Slovenian Banks during the Great Depression

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Abstract: The interwar period represents a turning point for both the Slovenian and Yugoslav banking. During that time Slovenia had a functionally comprehensive banking system. Schematically, joint-stock banks primarily emphasised the entrepreneurial sector as its target group, while the credit cooperatives (an important banking institution in Slovenia) mostly covered the needs of the rural population through their elaborate network. Savings banks, established by the local authorities (in Yugoslavia these banks were specific for the Slovenian banking) often engaged in business relations with their founders and urban small and medium-sized businesses. In the 1930s, with the onset of the Great Depression and the all-encompassing lack of trust, the business success indicators worsened dramatically. In consequence, the savings deposits in Slovenia decreased by a third, and the regression continued further as the population transferred their deposits to banks offering state guarantee. During the crisis the banks had to write off a significant percentage of their capital; each year they reduced the volume of loans they provided to the economy, and hence their total assets were also reduced. On the other hand, due to the general feeling of uncertainty in times of crisis, the banks increased (almost doubled) their cash holdings. The situation improved in the second half of the 1930s through active state policy and the measures undertaken for the rehabilitation of the banking system. However, not even right before World War II was the Slovenian banking restored to its pre-crisis level in terms of scale of operations, acquired resources, volume of loans and amount of return. As at the Yugoslav level, the significance of state banks, which started to replace the private banking sector, also rose in Slovenia.

Keywords: Slovenia, Yugoslavia, banks, banking, Great Depression

JEL Code: G21, N24

1. Introduction

The purpose of the following discussion is to provide a schematic presentation of the situation and role of the Slovenian banking in the 1930s. We will focus on the Great Depression, which left an indelible mark on the image of the Slovenian banking as well as on the banking in other parts of the Yugoslav state at the time. The discussion is divided into several sections. In the first section, the structure of the Slovenian banking sector in the 1920s (in the decade following the establishment of the Yugoslav state) is presented. The second section focuses on a synthesised presentation of changes, taking place with the onset of the Great Depression in the first half of the 1930s. A quick look is cast at the process of the banking system rehabilitation in the second half of the 1930s supplemented by an overview of the measures undertaken in order to regulate banking and an illustration of a representative example of Ljubljanska kreditna banka/Credit Bank of Ljubljana. Due to its size and significance, this bank defined the parameters of success of the Slovenian banking as a whole. Next, the role of the state banks in Slovenia is explored and the discussion is concluded by summing up the basic findings.

2. Structure of the Slovenian Banking Sector in the 1920s

In the historical sense, the first banking institutions to develop in Slovenia were savings banks (on the basis of Sparregulativ of 1844); credit cooperatives came next; and joint-stock banks followed as a functional upgrade. Thus, the period until World War I represented the pinnacle of savings banks and cooperatives, which more or less successfully preserved their achievements during the interwar period. On the other hand, joint-stock banks had just started developing before World War I and expanded during the time before World War II.

In the interwar period, a functionally complementary network of various types of banking institutions was formed. The division in terms of functions also defined the target groups of individual types of banking institutions. Through a schematic generalisation we can argue that the cooperatives were prominent in rural areas, more or less catering to the needs of the peasant population. They were the most important collectors of household deposits in Slovenia. Joint-stock banks and savings banks were most active and influential in the cities. The proximity of the head offices of banks and savings banks as well as the same target population, although playing different economic roles, caused the approximation of business operations of these two groups of financial institutions. Still, it has to be emphasised that joint-stock banks were largely oriented towards the entrepreneurial sector, while the savings banks, besides providing credits to their founders (cities, municipalities, counties), primarily focused their activities on the small and medium-sized business sector in the cities.

In fact, due to the emergence of a large number of joint-stock banks, which were of a particular interest to the entrepreneurial sector, the significance and relative share of the savings banks decreased rapidly. That is most evident from the volume of deposits they managed. The volume of deposits in the savings banks in the interwar period was only at about a half of its pre-war level. At that time, large savings banks updated their business operations; the more they spread and diversified, the closer they got to the way joint-stock banks conducted their business, but still with quite a decent share of long-term mortgage crediting. In the 1930s, savings banks increased particularly their share of loans to their founders, municipalities and counties. In this way, in terms of lending volumes, the authority bodies superseded the population and the commercial sector.[1]

The purpose and role of credit cooperatives did not change. Credit cooperatives were relatively quick to restore their business after World War I. Already in the first half of the 1920s they reached their pre-war level, and surpassed it in the second half of the 1920s. Thus they reaffirmed their role of the most important collectors of deposits among the Slovenian banking institutions. This was made possible by the elaborate network of almost 500 credit cooperatives, participated in by as much as 15 % of the population. The 1920s were followed by the 1930s, when the trends reversed completely. During the Great Depression, the turnover decreased by as much as 40 % relative to the period before the crisis, while the deposits decreased at a somewhat lesser degree due to the freezing or suspension of payments.[2]

The first wave of setting up Slovenian joint-stock banks took place after World War I, with the creation of the Yugoslav state. The establishment of the Yugoslav state also facilitated the expansion of the national banking as the industry was encouraged by the opening of new markets. This was also further advanced by the expansive monetary policy until early 1920s. Banking companies, financially supporting the expansion of the Slovenian industry and trade, quickly established a universal bank model. Thus, the number of banks in Ljubljana rose from three to nine with branch offices in 31 towns; the number of branches of Croatian banks in the Slovenian market also increased. The liquidation of one of the important Croatian banks in 1925, the consequences of which were also felt by the Slovenian banks and population, marked the beginning of a new period in the Slovenian banking, characterised by a restrictive monetary policy. The relatively favourable economic cycle was over, the banks were forced to reorganise, consolidate their own positions and write off a significant percentage of irrecoverable investments.[3]

Table 1

The structure of the Slovenian banking sector in the 1929

	Number of institutions	Share of total assets in %	Share of deposits in %	Share of loans in %
Joint-stock banks	9	59.4	37.1	39.6
Savings banks	28	33.6	24.9	23.5
Credit cooperatives	507	7.0	48.0	36.5

Source: Calculated from Spominski zbornik Slovenije, 1939, pp. 445-457.

[1] Drago Potočnik: Regulativne hranilnice v letih 1932-1935, Trgovski tovariš No. 11-12/1936, p. 190; Slovenske samoupravne hranilnice v letih 1918-1938. Ljubljana, Zveza jugoslovanskih hranilnic, 1938.

[2] Vlado Valenčič: Pregled našega zadružnega gibanja in stanja. Spominski zbornik Slovenije, Ljubljana, 1938, pp. 457-464; Drago Potočnik: Naše kreditne zadruge. Trgovski tovariš, 1938, 9-10, pp. 181-186.

[3] Drago Potočnik, Slovensko denarništvo 1918 – 1938. Spominski zbornik Slovenije, Ljubljana, 1939, pp. 444-447.

As evident from Table 1, joint-stock banks were most prominent in the Slovenian market, especially in the area of entrepreneurship financing. Savings banks and credit cooperatives focused much more on the financing of projects of local communities (savings banks) or rural population (credit cooperatives). At the same time we can argue that the Slovenian banking space was fragmented and insufficiently established in terms of capital, even though already during the 1920s the government sought to decrease the fragmentation of the Yugoslav banking market by means of regulation. The government wanted to encourage consolidation of the banking sector in order to ensure that the business costs would decrease through its expansion. The measures did not have the desired effect since the requirements for the expansion of joint-stock capital were set too low. Individual small banking institutions usually had no problem with meeting the requirements, save for rare exceptions. The special banking legislation proposal (which was supposed to tighten capital requirements, restrict entry into the banking market and raise the level of banking operations and liquidity criteria as well as further improve the means of internal and external control) was not included in the legislative procedure, despite its innovative features and the awareness of its necessity due to the lobbying of banking associations.[4]

Thus a bipolar structure was characteristic of the period between the two world wars in Slovenia: on the one hand, there was a large number of banking institutions of various types, modest capital and limited scale of operations. On the other hand, three joint-stock banks dominated the Slovenian banking market in all segments, which is evident from the following table also listing the joint-stock banks.

[4] Žarko Lazarević, Društvo bančnih zavodov Slovenije, Ljubljana, 2002, pp. 33-40.

Table 2

Banking market structure in Slovenia from 1925 to 1935

Bank	Share of total volume of loans			Share of total volume of deposits			Share of total assets		
	in percent								
	1925	1930	1935	1925	1930	1935	1925	1930	1935
Celjska posojilnica	3.0	6.0	7.7	10.5	4.5	7.6	3.8	5.3	6.6
Dolnjelendavska hranilnica	0.5	0.4	–	0.8	1.3	–	0.4	0.7	–
Hipotekarna banka jugoslovanskih hranilnic	3.1	0.5	2.2	8.0	0.3	2.5	3.1	0.4	1.5
Kreditni zavod za trgovino in industrijo	16.5	24.5	29.6	6.6	9.4	14.8	23.5	26.2	28.7
Ljubljanska kreditna banka	34.9	34.8	31.7	42.8	36.7	29.6	33.2	32.7	33.4
Merkantilna banka	2.8	–	–	3.8	–	–	1.7	–	–
Obrtna banka	1.7	1.0	1.0	2.2	1.1	1.5	1.2	0.8	0.7
Prekmurska banka	0.5	1.4	1.6	1.2	1.6	3.3	0.8	1.4	1.9
Prometna banka	1.5	1.6	1.7	2.4	2.3	0.3	1.0	1.4	1.5
Slovenska banka	4.0	–	–	2.5	–	–	2.9	–	–
Trgovska banka	12.2	–	–	5.4	–	–	10.5	–	–
Zadružna banka	1.8	1.8	–	1.4	2.1	–	1.3	1.4	–
Zadružna gospodarska banka	17.5	28.0	21.1	12.4	40.7	35.6	16.6	29.7	23.5

Source: Calculated from Poročilo Društva bančnih zavodov v Sloveniji za leto 1925, Ljubljana, 1926; Poročilo o delovanju Društva bančnih zavodov v Dravski banovini za dobo 1930-35, Ljubljana, 1936.

Table 2 demonstrates how banks and, literally, miniature banks competed in the Slovenian space at that time. The Slovenian banking space was dominated by three banks: the Credit Bank of Ljubljana, Zadružna gospodarska banka/Cooperative Commercial Bank and Kreditni zavod za trgovino in industrijo/Credit Institution for Commerce and Industry. These three banks accounted for around 80 % of total assets of all Slovenian banks. The key position of the Credit Bank of Ljubljana was indisputable – it kept controlling one third of the overall market. The Cooperative Commercial Bank and the Credit Institution for Commerce and Industry were relatively equal in significance, each controlling approximately one quarter of the market. All three banks were universal banks. The Credit Institution for Commerce and Industry differed from the other two, since for the most part of the 1920s, it remained an affiliate of the Creditanstalt bank from Vienna, which testified to the importance of foreign capital for the Slovenian banking system. Hence, this bank ensured a relatively favourable source of finance for itself. Consequently, the Credit Institution for Commerce and Industry was a more specialised banking institution, mostly doing business with companies, not so much with the population. The Credit Bank of Ljubljana and Cooperative Commercial Bank were quite the opposite: Slovenian-owned, and dependent on the population and entrepreneurial sector as the source of finance.

Table 3

Structures of joint stock banks balance sheets in 1929

%

Assets		Liabilities	
Cash	5.0	Capital	6.0
Investments	11.7	Reserves	2.1
Bill of exchange	16.4	Resources	90.2
		- deposits	23.5
		- current accounts	25.9
		- creditors	36.1
		- other banks	4.7
Lombard	0.6	Net profit	0.7
Loans	57.6		

Source: Calculated from Spominski zbornik Slovenije, 1939, pp. 445-457.

The extensive and diversified investment activities were, besides the basic credit-granting activity, characteristic of the state banks. The Credit Bank of Ljubljana most expanded most, followed by the Credit Institution for Commerce and Industry; while the Cooperative Commercial Bank was significantly more modest. All of the three banks, just as enterprises, sought profit outside Slovenia, in other Yugoslav regions. When we take a look at the structure of investments, we see that the banks adopted a balanced investment policy: they attempted to cover various economic activities of the industry, building sector, domestic and foreign trade as well as specialised banking institutions. They were also active in the field of other, non-banking financial services. The Credit Bank of Ljubljana and the Credit Institution for Commerce and Industry, both founded insurance companies. The former set up the Slavija insurance company in Ljubljana, while the latter established the Vardar insurance company in Belgrade.[5]

Together these banks controlled almost half of the overall stock of capital in Slovenia. Like in all other aspects, the Credit Bank of Ljubljana was again by far the most successful Slovenian bank: it alone controlled more than a fifth of the Slovenian capital stock. The Credit Institution for Commerce and Industry and Cooperative Commercial Bank had relatively more modest shares, but they were still very significant for the economic life: the former controlled somewhat less than 15 % and the latter 5 % of the total amount of capital stock in Slovenia.

The Credit Bank of Ljubljana was very prominent in the Slovenian market, and its business success defined the success of the Slovenian banking in general. Table 4 presents some of the indicators of successful banking with the aim of demonstrating the success of the Credit Bank of Ljubljana in comparison to other Slovenian banks.

[5] Compass. Finazielles Jahrbuch. Various volumes.

Table 4

Business success indicators of joint-stock banks

%

	Joint-stock banks average	Credit Bank of Ljubljana
Return on equity (ROE)	9.2	8.8
Pure interest	1.6	1.5
Financial intermediation margin	2.8	3.0
Return on assets (ROA)	2.9	3.2
Effective lending rate	7.4	10.7
Effective lending rate for outside resources	5.8	7.0
Expenses	2.0	2.0

Source: Calculated from Spominski zbornik Slovenije, 1939, pp. 445-457.

3. Slovenian Banking Sector during the Great Depression

On the basis of the currently available information it can be stated that the 1920s were the most favourable period for the Slovenian banking. On the other hand, the Slovenian banking sector bottomed in the first half of the 20th century during the Great Depression in the first half of the 1930s. The year 1930 may be deemed as the year of the onset of the crisis in Yugoslavia and unavoidably also in Slovenia. The Great Depression started with a bit of a delay, but developed in accordance with the same pattern as elsewhere. It first impacted agriculture in 1930, and then recurred as a financial crisis a year later. When it also transformed into an industrial crisis, the economy was paralysed. The effects were identical to those in other parts of the world. With the outbreak of the crisis, words signifying a positive progression or growth could no longer be used in regard to the economic life. It was only possible to speak of reduction, deterioration, decline and loss. The consequences can be summed up in a few tedious points, which can by no means encompass and describe the extent of the existential distress of the population. Firstly, the crisis caused a breakdown of export of agricultural products, as well as the cut in prices and purchasing power of peasants. What that meant for a mostly agrarian society is not hard to imagine. Namely, in Slovenia, agriculture contributed the major part of the national product, followed by industry and services. This was a time of unease as to what the future may bring, when the consequences also became reasons – for it was only a matter of time when the depression would spill over, like falling dominoes, into other sectors, especially industry and banking. Consequently, because of the severed cash flows, the banking system was brought to a halt, and the industrial prices, production and workers' wages decreased, while unemployment soared drastically.[6]

[6] Mijo Mirković, Ekonomska historija Jugoslavije. Zagreb, 1958, pp. 359-369; Miloš Vučković, Uticaj svetske privredne krize 1929-1932 na privredu stare Jugoslavije. Svetska ekonomska kriza 1929-1934.godine i njen odraz u zemljama Jugoistočne Evrope. Beograd, 1976, pp. 197-227.

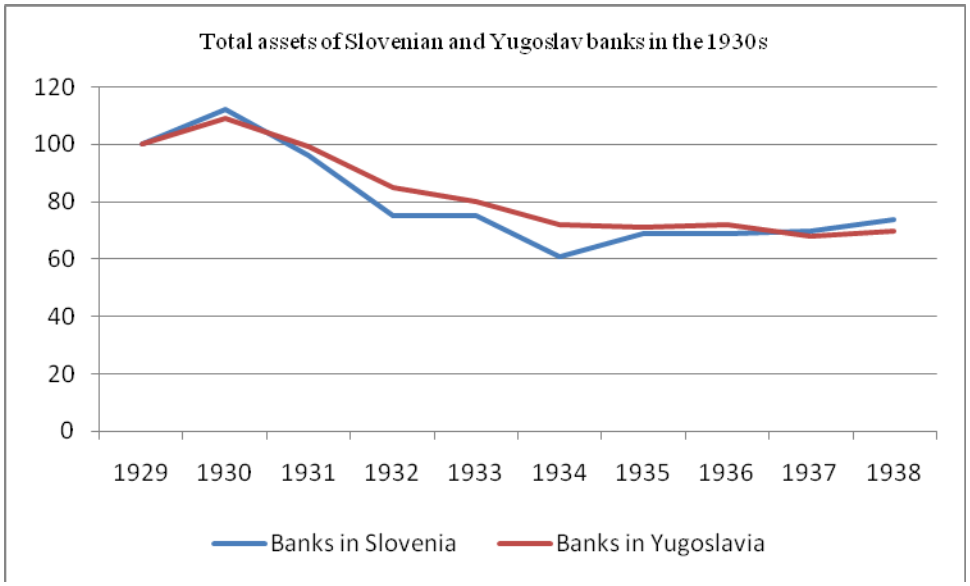
The financial crisis began in 1931, and the bankruptcy of the Creditanstalt bank produced notable consequences. Due to outstanding obligations, the usual cash flows started to fall apart. Peasants were the first to stop the repayments, and other business entities followed. The restrictive monetary policy of the central bank caused a 25 % decrease in the financial assets of the Slovenian banks; lending by the National Bank and other non-Slovenian banks dried up; and the inflow of foreign currency stopped due to the decrease in exports. The liquidity crisis increased the distrust among the investors. Due to the lack of income the population started drawing on their savings, but that was not the worst of it yet. Under the impression of notorious bankruptcies abroad, people went to banks to claim their money immediately out of fear for their deposits. In order to preserve the people's trust and try to help stop the rush, the bankers initially paid out savings deposits without putting any limits on the amount. But when the panic would not subside after several months, banks were finally forced to stop the payouts as their funds had dried up. The savings deposits in Slovenia decreased by a third, and regression still continued since the population transferred their deposits to national banks offering state guarantees. During the crisis, the banks had to write off a significant percentage of their capital; each year they kept reducing the loans they provided to the economy, and therefore their total assets also declined. The internal weaknesses – for example, using short-term assets for long-term investments – manifested themselves to the extreme. On the other hand, during the crisis, the banks increased (almost doubled) their cash holdings due to general uncertainty.7 There was a general lack of cash because people and banks hoarded it. The situation was also worsened further by the restrictive monetary policy related to the short-term hundred-day par value of the Dinar in terms of gold, which prevented the unhindered outflow of capital instead of ensuring its inflow by abolishing the restrictions of payment transactions.[8]

Apart from stating the global changes, we also have to explore the level of individual business categories in order to illustrate the reduction of the banking business in the 1930s. When we take a look at the trend in total assets, we see that the highest scale of operations was reached at the beginning of that decade, that is, in 1930. After this year we can only talk about reduction, just like in regard to any other category. Chart 1 below demonstrates an interesting fact: the scale of operations at the general level, measured by the amount of total assets, had a tendency to decline in Slovenia like in the rest of Yugoslavia. However, the reduction was somewhat more prominent in the Slovenian banks, and when the crisis reached its peak in 1934, the total assets were almost halved. In the second half of the 1930s, through the processes of the rehabilitation of banks, the volume of total assets in the Slovenian banks compared with the Yugoslav banks was more or less the same, stabilising at about three quarters of the pre-crisis level. This shows that not even towards the end of the 1930s did the banks manage to restore the levels recorded in the years before the crisis. The role and the functions of the private banking sector were taken over by the state banking sector, which the state had encouraged already since its failed attempts to consolidate and concentrate the banking sector in the second half of the 1920s.

[7] Toussaint Hočevar, Slovensko poslovno bančništvo 1913-1941. Bančni vestnik No.9/1984, pp. 267-272.

[8] Vučković, op.c., pp. 206-210, 215-220; See also Gordana Gnjatović, Stari državni dugovi. Beograd, Ekonomski institut, 1991, pp. 154-160.

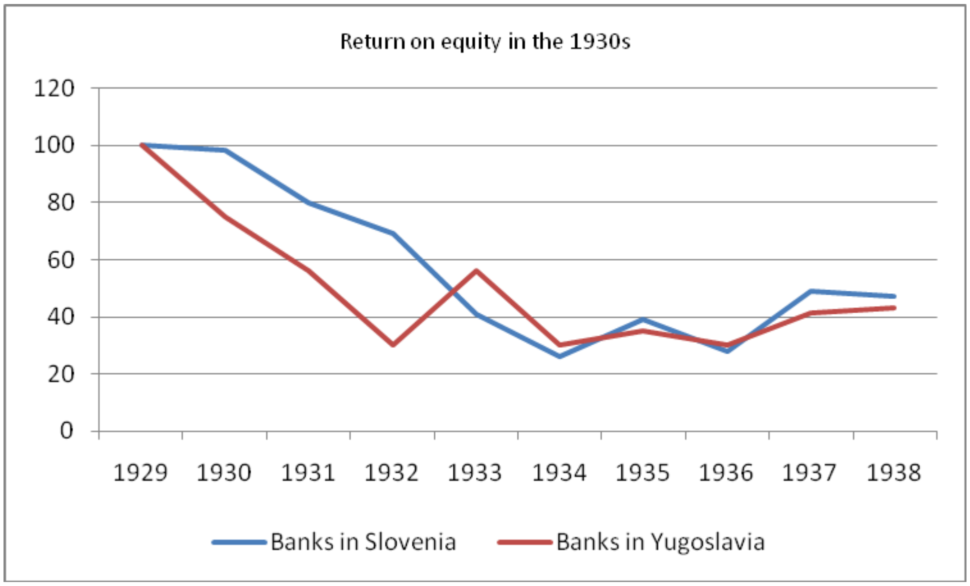
Chart 1



Source: Statistički godišnjak 1929 – 1940.

We shall continue the story of the losses and the decline with the following example of comparisons between Slovenia and Yugoslavia. The return on equity (ROE) shows that the reduction of the rate of return was even quicker than the reduction of the scale of operations. Namely, the concept of return on invested capital virtually disappeared from the banking vocabulary. At the peak of the crisis in 1934, the return on equity was even 70 to 80 % lower than the initial value. If we established that the Slovenian banks were somewhat ahead of the Yugoslav banks in regard to the reduction of the scale of operations, the return on capital invested by the Yugoslav banks dwindled a bit faster than in the Slovenian banks. In the second half of the 1930s, the trend lines became more or less equal at approximately half of what the return on equity was immediately before the crisis. The increased business profitability at this time made it possible for the Slovenian banks to cover a minor part of losses they had suffered during the crisis years.

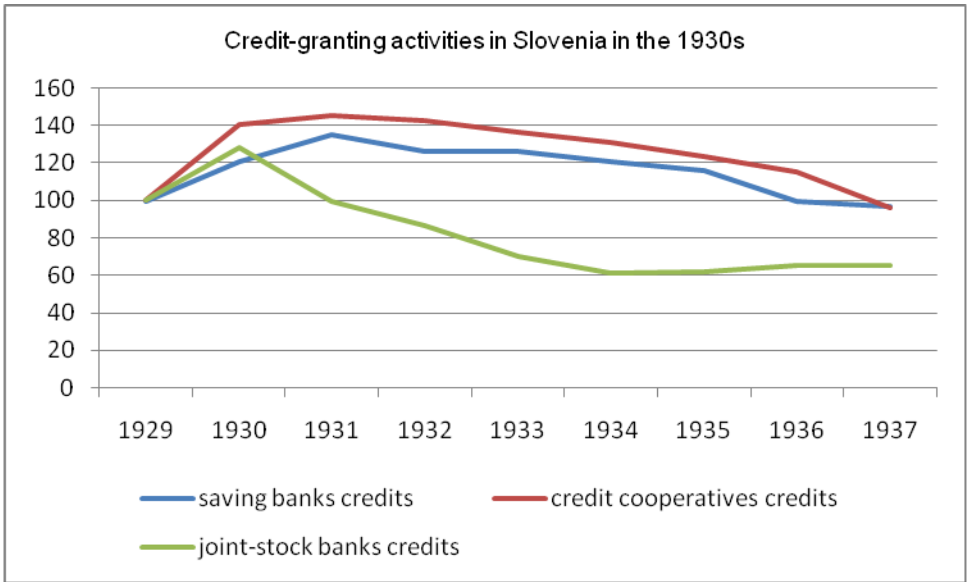
Chart 2



Source: Statistički godišnjak 1929 – 1940.

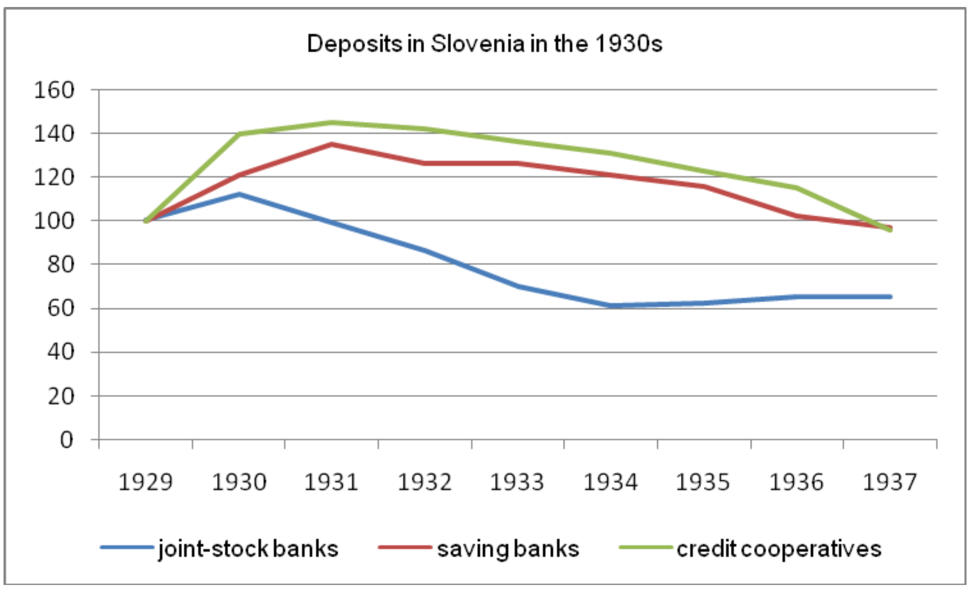
Of course, the trend of the scale of operations and return on equity depended on various banking business policies, as well as on the quality and structure of investments. But certainly the volume of the basic banking purpose – financial intermediation through accumulation of savings and credit-granting activities – was also among the very important factors. A look at the graphic presentations tells us that during the crisis, joint-stock banks were among the most adversely affected banking institutions in Slovenia. They were also the least regulated in their business policy and had the highest volume of loans in terms of absolute figures. At the same time, they obviously had the least favourable or the least stable structure of sources of assets. The consequences of the altered business environment, especially the besiegement of banks in the summer and autumn of 1931, first manifested in joint-stock banks. The outflow of resources from these banks automatically reduced the volume of loans. Not only did the banks reduce the volume of new loans – they also discontinued them when possible on the basis of loan contracts, or demanded better guarantees. The reduction of savings deposits was noticeable in savings banks as well as credit cooperatives, but the level remained relatively high. Much the same holds true for the volume of loans in their balance sheets. Unlike joint-stock banks, they had extraordinarily good results; however, this is an unrealistic picture. The fact that the statistics failed to reflect the great reduction of loans and deposits in the balance sheets is a consequence of another issue. Savings banks and credit cooperatives received most deposits from the general population, mostly rural. After the moratorium on peasant debts was implemented, the existing conditions were preserved in savings banks and credit cooperatives until the rehabilitation of banks began in the middle of the 1930s. Because the moratorium on peasant debts stopped the inflow of finances into savings banks and credit cooperatives, these banks exercised their right to protection (the deferment of payment of deposits of the population).

Chart 3



Source: Calculated from Spominski zbornik Slovenije, 1939, pp. 445-457.

Chart 4



Source: Calculated from Spominski zbornik Slovenije, 1939, pp. 445-457.

4. Rehabilitation of the Banking Sector after the Great Depression

The illiquidity and insolvency of the banking system called for a swift and thorough intervention. The Central Bank continued pursuing its policy of ensuring liquidity, while the regulation and rehabilitation of the banking system was the task of the state, or the Ministry of Commerce and Industry on its behalf. Initially, the banks acted in the interest of self-preservation. In September 1931, in the light of mass withdrawals of savings deposits in the summer and autumn of 1931, they implemented safeguard measures by their own initiative. At that time the banks unilaterally repealed the provisions on withdrawals from the savings accounts. They set out that for an indefinite period of time, depending on the circumstances, individual depositors may only withdraw a maximum amount of 2000 Dinars from their accounts every two weeks. Furthermore, they strictly eliminated the payment of fixed-term deposits before the notice period. They also decided that from that day the banks should treat any deposited amounts as new deposits, which were not subject to any restrictions. Already at that time, banking associations demanded from the state to enact a temporary general moratorium for financial institutions until the situation calmed down, but they would not be successful in these endeavours for several months.[9]

In the years from 1932 to 1934, the necessary legislation for the rehabilitation of the banking sector was adopted. Since on one side the government temporarily exempted peasants from repaying their debts, similar measures also had to be implemented on the other side. Thus, by one of the articles of the Peasant Protection Act, the government allowed the financial institutions to legalise the existing arrangements (i.e. the non-payment of savings deposits or the payment of deposits in long-term instalments). As the crisis developed, special regulations were enacted to protect financial institutions and their depositors. These were only supposed to be temporary measures, but together with further regulation they remained in place for the whole of the 1930s. In practice, this meant that short-term resources of the depositors were legally converted into long-term resources.

The easing of the consequences of the crisis in the banking field gained momentum in 1935 when the Council of Ministers delivered its first decisions on the rehabilitation of the banks which had requested protection – a deferment of payments – in the previous years. The decisions on the rehabilitation of banks were based on the 1934 Decree on the Protection of Financial Institutions, which provided that all financial institutions, unable to meet the demands of their creditors, may seek protection. On the basis of a request, made in agreement with the owners, the Ministry of Commerce and Industry ordered the deferment of payments, rehabilitation or non-bankruptcy liquidation.

All these procedures had to be confirmed by the owners at general meetings. During the state protection, special government commissioners supervised the implementation of the measures taken. These commissioners had the right to be present in all management committee meetings and also supervised the operations of the management of banking institutions. All financial institutions which requested state protection and benefited from the rights based thereon (i.e. deferment of payments or rehabilitation) had to consolidate their balance sheets and write off all losses. These were to be covered from the reserve fund and other funds. Should that not be enough, which was quite often the case, they had to resort to the write-off of the capital stock equal to the outstanding amount. The measures to

[9] Poročilo o delovanju Društva bančnih zavodov v Dravski banovini za dobo 1930-1935. Izdano ob priliki proslave petnajstletnice društvenega obstoja (28. 12. 1921–29.12.1936) na dan 29. decembra 1936. Ljubljana, 1936, pp. 8–11.

alleviate the position of protected institutions included, according to the 1934 Decree, revalorisation of immovable property and encouragement to merge with companies in a better shape.

The Ministry of Commerce and Industry allowed the deferment of payments for a maximum period of six years. Deferment only applied to old claims – i.e. the claims made before the protection was initially granted or the deferment was initially allowed. Financial institutions had to continue to carefully distinguish between the old and the new business operations, and the cut-off date was the date when the protection was put into effect. For new business operations, ordinary rules without any limitations applied. Banks and other institutions subject to the protection regime had to draw up payment plans for the old deposits three months in advance on the basis of the six-month inflow from the old claims. A minimum of 2 % and maximum of 4 % interest applied to the old claims, depending on the capabilities of the institution under protection. The priority of payments was specified by the legislator: priority was given to small investors to whom the banks had to pay proportionally more deposits and sooner than the creditors with sizeable deposits.

The 1934 Decree also governed the settlement of debts and claims with these institutions, which later gave rise to many unpleasant complications. Namely, it was set out that debtors could offset their debts against their claims with those same institutions. If debtors did not have their own claims towards their creditor banks, they could settle half of their debt from the savings book of any other creditor of that bank. This provision later gave rise to a new market – mass buying and selling of savings books. Namely, people were willing to sell them far below their nominal value in order to get some cash. Even banks and savings banks themselves were involved in this, together with a lot of individuals and other companies.

4.1. Rehabilitation and Non-bankruptcy Liquidation

In order for banks to become active again (setting off the losses) or to increase their resources for further business, they could carry out a conversion of claims into equity. Equity on the basis of claims could be in the form of ordinary shares, priority shares, or part of special reserve funds. Old claims could only be converted to this form in the amount of 40 % of their initial value. The rehabilitated banks had the right to issue ordinary shares if they had previously written off all of the capital stock, while priority shares could be issued in the case of the preliminary write-off of half of the share capital. The conversion of claims into ordinary and priority shares was only possible in agreement with the creditors. In the opposite case, the creditors' claims became part of special reserve funds. These claims were settled gradually and proportionally, possibly from the net profits, after the banks first endowed the reserve funds (they were supposed to amount to half of capital stock) and after the dividends for priority shares were paid. The permission to convert the old claims into shares also meant the permission to proportionally increase the capital stock, whereby it was considered that the shares resulting from the old claims were paid for in cash. However, the decision of a bank to be rehabilitated in accordance with this Decree did not exclude the deferment of payments, if that was necessary to keep the bank viable.

In regard to non-bankruptcy liquidation, the Decree confirmed the provisions of laws and regulations concerning liquidation. On behalf of the government, it was carried out by a commissioner whose task was to insure a regular and unhindered liquidation procedure, especially by designating the liquidators in agreement with the creditors committee. If the government did not designate a commissioner, the competent local court had to take over this task. Public notices in regard to non-bankruptcy liquidations had to be given; creditors or savings book owners did not have to declare their claims, but everybody else had to declare them within three months after the public notice. The management had to inform the known creditors about the commencement of the non-bankruptcy liquidation. During this procedure, any sales of immovable property had to be carried out at public auctions. At the same time, during the process of liquidation, liquidators had to conscientiously recover all the claims, provided that the debtors were not subject to any protection regimes.

4.2. Rehabilitation of savings banks

In regard to the deferment of payments, the savings banks were deemed as completely equal to all other banking institutions. The only difference was that in order to be granted the deferment, they had to acquire the permission of their founder (municipality, county, Banate), which assumed liability for its obligations. In the case of rehabilitation, differences were greater, since in this case the conversion of claims into equity was not possible. There was also no capital stock which could be used to cover the losses; only reserve funds were available. Therefore, the founders had to undertake to settle all of their debt with the savings bank. If that was not enough, the founders also had to take over other burdens. The founders had to submit written undertakings to the Ministry to cover the losses of the savings banks and strengthen their general and reserve funds. To this end, they were allowed to issue debentures. Otherwise the same provisions also applied to savings banks.

4.3. Rehabilitation of credit cooperatives

The situation of credit cooperatives was also specific. Here the problem was rehabilitation and non-bankruptcy liquidation, not the deferment of payments. This area was specifically regulated. It was set out that cooperative members could no longer withdraw from a credit cooperative during rehabilitation or non-bankruptcy liquidation, or from the day when the request was submitted to the Ministry. The obligations of cooperative members applied for the whole period of rehabilitation or non-bankruptcy liquidation. It was only possible to rehabilitate credit cooperatives after the reserve funds had been written off. At the same time, the Ministry demanded of each cooperative which sought protection that its members pay the whole or part of the amount for which they were liable into the reserve fund. In case of unlimited liability of cooperative members, the contributions were limited to the quotient of twenty times each share. The specifics of cooperative shares were also important for non-bankruptcy liquidation. The situation of the cooperative members was alleviated in so far as their liability in such cooperatives had to be consistently changed from unlimited to limited also in the process of non-bankruptcy liquidation. This had to be done in the amount of ten times the registered shares, whereby the total amount of shares could not be less than 1000 Dinars.[10] Credit cooperatives could only submit requests for protection (deferment of payments, rehabilitation, non-bankruptcy liquidation) through their cooperative associations, provided they were members thereof; otherwise they could do so directly. It was also set out that all the provisions of this Decree also applied to

[10] Uredba o zaščiti denarnih zavodov in njihovih upnikov. Službeni list kraljevske banske uprave Dravske banovine, No. 100/1934, pp. 965–974. Uredba o izpremembi uredbe o zaščiti denarnih zavodov in njihovih upnikov z dne 23. novembra 1934. Službeni list kraljevske banske uprave Dravske banovine, No. 87/1935, pp. 819; No. 88/1936, pp. 806; No. 95/1937, pp. 921; No. 22/1938, pp. 205.

cooperative associations, which could manage the non-bankruptcy liquidations of individual cooperatives on the authority of the Ministry of Agriculture. The protection for cooperative associations was provided by the Council of Ministers.[11]

4.4. Business policy regulation

4.4.1. Assets

The 1934 Decree on the Protection of Financial Institutions, providing for the deferment of payments, also precisely set out the business policy or a partial structure of the assets of financial institutions. It set out that banks could invest available funds acquired from the new business operations into state securities or securities with a state guarantee as well as into currency deals, but only up to one third of their own resources. At the same time, the banks had to cover one tenth of these investments with cash deposited at the Narodna banka (hereinafter National Bank), Poštna hranilnica (hereinafter Postal Savings Bank) or Državna hipotekarna banka (hereinafter National Mortgage Bank); these deposits could be withdrawn at any time without any restrictions. The maximum amount of a single loan was also prescribed – a tenth of the banks' own resources. The list of restrictions was far more extensive. Banks under the state protection could not provide loans to members of their management and supervisory boards, grant mortgage credits or buy immovable property or goods for their own account. They were also restricted in entering into industrial and commercial joint-stock companies, either through the purchase of shares or through co-investment.[12]

4.4.2. Cost management

Together with the basic Decree on the Protection of Financial Institutions, the Decree on the Reduction of Overheads of the Financial Institutions Under Protection was also issued. With this Decree, the responsibility of bank managements for the income was heightened. The Decree initially very generally defined that the costs in the banks under protection had to be decreased to the level which still guaranteed unhindered motivation to work. It was expressly emphasised that the wages and other benefits of the management had to decrease in the same proportion as those of the rest of the employees. During the time when their institutions operated under the protection regime (deferment of payments, rehabilitation), members of management and supervisory boards and elected administrative workers had no right to royalties, remuneration, end-of-year bonuses, Christmas bonuses, distributable profit or other benefits. All these claims and similar claims by the members of management and supervisory boards and management staff, which had been due until the day when the request for protection was submitted, lapsed, became void and could not be recovered even in court. The only exceptions were actual travel expenses and daily allowances, whose amount was supervised by the Ministry.

[11] Uredba o zaščiti kmetijskih kreditnih zadrug in njihovih zvez. Službeni list kraljevske banske uprave Dravske banovine, No. 100/1934, pp. 976–977.

[12] Uredba o zaščiti denarnih zavodov in njihovih upnikov. Službeni list kraljevske banske uprave Dravske banovine, No. 100/1934, pp. 968.

With the same Decree the protected financial institutions or their owners, and management boards on their behalf, acquired the right to terminate individual and collective agreements, concluded with the management staff and other officials, due to cost reduction. The management of banking institutions and representatives of the employees had to conclude new agreements with lower benefits within three months. If they were unwilling or unable to reach an agreement, the Ministry of Commerce and Industry, which also had to give its consent to any negotiated agreements, provided them with new individual and collective agreements. There was no right of appeal against these decisions. The deadline for expressing any objections to the new agreements was eight days. If directors or officials did not agree to new agreements and thus to lower income, they could resign or were dismissed from their posts in which case they were entitled to a severance pay, specified in the agreement, which could not exceed a half-year income. Cost reduction also took place in the field of pensions. Thus former members of bank managements, but other employees as well, received lower pensions from special bank retirement funds. These provisions, set out with joint-stock companies in mind, applied mutatis mutandis also to savings banks as well as credit cooperatives and their associations.[13]

The provisions of this Decree could also apply for associated or subsidiary companies, if this was required for the procedures of payment deferment and rehabilitation. Because of the crisis the state, similarly as in the case of banks, allowed withdrawals from the already concluded collective and individual agreements also in other industrial and commercial companies, which were not subject to special protection measures. The allowed suspension of collective and individual agreements, which was to contribute to cost reduction, was provided for in a special Decree. This Decree also quite precisely set out the procedures for lowering the wages and other benefits of the management as well as other employees. If these companies also had their own pension funds, the pensions, paid from these resources, had to be lowered proportionally.[14]

4.5. Implementation of rehabilitation

As the implementation of rehabilitation began, a big project was started in the country. In 1936, the government completed the comprehensive rehabilitation of the banking system with the Decree on the Liquidation of Peasant Debt. With this Decree half of peasant debt was written off in order to neutralise the 50 % decrease in prices; the rest had to be repaid to the semi-national Privileged Agrarian Bank within 12 years at significantly reduced interest rate. The establishment of peasant solvency took place simultaneously with the rehabilitation of the banking system. The government included into public debt the written-off debt and the debt which the Agrarian Bank took over from other banks, while financial institutions received government bonds for what had until then been irrecoverable claims. They could redeem these bonds through hypothecation, thus acquiring the much needed cash.

The Ministry of Commerce and Industry, which managed the operations of the important long-term project of re-establishing the liquidity of the banking system, was buried in requests by various kinds of financial institutions. On average, as many as 21 requests were submitted to the Ministry every month. Already until the end of 1935, 256 banks requested protection, which meant more than 40 % of all

[13] Uredba o zmanjšanju režijskih stroškov denarnih zavodov pod zaščito. Službeni list kraljevske banske uprave Dravske banovine, No. 100/1934, pp. 974–976.

[14] Uredba o zmanjšanju režijskih stroškov gospodarskih podjetij. Službeni list kraljevske banske uprave Dravske banovine, No. 100/1934, pp. 977–979.

institutions of this kind in the state. Statistically speaking, the frozen claims, deposits and money in the protected banks until the end of 1935 amounted to a bit less than a half of all deposits and investments in the private banking institutions.15 The number of financial institutions, which sought protection, was also large in Slovenia. If we start with banks, we see that protection – deferment of payments and further procedures – was requested by five Slovenian banks: Obrtna banka (1934), Ljubljanska kreditna banka (Credit Bank of Ljubljana) (1935), Zadružna gospodarska banka (Cooperative Commercial Bank) (1935), Prekmurska banka (1937) and Dolnjelendavska hranilnica (1938).16 In terms of numbers, these banks represented half of Slovenian banking. However, in regard to their very unbalanced structure and considering that two of the big three Slovenian banks were among them (Credit Bank of Ljubljana and Cooperative Commercial Bank), this was actually much more than a half. Therefore, the range of affected institutions and individuals was extremely broad. However, none of these banks were in as much trouble as to request non-bankruptcy liquidation. They only needed a break and a bit of encouragement to restore liquidity. The measures of rehabilitation and deferment of payments were enough in order to achieve that.

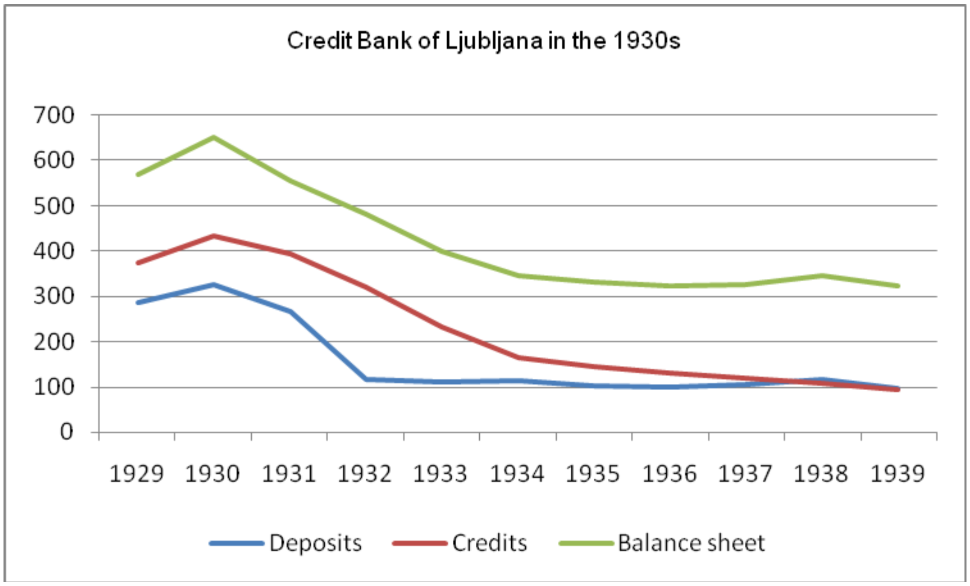
The example of the Credit Bank of Ljubljana

In order to illustrate the rehabilitation proceedings, we shall take a look at the Credit Bank of Ljubljana. However, before exploring the rehabilitation procedure itself, let us review its business success in the 1930s in regard to deposits, credit-granting activities, total assets and various kinds of returns.

[15] Poročilo o delovanju Društva bančnih zavodov v Dravski banovini za dobo 1930-1935. Izdano ob priliki proslave petnajstletnice društvenega obstoja (28. 12. 1921–29.12.1936) na dan 29. decembra 1936. Ljubljana, 1936, pp. 8–11.

[16] Drago Potočnik, Slovensko denarništvo 1918-1938. Spominski zbornik Slovenije, Ljubljana, 1939, pp. 454.

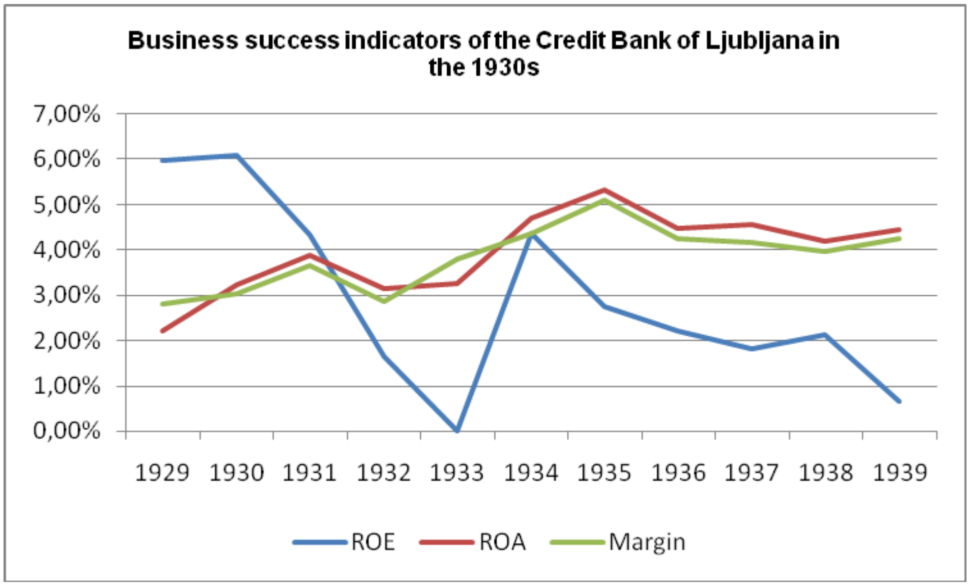
Chart 5



Source: Annual reports of Ljubljanska kreditna banka/Credit bank of Ljubljana 1929 – 1939.

The scale of operations of the Credit Bank of Ljubljana has completely changed in the 1930s. Once a successful and important bank, the pride of Slovenian economy – especially banking – had to deal with the survival concerns. Because of swift and unannounced withdrawals from September of 1931 until as late as the spring months of 1932, this bank was completely exhausted in terms of liquidity. It turned out that its resources were more short-term than long-term in nature. Like all other banks, it struggled to delay the payments, even almost completely stopped them occasionally, but it could not protect itself from the pressure of the depositors. The Credit Bank of Ljubljana used all measures it could resort to in accordance to the agreement with the Banking Association. It was the first bank in Slovenia to introduce the legal deferment of payments. Immediately after the introduction of the Peasant Protection Act in April of 1932, which also provided for the possibility of deferring the payments in case financial institutions found themselves in trouble due to the moratorium on peasant debt, the Credit Bank of Ljubljana, through its good political connections, soon found a favourable solution. It was officially allowed to indefinitely defer payments to its depositors. This measure put a stop to further outflow of the resources from the bank. However, it did not encourage the inflow of new deposits – quite the opposite. On a somewhat higher level, the reduction in deposits was accompanied by the reduction in credit-granting activities. The volume of credit-granting activities diminished more slowly than the amount of deposits, because the bank could not reduce the volume of loans as quickly due to its contracts. New loans could only be granted on the basis of new business operations, which, however, only represented a minor share of the total assets and were thus at a proportionally low level. The bank's losses became more and more evident from year to year, return on equity kept receding, and at a certain moment the losses became evident. Even after the rehabilitation had been carried out, the bank's rate of return on equity remained low, at about a fifth or even less than its former amount. But it is interesting that in the 1930s, during the years of the crisis, the bank gradually raised its margin, exceeding the pre-crisis level by about one third. The bank wanted, at least partly, to make up for the receding scale of operations and return on equity by raising the price of its services. This was a general characteristic of Slovenian banking, since in the years of the Great Depression the banks relied increasingly on the profits from the interest spread, which kept increasing in the 1930s.

Chart 6



Source: Annual reports of Ljubljanska kreditna banka/Credit bank of Ljubljana 1929 – 1939.

In August 1935, the Credit Bank of Ljubljana was allowed to defer the payment for the period of six years on the basis of the Decree on the Protection of Financial Institutions and their Creditors, and at the same time the manner of its rehabilitation was also specified. The rehabilitation procedures included all the measures provided for by this Decree. It was stipulated that the bank had to cover its losses from the reserve fund and other available funds; then it should use the book profit from the revalorisation of immovable property; and finally, write off capital stock. The Credit Bank of Ljubljana carried out all the procedures in the prescribed order. But these amounts did not suffice to cover all the losses. Shareholders also had to contribute. Namely, it was ascertained that the losses were so sizeable that as much as 60 % of the share capital had to be written off. The reduction or the write-off of the share capital was carried out in such a way that the shareholders received three new shares with the face value of 100 Dinars for every five old shares worth 150 Dinars. The Decision on the Rehabilitation of the Credit Bank of Ljubljana also allowed for further increase of the share capital through voluntary conversion of old claims into priority shares. The Ministry of Commerce and Industry allowed the bank to issue 20 million Dinars worth of priority shares on account of old claims, and it was also given the right to build up a special reserve fund. However, the Credit Bank of Ljubljana refrained from implementing all the rehabilitation measures. The understanding of its creditors was significant and the situation was not too critical, so the bank could forego the special reserve fund. It also only partly exercised the right to increase the capital stock. In order to convert the claims into equity, priority shares with guaranteed 4 percent annual return were issued.17 Thus the rehabilitation of the Credit Bank of Ljubljana was concluded. The bank became solvent again, it could settle all new claims promptly and without delay, as well as the old ones in the prescribed extent. The claims of small investors were a priority, while the more sizeable ones were only paid in a small percentage. The Credit Bank of Ljubljana began the year 1940 with already a significantly reduced amount of old claims, having liquidated two thirds of its obligations from the period before May 1932 (when it was authorised to defer payments for the first time) in five years.18 The whole process was cut short by World War II.

6. State banks in Slovenia

Due to the developed banking sector and competitive environment, the role of state banks in Slovenia was not very important. Except, of course, the central bank (the National Bank of Yugoslavia), which played an important role in ensuring the liquidity of the banking system in Slovenia. Especially in the first half of the 1930s this role was indispensable. A large increase of credits, on the basis of bills of exchange and lombard, which the central bank approved to the Slovenian banks so that they were able to cope with liquidity problems, testifies to that fact. While the business operations of the National Mortgage Bank in Slovenia may be deemed as insignificant, and those of the national Zanatska banka/Craftsman Bank as only slightly more important, the Postal Savings Bank and the Privilegirana agrarna banka/ Privileged Agrarian Bank were a different matter. Postal Savings Bank had a tradition dating back to the times before World War I. In the 1930s, the Slovenian territory contributed about a fifth of its business. Also, Postal Savings Bank abundantly supported the rehabilitation of the Slovenian credit cooperatives and savings banks in the second half of the 1930s. Namely, Postal Savings Bank approved the necessary resources in the form of a loan to Slovenian local authorities, so that they could improve the liquidity of Slovenian cooperative associations and savings banks. In the second half of the 1930s the role of the Privileged Agrarian Bank, established in 1929 to provide loans to agriculture, also strengthened in Slovenia. Not only in regard to loans, in 1936 the repayment of the peasant debt began through this bank. Privileged Agrarian Bank took over the peasant debt – i.e. the claims under moratorium since April 1932 – from the banks (bad bank). It issued securities to them for the claims transferred, which the banks used to stabilise their liquidity.[19]

7. Conclusion

During the Great Depression the image and significance of the Slovenian banking changed. In the beginning of the 1930s the reduction of the scale of banking operations began in every aspect. Credit-granting activities dwindled to a minimum, as did the saving by the population. Return on equity at times even reduced by as much as 80 %. On the other hand, the cash and different types of reservations items were enhanced, so that the banks could cover the expected losses and preserve

[17] Compass, Finanzielles Jahrbuch, 1937, pp. 607–608.

[18] Analiza bilansa, dodatak Narodnom blagostanju, No.19/1940, pp. 59–60.

[19] Drago Potočnik, Privilegirani denarni zavodi in Slovenija. Trgovski tovariš, No.5-6/1940, pp. 105.

liquidity. The bottom of the crisis was reached in 1934, and after that year the liquidity of Slovenian banking has gradually improved through the processes of the rehabilitation of the banking system and the accompanying peasant debt write-off. During the crisis, Slovenian private banking was impaired to such a degree that it did not even reach the pre-crisis levels until World War II. Thus in the 1930s, the banks only provided limited support to the economy and population. In Slovenia this situation was that much more critical because not even the state banking sector, with the exception of Postal Savings Bank, managed to fill this gap entirely.

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