficiently and without any interference on the part of the government.

The field of commercial and industrial credit is largely dominated by the four powerful foreign owned banks. The policy of these banks is governed, on occasions, not so much by the requirements of the Bulgarian credit situation as by the desires and needs of their parent bodies in Milan, Berlin, Brussels, etc., and in this way is often attuned to the movements characterizing these external money markets, rather than to the Bulgarian market and the policy of the Bulgarian National Bank. So far as these banks are concerned, the National Bank is practically powerless. They operate largely with foreign funds and do not need the rediscounting facilities of the National Bank. But their disturbing influence might be minimized if there existed in Bulgaria, outside the four foreign owned institutions, a sound banking system, closely co-operating with the National Bank.

The principal weakness of the domestically owned banks in Bulgaria lies in the fact that they are too small and too numerous. With only 26 cities having a population of over 10,000, Bulgaria has well over 300 commercial and co-operative institutions of credit, competing with each other, and on occasions, as it happened in 1928-29, creating an unhealthy credit expansion. A process of consolidation would go far toward strengthening the Bulgarian banking system. This process has already begun, especially among the "popular" banks. An important step in this direction was taken at the beginning of 1930, when three of the important domestically owned

banks in Sofia combined into a single institution. But this process has to be stimulated further, and important bills designed to make banking regulation more stringent and at the same time to facilitate the fusion of banks by affording them fiscal alleviations, are now before the Bulgarian Parliament. With a concentration of resources that would result from consolidation, and with a proper utilization of the credit facilities of the National Bank, the Bulgarian banking system ought to be able to go forward to a very much needed modernization of its structure and technique. It could in this manner become a powerful factor in advancing sounder methods of business finance in the country generally.

Bulgaria stands to gain from a regularization of her commercial policy. An expansion of Bulgarian exports is a question not only of domestic production and internal improvement, but also of the availability of foreign markets capable of absorbing the increased amounts of commodities which Bulgaria may be able to place across her frontiers. Bulgaria's foreign trade problem lies primarily in recovering her pre-war markets and in extending new markets gained since the war. She has lost ground in the countries which, before the war, were large purchasers of her foodstuffs—notably in Belgium, Great Britain, and Turkey. Only her re-emergence as an exporter of foodstuffs on a substantial scale will enable her to regain her position in these markets. Since the war she has acquired markets in Central Europe and in Italy, where she sells tobacco and agricultural raw materials. Apart from her ability to produce, the

problem of securing markets is, in large measure, one of regularized commercial policy.

As we have already seen, delay in the establishment of a definitive and modern tariff system has been largely responsible for Bulgaria's unwillingness to negotiate regular commercial treaties. Here questions of basic economic policy have been involved. It is decidedly open to question whether the kind of wholesale protection which Bulgaria accords her industries really serves the best interests of the country. That the country needs a certain degree of industrial development there is no doubt. But it is at least worth considering whether, in her present position, the better course for Bulgaria to pursue is to build up a diversified industry, as she is attempting to do, or to concentrate her national effort on industrial development based primarily on domestic raw materials. In any event, the existing customs tariff system certainly needs thorough re-examination in the light of a quarter of a century of its operation and of the present-day character of the country's economic life.

Nor can this task be long delayed, since in the absence of a definitive customs tariff Bulgaria cannot proceed with negotiations for commercial agreements of reasonable duration, especially with the countries which are potential markets for her exports. There are obvious difficulties in the advancement of these negotiations, which are by no means peculiar to the Bulgarian situation or necessarily inherent in it. On the contrary, Bulgaria, as regards commercial policy, is no exception among the countries of Europe. This, however, can scarcely be considered

a valid reason for Bulgaria, who has much to gain from a regularized commercial policy, to delay or neglect opportunities to do everything she can, as a nation, in this respect.

Coordination of effort is needed for the creation of an adequate system of transportation. In his investigation of the Bulgarian railway situation in connection with the stabilization loan, M. Regnoul, the League of Nations expert assigned to the task, came to the conclusion that the existing railway equipment, if restored to its normal operating condition, would be ample for Bulgaria's needs in the immediate future. Railway traffic in Bulgaria is not very great. Although movement of both passengers and freight on the Bulgarian railways doubled between 1910 and 1925, it is still, according to M. Regnoul's calculations, below the traffic in most European countries,¹² but can be increased substantially with a better utilization of the restored equipment. Bulgarian railway authorities, on the other hand, as we saw above,¹³ believe that the existing railway system should be extended and are

¹² In the year 1925, Bulgarian railway traffic compared as follows with the traffic in Yugoslavia, Rumania, Hungary, and Belgium, the figures in all cases being averages based on the respective number of kilometers of road in operation:

Country	Passengers Carried	Tons of Goods Carried
Bulgaria	233,490	208,260
Yugoslavia	176,000	223,120
Rumania	313,830	324,850
Hungary	333,780	322,400
Belgium	1,292,000	1,728,400

¹³ See Chap. XII.

proceeding to carry out plans inaugurated some years ago.

In view of the analysis of Bulgaria's transportation requirements contained in M. Regnoul's report, a large program of railway extension would appear to be a luxury, rather than an essential. Although the work called for by such a program would be performed partly by the communes, and although compulsory labor has been and in the future can be utilized for it, nevertheless it would represent a heavy drain on the financial resources of the Bulgarian government. Moreover, since essential requirements for restoring the existing railway system to normal operating conditions have been met out of the proceeds of the stabilization loan, there appears to be much more urgent need of devoting to the improvement of highways whatever financial resources the Bulgarian government can divert to transportation.

So far as highways are concerned, according to the calculations made by the Bulgarian Public Works Administration and accepted as "plausible" by M. Regnoul, no less than one billion leva must be spent for their rehabilitation. Only then would the amount now budgeted by the Bulgarian government for highways (provided the whole sum of 100 million leva a year be made regularly available, as it has not been in the past) be sufficient for current upkeep.

Confronted with the choice of dividing the funds available from the stabilization loan between railways and highways, M. Regnoul chose to devote the major portion to the former. He, no doubt, chose wisely, since with the funds more or less evenly

divided between the two tasks, neither would have been properly performed. But the fact that the restoration of the system of highways is not to be financed out of the stabilization loan makes it all the more imperative to provide means for this purpose out of other resources. Otherwise the country runs the danger of finding its railway service far in advance of the facilities for road traffic to and from the railway centers.

There is, however, one phase of the Bulgarian railway situation in which there is a real need of extension. It is in the matter of international railway connections. At the present time, the route of the Simplon-Orient Express provides Bulgaria with an outlet only to Yugoslavia and Turkey. To neither Rumania nor Greece does she have direct railway access. This fact has an important bearing on the country's foreign trade, especially with Greece.

In our discussion of the geographical distribution of Bulgaria's export trade we saw that since the war Greece has acquired a position of considerable importance as a market for Bulgaria's exports. She purchases foodstuffs, coal, and other commodities. The development of this trade, however, is rendered difficult by the transportation problem. For example, Bulgarian coal intended for the Greek market is mined in a section of the country which is not far from the Greek frontier. Yet, in the absence of a direct railway line connecting the two countries, the shipments of coal are dispatched by water from Burgas to Salonika. The linking of the Bulgarian and Greek railway systems is technically a comparatively simple matter. So far, however, there have

been more or less serious political and military objections.

As regards Rumania, a bridge across the Danube connecting Rushchuk and Giurgiu or, perhaps, other more convenient points would automatically bring together the Rumanian and the Bulgarian railway systems. The construction of such a bridge has so far been opposed partly on military and partly on economic grounds. The economic objection to it is that it would carry enough traffic only if the Bulgarian railway system were also connected with that of Greece and would thus carry some of the traffic passing to and from the Ægean ports.

III. FOREIGN FINANCIAL AND TECHNICAL ASSISTANCE

The task of economic development in Bulgaria requires financial resources and expert technical direction, and there is a sad deficiency in the country so far as both of these factors are concerned. Time can make up this deficiency, but only through a very slow process. Foreign assistance can do it much more quickly. In Chapter XI we discussed the rôle played in Bulgaria by foreign capital; there is need for attracting more financial resources from the richer countries of the world. And there is similar need of obtaining foreign aid in the form of expert technical direction.

Foreign capital is needed in Bulgaria primarily in the form of long-term investments. Both agriculture and industry, and especially the former, have so far been insufficiently supplied with this type of credit, and the accumulation of savings within the

country is too slow to meet the necessary requirements. Hence the need in Bulgaria of long-term foreign investments.

Reasonable estimates of the volume of such foreign funds needed during the next five or six years place their approximate total at 4 to 5 billion leva (30 to 40 million dollars). A large part of these funds should be made available to agriculture, in the form of some sort of long-term mortgage credit as soon as such prerequisite conditions as the establishment of adequate cadastral records and the introduction of some form of collective responsibility for small landholders have been met. The remainder of the foreign investments might well go directly into industrial development, especially into mining, timber, and food-processing.

It is doubtful whether the Bulgarian government itself needs any more foreign loans at present, except, perhaps, for such specific undertakings as irrigation work and the rehabilitation of the system of highways. With a further improvement in budgetary technique and careful fiscal management, regular revenues ought to provide the means for financing other general basic improvements. A certain amount of municipal improvement would probably have to be financed with foreign funds, although in the country's present condition it would appear wise to keep such expenditures as low as possible.

Aid of foreign technical experts would greatly facilitate Bulgaria's economic development. Bulgaria is a young country, not only as a national entity, but even more so in terms of technical

advancement. Thus far she has had neither the time nor the opportunity to develop her own directing and managerial personnel, which is indispensable for a successful carrying out of the economic tasks which confront her at the present time. She has been and is sending her young men to other European countries and to America to receive a modern technical education, and she has a system of professional and technical schools. But the fruits of this process are as yet too meager to satisfy her pressing requirements in this respect.

Educational work has always been an important preoccupation with the Bulgarian leaders, and they have succeeded in building up a system of general schools which may be considered adequate for the needs of the country. In fact, as some careful Bulgarian observers believe, it is not impossible that the system is over-developed, since the Bulgarian schools are turning out each year more candidates for what might be termed "white collar jobs," than the country can, in its present condition, absorb. On the other hand, professional and technical education has developed comparatively to a much smaller degree than general education.

During the school year 1926-27, the number of children receiving instruction at the primary and secondary schools (counting only those who remained until the end of the year) was 592,000. During the same year, the enrollment at the professional and technical schools was 16,000 pupils, and of these 3,000 were girls learning domestic science. During the same year, the Sofia University, the only regular university in the country, had an enrollment of 3,373

students, of whom 811 were studying the humanistic sciences; 728, the natural sciences; 711, law; 567, medicine; and 293, agriculture. The so-called Free University, Bulgaria's other high institution of learning, during the same year had 188 students in its Diplomatic-Consular Department, 505 in the Administrative-Financial Department, and 805 in the Commercial-Economic Department.¹⁴

Even with the students who are studying in other countries, it will be some time before Bulgaria trains a technical and managerial personnel adequate to her needs. And even such personnel as her schools turn out need mature and expert direction in the practical handling of the problems which press for solution. Technical specialists brought in from foreign countries can supply precisely this kind of direction.

The work of the League of Nations furnishes an important lesson as to the possibilities of foreign expert direction. In all phases of its activities in Bulgaria, the League has followed the principle of furnishing merely specialized knowledge and supervision and leaving the actual execution to Bulgarians themselves. In this manner, for those domains of activity in which the League has had a part, there has been going on an almost imperceptible process of adaptation to the best methods and practices developed in the technically advanced countries.

In the work of refugee settlement, with its numerous ramifications, the results have been very noticeable. The efficient operation of the machinery

¹⁴ *Bulletin mensuel de statistique*, May, 1928 and January, 1929.

set up for that purpose presents a marked contrast to comparable lines of activity in which there is no expert foreign direction. Similarly, in the domain of financial administration and of the operation of the National Bank, the assistance rendered by the experts of the League has resulted in indubitable improvements, although in each case the actual management remains in Bulgarian hands.

Also important in connection with the League's work has been the fact that the experience and knowledge of more advanced countries were employed for the purpose of devising the plans in accordance with which the particular problems could best be solved. It is perhaps to be regretted that the activities of the League in Bulgaria, just as in other countries which have sought the League auspices in the solution of pressing economic problems, have been centered on specific tasks, rather than directed toward a general plan of economic reorganization. On the other hand, such an approach in the case of Bulgaria would have been difficult, if not impossible, in the absence of a reasonable and definitive reparation settlement. This element has now been removed.

Bulgaria would profit greatly from a scheme of economic reorganization under the technical supervision of the League of Nations. The League auspices would give Bulgaria all the advantages of foreign experience brought by the experts of other countries, in addition to the knowledge of local conditions contributed by her own experts, in devising an effective plan for her general economic reorganization and development. At the same time, they would ensure

for Bulgaria not only a greater degree of care in the choice of the technical specialists for the carrying out of the various features of the plan, but also a larger measure of disinterestedness on the part of the foreign experts than if they were chosen either by Bulgaria herself, by any one country, or by a foreign banking group. The type of activity carried on by the League of Nations in the domains in which it has been active so far might well be extended to other domains and, it is to be hoped, with equally beneficent results.

There is, to be sure, an important danger to be guarded against, the presence of which has been apparent, in some measure, in the League's relations with Bulgaria. It is the temptation on the part of foreign specialists to proceed too fast, to become impatient with the slowness with which basic reforms must necessarily be introduced in an economically more or less backward community. The controversy between the Bulgarian government and the Financial Committee of the League over the transformation of the Bulgarian National Bank is an instance of this. It is difficult to see what useful purpose could be served in insisting upon the reorganization of the Bank into a privately owned corporation, when it already had, after the reforms of 1926 and 1928, ample safeguards from government interference in the management of its affairs. The mere fact that a quasi-private corporation is the form toward which the organization of the banks of issue has been tending in economically better developed countries is a very poor argument in the case of Bulgaria. The Financial Committee

of the League would probably have done much better if it had taken from the start a more moderate position in this particular instance by proposing, for example, an equally effective but intermediate form of organization of the type in existence in many European countries, namely, a joint stock company with government participation.

But while this negative feature in the work of foreign experts is within the range of possibilities, the positive results of their contribution to the economic development of a country in Bulgaria's present position undoubtedly outweigh it. Extreme care and skill are needed to prevent disagreements from reaching the stage where one or the other side comes to believe that considerations of prestige or of sovereignty are involved. Such care and skill are not, however, beyond the powers of intelligent statesmanship.

Bulgaria needs to overcome her general distrust of foreigners before she can really turn to far-reaching foreign technical assistance. Like all countries long subjected to outside domination, Bulgaria is far from being free from a suspicious and more or less hostile attitude toward foreigners. The conflict between this traditional hostility and a realization of the benefits to be derived from foreign assistance is well expressed in the following formulation of the situation by a thoughtful Bulgarian observer:

The direction of the many complex problems which need solution requires a corps of serious, competent, and efficient specialists. . . . Although I am certain that what I am going to say will be imputed to me as a deadly sin, I maintain, nevertheless, that in case of need we must seek the services, the knowledge, and the expe-

rience of foreign experts. We must overcome our inbred and carefully nurtured suspicion of foreigners and our unwillingness to listen to the advice of others. We must learn all we can from the men who have converted Northern Africa into a gardenland, who have made Australia and Canada the sources of unheard-of plenty, who have transformed the wastelands of Italy and Switzerland and the marshes of Denmark and Holland into wealthy regions. The utilization of the work and knowledge of such men is neither undignified nor sinful. But shall we have the wisdom and the courage to follow their advice to the end?²⁸

The language of this formulation is characteristic of the Bulgarian situation with regard to the country's attitude toward foreigners. It would be most unfortunate if, because of a vague and general distrust of foreigners, Bulgaria were to deny herself so powerful a factor in her indispensable economic development as foreign technical assistance.

Such, in general outlines, are the basic needs of the Bulgarian economic situation. Bulgaria is not a rich country and, like all predominantly agricultural regions, is subject to wide economic fluctuations resulting from the weather factor. Her chief problem, therefore, lies in such an arrangement of her economic life as would permit her in good years to accumulate sufficient reserves for bad years. For over a decade, the reparation question dominated Bulgaria's thoughts and feelings as a nation. This pre-occupation should now recede to the background,

²⁸ Mr. N. Momchiloff, Director of the Bulgarska Banka, in a public address on the needs of the Bulgarian financial situation, kindly placed by him at our disposal in manuscript form.

and the emphasis should be shifted to a reorganization of the country's national life that would place it on the road to permanent recovery and advancement. The task is by no means an easy one, but at least, if Bulgaria only has the will to perform it, there is more than a good chance that she may in time become, within her natural limitations, a flourishing community and a growing economic asset to Europe as a whole—particularly to the Balkan peninsula, one of the portions of the European continent where such advancement is most needed.

APPENDIX
REPARATION AND RECONSTRUCTION
DOCUMENTS

**I. REPARATION AND FINANCIAL CLAUSES OF
THE TREATY OF NEULLY, NOVEMBER 27, 1919**

(Official text of Parts VII and VIII of the Treaty)

ARTICLE 121

Bulgaria recognises that, by joining the war of aggression which Germany and Austria-Hungary waged against the Allied and Associated Powers, she has caused to the latter losses and sacrifices of all kinds, for which she ought to make complete reparation.

On the other hand, the Allied and Associated Powers recognise that the resources of Bulgaria are not sufficient to enable her to make complete reparation.

Bulgaria, therefore, agrees to pay, and the Allied and Associated Powers agree to accept as being such reparation as Bulgaria is able to make, the sum of 2,250,000,000 (two and a quarter milliards) francs gold.

This amount shall (except as hereinafter provided) be discharged by a series of half-yearly payments on January 1 and July 1 in each year, beginning on July 1, 1920.

The payments on July 1, 1920, and January 1, 1921, shall represent interest at the rate of 2 per cent per annum from January 1, 1920, on the total sum due by Bulgaria. Thereafter, each half-yearly payment shall include, besides the payment of interest at 5 per cent per annum, the provision of a sinking fund sufficient to extinguish the total amount due by Bulgaria in 37 years from January 1, 1921.

These sums shall be remitted through the Inter-Allied Commission referred to in Article 130 to the Reparation Commission created by the Treaty of Peace with Germany of June 28, 1919, as constituted by the Treaty with Austria of September 10, 1919, Part VIII, Annex II, paragraph 2 (this Commission is hereinafter referred to as the Reparation Commission), and shall be disposed of by the Reparation Commission in accordance with the arrangements already made.

Payments required in accordance with the preceding stipulations to be made in cash at any time be accepted by the Reparation Commission, on the proposal of the Inter-Allied Commission, in the form of chattels, properties, commodities, rights, concessions, within or without Bulgarian territory, ships, bonds, shares or securities of any kind, or currency of Bulgaria or of other States, the value of such substitutes for gold being fixed at a fair and just amount by the Reparation Commission itself.

If the Reparation Commission desires at any time to dispose, either by sale or otherwise, of gold bonds based on the payments to be made by Bulgaria, it shall have power to do so. The nominal amount of the bonds shall be fixed by it, after taking due account of the provisions of Articles 122, 123, and 129 of this Part, in consultation with the Inter-Allied Commission, but shall in no case exceed the total capital sums due by Bulgaria then outstanding.

Bulgaria undertakes in such case to deliver to the Reparation Commission, through the Inter-Allied Commission, the necessary bonds in such form, number, denominations and terms as the Reparation Commission may determine.

These bonds shall be direct obligations of the Bulgarian Government, but all arrangements for the

service of the bonds shall be made by the Inter-Allied Commission. The Inter-Allied Commission shall pay all interest; sinking fund, or other charges connected with the bonds out of the half-yearly payments to be made by Bulgaria in accordance with this Article. The surplus, if any, shall continue to be paid to the order of the Reparation Commission.

These bonds shall be free of all taxes and charges of every description established or to be established by Bulgaria.

ARTICLE 122

The Inter-Allied Commission shall from time to time consider the resources and capacity of Bulgaria, and, after giving her representatives a just opportunity to be heard, shall have discretion to recommend to the Reparation Commission either a reduction or a postponement of any particular payment due or a reduction of the total capital sum to be paid by Bulgaria.

The Reparation Commission shall have power by a majority of votes to make any reduction or postponement up to the extent recommended by the Inter-Allied Commission.

ARTICLE 123

Bulgaria shall have the power at any time, if she so desires, to make immediate payments in reduction of the total capital sum due over and above the half-yearly payments.

ARTICLE 124

Bulgaria recognises the transfer to the Allied and Associated Powers of any claims to payments or repayment which Germany, Austria, Hungary or Turkey may have against her, in accordance with

Article 261 of the Treaty of Peace with Germany, and the corresponding Articles of the Treaties with Austria, Hungary and Turkey.

The Allied and Associated Powers, on the other hand, agree not to require from Bulgaria any payment in respect of claims so transferred, as they have taken these claims into account in fixing the amount to be paid by Bulgaria under Article 121.

ARTICLE 125

In addition to the payments mentioned in Article 121, Bulgaria undertakes to return, in accordance with the procedure to be laid down by the Inter-Allied Commission, objects of any nature and securities taken away, seized or sequestered in the territory invaded in Greece, Roumania or Serbia, in cases in which it is possible to identify them in Bulgarian territory, except in the case of live-stock, which shall be dealt with in accordance with Article 127.

For this purpose the Governments of Greece, Roumania and the Serb-Croat-Slovene State shall deliver to the Inter-Allied Commission within four months from the coming into force of the present Treaty lists of the objects and securities which they can prove to have been carried off from the invaded territories and which can be identified and found in Bulgarian territory. They will also give at the same time all information possible to assist in the discovery and identification of these articles.

The Bulgarian Government undertakes to facilitate by all means in its power the discovery of the said objects and securities, and to pass within three months from the coming into force of the present Treaty a law requiring all Bulgarian nationals to disclose all such objects and securities in their pos-

session under penalty of being treated as receivers of stolen goods.

ARTICLE 126

Bulgaria undertakes to seek for and forthwith to return to Greece, Roumania, and the Serb-Croat-Slovene State respectively any records or archives or any articles of archæological, historic or artistic interest which have been taken away from the territories of those countries during the present war.

Any dispute between the Powers above named and Bulgaria as to their ownership of any such articles shall be referred to an arbitrator to be appointed by the Inter-Allied Commission, and whose decision shall be final.

ARTICLE 127

Bulgaria further undertakes to deliver to Greece, Roumania and the Serb-Croat-Slovene State, within six months from the coming into force of the present Treaty, live-stock of the descriptions and in the numbers set out hereunder :

	Greece	Roumania	Serb-Croat- Slovene State
Bulls (18 months to 3 years) ..	15	60	50
Milch cows (2 to 6 years)	1,500	6,000	6,000
Horses and mares (3 to 7 years)	2,250	5,250	5,000
Mules	450	1,050	1,000
Draught-oxen	1,800	3,400	4,000
Sheep	6,000	15,000	12,000

These animals shall be delivered at such places as may be appointed by the respective Governments. They shall be inspected before delivery by agents appointed by the Inter-Allied Commission, who shall satisfy themselves that the animals so delivered are of average health and condition.

No credit shall be made to Bulgaria in respect of their value; the animals handed over shall be regarded as having been delivered in restitution for animals taken away by Bulgaria during the war from the territories of the countries named.

In addition to the deliveries provided for above, the Inter-Allied Commission shall be at liberty to grant, if they find it possible to do so, to Greece, Roumania and the Serb-Croat-Slovene State, within two years from the coming into force of the present Treaty, such quantities of live-stock as they may consider themselves justified in so granting. The value of such deliveries shall be placed to the credit of Bulgaria.

ARTICLE 128

By way of special compensation for the destruction caused to the coal mines situated on Serbian territory occupied by the Bulgarian armies, Bulgaria undertakes, subject to the proviso contained in the final paragraph of this Article, to deliver to the Serb-Croat-Slovene State during five years from the coming into force of the present Treaty 50,000 tons of coal a year from the output of the Bulgarian State mines at Pernik. These deliveries shall be made free on rail on the Serb-Croat-Slovene frontier on the Pirot-Sofia railway.

The value of these deliveries will not be credited to Bulgaria, and will not be taken in diminution of the payment required under Article 121.

Provided, nevertheless, that these deliveries will only be made subject to the approval of the Inter-Allied Commission, which approval shall only be given if and in so far as the Commission is satisfied that such deliveries of coal will not unduly interfere with the economic life of Bulgaria; the decision of the Commission on this point shall be final.

ARTICLE 129

The following shall be reckoned as credits to Bulgaria in respect of her reparation obligations:

Amounts which the Reparation Commission may consider should be credited to Bulgaria under Part VIII (Financial Clauses), Part IX (Economic Clauses) and Part XI (Ports, Waterways and Railways) of the present Treaty.

ARTICLE 130

In order to facilitate the discharge by Bulgaria of the obligations assumed by her under the present Treaty, there shall be established at Sofia, as soon as possible after the coming into force of the present Treaty, an Inter-Allied Commission.

The Commission shall be composed of three members to be appointed respectively by the Governments of the British Empire, France and Italy. Each Government represented on the Commission shall have the right to withdraw therefrom upon six months' notice filed with the Commission.

Bulgaria shall be represented by a Commissioner, who shall take part in the sittings of the Commission whenever invited by the Commission to do so, but shall not have the right to vote.

The Commission shall be constituted in the form and shall possess the powers prescribed by the present Treaty, including the Annex to this Part.

The Commission shall continue in existence as long as any of the payments due under the terms of this part of the present Treaty remain unpaid.

The members of the Commission shall enjoy the same rights and immunities as are enjoyed in Bulgaria by duly accredited diplomatic agents of friendly Powers.

The Bulgarian Government agrees to provide by law, within six months of the coming into force of the present Treaty, the authority necessary for enabling the Commission to carry out its duties. The text of this law must be approved in advance by the Powers represented on the Commission. It must conform to the principles and rules laid down in the Annex to this Part, and also to any other relevant provisions laid down in the present Treaty.

ARTICLE 131

Bulgaria undertakes to pass, issue and maintain in force any legislation, orders and decrees that may be necessary to give effect to the provisions of this Part.

ANNEX

1. The Commission shall elect a Chairman annually from its members, and it shall establish its own rules and procedure.

Each member shall have the right to nominate a deputy to act for him in his absence.

Decisions shall be taken by the vote of the majority, except when a unanimous vote is expressly required. Abstention from voting is to be treated as a vote against the proposal under discussion.

The Commission shall appoint such agents and employees as it may deem necessary for its work.

The costs and expenses of the Commission shall be paid by Bulgaria and shall be a first charge on the revenues payable to the Commission. The salaries of the members of the Commission shall be fixed on a reasonable scale by agreement from time to time between the Governments represented on the Commission.

2. Bulgaria undertakes to afford to the members, officers and agents of the Commission full power to visit and inspect at all reasonable times any places, public works or undertakings in Bulgaria, and to furnish to the said Commission all records, documents and information which it may require.

3. The Bulgarian Government undertakes to place at the disposal of the Commission in each half-year sufficient sums in francs gold, or such other currency as the Commission may decide, to enable it to remit at due date the payments due on account of reparation or of other obligations undertaken by Bulgaria under the present Treaty.

In the law relating to the working of the Commission, there shall be prescribed a list of the taxes and revenues (now existing or hereafter to be created) estimated to be sufficient to produce the sums above referred to. This list of taxes and revenues shall include all revenues or receipts arising from concessions made or to be made for the working of mines or quarries or for the carrying on of any works of public utility or of any monopolies for the manufacture or sale of any articles in Bulgaria. This list of taxes and revenues may be altered from time to time with the unanimous consent of the Commission.

If at any time the revenues so assigned shall prove insufficient, the Bulgarian Government undertakes to assign additional revenues. If the Bulgarian Government does not assign sufficient revenues within three months of a demand by the Commission, the Commission shall have the right to add to the list additional revenues created or to be created, and the Bulgarian Government undertakes to pass the necessary legislation.

In case of default by Bulgaria in the performance of her obligations under Articles 121 and 130 and this Annex the Commission shall be entitled to assume to the extent and for the period fixed by it the full control and management of and to undertake the collection of such taxes and sources of revenue and to hold and disburse the proceeds thereof and to apply any net proceeds after meeting the cost of administration and collection to the satisfaction of the reparation obligations of Bulgaria, subject to any priorities laid down in the present Treaty.

In the case of such action by the Commission, Bulgaria undertakes to recognise the authority and powers of the said Commission, to abide by its decisions and to obey its directions.

4. By agreement with the Bulgarian Government, the Commission shall have power to assume the control and management and the collection of any taxes, even if no default has occurred.

5. The Commission shall also take over any other duties which may be assigned to it under the present Treaty.

6. No member of the Commission shall be responsible, except to the Government appointing him, for any action or omission in the performance of his duties. No one of the Allied or Associated Governments assumes any responsibility in respect of any other Government.

ARTICLE 132

Subject to the provisions of Article 138, and to such exceptions as the Inter-Allied Commission established by Article 130, Part VII (Reparation) of the present Treaty, may unanimously approve, a first charge upon all the assets and revenues of

Bulgaria shall be the cost of reparation and all other costs arising under the present Treaty or any treaties or agreements supplementary thereto, or under arrangements concluded between Bulgaria and the Allied and Associated Powers during the Armistice signed on September 29, 1918.

Up to May 1, 1921, the Bulgarian Government shall not export or dispose of, and shall prohibit the export or disposal of, gold without the previous approval of the Inter-Allied Commission.

ARTICLE 133

There shall be paid by Bulgaria the total cost of all armies of the Allied and Associated Governments occupying territory within her boundaries, as defined in the present Treaty, from the date of the signature of the Armistice of September 29, 1918, until the coming into force of the present Treaty, including the keep of men and beasts, lodging and billeting, pay and allowances, salaries and wages, bedding, heating, lighting, clothing, equipment, harness and saddlery, armament and rolling stock, air services, treatment of sick and wounded, veterinary and remount service, transport services of all sorts (such as by rail, sea or river, motor lorries), communications and correspondence, and, in general, the cost of all administrative or technical services, the working of which is necessary for the training of troops and for keeping their numbers up to strength and preserving their military efficiency.

The cost of such liabilities under the above heads, so far as they relate to purchases or requisitions by the Allied and Associated Governments in the occupied territory, shall be paid by the Bulgarian Government to the Allied and Associated Governments in any legal currency of Bulgaria. In cases

where an Allied or Associated Government, in order to make such purchases or requisitions in the occupied territory, has incurred expenditure in a currency other than Bulgarian currency, such expenditure shall be reimbursed in Bulgarian currency at the rate of exchange current at the date of reimbursement, or at an agreed rate.

All other of the above costs shall be paid in the currency of the country to which the payment is due.

ARTICLE 134

Bulgaria engages to pay towards the charge for the service of the external pre-war Ottoman Public Debt, both in respect of territory ceded by Turkey under the Treaty of Constantinople, 1913, for the period during which such territory was under Bulgarian sovereignty, and in respect of territory the cession of which is confirmed by the present Treaty, such sums as may be determined hereafter by a Commission to be appointed for the purpose of determining to what extent the cession of Ottoman territory will involve the obligation to contribute to that debt.

ARTICLE 135

The priority of the charges established by Articles 132, 133, and 134 of this Part shall be as follows:

(a) the cost of military occupation as defined by Article 133;

(b) the service of such part of the external pre-war Ottoman Public Debt as may be attributed to Bulgaria under the present Treaty or any treaties or agreements supplementary thereto in respect of the cession to Bulgaria of territory formerly belonging to the Ottoman Empire;

(c) the cost of reparation as prescribed by the present Treaty or any treaties or agreements supplementary thereto.

ARTICLE 136

Bulgaria confirms the surrender of all material handed over or to be handed over to the Allied and Associated Powers in accordance with the Armistice of September 29, 1918, and recognises the title of the Allied and Associated Powers to such material.

There shall be credited to Bulgaria against the sums due from her to the Allied and Associated Powers for reparation the value, as assessed by the Reparation Commission referred to in Article 121, Part VII (Reparation) of the present Treaty, acting through the Inter-Allied Commission, of such of the above material for which, as having non-military value, credit should, in the judgment of the Reparation Commission, be allowed.

Property belonging to the Allied and Associated Governments or their nationals, restored or surrendered under the Armistice Agreement in specie, shall not be credited to Bulgaria.

ARTICLE 137

The right of each of the Allied and Associated Powers to dispose of enemy assets and property within its jurisdiction at the date of the coming into force of the present Treaty is not affected by the foregoing provisions.

ARTICLE 138

All rights created and all securities specifically assigned in connection with loans contracted or guaranteed by the Bulgarian Government which were actually contracted or guaranteed before

August 1, 1914, are maintained in force without any modification.

ARTICLE 139

If, in accordance with Articles 235 and 260 of the Treaty of Peace with Germany, signed on June 28, 1919, and the corresponding Articles in the Treaties with Austria and Hungary, all rights, interests and securities held by any German, Austrian or Hungarian national under the contracts and agreements regulating the loan contracted by Bulgaria in Germany in July, 1914, are taken over by the Reparation Commission, the Bulgarian Government undertakes to do everything in its power to facilitate this transfer. The Bulgarian Government likewise undertakes to hand over to the Reparation Commission within six months from the coming into force of the present Treaty all such rights, interests and securities held by Bulgarian nationals under the contracts and agreements regulating the said loan. The rights, interests and securities held by Bulgarian nationals will be valued by the Reparation Commission, and their value will be credited to Bulgaria on account of the sums due for reparation, and Bulgaria shall be responsible for indemnifying her nationals so dispossessed.

Notwithstanding anything in the preceding Article, the Reparation Commission shall have full power, in the event of the transfer to it of the interests mentioned above, to modify the terms of the contracts and agreements regulating the loan, or to make any other arrangements connected therewith which it shall deem necessary, provided that (1) the rights under the contracts and agreements of any persons interested therein other than German, Austrian, Hungarian or Bulgarian nationals, and (2) the rights of the holders of Bulgarian

Treasury Bills issued in France in 1912 and 1913 to be reimbursed out of the proceeds of the next financial operation undertaken by Bulgaria, are not prejudiced thereby. By agreement with the parties concerned, the claims referred to above may be paid off either in cash or in an agreed amount of the bonds of the loan.

Any arrangement with regard to the loan and the contracts and agreements connected therewith shall be made after consultation with the Inter-Allied Commission, and the Inter-Allied Commission shall act as agent of the Reparation Commission in any matters connected with the loan, if the Reparation Commission so decides.

ARTICLE 140

Nothing in the provisions of this Part shall prejudice in any manner charges or mortgages lawfully effected in favor of the Allied and Associated Powers or their nationals respectively, before the date at which a state of war existed between Bulgaria and the Allied or Associated Powers concerned, by the Government of Bulgaria or by Bulgarian nationals on assets in their ownership at that date, except in so far as variations of such charges or mortgages are specifically provided for under the terms of the present Treaty or any treaties or agreements supplementary thereto.

ARTICLE 141

Any Power to which Bulgarian territory is ceded in accordance with the present Treaty undertakes to pay a contribution towards the charge for the Bulgarian Public Debt as it stood on October 11, 1915, including the share of the Ottoman Public Debt

attaching to Bulgaria in accordance with the principles laid down in Article 134.

The Reparation Commission acting through the Inter-Allied Commission will fix the amount of the Bulgarian Public Debt on October 11, 1915, taking into account only such portion of the debt contracted after August 1, 1914, as was not employed by Bulgaria in preparing the war of aggression.

The portion of the Bulgarian Public Debt for which each State is to assume responsibility will be such as the Principal Allied and Associated Powers, acting through the Inter-Allied Commission, may determine to be equitable, having regard to the ratio between the revenues of the ceded territory and the total revenues of Bulgaria for the average of the three complete financial years next before the Balkan War of 1912.

ARTICLE 142

Any Power to which Bulgarian territory is ceded in accordance with the present Treaty shall acquire all property and possessions situated within such territory belonging to the Bulgarian Government, and the value of such property and possessions so acquired shall be fixed by the Reparation Commission and placed by it to the credit of Bulgaria (or of Turkey in the case of property and possessions ceded to Bulgaria under the Treaty of Constantinople, 1913), and to the debit of the Power acquiring such property or possessions.

For the purposes of this Article the property and possessions of the Bulgarian Government shall be deemed to include all the property of the Crown.

ARTICLE 143

Bulgaria renounces any benefit disclosed by the Treaties of Bucharest and Brest-Litovsk, 1918, and

by the Treaties supplementary thereto, and undertakes to transfer either to Roumania or to the Principal Allied and Associated Powers, as the case may be, any monetary instruments, specie, securities and negotiable instruments or goods which she may have received under the aforesaid Treaties.

Any sums of money and all securities, instruments and goods, of whatsoever nature, to be paid, delivered or transferred under the provisions of this Article, shall be disposed of by the Principal Allied and Associated Powers in a manner hereafter to be determined by those Powers.

ARTICLE 144

The Bulgarian Government undertakes to refrain from preventing or impeding such acquisition by the German, Austrian, Hungarian or Turkish Governments of any rights and interests of German, Austrian, Hungarian or Turkish nationals in public utility undertakings or concessions operating in Bulgaria as may be required by the Reparation Commission under the terms of the Treaties of Peace between Germany, Austria, Hungary and Turkey and the Allied and Associated Powers.

ARTICLE 145

Bulgaria undertakes to transfer to the Reparation Commission any claims which she or Bulgarian nationals who acted on her behalf may have to payment or reparation by Germany, Austria, Hungary or Turkey, or their nationals, particularly any claims which may arise now or hereafter in the fulfillment of undertakings made between Bulgaria and those Powers during the war.

Any sums which the Reparation Commission may recover in respect of such claims shall be trans-

ferred to the credit of Bulgaria on account of the sums due for reparation.

ARTICLE 146

Any monetary obligation arising out of the present Treaty shall be understood to be expressed in terms of gold, and shall, unless some other arrangement is specifically provided for in any particular case under the terms of this Treaty or any treaty or agreement supplementary thereto, be payable at the option of the creditors in pounds sterling payable in London, gold dollars of the United States of America payable in New York, gold francs payable in Paris, or gold lire payable in Rome.

For the purposes of this Article the gold coins mentioned above shall be defined as being of the weight and fineness of gold as enacted by law on January 1, 1914.

II. SOFIA PROTOCOL OF MARCH 21, 1923

(Translated from the Bulgarian *Official Journal* for July 13, 1923)

The undersigned:

M. Alexander STAMBOULISKY, Prime Minister of the Kingdom of Bulgaria, Minister of Foreign Affairs, of the one part; and, of the other part, Sir Elliott COLVIN, President of the Inter-Allied Commission for Bulgaria, representing the British Empire,

Count René DE CHERISEY, Minister Plenipotentiary, representing the French Republic,

Count DI CARROBIO, Minister Plenipotentiary, representing the Kingdom of Italy;

in pursuance of Articles 121 and 122 of the Treaty of Neuilly, have agreed on the following provisions:

Article 1

The Bulgarian reparation debt stipulated in Article 121 of the Treaty of Neuilly is divided into two parts, *Tranche A* and *Tranche B*.

a. *Tranche A*, exclusive of the payments prescribed in paragraph 5 of Section 1 of the annex to Part VII of the Treaty, is fixed at five hundred and fifty million gold francs, payable in semi-annual instalments during 60 years, with interest at the rate of 5 per cent, in accordance with the schedule of payments annexed to this protocol.¹ The first payment will be due on October 1, 1923.

b. *Tranche B* constitutes the remainder of the debt. No demands will be made on Bulgaria on account of this part of the debt prior to April 1, 1953, and it will bear no interest. On the same date (April 1, 1953) the sums credited to Bulgaria by virtue of the Treaty of Neuilly, especially of Articles 136, 142, and 145, will be applied, also without interest, to *Tranche B*.

The provisions of Article 122 of the Treaty of Neuilly will remain in force as regards the final balance.

Article 2

The Bulgarian government undertakes to assign, as security for the payments under this agreement, its customs receipts, in accordance with the provisions of Ukase No. 10, dated March 16, 1923, promulgated in virtue of Article 47 of the Constitu-

¹ The reader will find the schedule of payments on page 70.

tion of the Kingdom of Bulgaria; the text of this ukase is annexed hereto.

Article 3

The Bulgarian government will not permit the customs receipts mentioned in the preceding article to fall to a sum, in gold francs, smaller than the payments stipulated in Article 1 plus 10 per cent.

Article 4

The Bulgarian government and the Inter-Allied Commission for Bulgaria defer to the Reparation Commission the question of the application of paragraphs 8, 9, 10, and 11 of Article 121 of the Treaty of Neuilly.

Article 5

The Bulgarian government reserves the right, accruing to it under Article 123 of the Treaty of Neuilly, to effect payments before the fixed dates, in partial or total reduction of the sums stipulated in the schedule of payments.

Article 6

The Inter-Allied Commission accepts this protocol *ad referendum* and with the reservation that it is subject to approval by the Reparation Commission.

Article 7

The Bulgarian government undertakes to submit to the next session of the Sobranie for its approval this protocol and the ukase mentioned above, the latter having the force of law in the meantime. The law which will replace the ukase will contain the

full text of this protocol and of the schedule of payments.

Article 8

The present protocol was signed in Sofia on March 21, 1923, in duplicate, one copy for the Bulgarian government and one for the Inter-Allied Commission.

(Signed) AL STAMBOULISKY.

(Signed) E. COLVIN

MONTMARIN (for Count
DE CHERISEY, by proxy)

C. DI CARROBIO.

**III. DECISION OF THE REPARATION COMMISSION
OF JULY 23, 1926**

(Translated from the official French text)

**3314. LOAN FOR THE SETTLEMENT OF BULGARIAN
REFUGEES**

The *Reparation Commission*, considering:

(a) The scheme approved on June 10, 1926, by the Council of the League of Nations for the issue of a loan by Bulgaria for the purpose of the settlement of Bulgarian refugees; and

(b) The telegram addressed on July 22d to the Reparation Commission by the Inter-Allied Commission for Bulgaria worded as follows:

"Inter-Allied Commission for Bulgaria unanimously decided to grant derogation to the first charge established

by Article 132 of the Treaty of Neuilly for revenues required as securities for loan intended for settlement of Bulgarian refugees. Inter-Allied Commission for Bulgaria further decided to recommend that Reparation Commission should take all necessary measures of a nature to protect securities assigned to this loan against any loss of value which might result from instability of exchange. Report and text of decisions follow.—“CINTERDED”:

Agrees so far as it is concerned to give effect as hereinafter provided to the proposals of the Financial Committee of the League of Nations approved on June 10, 1926, by the Council of the League with a view to protect the securities assigned to the loan against any loss of value which might result from an instability of the exchange caused by reparation transfers:

(a) The Bulgarian Government will have the right at any time during the existence of the said loan to make to the Inter-Allied Commission, a request that, in the interest of the stability of the Bulgarian exchange, purchases of foreign currency necessary for the payment of reparations under the Protocol signed at Sofia on March 21, 1923, be suspended either in whole or in part.

(b) The Bulgarian Government will undertake to accept, as from the date on which such a request is made and from the very fact of its being made, the regulations for the operations of transfer contained in the attached schedule, which the Reparation Commission also on its part accepts, and to co-operate with the Reparation Commission in the fullest manner for establishing and keeping in force those regulations.

(c) This decision shall be void and of no effect if,

before December 31, 1926, the Reparation Commission has not received:

(1) A notification from the League of Nations that the entire scheme approved on June 10, 1926, has been carried into effect; and

(2) A notification from the Bulgarian Government that it accepts fully and unreservedly all the provisions of the present decision and of the schedule with which it is concerned.

(Signed) S. A. ARMITAGE-SMITH,
General Secretary.

SCHEDULE TO THE DECISION OF THE REPARATION COMMISSION

1. As from the date on which the Bulgarian Government addresses to the Inter-Allied Commission of Bulgaria a request for the suspension in whole or in part in the interests of the stability of the exchange of the purchase of foreign currency necessary for reparation payments, an organization under the name of the Transfer Committee, entrusted with the obligation of operating reparation transfers, will be constituted in manner hereinafter provided.

2. If, before the Transfer Committee enters upon its duties, any reparation payments fall due, the Bulgarian Government will have to meet them in the same manner as heretofore.

3. The Transfer Committee shall consist of:

(a) A member to be appointed by the unanimous decision of the Reparation Commission, a national of the United States of America or of a country which was neutral during the war of 1914-1919, as Chairman. If the Reparation Commission shall not have

reached a unanimous decision for this purpose within one month from the date of the request above referred to, the President for the time being of the Permanent Court of International Justice at The Hague shall be requested to appoint the Chairman of the Transfer Committee;

(b) A member appointed by a decision of the Reparation Commission, taken, if necessary, by a majority vote, after consulting the Inter-Allied Commission of Bulgaria;

(c) A member appointed by the Trustees of the Bulgarian Refugees Loan.

These three members must be chosen from persons who are experts on questions of exchange.

4. Account A of the Bulgarian Treasury at the National Bank of Bulgaria established under Article 3 of Ukase No. 10 annexed to the Protocol of Sofia shall be transferred into the name of and managed by the Transfer Committee.

5. The Transfer Committee will make, through the National Bank of Bulgaria, to the extent to which it considers that the stability of the Bulgarian currency allows the purchases of foreign exchange requisite for reparation payments.

6. If it should have proved impossible to transfer in cash all the sums to the credit of the account of the Transfer Committee, the Committee will authorize the employment of such amounts for such purposes, other than the purchase of foreign currency, as may be proposed by the several creditor States and as the Committee does not consider likely to compromise the stability of the Bulgarian exchange.

7. The Transfer Committee shall have a right to demand all information of utility for the discharge of its duties, especially as to the preparation and carrying into effect of the budget, the situation of the Treasury and the management of the National Bank of Bulgaria.

The Committee in particular will have a right to examine without restriction into the exchange market and the establishment of the statistics of foreign commerce.

8. If the Transfer Committee, by a decision which may be taken by a majority only, provided that the President is among the majority, finds that concerted financial manœuvres have been made either by the Bulgarian Government or by any group for the purpose of preventing reparation transfers, the Bulgarian Government undertakes to take any measures which the Transfer Committee might require from it to defeat the effect of the manœuvres which have been detected and to prevent their repetition (including the appointment by the Transfer Committee of a Counsellor at the National Bank of Bulgaria with the powers necessary to supervise the execution of any such measures).

9. The expenses of the Transfer Committee and in particular the remuneration of its members shall be fixed by the Reparation Commission and charged against the Bulgarian Government.

The members of the Committee shall not be entitled to any remuneration except for periods during which the Committee is in operation.

10. If the Transfer Committee, after having been called into operation, at any time decides that the conditions of the Bulgarian exchange are such that reparation transfers can thenceforth in all prob-

ability be effected without danger to the stability of the exchange and if at the same time the Bulgarian Government undertakes to carry into effect reparation transfers in future, the Transfer Committee will suspend its operations without prejudice to their resumption at any time when, contrary to expectation, the Bulgarian Government presents a new request for the total or partial suspension of reparation transfers.

11. Any question of interpretation of the present schedule shall be decided by the Transfer Committee without appeal.

(Signed) S. A. ARMITAGE-SMITH.

IV. RESOLUTION OF THE INTER-ALLIED COMMISSION OF SEPTEMBER 24, 1928

(Translated from the official French text)

The Inter-Allied Commission :

Having taken cognizance of the resolutions adopted on March 10, 1928, June 8, 1928, and September 17, 1928, by the Council of the League of Nations concerning the issue by the Bulgarian State of a loan of £5 million net, the yield of which is to be employed in stabilizing the Bulgarian currency, improving the position of the National Bank of Bulgaria, of the Agricultural Bank and of the Central Co-operative Bank, liquidating the budget arrears of the Bulgarian State, meeting urgent expenditure on communications and covering the cost of operations due to the earthquakes of April 1928, this loan to be secured by a first charge on the

revenue from the Customs and possibly on other revenues if the above-mentioned revenues from the Customs should fall below 150 per cent of the sums required for the service of the loan, and

Unanimously deciding, by virtue of the powers conferred upon it by Article 132 of the Treaty of Neuilly-sur-Seine, to grant exceptions to the first charge laid down by this Treaty and all the assets and revenues of Bulgaria for the settlement of reparations and all other costs and by virtue of all other powers which it may possess to this effect:

Releases from the general charge laid down in the said Article 132 for the settlement of reparations and all other costs arising out of the Treaty of Neuilly-sur-Seine or any treaties or agreements supplementary thereto, or under arrangements concluded between Bulgaria and the Allied and Associated Powers during the Armistice signed on September 29, 1918, and from the special charge laid down in the two Protocols signed at Sofia on March 21, 1923, and March 28, 1924, concerning reparations and the recovery of the cost of the armies of occupation respectively, for a period to be determined for the redemption of the said loan, which shall not be more than fifty years from the date of the present decision:

All revenue accruing from all import and export duties, including ad valorem duties, percentage taxes, bonding, statistical and sealing charges, and other Customs charges.

Furthermore, the Inter-Allied Commission undertakes, in case the returns from the above revenues for any year fall below 150 per cent of the sums required for the service of the said loan, to release

from the same general charge other sources of receipts to be selected by it on the proposal of the Council of the League of Nations, to whom the question shall be referred by the Trustees, in so far as it may be necessary to make up the 150 per cent referred to above.

The said release being granted on the express condition that no part of the said securities shall be assigned to any use other than the proposed loan or the advances granted on this loan until the complete extinction of the charges under the Treaty of Neuilly, and in particular reparations and the cost of the armies of occupation, which shall retain a second charge on the revenue from the Customs and on all other revenues which may be released from the above-mentioned general charge in pursuance of the provisions of the previous paragraph.

The object of the said release being to ensure the repayment of the above-mentioned loan during the period it remains in force, the Inter-Allied Commission agrees that, if, during this period, any part of the said loan, or the interest on it, is not entirely liquidated, that part of the loan or of the interest shall, until complete redemption, continue to enjoy a first charge on the revenue from the Customs and on all other resources which may be or may have been assigned as security for the said loan to cover, up to 150 per cent, the service of the said loan;

It being hereby understood and declared that, if the Inter-Allied Commission has not before December 31, 1928, received notice from the League of Nations that it has been possible to put the plan for the said loan into execution, the present decision shall be null and void, without prejudice, however, to the first charge of any advance that may have been made or

of any short-term loan that may have been negotiated in anticipation of the said loan.

Sofia, September 24, 1928.

V. PROTOCOL SIGNED BY THE BULGARIAN GOVERNMENT AND THE INTER-ALLIED COMMISSION ON SEPTEMBER 24, 1928^a

(Translated from the official French text)

The undersigned:

M. A. LIAPCHEFF, Prime Minister of the Kingdom of Bulgaria, Minister of the Interior, of the one part.

And, of the other part, Count Alessandro FALLETTI DI VILLAFALLETTO, President of the Inter-Allied Commission for Bulgaria, representing the Kingdom of Italy,

M. François DESTAILLEUR, Minister Plenipotentiary, representing the French Republic,

Mr. William DOLL, representing the British Empire,
duly authorised by their respective Governments;

Referring to the two Protocols signed at Sofia by the representatives of the same Powers on March 21, 1923, and March 28, 1924, concerning respectively the payment of the reparations provided for in Article 121 of the Treaty of Neuilly-sur-Seine, and the recovery of the cost of maintenance of the armies of occupation provided for in Article 133 of the same Treaty;

^a Approved by the Reparation Commission on October 6, 1928.

Having taken note of the report of the Financial Committee of the League of Nations dated March 7, 1928, and of the resolutions adopted on March 10, 1928, June 8, 1928, and September 17, 1928, by the Council of the League of Nations with regard to the plan for a Bulgarian State loan of £5 million net, the yield of which is to be employed in stabilising the Bulgarian currency, improving the position of the National Bank of Bulgaria, of the Agricultural Bank of the Central Co-operative Bank, liquidating the budget arrears of the Bulgarian State, meeting urgent expenditures on communications and covering the cost of operations due to the earthquake of April 1928;

Considering that the said Financial Committee is of opinion that the most suitable security to facilitate the floating of the projected loan would be a first charge on the Customs revenues which, by the two above-mentioned Protocols, have already been assigned as security for reparations and for the cost of the armies of occupation:

Have agreed on the following provisions:

Article 1

The Customs revenues, that is to say, the receipts obtained from all import and export duties including ad valorem duties, percentage taxes, bonding, statistical and sealing charges, and other Customs charges, shall be released from the first charges specifically established by the said Protocols of March 21, 1923, and March 28, 1924, for the settlement of reparations and the cost of the armies of occupation, in order that all the sums necessary for the service of the proposed Loan may be made a first

charge on these revenues as provided in the Protocol signed at Geneva on March 10, 1923, by the Bulgarian Minister of Finance.

Article 2

The reparations and the recovery of the cost of maintenance of the armies of occupation, due by Bulgaria, shall henceforth be a second charge on the Bulgarian Customs revenues.

Article 3

In conformity with Article 2 above, subject to the first charge established by the present Protocol for the service of the said Stabilisation Loan and of any advances in connection with that Loan, including interest, amortisation, and all fees, commissions, and other charges relative thereto, the Customs revenues shall continue to be assigned as security for the reparations and the cost of the armies of occupation, provided for in the Protocols of March 21, 1923, and March 28, 1924, and in the schedules of payments appended thereto.

Article 4

In exchange for the surrender made in Article 1 of the present Protocol by the Inter-Allied Commission, the Bulgarian Government shall assign the direct taxes enumerated in Chapter I of the State Revenue Budget for the financial year 1928-29, and designated in paragraphs 2, 3, 4 and 8 of that chapter, that is to say:

- The tax on professions,
- The supplementary tax on total income,
- The tax on companies,
- The tax for exemption from compulsory labour,

as security for reparations and for the recovery of the cost of maintenance of the armies of occupation, which shall accordingly be a first charge upon the above-mentioned revenues and a second charge upon the Customs revenues.

Article 5

The details of the procedure for the assignment of the securities mentioned in Articles 2, 3 and 4 above to the service of reparations and the cost of the armies of occupation are specified in the Regulations jointly drawn up, which supersede the Regulations drawn up in August, 1923.

Article 6

All such provisions of the Protocols of March 21, 1923, and March 28, 1924, as are not incompatible with the provisions of the present Agreement shall remain in force.

Article 7

The Bulgarian Government undertakes to submit the present agreement to the Sobranie for its approval at the same time as the contract for the flotation of the proposed Loan.

Article 8

The validity of the present Protocol shall be conditional upon the approval of the Reparation Commission.

Article 9

Should the Inter-Allied Commission not have received from the League of Nations by December 31, 1928, notice that the plan for the said Loan has

been put into effect, the present Protocol shall be null and void, and all the provisions of the Protocols of March 21, 1923, and March 28, 1924, shall remain intact, without prejudice, however, to the priority of any advance which may have been made upon the said Loan.

Article 10

The present Protocol has been signed at Sofia on September 24th in four copies, one for each of the Contracting Parties.

(Signed) A. LIAPCHEFF.

(Signed) A. FALLETTI DI VILLA-
FALLETTO.

F. DESTAILLEUR.

W. A. M. DOLL.

**VI. REPARATION SETTLEMENT OF
JANUARY 20, 1930**

(Official text)

The duly authorised representatives of the Government of His Majesty the King of the Belgians, the Government of the United Kingdom of Great Britain and Northern Ireland, the Government of Canada, the Government of the Commonwealth of Australia, the Government of New Zealand, the Government of the Union of South Africa, the Government of India, the Government of the Kingdom of Bulgaria, the Government of the French Republic, the Government of the Greek Republic, the Government of His Majesty the King of Italy, the Government of His Majesty the Emperor of Japan, the

Government of the Republic of Poland, the Government of the Republic of Portugal, the Government of His Majesty the King of Roumania, the Government of the Czecho-Slovak Republic and the Government of His Majesty the King of Yugoslavia.

Have reached the following agreement:

(1) The Creditor Powers waive their right to Tranche B of the Bulgarian reparation debt as defined by the Protocol of 21st March, 1923. Furthermore, Great Britain, France and Italy waive their claim to payment of the outstanding balance in respect of armies of occupation;

(2) The Creditor Powers accept in full and complete satisfaction of the total amount of Tranche A of the Bulgarian reparation debt which remains unpaid at this date the annuities expressed in gold francs fixed in the following Schedule of Payments, the gold franc as defined by Article 146 of the Treaty of Neuilly.

	Number of Annuities in Gold Francs
1st April, 1930.....	5 millions
1st April, 1930, to 31st March, 1940.....	10 annuities of 10,000,000
1st April, 1940, to 31st March, 1950.....	10 annuities of 11,500,000
1st April, 1950, to 31st March, 1966.....	16 annuities of 12,515,238

The first payment provided for 1st April, 1930, shall be made in full at that date. Subsequent annuities shall be payable in two equal half-yearly instalments on 30th September and 31st March of each year, the first instalment falling due on 30th September, 1930, and the last on 31st March, 1966.

(3) The annuities fixed in Article 2 shall constitute an unconditional obligation and the parties signatory to the present agreement waive their right to demand the application of Article 122 of the Treaty of Neuilly. Bulgaria may, however, if the need arises request the application of the system of postponement of transfer instituted by the Reparation Commission's decision of 23rd July, 1926, pursuant to the Financial Scheme approved on 10th June, 1926, by the Council of the League of Nations.

These annuities shall enjoy the benefits of the same special securities as are assigned to the annuities of the Schedule of Payments of 21st March, 1923, by virtue of the Protocols of 21st March, 1923, and 24th September, 1928. They shall be represented by a debt certificate, with coupons attached, which shall be handed over by the Bulgarian Government to the Bank for International Settlements acting as trustee for the Creditor Powers.

The first charge established by Article 132 of the Treaty of Neuilly upon all the assets and revenues of Bulgaria for the cost of reparation and other costs referred to in that Article shall cease to have effect. But if the product of the special securities falls below 150% of the sums necessary for the service of the annuity, the Bulgarian Government undertakes at the request of the Bank for International Settlements, to assign to reparations additional securities which shall be considered acceptable by the said Bank and shall at least restore the said percentage, and to promulgate any laws necessary for this purpose.

(4) The National Bank of Bulgaria shall retain its present functions and obligations in regard to the payment of reparations arising out of the Regulations of 7th July, 1923, regarding the application of

the Protocol of 21st March, 1923, and shall comply with those Regulations in regard to the collection of the proceeds from the securities, the constitution in national currency of the annuity funds and their conversion into foreign currencies.

(5) The rights and powers conferred on the Reparation Commission and on the Interallied Commission in Bulgaria shall, in so far as is necessary, be transferred to the Bank for International Settlements.

Consequently, the relations between the Reparation Commission and the Interallied Commission in Bulgaria, of the one part, and the Bulgarian Government, of the other part, shall terminate as soon as possible. The conditions and the date of this transfer shall be determined by a Committee consisting of two representatives of the Bulgarian Government, of four representatives of the Reparation Commission, or of the Interallied Commission in Bulgaria (one of whom shall be the common delegate on the Reparation Commission or a representative appointed by him), and, if possible, of two representatives of the Bank for International Settlements.

(6) Further, and in addition to the payments fixed by Article 2, the Bulgarian Government shall remain responsible for all its obligations to the nationals of the Creditor Powers whose rights as now existing are in no way affected by the present Agreement.

The Creditor Governments who have not yet adhered to the contract of 14th April, 1923, relating to a moratorium granted to the Bulgarian Government by the French and Belgian Creditors, to the rider of 10th October, 1923, to the said contract

and to the Agreement of 14th April, 1923, relating to the issue of Bulgarian 6½% State Bonds, 1923, may adhere thereto up to 30th June, 1930, and the Bulgarian Government undertakes to accept such adhesions and to give full effect thereto.

(7) As from the date of the coming into force of the present agreement, the Creditor Governments waive their right to retain and liquidate the property, rights and interests of Bulgarian nationals, in so far as such property is not yet liquid or liquidated or has not been disposed of finally. Nevertheless, Bulgarian property subject to liquidation in Roumania has formed the subject of an agreement on the basis of a payment of 110 million lei to be made to Roumania in two equal instalments, the first of which shall be payable three months after ratification, and the second within a year. This agreement forms an integral part of the present Agreement.

(8) Bulgaria undertakes to conclude within six months of the coming into force of the present Agreement the arrangements necessary to ensure the regular service of the quota of the Ottoman Debt for which she is liable and to meet without delay the obligations devolving upon her as a result of the said arrangements.

(9) With the exception of claims which have been the subject of a previous special agreement or of a convention concluded in pursuance of the Treaty of Neuilly and also of claims arising under Article 141 of that Treaty, all claims of the Bulgarian Government against the Creditor Powers or their nationals and also all claims of Bulgarian nationals against the Creditor Powers based on the provisions of the Treaty of Neuilly are completely cancelled by the present Agreement.

(10) No private claims of nationals of the Creditor Powers, which under the Treaty of Neuilly should be settled either by the intervention of the Clearing Office or by the Mixed Arbitral Tribunals and which have not been regularly laid before those bodies before the coming into force of the present Agreement, shall be received by them.

(11) The claims of Bulgaria against Germany referred to in Article 145 of the Treaty of Neuilly and any claims of Germany against Bulgaria referred to in Article 261 of the Treaty of Versailles have been cancelled by the Agreement with Germany of even date concluded at The Hague Conference. Bulgaria takes note of and accepts this cancellation.

Equally any claim of Bulgaria against Austria or Hungary referred to in the said Article 145 of the Treaty of Neuilly and any claim of Austria or Hungary against Bulgaria respectively referred to in Article 213 of the Treaty of St. Germain and Article 196 of the Treaty of Trianon are cancelled; any securities or documents relating to these claims shall be destroyed.

(12) Nothing in the present Agreement shall modify the rights which the Société des Porteurs de Créances Civiles en Bulgarie derives from the contract entered into with the National Bank of Bulgaria on 30th May, 1923. The Creditor Governments which have not yet adhered to the said contract may adhere thereto up to 30th June, 1930.

(13) Should the Bank for International Settlements not accept the whole of the functions attributed to it by the present Agreement, the appointment of some other trustee to be substituted so far as necessary for the Bank, will form part of the task of the Committee constituted under Article 5.

(14) Any dispute between the Contracting Parties as to the interpretation or application of the present Agreement shall be submitted for final decision to the Tribunal referred to in The Hague Agreement with Germany of January, 1930, in accordance with the procedure established in that Agreement. Provided always that on the occasion of any such dispute the place of the Member of the Tribunal appointed by the German Government will be taken by a Member appointed by the Bulgarian Government.

Final Clause

The present Agreement, of which the French and English texts are both authentic, shall be ratified.

The deposit of ratifications shall be made at Paris as soon as possible.

The Powers of which the seat of government is outside Europe will be entitled to inform the Government of the French Republic through their diplomatic representative at Paris that their ratification has been given; in that case they must transmit the instrument of ratification as soon as possible.

A first *procès-verbal* of the deposit of ratifications will be drawn up as soon as the Agreement has been ratified by Bulgaria on the one hand and on the other hand four of the following Governments, that is to say, Belgium, Great Britain, France, Italy and Japan, and three of the following Governments, that is to say, Greece, Poland, Portugal, Roumania, Czechoslovakia and Yugoslavia.

The present Agreement will come into force, between the Contracting Parties who have thus ratified, from and after the date of the first *procès-verbal*.

Save as above provided the Agreement will come into force for each Signatory Government at the date of notification or of the deposit of its ratification.

The French Government will transmit to all the Signatory Governments a certified copy of the *procès-verbaux* of the deposit of ratifications.

Done at The Hague in a single copy the 20th January, 1930.

HENRI JASPAR	A. MOSCONI
PAUL HYMANS	A. PIRELLI
E. FRANCOU	SUVICH
PHILIP SNOWDEN	ADATCI
PETER LARKIN	K. HIROTA
GRANVILLE RYRIE	J. MROZOWSKI
E. TOMS	R. ULRICH
PHILIP SNOWDEN	TOMAZ FERNANDES
PHILIP SNOWDEN	G. G. MIRONESCO
A. D. BOUROFF	N. TITULESCO
W. MOLLOFF	J. LUGOSIANO
HENRI CHERON	AL. ZEUCEANO
LOUCHEUR	DR. EDUARD BENES
N. POLITIS	STEFAN OSUSKY
J. G. POLITIS	DR. V. MARINKOVITCH
	CONST. FOTITCH

VII. GENEVA PROTOCOL OF SEPTEMBER 8, 1926

(Official text)

Whereas the Bulgarian Government has requested the Council of the League of Nations to approve the issue by that Government under the auspices of the League of Nations of a loan, the yield of which shall be applied, under the control of a Commissioner

responsible to the Council, for the purpose of promoting the settlement on the land of certain refugees at present in Bulgaria and of thereby transforming them into productive citizens of the Bulgarian State,

And whereas the Council has approved for this purpose the provisions of the present Protocol,

The undersigned, duly authorized for the purpose, accepts on behalf of Bulgaria the following provisions:

Article I. Appointment of a Commissioner

1. Bulgaria accepts the appointment by the Council of the League of Nations of a Commissioner for the settlement of refugees, who shall carry out the functions ascribed to him in the present Protocol. He shall be responsible to the Council and removable by it. The Council may give any necessary instructions to the Commissioner as to the performance of his functions within the terms of this Protocol and the scheme of settlement as laid down in the reports of the Financial Committee of the League of Nations dated June 9th, July 23rd, and September 6th, 1926, approved by the Council.

2. The Commissioner may provide himself with the necessary technical staff. His expenses and those of his office shall be approved by the Council and defrayed by Bulgaria. The Commissioner and his substitutes (if any) shall enjoy diplomatic privileges and immunities.

3. The Commissioner shall submit to the Council of the League of Nations not less frequently than once every three months reports upon the settlement operations.

4. If the Bulgarian Government considers that

the Commissioner has abused his authority, it may appeal to the Council of the League of Nations.

5. The Commissioner may appoint a substitute to replace him during any period for which he is himself unable to act, subject to confirmation by the President of the Council for any period exceeding thirty days.

6. The Council shall terminate the functions of the Commissioner as soon as it decides that the services of the Commissioner are no longer required, but in no case before the proceeds of the Settlement Loan have been expended for the purpose contemplated, without prejudice to the control over the assigned revenues hereinafter provided.

Article II. Settlement Loan

1. For the purpose of the intended settlement of refugees, the Bulgarian Government may issue a settlement loan yielding an effective sum equivalent to not more than two and one-quarter millions sterling. The expenses of issue, negotiation and delivery shall be added to the capital of the loan as fixed above. The amount mentioned is also exclusive of any part of the loan which it may be necessary to include in order to satisfy the claim (referred to in sub-paragraph 2 of the second paragraph of Article 139 of the Treaty of Neuilly) of the holders of the Bulgarian Treasury Bills issued in France in 1912 and 1913.

2. The yield of this loan may not be employed except in conformity with the provisions of the present Protocol.

3. The capital and interest of the loan contemplated under paragraph 1 above shall be paid by the

Bulgarian Government free of all deductions in respect of taxes, dues or charges for the benefit of the Bulgarian State.

4. The conditions of the loan, the issue price, the rate of interest, the amortisation, the expenses of issue, of negotiation and of delivery, shall be submitted for approval on behalf of the Financial Committee of the League of Nations to a person appointed by the Committee for this purpose; the amount of the annuity necessary for the service of interest and amortisation of the loan shall likewise be so approved.

5. The Bulgarian Government may raise temporary loans in advance of and repayable out of the settlement loan.

6. The yield of the settlement loan or any temporary loans (paragraph 5 above) shall be paid as directed by the Commissioner into a special account or accounts which he alone may control. Interest on any outstanding balances shall be added to such account (or accounts).

7. If the terms on which the loan is issued include a stipulation that the issuing house shall retain any part of the proceeds of the loan for the purpose of the service of the loan, a corresponding amount shall be paid forthwith from other sources by the Bulgarian Government into the settlement account under the control of the Commissioner.

Article III. Securities and First Charge

1. The Bulgarian Government will furnish as securities for the settlement loan contemplated under Article II the following revenues:

- (1) The excise duty on salt.
- (2) The excise duty on alcohol.
- (3) The net receipts of the match monopoly.
- (4) All sums received after the expiry of two years from the appointment of the Commissioner in respect of rent or interest due from persons assisted out of the yield of the settlement loan. Sums received from such persons as payment for the purchase of land, building or material, or as repayment of advances in cash or in kind, shall be applicable to amortisation of the loan.
- (5) Such other revenue or revenues (if any) (excluding the Customs) as may from time to time be assigned in accordance with paragraph 5 below.

2. The amounts required for the service of the settlement loan shall be, and shall remain, a first charge upon the revenues mentioned in paragraph 1 above, and the Bulgarian Government acknowledges that such revenues shall stand charged accordingly.

3. The revenues mentioned in the preceding paragraph shall not be used as a security for any new loan without the consent of the Trustees of the settlement loan.

4. The Bulgarian Government will not take any measures which, in the opinion of the Trustees, would be such as to diminish the aggregate value of the revenues mentioned in paragraph 1 to such an extent as to threaten the security of the bondholders.

All decisions taken by the Trustees in virtue of this paragraph shall require confirmation by the Council if within 14 days of the notification of any such decision by the Trustees to the Bulgarian Government the latter shall have lodged an appeal against it with the Council.

5. If at any time the total yield of the revenue referred to in paragraph 1 should fall below 150

per cent of the annual sum required to meet the service of the loan, the Trustees may request the Council to call upon the Inter-Allied Commission established under Article 130 of the Treaty of Neuilly to release from the charge laid down in Article 132 of the Treaty of Neuilly, in accordance with the decision taken by the Inter-Allied Commission on July 22nd, 1926, such additional revenues (other than the Customs) as may be sufficient to assure the immediate restoration of the yield to the above percentage, and such additional revenues, so released, shall be forthwith assigned to the service of the settlement loan.

Article IV. Trustees

1. The Council of the League of Nations will appoint Trustees to represent the interests of the bondholders of the settlement loan, and the Bulgarian Government accepts that the Trustees shall fulfill the functions and perform the acts assigned to them in this Protocol until the loan, and every part thereof, and every claim in respect thereof, shall have been completely discharged.

2. The revenues mentioned in Article III, paragraph 1, will be paid into a special account, as and when collected for the purpose of assuring the service of the settlement loan. The Commissioner and, after the termination of his functions, the Trustees, may alone control this account.

Any balance of the account not retainable in accordance with the following provisions or with the terms of issue of the loan shall be reimbursed to the Bulgarian Government, subject, however, to the powers conferred on the Trustees in the event of a default under paragraph 3 (c) below.

3. The terms on which the loan is issued shall include, among other provisions:

(a) Provisions as to amounts which, at the intervals fixed by such terms, shall be paid out of the special account provided for in the preceding paragraph by the Commissioner to the Trustees, and during such times as the Trustees may be in control of the account, set aside by the Trustees themselves and retained for the service of the loan, including interest, amortisation and all charges, commissions or other payments to be met by the Bulgarian Government in connection therewith.

(b) Provisions for the constitution and for the maintenance by the Bulgarian Government in the hands of the Trustees of the reserve fund applicable at their discretion to make good any default or deficiency on the part of the Bulgarian Government in providing the sums required for the service of the loan.

(c) Power for the Commissioner at the request of the Trustees, or for the Trustees themselves if they shall be in direct control of the account mentioned in Article IV, paragraph 2, to retain, collect or otherwise provide out of the said revenues (including such other revenues as may be brought into charge under the provisions of Article III) sufficient sums to remedy and make good any default of the Bulgarian Government in whole or in part in carrying out any of its obligations contained in the conditions of the loan.

Article V. Employment of Settlement Loan

The yield of the settlement loan shall be applicable to and the Commissioner shall permit payments to be made therefrom for the following purposes only:

- (1) Supplies in kind to refugees of agricultural implements and other requirements for their settlement on the land;
- (2) Housing of refugees to be settled on the land;

(3) Drainage and in general reclamation of land to be used for the settlement of refugees;

(4) Such improvements in communications as are required for the contemplated settlement of refugees;

(5) In exceptional cases, loans in cash to refugees for the purpose of their settlement on the land provided by the Bulgarian Government in accordance with Article VIII below;

(6) Such other purposes connected with the settlement of refugees on the land as the Commissioner may approve.

All assistance given to refugees out of the loan shall be on terms of repayment and no part of the loan may be used for any charitable purposes or for the acquisition of land. Nevertheless, when settlements on a large scale are established, *e. g.*, when villages are created, such disbursements of a general or social nature may be made on such terms as the Commissioner may approve as may serve to promote the development of these settlements and improve the health conditions of the population.

Article VI. Centralisation of Organisation

The Bulgarian Government undertakes to centralise all its existing services and organisations at present dealing with refugees under one authority, in such manner as to establish to the satisfaction of the Commissioner the organisation necessary for the proper utilisation of the settlement loan.

Article VII. Work of Settlement

1. The settlement of refugees contemplated by this Protocol and the expenditure of the settlement loan for this purpose shall be effected by the organisation contemplated by Article VI in agreement with and under the supervision of the Commissioner. A gen-

eral plan of settlement shall be drawn up as soon as possible by this organisation, shall be submitted for the approval of the Commissioner and published.

2. All plans for settlement and for expenditure out of the settlement loan shall be drawn up and executed by the organisation contemplated in Article VI subject to the approval of the Commissioner. He shall release money from the settlement account only for purposes approved by him, and he may at any time refuse to release money from the settlement account if he is not satisfied that monies previously released have been expended in accordance with his authorisation.

3. Annual accounts of the expenditure of the settlement loan shall be drawn up and audited in such manner as the Commissioner shall direct and be submitted through him to the Council of the League of Nations and be published.

4. The Bulgarian Government undertakes to give to the Commissioner at its own expense every facility in the execution of this task and to give him all information concerning the work of settlement which he may require. The Commissioner shall at all times be entitled to make enquiries as to the manner in which any part of the loan has been expended; in particular, he shall be entitled to communicate directly with the services carrying out the settlement work. He shall also be entitled to obtain such expert advice as he may require, the expenses of experts being defrayed by Bulgaria.

Article VIII. Land Assigned for Settlement

1. The Bulgarian Government undertakes to provide not less than 132,000 hectares of land which is

or may be made suitable for agricultural settlement (exclusive of pasture land) and the character and situation of which must be approved by the Commissioner for the purpose of settling refugees. The land shall be land which is already the unencumbered property of the Bulgarian Government or land of which the Government has acquired the unencumbered property for the aforementioned purpose.

2. The Bulgarian Government undertakes that it will secure the capital payments due in respect of any instalment of purchase price or of any advances in cash or kind by means of mortgages created either by contract or the operation of law on the land occupied by the refugees.

Article IX. Designation of Refugees

Persons settled on the land or assisted with grants or loans out of the proceeds of the loan or loans contemplated by the present Protocol shall be persons who have been certified to the Commissioner by the Bulgarian Government to be Bulgarian nationals and to have declared in writing that they will consider themselves in future exclusively as such.

Article X. Protocol Article

1. Any difference as to the interpretation of this Protocol shall be settled by the Council of the League of Nations.

2. All decisions to be taken by the Council in execution of this Protocol shall be taken by a majority vote.

3. This Protocol shall be ratified by Bulgaria and

the ratification shall be deposited at the Secretariat of the League of Nations as soon as possible, and in any case not later than one month from the date of its approval by the Council of the League of Nations.

In faith whereof the undersigned, duly authorised for the purpose, has signed the present Protocol.

DONE at Geneva in a single copy on the eighth day of September 1926, which shall be deposited with the Secretariat of the League of Nations and be registered by it without delay.

(Signed) Wl. MOLLOFF,
Bulgarian Finance Minister.

VIII. GENEVA PROTOCOL OF MARCH 10, 1928

(Official text, with the modifications contained in the additional act signed at Geneva on September 8, 1928)

Whereas the Bulgarian Government desires to issue, under the auspices of the League of Nations, a loan the yield of which shall be applied for the purposes of stabilising the Bulgarian currency and improving the situation of the Bulgarian National Bank, the Agricultural Bank and the Central Co-operative Bank, of liquidating budget arrears of the Bulgarian State for certain urgent expenditures on means of transit; and in connection with the earthquakes of April 1928.

And whereas the Council has approved for this purpose the provisions of the present Protocol,

The undersigned, duly authorised for the purpose, accepts on behalf of Bulgaria the following provisions:

Article I. Issue of a Loan

1. The Bulgarian Government may issue a loan yielding an effective sum equivalent to not more than five millions sterling for the purpose of providing the means to carry out the plan of financial and monetary reconstruction set out in the report of the Financial Committee to the Council. The whole of this amount shall be integrally made available as hereinafter provided. The expenses of issue negotiation and delivery shall be added to the capital of the loan as fixed above.

2. The capital and interest of the loan mentioned in paragraph 1 above shall be paid by the Bulgarian Government free of all deductions in respect of taxes, dues or charges present and future for the benefit of the Bulgarian State or of any municipal or local authority.

3. The conditions of the loan, the method of issue, the issue price, the rate of interest, the amortisation, and the expenses of issue, of negotiation and of delivery shall be submitted for approval on behalf of the Financial Committee of the League of Nations to a person or persons appointed by the Committee for this purpose; the amount of the annuity necessary for the service of interest and amortisation of the loan shall likewise be so approved. He shall also approve the terms of reference to the League of Nations in any prospectus of the loan.

Article II. Securities

1. The Bulgarian Government will furnish as securities for the loan the following revenues:

(a) Receipts obtained from all import and export duties, including ad valorem taxes, bonding, statistical and sealing charges and other Customs charges;

(b) Such other revenue or revenues (if any) as may from time to time be assigned in accordance with paragraph 6 below.

2. The amounts required for the service of the loan shall be, and shall remain, a first charge upon the revenues mentioned in paragraph 1 above, and the Bulgarian Government acknowledges that such revenues shall stand charged accordingly.

3. The revenues mentioned in the preceding paragraph shall not be used as security for any new loan without the consent of the Trustees of the loan.

4. The Bulgarian Government will not take any measures which, in the opinion of the Trustees, would be such as to diminish the aggregate value of the revenues mentioned in paragraph 1 to such an extent as to threaten the security of the bondholders.

5. All decisions taken by the Trustees in virtue of paragraphs 3 and 4 shall require confirmation by the Council if within fourteen days of the notification of any such decision by the Trustees to the Bulgarian Government the latter shall have lodged an appeal against it with the Council.

6. If at any time the total yield of the revenues referred to in paragraph 1 should fall below 150 per cent of the annual sum required to meet the service of the loan, the Trustees may request the Council to call upon the Inter-Allied Commission established under Article 130 of the Treaty of Neuilly to release from the charge laid down in Article 132 of the said Treaty such additional revenues as may be sufficient to assure the immediate restoration of the yield to the above percentage, and such additional revenues so released, shall be forthwith assigned to the service of the loan.

Article III. Employment of the Loan

The Bulgarian Government undertakes that the yield of the loan shall be applied only for the purposes and in strict accordance with the procedure set out in Articles IV, V, VI, VII, VII A and VIII below.

Article IV. Bulgarian National Bank

1. The Bulgarian Government undertakes to safeguard the independence of the Bulgarian National Bank from any political influence whatsoever.

The Bulgarian Government, with this intention and for this purpose, agrees to the appointment by the Council of the League of Nations of a technical adviser to the Bulgarian National Bank, whose powers shall be those defined in the amendments to the Statutes of the National Bank (Annex I).

The Bulgarian Government fully recognises that, for the definite consolidation of the financial situation of Bulgaria, it is desirable to transform the Bulgarian National Bank in accordance with the plan laid down in Annex II in order to bring it into conformity with other Central Banks, and undertakes to effect this transformation at a date to be fixed by agreement between the Council of the League of Nations and the Bulgarian Government. The details of this transformation shall be fixed by agreement between the Council and the Bulgarian Government on the advice of the Financial Committee.

2. The existing Statutes of the Bulgarian National Bank shall be amended forthwith in conformity with the provisions contained in Annex I, subject to the final text for this purpose being approved by

the Financial Committee or by such members as the Committee may nominate for the purpose. The amendments to the Statutes shall enter into force on the date on which the payment mentioned in paragraph 5 below has been completed.

The Bulgarian National Bank shall perform the functions assigned to it in the Statutes, as amended, and, in particular, it shall effect and maintain the stabilisation of the Bulgarian currency in relation to gold and the centralisation at the Bank of all the receipts and payments of the State and the State enterprises.

3. The Bulgarian Government shall appoint as Adviser, under paragraph 1 above, to the Bulgarian National Bank such person as may be nominated by the Council of the League of Nations.

The functions of the Adviser shall continue until such time as the Council shall have ascertained that the financial and monetary stability of Bulgaria is assured, and in any case, for not less than two years after the transformation of the Bulgarian National Bank shall have been completed in the manner described in paragraph 1 above.

4. For the purpose of stabilising the Bulgarian currency, a sum of £1,500,000 from the yield of the loan shall be employed by the Bulgarian Government for strengthening the position of the Bulgarian National Bank in the manner stated in paragraph 6 below.

5. The Bulgarian Government shall, in accordance with Article VIII below, request the issuing houses to pay the said sum directly to the Bulgarian National Bank.

6. The said sum shall be allocated:

(a) To the repayment of such part of the advances made by the Bulgarian National Bank to the Agricultural Bank and the Central Co-operative Bank respectively as the Bulgarian National Bank may decide, in agreement with the Adviser to the Bulgarian National Bank;

(b) To the repayment of all advances, other than those made to the Agricultural Bank and the Central Co-operative Bank, made by the Bulgarian National Bank under the guarantee of the State, such advances to be thereupon transferred to the Agricultural Bank; and

(c) To the repayment of part of the State debts to the Bulgarian National Bank, to be applied in the first place to the immediate repayment of three Treasury bills of 50 million leva each.

7. The State will further apply the undermentioned funds annually towards the extinction of the remainder of its debt to the National Bank of Bulgaria:

(a) The sum of 100 million leva from its current budget resources;

(b) All seignorage profits of the State derived from the issue of subsidiary coinage;

(c) The whole of the State's participation in the profits of the National Bank.

8. The Bulgarian Government will take all necessary steps to effect the legal stabilisation of the Bulgarian currency in relation to gold as from the day on which the payment mentioned in paragraph 5 above has been completed.

9. The decisions fixing the maximum amount of subsidiary coinage which may at any time be in circulation, the method of its issue, and the amount for which such coins shall be legal tender, shall be

taken by the Government in agreement with the National Bank of Bulgaria, provided that no such decisions shall be in contravention of the provisions of the Statutes of the National Bank as amended by this Protocol, and provided that such coinage shall be put into circulation only through and at the request of the National Bank.

10. All restrictions upon the purchase or sale of foreign exchange shall be abolished within six months of the day mentioned in paragraph 8 of this article or within such further period as may be approved by the Adviser to the Bulgarian National Bank.

Article V. Agricultural and Central Co-operative Banks

1. The Central Co-operative Bank shall remain under the direct authority of the Minister of Finance, and the general financial policy of the Agricultural Bank shall be determined by agreement between the Minister of Finance and the Minister of Agriculture.

2. For the purpose of providing new working capital for the said banks, the Bulgarian Government shall pay out of the yield of the loan £500,000 to the Agricultural Bank and £150,000 to the Central Co-operative Bank.

3. The Bulgarian Government shall, in accordance with Article VIII below, request the issuing houses to pay the sums mentioned in paragraph 2 above directly to the Bulgarian National Bank. The Bulgarian National Bank shall transfer the counter-value of the said sums in Bulgarian currency to the

Agricultural Bank and the Central Co-operative Bank, respectively.

4. With the exception of a sum of 100 million leva which shall constitute permanently a share of the State in the capital of the Central Co-operative Bank, the sums received by the Agricultural and Central Co-operative Banks, in accordance with Article IV, paragraphs 6 (a) and (b), and Article V, paragraphs 2 and 3, shall be reimbursed to the State by the said Banks in accordance with an agreement to be made between them and the State.

Article VI. Budget

1. The Bulgarian Government undertakes to make, and to persist in making, every effort to keep the ordinary and extraordinary budget for 1928-29 within the limit of 6,750 million leva, and that for 1929-30 within the limit of 7,000 million leva, excluding in both cases such capital outlay as is met out of the loan and receipts and expenditure accounted for in special funds, and to maintain thereafter a complete equilibrium between the current revenue and current expenses of the State, current expenses being taken to mean all expenditure except such capital outlay for productive purposes as may be provided for from sources other than current revenue.

2. The Bulgarian Government undertakes to reimburse forthwith out of the loan the budget liabilities set out in Annex III.

3. The Bulgarian Government shall, in accordance with Article VIII below, request the issuing houses to pay the part of the loan mentioned in paragraph

2 above directly to the Bulgarian National Bank for the account of the Bulgarian Government.

4. The Bulgarian National Bank shall hold the sums to be used in accordance with paragraph 2 above in a special account for the Bulgarian Government. All drawings from this account shall require the counter-signature of the Commissioner appointed in accordance with Article I of the Protocol signed at Geneva on September 8th, 1926.

The Commissioner shall satisfy himself that such drawings are in respect of and are used for paying the liabilities described in paragraph 2 above.

5. The Bulgarian Government undertakes to transmit, every three months during a period of five years after the date of the signature of this Protocol, to the Council of the League of Nations, a report on its budget situation and Treasury liabilities, and in particular, as to the employment of the proceeds of the loan.

6. The Bulgarian Government undertakes:

(a) To proceed to the creation of a new system of public accounting in conformity with the principle of the unity of the State budget, and to include in the budget all special funds except those described in Annex IV;

(b) To maintain the existing system of monthly budgets;

(c) To establish a complete and permanent system of Treasury control, and until such system is established to maintain the existing system of control by the Budget Commission;

(d) To publish regularly every month under appropriate heads returns of receipts and expenditure provided for in the budget, the cash position and the liabilities of the Treasury and the position of the public debt.

The form of these returns shall be determined by agreement between the Bulgarian Government and the Commissioner of the League of Nations.

7. The Bulgarian Government will make every effort to reduce the employees of the State and of State undertakings within a period of two years from July 1st, 1928, by at least 10,000.

8. The Minister of Finance shall co-ordinate and approve all borrowings, whether external or internal on the part of all public authorities. He shall ask the advice of the Governor, and during the term of his office, of the Adviser of the Bulgarian National Bank on these questions and on all legislative and other measures of a general character in matters of money and credit.

Article VII. Means of Transit

1. A sum not exceeding £1,250,000 out of the proceeds of the loan may be employed for means of transit. The purposes for which it is to be employed and a general scheme of expenditure for these purposes shall be submitted for the approval of the Council of the League of Nations, after the report of the railway expert to be appointed by the Bulgarian Government has become available.

2. The Bulgarian Government shall, in accordance with Article VIII below, request the issuing houses to pay the part of the loan mentioned in paragraph 1 above into a special account or accounts as directed by the Commissioner appointed in accordance with Article I of the Protocol signed at Geneva on September 8th, 1926.

3. All drawings from such special account or accounts shall require the counter-signature of the

said Commissioner and shall be made only for the purposes mentioned in paragraph 1 above and in conformity with detailed plans approved by him, within the general scheme contemplated in paragraph 1. The Commissioner shall satisfy himself that such payments are used only for the purposes for which he has authorised them to be made.

Article VII A. Earthquakes

1. A sum not exceeding £500,000 out of the proceeds of the loan may be employed, as the Commissioner appointed in accordance with Article I of the Protocol signed at Geneva on September 8th, 1926, may approve, in connection with the earthquakes which ravaged parts of Bulgaria during the spring of 1928.

2. The Bulgarian Government shall, in accordance with Article VIII below, request the issuing houses to pay the part of the loan mentioned in paragraph 1 above into special account or accounts as directed by the Commissioner.

3. All drawings from such special account or accounts shall require the counter-signature of the said Commissioner and shall be made only for the purposes mentioned in paragraph 1. The Commissioner shall satisfy himself that such payments are used only for the purposes for which he has authorised them to be made.

Article VIII. Miscellaneous

1. The several instalments of the loan issues shall be allocated for the purposes contemplated by the present Protocol in agreement with the President of the Financial Committee, and instructions to

the issuing houses shall be given accordingly by the Bulgarian Government.

2. If any balance remains under either Article VI, Article VII or Article VII A, the Financial Committee may authorise a transfer from one head to the other.

3. Any sums which have become available from the yield of the loan and have not been allocated shall be temporarily retained on a blocked account or accounts, as the Commissioner, appointed in accordance with Article I of the Protocol signed at Geneva on September 8th, 1926, may decide in agreement with the National Bank of Bulgaria, and under the control of the said Commissioner.

Article IX. Issue of Treasury Bills

The Bulgarian Government undertakes not to seek short-term advances or to issue Treasury bills or other similar short-term obligations in excess of 600 million leva.

Nothing in this article shall prejudice the existing rights of the Inter-Allied Commission established under Article 130 of the Treaty of Neuilly.

Article X. Trustees

1. The Council of the League of Nations will appoint Trustees to represent the interests of the bondholders of the loan, and the Bulgarian Government accepts that the Trustees shall fulfil the functions and perform the acts assigned to them in this Protocol until the loan, and every part thereof, and every claim in respect thereof, shall have been completely discharged.

2. The revenues mentioned in Article II, paragraph 1, will be paid into a special account, as and when collected for the purpose of assuring the service of the loan. The Commission appointed in accordance with Article I of the Protocol signed at Geneva on September 8th, 1926, and, after the termination of his functions, the Trustees, may alone control this account.

Any balance of the account not retainable in accordance with the following provisions or with the terms of issue of the loan shall be reimbursed to the Bulgarian Government, subject, however, to the powers conferred on the Trustees in the event of a default under paragraph 3 (b) below.

3. The terms on which the loan is issued shall include, among other provisions:

(a) Provisions as to amounts which, at the intervals fixed by such terms, shall be paid out of the special account provided for in the preceding paragraph by the Commissioner to the Trustees, and during such times as the Trustees may be in control of the account, set aside by the Trustees themselves and retained for the service of the loan, including interest, amortisation and all charges, commissions or other payments to be met by the Bulgarian Government in connection therewith.

(b) Power for the Commissioner at the request of the Trustees, or for the Trustees themselves if they shall be in direct control of the account mentioned in paragraph 2 of this article, to retain, collect or otherwise provide out of the said revenues (including such other revenues as may be brought into charge under the provisions of Article II) sufficient sums to remedy and make good any default of the Bulgarian Government in whole or in part in the fulfillment of any of the obligations imposed upon it by the terms of the loan.

Article XI. Commissioner

1. The Commissioner appointed in accordance with Article I of the Protocol signed at Geneva on September 8th, 1926, shall in the reports submitted by him to the Council of the League of Nations in accordance with paragraph 3 of Article I of the said Protocol, report also as to the progress made in the execution of the present Protocol, and the Bulgarian Government shall furnish him with all information necessary for this purpose.

2. Notwithstanding the provisions of Article I, paragraph 6, of the Protocol signed at Geneva on September 8th, 1926, the functions of the Commissioner under the present Protocol shall continue until the Council is satisfied that his services are no longer required for the purposes specified in Articles VI, VII and VII A of the present Protocol.

Article XII. First Charge

The obligations assumed by the Bulgarian Government under the provisions of this Protocol shall not become effective unless and until the Bulgarian Government is able to give the first charge contemplated under Article II.

Article XIII. Protocol Article

1. Any differences as to the interpretation of this Protocol shall be settled by the Council of the League of Nations.

2. All decisions to be taken by the Council under the terms of this Protocol shall be taken by a majority vote.

3. This Protocol, of which the French and English texts are both authentic, shall be ratified by Bulgaria, and the ratification shall be deposited at the Secretariat of the League of Nations as soon as possible, and in any case not later than three months from the date of its approval by the Council of the League of Nations.

In faith whereof the undersigned, duly authorised for the purpose, has signed the present Protocol.

Done at Geneva on the 10th day of March, 1928, in a single copy, which shall be deposited with the Secretariat of the League of Nations and be registered by it without delay.

(Signed) WL. MOLLOFF,
Bulgarian Minister of Finance.

ANNEX I

AMENDMENTS TO THE PRESENT STATUTES OF THE BULGARIAN NATIONAL BANK

(Omitted here, because the text of this Annex is unintelligible without reference to the Bank's Charter. The amendments enumerated in this Annex have been embodied in the Law on the National Bank, officially promulgated on October 4, 1928.)

ANNEX II

TRANSFORMATION OF THE BULGARIAN NATIONAL BANK

1. The Bank to have paid-up capital of 500 million leva, divided into 500,000 shares of 1,000 leva each, carrying a limited dividend.

2. The whole of the shares to be offered for public subscription through the National Bank. The allot-

ment to be made by the National Bank and, in the case of over-subscription, preference to be given to small subscribers. Shares which have not been subscribed to be sold by the National Bank whenever application is made for their purchase.

3. All monies obtained by the issue and sale of the shares to be used for the reduction of the State debt to the National Bank.

4. The shares to be registered in the name of the holder. Only Bulgarian nationals to be allowed to register as shareholders. Ten shares to entitle their owner to one vote, but a grouping of shareholders holding less than ten shares to make up this number for the purpose of exercising their vote at the General Meeting to be permissible.

No shareholder to be entitled to more than twenty-five votes in respect of shares registered in his own name. As proxy, his right to be limited to another twenty-five votes.

5. The General Meeting of shareholders to be the supreme authority of the Bank and represent the whole body of shareholders.

6. The Board of the Bank to consist of eleven members, namely, the Governor, two Vice-Governors and eight other Directors.

The Governor of the Bank to be appointed by the King, on the recommendation of the Minister of Finance, for a period of seven years. The Vice-Governors to be similarly appointed, but for five years each. These terms of office to be renewable for like periods. The Governors to be of recognised competence in financial and monetary affairs.

Four of the remaining eight directors to be elected

freely by the General Meeting of shareholders. The other four to be elected by the General Meeting, one from each of four panels containing three names each. The four panels to be established respectively by bodies representative of commerce, of industry, of agriculture and of urban co-operative societies.

7. After making provision for bad and doubtful debts, depreciation in assets and such other contingencies as are usually provided for by bankers, and appropriations to the Staff Pension Fund, a dividend not exceeding a fixed percentage to be paid to the shareholders. Of the surplus, one-half to be allocated to the General Reserve Fund and the other half to the Government. After the Reserve Fund has become equal to the capital, one-quarter of the surplus to be paid to the shareholders and the balance to the Government.

8. In the event of liquidation of the Bank, its assets and liabilities to be valued by three experts to be appointed—one by the Government, one by the Bank and one in agreement by the Government and the Bank. The nominal value of the shares to be paid to the shareholders and any surplus to be divided in the proportion of one-third to the shareholders and two-thirds to the Government.

ANNEX III

STATEMENT SHOWING BUDGET LIABILITIES TO BE REPAID OUT OF THE PROCEEDS OF THE LOAN

	Leva (000,000's omitted)
1. Debt to the National Bank arising from the fact that the amount due to the Bank under the Statutes was not paid in the financial year 1927-28..	150.-

2. Repayment of loans from special funds:	
Social insurance fund.....	56
Fund to provide loans to Municipalities for irrigation works, electricity works.....	40
Municipal roads fund.....	40
Fund for housing, hospitals and pensions of railway employees.....	12
Fund for war victims, etc.	10
	— 158.—
3. Payment in respect of the debt due to the Pension Fund on account of non-payment of subsidy in past years	100.—
4. Arbitral tribunals, internal liability to railway contractors	160.—
5. Arrears of interest due to Agricultural Bank...	90.—
6. Payment in respect of supplementary guarantee for the refugee loan.....	84.2
Total	<u>742.2</u>
	= (say) £1,100,000

ANNEX IV

FUNDS WHICH MAY BE EXEMPTED FROM INCORPORATION IN THE BUDGET UNDER
ARTICLE VI, 6(a)

1. Donation funds;
2. State Officials' Pension Fund;
3. Social Insurance Fund;
4. Fund to cover losses by the State on loans for refugees;
5. Fund to supply loans to Municipalities for irrigation and electricity works;
6. Municipal roads fund;
7. Funds for housing, hospitals and pensions of railway employees;
8. Construction and upkeep of sanatoria and health resorts for postal employees;
9. Construction of offices and purchase of postal vehicles;
10. Epizootic Fund.

Funds which are merely suspense accounts—*i. e.*, accounts through which revenue only passes to the general budget—are not contemplated by Article VI.

IX. LAW FOR THE ENCOURAGEMENT OF LOCAL INDUSTRY

(Translation of the official text as promulgated on June 12, 1928)

CHAPTER I

GENERAL PROVISIONS

Section 1. An industrial enterprise, in the sense of the present law, is understood to be any enterprise under cover, using engine power, in which raw and crude materials are manufactured or remanufactured.

Section 2. The privileges provided for in this law are inseparable from the enterprise to which they are given. When the enterprise passes in whatever way into the hands of another person or concern, the privileges pass to the new owner without interruption.

In order to register a change of ownership in the lists of the Ministry of Commerce, Industry and Labor, the interested parties tender, not later than one month after the transfer, a signed application duly acknowledged by a notary, together with a certificate of deposit from the Bulgarian National Bank certifying that the necessary transfer tax of 2 per cent of the amount involved in the transfer has been duly deposited.

Section 3. For the benefits mentioned in the present law, only industrial enterprises which engage in one of the following undertakings will qualify:

I. Distillation and chemical transformation of fossil matter obtainable in the mines;

II. Manufacture of excavated matter obtainable in the quarries (ceramics and glass), of cement, of lime, of plaster, of chalk and stone-carving;

III. Extraction of sea-salt;

IV. Production of sugar, starch and their products; the canning of foodstuffs in various ways; the condensing of milk and the preparation of milk products, cocoa, and chocolate;

V. Grinding and shelling of grain of domestic origin;

VI. Production of alcohol and beer;

VII. Preparation from grapes of ordinary wine, foaming, medical, liqueur, non-alcoholic, and the production of unfermented wine;

VIII. Obtaining of chemical products by chemical processes on the original materials;

IX. Obtaining and manufacturing of animal and vegetable oils, produced in the country; the remanufacture of animal and vegetable waste produced in the country; the production of soap and candles; the obtaining and remanufacture of gums;

X. Production of ethereal oils; the raising of medicinal plants and the obtaining from them of medical products;

XI. Production of organic and inorganic paints;

XII. Production of artificial manure;

XIII. Production of explosives;

XIV. Chemical manufacture of wood; dry distillation; wood pulp and celluloid; the manufacture of cardboard and paper;

XV. Mechanical manufacture of wood of domestic origin;

XVI. Manufacture of animal, vegetable, mineral and metallic textile hairs and their by-products; textile dyeing;

XVII. Manufacture of straw and felt millinery;

XVIII. Manufacture of metals; the production of implements and machines;

XIX. Manufacture and remanufacture of different kinds of raw skins;

XX. Manufacture of transportation and communication means, with the exception of the manufacture of carriages and carts;

XXI. Generating and supplying of electrical energy.

Section 4. To participate in the benefits of the present law, an industrial enterprise belonging to one of the above mentioned groups must utilize mechanical motive power of ten horse-power minimum; employ at least ten workers during six months of the year; and utilize machines and apparatus valued at a minimum of 20,000 gold leva.

The following exceptions are allowed:

(a) The mechanical motive force may be less than ten horse-power, when it is not adapted to, or is of a limited adaptation in, the given industrial enterprise, by reason of the nature of the enterprise itself;

(b) In seasonal industries the time limit of labor during the year may be less than six months;

(c) Industrial enterprises dealing with the generation and supply of electrical energy, are required to have a generator of at least 100 horse-power.

Note 1. The exceptions mentioned in paragraphs "a" and "b" are allowed to any industrial enterprise with the permission of the Industrial Council, whose decision is subject to approval by the Minister of Commerce, Industry and Labor.

Note 2. Machines and other instruments valued at 20,000 gold leva are not required of the carpet industry.

Section 5. The artisans' co-operatives for mutual supply of materials and the manufacture of these in a common building, enjoy the privileges of this law, if the co-operatives have at least the minimum number of master-workmen required by the law for the Co-operative Associations, and if their industrial activity falls within one of the branches of production mentioned in Section 3.

The privileges of the law may also be enjoyed by co-operatives which are composed of the minimum number of producers required by the law for the Co-operative Associations, if these co-operatives remanufacture agricultural and forest products received from producers, and if their activity falls within one of the branches of production mentioned in Section 3.

In order to utilize the full capacity of machines and implements, the agricultural co-operatives may remanufacture the agricultural products of non-members.

Section 6. The recognized privileges given to an industrial enterprise cannot be revoked before the expiration of the term fixed by the law, except in cases hereinafter mentioned.

CHAPTER II

NATURE AND EXTENT OF THE PRIVILEGES

Section 7. Industrial enterprises to which the Ministry of Commerce, Industry and Labor has granted the right to state encouragement, enjoy the following privileges:

(a) Facilities for obtaining lands or grounds for building, roads, etc.;

(b) Reduced transportation tariff on the Bulgarian national railways;

(c) Alleviation of taxes;

(d) Importation of machines, materials, etc., free of duty;

(e) Utilization of overground and underground materials on favorable conditions; and

(f) Preference in public purchases.

Section 8. The necessary grounds for the building or extension of an enterprise are given upon the payment of their value. Private lots are expropriated by agreement or, in the absence of such, according to Chapter VII of the Law for Expropriation of Real Estate for Urgent Social Needs. State, district or municipal grounds are expropriated according to Chapter VII of the Law for Expropriation of Real Estate for Urgent Social Needs.

The Industrial Council shall determine definitely and separately for each case the maximum and minimum of the lands necessary for the enterprise.

Section 9. Industrial enterprises which are built on rented district or municipal grounds, may purchase these lands.

The appraisal of the grounds to be purchased shall be in accordance with Sections 27, 28, and 29 of the Law for the Organization of Inhabited Places.

Section 10. Land necessary to an enterprise for the making of roads for communication or for the installation or transportation of motive force (highways, industrial railways, canals, aqueducts, etc.) may be acquired free of charge, when the necessity for the grounds has been duly recognized by the Industrial Council, if the grounds belong to the state, the districts, or the municipality; but if the grounds are privately owned or belong to schools and other public institutions, their expropriation is accomplished by payment according to Chapter VII of the Law for the Expropriation of Real Estate for Urgent Social Needs.

Section 11. Land which is given or expropriated in the above mentioned manner is properly utilized, if it is used for the building of an establishment for machines and workers, or for the building of places for the rest and feeding of workers, or for anything else necessary for the correct and normal functioning of the enterprise.

Such land may also be used for the erection of houses for workers and for administrative employees, if the workers and the employees live in these houses without paying rent.

All these buildings form an inseparable part of the enterprise and receive the same rights and privileges granted to the latter.

The products of the industrial enterprises receiving the benefits and privileges of this law, and destined for export, shall be transported on the Bulgarian national railways with a 35 per cent reduction of the tariffs in force.

Section 12. The machines and their parts, the instruments, the implements, and the building material necessary for a new installation, as well as for the enlargement of an already existing industrial enterprise, shall be transported on the Bulgarian national railways with a 25 per cent reduction of the existing tariffs.

Section 13. Industrial enterprises encouraged by the present law are accorded the following taxation privileges:

(a) Buildings, regulations regarding which are mentioned in Section 11 above, are free of taxes payable on buildings.

(b) Amounts spent by industrial enterprises for the supplying of new machines, instruments, installations, buildings, etc., for the purpose of enlarging and bettering the enterprise, are excluded from taxable income.

Note. During the period from April 1, 1928, to March 31, 1932, the encouraged industrial enterprises pay only 50 per cent of the industrial taxes and of the income tax after the deductions allowed in paragraph (b) immediately above have been taken.

Additional taxes, including those destined for the Chambers of Commerce and Industry, are paid by all industrial enterprises.

Section 14. The following are free of customs duty and municipal tax:

(a) All new machines and their parts; instruments and materials not manufactured in the country and imported for the installation and upkeep of industrial enterprises, as well as the necessary machines and materials for electrical power plants, including installation wires (net). Customs duty and municipal tax must be paid on motors which use foreign oil.

Factories which build laboratories and workshops for the repair of their own machines, apparatus and implements, import all machines and their parts necessary for the installation of such workshops or the laboratories free of customs duty and municipal tax.

Note. Industrial enterprises not covered by the provisions of Section 4 of this law may import necessary new machines and parts of such, which are not manufactured in the country, free of customs duty and municipal tax, and are not required to present certificates issued by the Ministry of Commerce, Industry and Labor, certifying that these machines are not manufactured in the country.

Artisans' workshops, if their activity is in one of the branches of production enumerated in Section 3 of this law, may import necessary machines and instruments free of customs duty and municipal tax, and are not required to present a certificate issued by the Ministry of Commerce, Industry and Labor, certifying that the machines and instruments are not manufactured in this country.

(b) All raw and crude materials necessary to the enterprise, which are not manufactured in the country and cannot be replaced by those manufactured in the country.

(c) All building materials, necessary for buildings of the protected enterprise, which are not manufactured in the country or which cannot be replaced by those manufactured in the country.

Section 15. When an industrial enterprise along with its chief product, for which it has privileges under this law, works and manufactures raw materials, the manufacture of which is not encouraged, for these materials it pays the necessary import duty, municipal tax and all other taxes; but it receives the benefit of the privileges mentioned in Section 7 of this law for its total production.

Section 16. The products of industrial enterprises enjoying the benefits of this law, which are destined for export, are free of export duties, excise tax (in cases where this liberation is also taken into consideration in the law for the excises), statistical tax, tax for weighing and counting, freight tax, stamp duty, and the difference in the exchange of currency.

Section 17. Fuels, which cannot be obtained in this country, or cannot be replaced by those manufactured in this country, enter free up to March 31, 1933. From April 1, 1933 to March 31, 1938, they shall be taxed 25 per cent. After March 31, 1938, until the last limit-date in the law they shall be taxed to the extent of 50 per cent of the regular customs duty and municipal tax.

Fuels used in motors ordered after March 31, 1928, or put into operation after May 31, 1928, are not free of customs duty or municipal tax.

Section 18. A list of the raw materials referred to in Section 15 will be compiled by the Ministry of Commerce, Industry and Labor. This list will be revised periodically. When necessary new materials will be added; and when manufactured in the country in sufficient quantity, materials formerly listed will be dropped. The dropping of items will become effective six months after the publication of the change has appeared in the "Official Gazette."

Note. Applications for the addition or removal of materials from the list shall be subject to a tax of five gold leva.

Section 19. Every industrial enterprise has the right to use free of charge the state's lands, stones, sand, gravel, clay, and other like materials, necessary for the construction of all its buildings.

The prices and tariffs for the use of district and municipal quarries for the above purposes, as well as for the raw materials necessary for fabrication obtained from them, are decided by the interested parties. In case of a disagreement between the parties, the Ministry of Commerce, Industry and Labor fixes the prices of the materials. The decision of the Ministry is compulsory for both parties.

Section 20. All state, district and municipal establishments are obliged to obtain needed materials from encouraged enterprises which manufacture or can manufacture such materials, even if the cost is 5 per cent higher than that of the foreign product.

Customs duty shall be added to the price of foreign products before the additional 5 per cent is computed.

Section 21. Specifications for supplies to be purchased through public adjudication or voluntary agreement must be drawn in such a way as to render it possible for the local encouraged enterprises making the required supplies to take part in their manufacture.

Specifications are prepared by the public institutions and must be based on the regulations of this law, when such regulations do not affect the appropriateness of the product to satisfy the need for which it is to be manufactured.

Section 22. All uniforms supplied by the state, district, and municipal institutions must be made in this country from locally produced materials.

Section 23. When products required by a state, district, or municipal institution are manufactured by only one encouraged enterprise, they shall be furnished by the latter according to an agreement made between the institution and the enterprise, and the price shall be fixed by a committee composed of the following members: an authorized representative of the enterprise, a representative of the Ministry of Commerce, Industry and Labor, and a representative of the purchasing institution. The fixed price shall be based on the estimated cost of manufacturing the given product, plus a profit of 20 per cent.

The industrial enterprise which does not accept the fixed price loses the privilege which this section allows and the products may be secured by the institution where it deems best, but without the enterprise's losing the right to compete in the awarding of the contract and the rights mentioned in Section 18.

Section 24. The Ministry of Commerce, Industry and Labor compiles a list of products manufactured

in the country which fully or partly satisfy the needs of public institutions.

This list will be published in the "Official Gazette," at the latest six months after this present law becomes effective. The list is to be periodically revised.

CHAPTER III

INDUSTRIAL CONCESSIONS

Section 25. An industrial concession includes, besides the privileges mentioned in the last chapter, the right of monopolistic production of a given article in an industrial way, in a fixed region of one or more administrative districts, for a maximum period of 15 years.

An industrial concession awarded as a monopoly may be sold and resold with the consent of the Ministry of Commerce, Industry and Labor, after the Ministry has obtained a written decision of the Industrial Council. When an industrial concession is sold, besides the necessary taxes and expenses, an additional sum of 1 per cent of the sale price is collected for the Treasury.

The concession given to an enterprise cannot affect the rights and privileges of the already existing enterprises in the same branch of production within the region covered by the concession.

Section 26. Industrial concessions are given for:

- (1) The spinning of silk, linen, hemp, cotton and jute;
- (2) The production of glass;
- (3) The production of porcelain, earthenware, and stone products;

- (4) The production of celluloid; paper from wood pulp and celluloid, obtained in the country;
- (5) The production of chemical manure;
- (6) The distillation or chemical manufacture of excavated matters, obtained from mines;
- (7) The building of ships and docks;
- (8) The chemical manufacture of local salt;
- (9) The extraction and refining of oils from waste derived from plants.

Section 27. Concessionary enterprises must have machines and other technical appliances for modern industrial production, amounting in value to not less than 250,000 gold leva.

Section 28. The request for an industrial concession is made by application addressed to the Ministry of Commerce, Industry and Labor, in which there are fully described the purpose of the concession, its dimensions, approximate value, desired region, and its benefits for the country or for the region. Complete plans and descriptions must be enclosed. The Ministry of Commerce, Industry and Labor hands the application, together with the enclosures, to the Industrial Council of the Ministry, which, after obtaining all necessary information and after studying the question, renders a decision. If the Minister approves the opinion of the Industrial Council, a bill is prepared for the granting of the desired concession and it is referred to the Sobranie for final decision.

Section 29. After the publication of the decision of the Sobranie, the interested party is required to deposit a sum equal to 3 per cent on the total amount

of the concession, at the Bulgarian National Bank within a period fixed by the special law, which cannot be longer than one year. The period for the realization of the concession becomes effective from the day of the publication of the decision of the Sobranye in the "Official Gazette," and the right of the interested party to begin work from the day on which the Ministry of Commerce, Industry and Labor is informed of the depositing of the sum stipulated above.

Section 30. The person receiving an industrial concession is obliged to begin building operations within a period of not more than two years from the day of his receiving the concession and to put the enterprise in full operation within a period not longer than four years, counted from the day the concession was granted.

If the enterprise does not begin work in the term fixed, the concession is rescinded and the deposit confiscated by a decision of the Industrial Council.

CHAPTER IV

INDUSTRIAL COUNCIL

Section 31. In the Ministry of Commerce, Industry and Labor, there shall be an Industrial Council, which shall act in an advisory capacity to the Ministry and express its opinion on all subjects regarding the encouragement of local industry whenever desired by the Minister.

Section 32. The Industrial Council shall consist of: The Secretary General, the Chief of the Section for Commerce and Industry, the Chief of the Industrial Section, a General Inspector of Industry, and the Solicitor of the Ministry, all of the Ministry of

Commerce, Industry and Labor; the Chief of the Section of the Customs House; a representative of the Chamber of Commerce and Industry at Sofia, and another of the Section which the question concerns, both elected for two years; a representative of the Union of the Bulgarian Industrialists; a representative of the Union of the Artisans' Productive Co-operatives; a representative of the Chambers of Agriculture; and a representative of the University who is a chemist-technologist.

When one of the members of the Council is absent, he is replaced by a substitute, proposed by the institution, except that when one from the Chambers of Commerce and Industry, the Chambers of Agriculture, the Union of the Bulgarian Industrialists, or the Artisans' Productive Co-operatives is absent, he is replaced by an elected substitute.

The Council shall be presided over by the Secretary General of the Ministry of Commerce, Industry and Labor, or in his absence by the Chief of the Section of Commerce and Industry.

When a question comes before the Industrial Council, for the consideration of which it has no competent persons, the Ministry of Commerce, Industry and Labor may invite such to take part in the meeting, but only as advisers.

Note. Until the law for the Chambers of Agriculture becomes effective, the representative of the same in the Industrial Council will be replaced by a representative of the Ministry of Agriculture and State Property.

Section 33. The Industrial Council shall meet regularly twice a month, that is on the fifteenth and the thirtieth, and pass on the applications and questions upon which it is competent to pass.

Section 34. The decisions of the Industrial Council shall be published in the "Official Gazette." One month after the date of publication, the protocol shall be presented to the Minister, together with the comments of the interested parties.

The Minister may approve or disapprove the decision taken, or if he thinks it necessary, he may ask the Council to review the matter.

Section 35. Members of the Industrial Council shall receive two hundred paper leva per meeting.

CHAPTER V

METHOD OF ACQUIRING PRIVILEGES

Section 36. The privileges granted by the present law apply to active as well as to projected enterprise. Until their final installation, projected enterprises enjoy under special certificates only the privileges in respect to the construction and installation of the enterprise.

Section 37. The privileges desired for any projected enterprise are set forth in an application which should indicate the nature of the article to be produced and the place where the works are to be constructed. A list of all the machinery, with indication as to the cost of each separate item, together with a brief description of the process of manufacture and the service of each machine in the process, must be attached to the application.

Section 38. The term for carrying into effect any projected enterprise is determined by the Industrial Council simultaneously with the recognition of the privileges, having regard to the industry itself and

the extent of the industrial enterprise, but such term may not be longer than two years.

Should it be shown that there are substantial reasons why the enterprise is not completed and has not commenced to work within the term fixed, the latter may be prolonged by a decision of the Industrial Council. With this object in view the interested party must present an application not less than two months prior to expiration of the term, accompanied by documents testifying to the non-completion up to the present and likewise the reasons for the delay. Applications handed in later will be considered as null and void and will not be examined by the Industrial Council. The interested party, however, does not lose his right to make a fresh application for privileges in the prescribed order.

Section 39. A projected enterprise is considered as having commenced to operate on the drawing up of a protocol by a technical commission composed of: A state engineer in the service of the county or municipal authorities, the local mayor or his assistant, and one representative, an industrialist, appointed by the corresponding Chamber of Commerce and Industry. This protocol shall embody a description and valuation of all premises, machinery, tools and appliances, and an opinion as to whether the enterprise is in conformity with the conditions set forth in Section 4 of this Law.

The traveling and maintenance allowances of the members of the technical commission are payable by the owners of the enterprise under the tariff laid down by the Ministry of Commerce, Industry and Labor.

Section 40. When an enterprise for which benefits are requested is already constructed and at work, the declaration must be accompanied by a technical protocol mentioned in the previous section.

Section 41. The applications for benefits or for an extension of the time limit given must be accompanied by a deposit note of the following taxes: (a) for requesting the benefits—50 gold leva; (b) for extension of the time granted—20 gold leva; (c) for the grant of duty free import of machines and machine parts by industrial enterprises mentioned in the note to Section 14—10 gold leva; and (d) for an industrial concession—1,500 gold leva.

Section 42. Every active, encouraged, industrial enterprise is provided by the Ministry of Commerce, Industry and Labor with an industrial certificate book in which are mentioned all construction materials, machines, etc., and all raw and semi-manufactured materials, etc., which it has the right to import without duty or with reduced duty, and to transport on the Bulgarian state railways at reduced rates.

The book costs five gold leva.

CHAPTER VI

OBLIGATIONS AND CONTROL

Section 43. Industrial enterprises enjoying the benefits of this law must keep regular commercial books, in accordance with the requirements of the special laws in this respect, and also registers laid down by the Ministry of Commerce, Industry and Labor.

In these registers must be entered regularly: The quantity and value of the materials imported duty

free or at reduced duty; the number and sex of workers during the year, their age and education; the quantity and value of the articles produced during the year by categories; the quantity and value of materials, local and foreign, used in production, imported duty free or at a reduced duty, what part of the articles produced has been sold in the country, what part has been exported, and what part has remained unsold; the quantity and value of articles supplied during the year to the state, district and municipal institutions; the value of machines, machine parts, etc., forming part of the enterprise, and the extent of the paid and unpaid part of the transport on the Bulgarian state railways of all machines, materials and manufactured goods; and the extent of the taxes imposed on the enterprise, and what part of them has been paid and what part unpaid, as a result of the benefits.

On the basis of these registers every enterprise must, not later than the thirtieth of April each year, submit to the Ministry of Commerce, Industry and Labor a report on the work of the enterprise during the preceding year, similar to the specimens prepared by the Ministry.

The data given by industrialists in these reports are professional secrets and may not become the property of outside persons; neither must they be made use of by the financial organs for taxation purposes. The report may be compiled in such a way as not to indicate the particular enterprise to which it refers.

Section 44. If, because of social or sanitary considerations, the Ministry of Commerce, Industry and Labor should deem it essential to construct at any one industrial enterprise special workmen's dwell-

ings and other construction for the amelioration of the conditions of labor, these buildings must be put up by the enterprise within a term fixed by the Ministry. Should the enterprise not possess free funds for the purpose, or should it have expended same in connection with the working of the enterprise, necessary funds may be released from the "Public Insurance" fund on a mortgage bond, in accordance with the method indicated in the law relating to public insurance.

Section 45. Not less than 75 per cent of skilled workers employed in all industrial enterprises enjoying privileges must be, during the first five years of existence of the enterprise, Bulgarian subjects, and, commencing with the sixth year, exclusively Bulgarian subjects.

All unskilled workers must be Bulgarian subjects from the very beginning.

Not less than 50 per cent of the technical staff—foremen, chiefs of departments, engineers, chemists and draughtsmen—during the first five years must be Bulgarian subjects; thereafter not less than 75 per cent of them must be Bulgarian subjects.

If it is proved impossible to employ a sufficient number of Bulgarian subjects as skilled or unskilled workers, or as technical staff, the Ministry of Commerce, Industry and Labor may permit a temporary decrease in the aforementioned percentages.

The administrative staff must be composed exclusively of Bulgarian subjects; exception to this rule may concern directors and sub-directors only.

Industrial enterprises enjoying privileges under this law are obliged to permit Bulgarian technicians and chemists who have completed their studies in Bulgarian or foreign schools to practice their profes-

sion and to prepare themselves as supervisors in industrial enterprises. Such professional practice will be regularized by special regulations to be compiled by the Ministry of Commerce, Industry and Labor, after consultation with the Ministry of Public Instruction and with the Industrial Council.

Section 46. The output of industrial enterprises enjoying privileges under this law, when destined for internal consumption, must bear a clear indication that it is of local origin. The nature and place where the inscription must be placed on the product will be determined by special instructions of the Ministry.

Section 47. In cases where the good quality of an industrial product is dependent upon a certain relation of the raw materials of which it is composed, the industrial enterprise must put in a prominent place on the product itself such proportion. The industrial products coming under the above obligation will be determined by special instructions of the Ministry.

Section 48. Control over the precise application of the present law is vested in the Ministry of Commerce, Industry and Labor and will be exercised through a special Institute of Inspection.

All inspectors must be graduates of higher technical, commercial, law, or economic schools.

Section 49. Industrialists and their employees are obliged to allow representatives of the Ministry free access to all premises of the enterprise, to afford them the widest possible assistance when necessary, and to place at their disposal all documents with the exception of those which contain commercial or manufacturing secrets.

Section 50. Inspectors are obliged to inspect, not less than twice a year, all industrial enterprises enjoying privileges under the present law.

At the end of each year, every inspector must give a full report as to his activity during the year, setting forth the condition of the industrial premises which he had inspected.

Section 51. All state, country, and municipal authorities must furnish the representatives of the Ministry with all necessary assistance for the proper execution of duties.

Section 52. Inspectors and all other representatives of the Ministry, under pain of criminal and civil liability, must preserve in privacy secrets connected with production and information as to the position of the industrial enterprises which may come to their knowledge during the execution of their duties.

Section 53. Machinery and raw and semi-manufactured materials which had been imported duty free or at a reduced rate of duty and transport, may be sold to other encouraged industrial enterprises, provided the Ministry sanctions the sale. Should they be sold for another object or to an unencouraged enterprise the appropriate import duties, taxes and freight charges which when imported were not paid must be paid. In this event the industrial seller notifies the Ministry in advance, and the latter, by an immediate inspection, determines the nature and quantity of the materials and the extent of the sum which must be paid to the state Treasury.

Similar steps are taken in regard to machines and materials when privileges are withdrawn from any one enterprise or when any projected enterprise

decides to cease further work and to give up the privileges extended to it.

Machines and tools which have been in use for more than ten years may be sold without payment of extra customs duties, transport costs, etc. Should these have been in use for less than ten years a proportionate part of the customs duty is payable for those years during which they were not used.

Sites obtained by expropriation under Articles 8 and 9 of the law or by virtue of 20 years' ownership (Section 63 of the law) may be used for industrial purposes only.

Remnants and waste may be sold without limitation fixed by this section. A Raw Material Commission will determine the waste and remnants for each industry separately.

Section 54. Should any protected industrial enterprise cease operations it must immediately, or at most within six months, so inform the Ministry of Commerce, Industry and Labor, and indicate the reasons why work has ceased. Simultaneously the industrialist may request that a term be fixed for him, three years at the most, during which he may remove the reasons responsible for the cessation of the work. The Ministry of Commerce, Industry and Labor, after consultation with the Industrial Council, will announce its decision regarding this term, or will declare the enterprise as having ceased to exist and will deprive it of the rights to enjoy the privileges of the present law.

CHAPTER VII PENALTIES

Section 55. If any irregularity or infringement of the law is discovered, the appropriate department

of the Ministry of Commerce, Industry and Labor shall draw up a bill of particulars, sign it, and submit it to the guilty parties for signature. A refusal of the guilty parties to sign shall be noted in the bill itself.

On the basis of the bill thus drawn up, after verification (if it should prove necessary), the Ministry will issue a decree for the infliction of an appropriate punishment. Such decree may be appealed against before the administrative court within a period of two weeks of the receipt by the guilty parties of proper notification.

Section 56. Infringements of the present law are punishable by fines imposed by the Ministry of Commerce, Industry and Labor, or by a person empowered by it, as follows: (a) for untimely notification in respect of the transfer or sale of the enterprise (Section 6), from 50 to 300 gold leva; (b) for making use of the factory premises and workmen's dwellings for purposes foreign to the enterprise and to the object for which they were designed, from 50 to 500 gold leva (for such use continued for more than six months, in addition to the fine, the industrialist must pay state and municipal taxes and levies for the corresponding year applicable to the buildings); (c) for irregular keeping of the registers obligatory under the present law, from 100 to 1,000 gold leva; (d) for delayed submission of yearly accounts (Section 42) and for giving incorrect information in the accounts, from 50 to 500 gold leva; (e) for untimely notification as to cessation of the work and for not furnishing reasons for same (Section 52), from 20 to 100 gold leva; (f) for delayed reply to queries and for not providing information requested by the Ministry of Commerce,

Industry and Labor, from 10 to 500 gold leva; (g) for not affording necessary assistance to the organs of the Ministry of Commerce, Industry and Labor, from 50 to 500 gold leva.

Section 57. The industrialist who gives or sells to another without necessary permission (Section 51) machines or any quantity whatsoever of materials which have been imported duty free or at a reduced rate of duty, is punished by payment of a fine equivalent to three times the duty, which fine in no case can be less than 1,000 gold leva. In the event that the materials were transported over the Bulgarian state railways at reduced rates these charges also are payable threefold. In case of repeated abuse, customs duty on all the machines and raw and semi-manufactured materials imported during the preceding year, and a threefold duty on the materials misused are payable.

A similar penalty is inflicted on a manufacturer who may employ materials for the production of articles which do not enjoy privileges, which materials have been admitted duty free or at a reduced rate of duty.

Subject to the permission of the Ministry of Commerce, Industry and Labor, such materials and machinery may be sold or may be loaned, but only to enterprises engaged in a similar branch of production which enjoy privileges granted under the present law.

Section 58. Chiefs of institutions who are guilty of violating Sections 20 and 21 in conjunction with Section 22 of this Law are punishable by fine to the extent of 100 to 1,000 gold leva.

Section 59. Any industrial enterprise, by virtue of a decision of the Industrial Council confirmed by

the Minister of Commerce, Industry and Labor, may be deprived of privileges under the present law in the following cases :

(a) When an enterprise has ceased work for more than six months, and has failed to notify the Ministry or to request the Ministry to grant the term prescribed in Section 52 for the removal of the causes of cessation.

(b) When the inspector's examination proves that the enterprise no longer meets the conditions on which the privileges were granted.

(c) When the proprietor of an enterprise, after he has been fined twice for misusing machines and materials imported duty free or at a reduced rate of duty, again commits the same offense.

(d) When an industrial enterprise fails to construct within the period fixed by the Ministry, or to apply for a loan for the purpose of constructing, workmen's dwellings ordered under Section 44.

(e) When the inscription that they are of local origin (Section 46) is not placed on products.

(f) When the regulations of Section 47 regarding the proportions of various materials employed in production are not fulfilled.

Section 60. Fines inflicted under the present laws are collected in the same way as direct taxes.

Section 61. Fines fixed in the present law in gold leva are collected at the daily exchange rate equivalent to the Bulgarian National Bank's buying rate on the day on which the bill of particulars as to the infringement discovered was drawn up.

Taxes are collected in gold leva at the exchange rate equivalent to the Bulgarian National Bank's buying rate on the day on which the demand was presented.

CHAPTER VIII
TEMPORARY REGULATIONS

Section 62. Enterprises, enjoying general and special privileges under the law which existed up to the present, will enjoy those which the present law grants, provided that within a term of three years they conform to the conditions which this law exacts. After the expiration of this term, enterprises which have not conformed to the law will lose their privileges.

Owners of projected enterprises who had secured privileges under the law of 1909 are given up to December 31, 1928, to complete the organization of their enterprises. If they meet this requirement, they are then entitled to a period of three years in which to conform to the provisions of the present law set forth in Section 1.

Section 63. Rights of proprietorship in respect of sites ceded gratuitously by state, county, or municipal authorities, in accordance with the law which was in force up to the present, are acquired by the owner of the industrial enterprise on the expiration of 20 years of uninterrupted ownership of the sites so ceded.

To the period of occupancy by the present proprietor of an industrial enterprise is added that of his predecessor.

Section 64. Holders of industrial concessions granted under special laws, the terms for which have not expired, continue to enjoy the rights granted to them up to the end of the terms fixed.

Industrial enterprises, which secured concessionary privileges under the laws for the encourage-

ment of local industry of 1894, 1905 and 1909, preserve their regions up to March 31, 1932.

In the event that the region assigned to a concessionaire is too large or too small for the present-day condition of his enterprise, the Minister of Commerce, Industry and Labor may, after consultation with the Industrial Council, make such adjustment as he deems necessary.

Section 65. The present law is valid for a term of fifteen years commencing with April 1, 1928, and cancels all laws and regulations which may be contrary to it.

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