

Foreign Financial Capital as the Catalyst of Serbian Economic Development before the Second World War

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Abstract: The paper offers a general overview of the situation and examines the actual impact of foreign capital on the economy of the Kingdom of Yugoslavia in general, and the Serbian economy in particular, during the entire interwar period. Special attention is paid to the methods in which banks in majority foreign ownership invested their capital in various industrial sectors. The paper also analyses the role of the Kingdom of Yugoslavia's National Bank during the Great Banking Crisis of the 1930s.

Key words: foreign financial capital, banking, Kingdom of Yugoslavia, Serbia, banking crisis

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1. Introduction

As early as in 1880s, economic relations between European states were characterized by the following phenomenon – investment of capital by the economically developed countries into economies of underdeveloped and developing countries. This was the result of a long banking transformation process, which, due to industrialization, resulted in the capacity of bank capital to finance various enterprises in far apart geographic areas. As many as eighty European banks, differing in type, size and power, which at the time were the elite of the European, and hence the world banking system, expressed their interest in the Balkans. This phenomenon was of great importance for the emergence and development of private banks, not only in the newly established Balkan states that were just entering the European scene, but also in those areas of the Balkans that still belonged to the great Austrian-Hungarian economic market.¹

The economic situation in Serbia, which was struggling for national liberation from the Turkish rule during the first decades of 19th century, was such that establishing a credit organization was not even remotely possible even though shareholding type banks were necessary for financing infrastructural development, particularly the development of the transportation system. The very existence of ideas related to the establishment of such institutions was a proof enough that Serbia was turning towards the future, which was of an immense importance for a small country undergoing difficult transition from an underdeveloped to a developing country, that is to say from a non-industrial to industrial civilization. Yet, for a long period of time, the consolidation of the loan-oriented network of banks was not possible (be it in the field of economy or communications). Up until early 20th century, the entire Serbian banking system was based on a large number of smaller banks and savings-banks that limited their business operations to granting loans to farmers and merchants. Their fragmentation and lack of organization, as well as extremely limited capital base prevented any serious action that might have led to faster and more serious engagement in the country's economic life. It is also vital to point out another phenomenon that characterized Serbian banking at the time – namely, banks were used as instruments in partisan struggle (especially in smaller towns where the number of banks at times equaled the number of political parties, and instead of extending credits to the economy, banks engaged in granting loans to voters). Nonetheless, in 1882 *Oesterreichische Landerbank*, in cooperation with *Comptoir d'Escompte* from Paris, managed to establish the first “daughter bank” in Serbia - *Srpska kreditna banka (Serbian Credit Bank)*. Soon, other Austro-Hungarian, German and French banks established affiliations or branch offices on the territory of the Serbian Kingdom. At the beginning of 20th century, there were 80 private shareholding type banks with total capital of approximately 17 million dinars. By the year 1912, the number of banks increased to 187, and the sum total of the capital increased to over 51 million dinars. Up until the beginning of the First World War, Parisian banks were the most powerful on the Serbian banking scene as they were in control of state loans, which enabled them to ensure reciprocal orders by the French heavy armament and railway

¹ Andrej Mitrović, *Strane banke u Srbiji 1878-1914. politika, progres, evropski okviri*, Beograd, 2004, 38-45; isti, *Mreža austrougarskih i nemačkih banaka na Balkanu pred Prvi svetski rat*, in: "Jugoslovenski istorijski časopis", br. 3-4, Beograd, 1988, 51 – 55; Danica, Milić, *Pregled delatnosti stranog kapitala u Srbiji do Prvog svetskog rata*, in: "Historijski pregled", Zagreb, br. 2 (1964), str. 94 - 111.

material factories from the Serbian suppliers.² The domination of the French financial capital continued even after the year 1918 and lasted till the beginning of the Second World War.

2. Economic and Financial Situation in Serbia after the First World War

2.1. The Fate of Foreign Banks and Their Affiliations

In 1918, the year when the Kingdom of Yugoslavia was founded, due to its geopolitical position, it represented a link or a bridge between Europe and Asia, Central Europe, Asia Minor and Middle East; it was open towards Mediterranean and connected with Black Sea via the river Danube. Such location was of importance in Europe of the day not only in terms of foreign politics, but in terms of economy as well. A completely new economic area was created, distinguished by size and quality. This was an obvious change, i.e. disintegration of an old economic area on the one hand, and adaptation and gradual integration of the new one, on the other. Due to numerous political conflicts this change was not apparent and was brought about by the war and inflation, which further implied, to say the least, that the change did not take place effortlessly or calmly.

At the same time, Serbia and countries founded on the territory of the former Monarchy regarded the changed scope of the market from different standpoints. While for the first the change implied quadruple increase of the market (from original 2.9 million inhabitants), for the latter it implied decrease of the market from 677 000 km² to 248 000 km². According to some historians, this created an atmosphere of pride among Serbian citizens since so much became available for them in the domestic market, while, on the other hand, Slovenians, Croats and Vojvodinians were unpleasantly surprised by the newly limited scope of opportunities domestic market offered. "The self-complacency felt by one side and depreciation felt by the other would become the root of many subsequent tensions."³ However, the following fact cannot be overlooked – while they were under the rule of former Monarchy, Slovenia, Croatia and Vojvodina were mainly agrarian countries, yet, in the newly created state, almost overnight, they became the most developed areas in terms of economic growth. This particularly applied to Croatia, whose relative advantage was most apparent, especially in the field of financial capital. To exemplify, around the year 1912, there were 1039 credit institutions in Croatia (their total assets amounting to 131 million golden crowns), whereas the capital of same institutions in Serbia amounted to 58 million golden dinars. Hence, it comes as no surprise that, during the first post-war years (before 1924), 50% of the entire banking capital in the Kingdom of Serbs, Croats and Slovenians (the Kingdom of SCS abbreviated) was concentrated in Croatia. That is why Zagreb became the center of economic power, i.e. the hub of capital concentration and the most important industrial and commercial center, while Belgrade was the center of political and legislative power.⁴

Immediately after the Kingdom of SCS was founded, an atmosphere of great economic euphoria prevailed on the territory of the entire state, and especially in Serbia. The causes of this elation are to be considered inseparable from the general euphoria that sprung forth because of the war victory and

² Ibid.

³ Rudolf Bičanić, *Ekonomске promjene u Hrvatskoj izazvane stvaranjem Jugoslavije 1918*, in: "Prilozi za ekonomsku povijest Hrvatske", Zagreb, 1967, 83.

⁴ Mijo Mirković, *Ekonomska historija Jugoslavije*, Zagreb, 1957, 312 - 320; Dušan Mišić, *Pregled jugoslovenskog novčarstva i bankarstva*, in: "Nova Evropa", god. 1923, Zagreb, 1923, 347.

creation of the new and grand Motherland. This also created an impression of unlimited possibilities in the field of economy. At first, the unlimited possibilities did exist in the capital market considering the enormous increase in construction industry, particularly in big cities, exploitation of country's natural resources, setting up new industrial enterprises, development of commerce and growing needs for loans both on the part of the state and private entrepreneurs. The opinion prevailed that anything that was to be built or produced in a country that had been impoverished and ravaged would generate profit. The purchasing power of the population was seldom taken into consideration. The chances for enormous and fast financial gain were further increased by progressive inflation that was brought about by sudden economical prosperity of the country. The value of the capital, which was, in the form of loans or credits, invested in setting up various industrial enterprises, constructing residential buildings (rent under lease) or renting entire complexes of construction sites, decreased rapidly due to the inflation. Simultaneously, former Austrian-Hungarian enterprises and banks were almost sweepingly nationalized. However, such unlimited optimism was not grounded since Yugoslav banks did not have sufficient funds at their disposal.⁵

The inevitable decrease of mainly bank capital was caused by the decrease of the balance total by no less than three quarters that took place in the monetary institutions of Slovenia, Croatia and Vojvodina. The reason for the decrease was the transition from the Austro-Hungarian crown to the Yugoslav dinar as regulated by the Monetary Unification Decree issued by the Kingdom's Government on January 20, 1920. At the time the exchange rate was 4 dinars for 1 Austro-hungarian crown.⁶ There was still a deficit of domestic capital although foreign companies and banks were extensively nationalized. In the end, the inevitable happened; through the well-known and well-developed Viennese channels, foreign capital, indispensable for initiation of the country's economic development, began arriving to the country once again.

At the onset of the Kingdom's economic life, the balance sheet of Serbian banks was in the negative when compared to Vojvodinian, Croatian and Slovenian banking sector. Serbia was worst hit in the First World War, and hence, the share of its banks in the overall market was 6.69% compared to 92.31% of the Vojvodinian, Croatian and Slovenian banks. Small, local monetary institutions were numerous in Serbia mainly because the banking system was created in the setting of highly vibrant political life. Party strongholds were created all over, even in the field of bank credit operations. The numerous local banks were founded by merchants or exchange dealers, who saw a great opportunity for making profit in banking. Bank founders were mainly creditors of small farmers, who, at the time,

⁵ Danica Milić, *Privredni položaj Srbije po završetku ratnih operacija*, in: "Srbija na kraju prvog svetskog rata" Zbornik radova Istorijiski institut SANU, Beograd, 1990, str. 51 - 63. Velimir Bajkić, *Naše bankarstvo*, in: "Letopis Matice Srpske", knj. 313, Novi Sad, 1927, 219-220; Stanko Deželić, *Novčani zavodi Kraljevine*, in: "Kraljevina SHS, Almanah", sv.I, deo III, Zagreb, 1921/22, 122.

⁶ *Službene novine Kraljevine SHS*, II, 13, 18. 1. 1920. - In the explanatory statement of the Government ruling, among other, is stated: "By monetary unification further war between crown and dinar has been precluded, and it has been prevented that the value crown increases when the value of dinar is on the decrease, and vice versa; monetary unification has allowed parallel fluctuation of the two currencies. After this reform, and on condition of favorable economic circumstances in the Kingdom, the value of crown and dinar is to gradually, simultaneously and correspondently increase toward their prewar value."; Setting the dinar - crown ratio at 1:4 was a great problem for all monetary institutions on the territory of the former Monarchy and caused great dissatisfaction in Croatian and Slovenian financial circles who were of opinion that by such exchange rate the value of dinar had been overrated. (See: Milan Ivezić, *Naše banke*, u: "Domovina, Kalendar za 1925", Beograd, 1924, 119; Rudolf Bičanić, isto, 101)

made up the majority of population in Serbia, and that is precisely why the professionalism of small provincial banks was on such a low level.⁷

The prewar influence of Viennese and Budapest main offices on banks in the north-west parts of the Kingdom remained quite strong even after these territories became an integral part of the newly created national state. According to some calculations, the share of Austrian and Hungarian banks in the Yugoslav banking market immediately after the war was as follows: 40% in Croatia and Slavonia, 20% in Slovenia, 43% in Vojvodina, and 35% in Bosnia and Herzegovina.⁸

2.2. Compliance with the Law on Establishment of Foreign Financial Institutions

After the First World War ended and the Kingdom of SHS was founded, the issue of legal regulation of monetary and credit institutions presented itself. Up until then, these operationally diverse institutions, in terms of their operations in the money market, were subjected to no legal regulations whatsoever. After 1922, only the concession system was established both for credit and joint stock institutions, while the freedom to do business remained intact. Such situation resulted in the collapse of a number of banking institutions (around the year of 1926), and threatened to jeopardize the country's entire banking system. In order to prevent that, the Ministry of Commerce and Industry of the Kingdom, which had jurisdiction over banks' and credit institutions' business activities, attempted to take measures toward passing a special law on banks by which their operations would be legally regulated.⁹

Shareholder-owned banks were almost the sole type of Yugoslav private monetary institutions. When speaking of private banking in the Kingdom of Yugoslavia, it is always in reference to shareholder-owned banks since they represented the majority of the country's credit apparatus, i.e. they were the only direct creditors of economic entrepreneurship. In the Kingdom, for as long as it existed, no general law on joint stock companies was adopted. In the territory of Serbia, the Kingdom of Serbia's Law on Joint Stock Associations passed in 1896, and amended in 1898, was in force. In 1922, application of this law was extended to the territory of Montenegro.¹⁰ In the territories that once were under the rule of the Monarchy, commercial laws, which also contained legal regulations in relation to the activities of joint stock associations, were applied.¹¹ To weaken the autonomy of the companies from the above mentioned territories, and in order to prevent possible confusion that might have resulted from simultaneous existence of different banking laws, in November 1919, the Council of Ministers ruled that all joint stock associations that were being established or were expanding their activities to the entire territory of the state, needed to obtain the permission to that effect from the

⁷ Antonije Tasić, *Jugoslovensko bankarstvo između dva rata*, in: "Glas CCCLXVI Srpske akademije nauka i umetnosti - Odeljenje društvenih nauka", Beograd, knj. 26 (1992), str.147 -208; Danica Milić, *Privredni položaj Srbije po završetku ratnih operacija ...* str. 51 - 63.

⁸ Ibid.

⁹ The Archives of Yugoslavia (AJ), Kingdom of Yugoslavia's Ministry of Commerce and Industry (65), f. 997 – j.o. 1852.

¹⁰ Službene novine Kraljevine SHS, br. 105, 15. 5. 1922, *Zakon o proširenju važnosti Zakona o akcionarskim društvima u Kraljevini Srbiji, na teritoriju Crne Gore*.

¹¹ Milorad Zebić, *Zakoni i raspisi o akcionarskim društvima s uputstvima i objašnjenjima: Trgovački i mjenbeni zakon o društvu dioničarskom i Trgovački zakon za Bosnu i Hercegovinu*, Beograd, 1925, 73-124.

Ministry of Commerce and Industry.¹² The Ministry also issued special permissions in cases when joint stock associations that were being established were in fact affiliations of foreign companies or banks. In 1922, the concession system of establishing banks (and joint stock companies) which was functional in Serbia was extended to those Yugoslav territories which practiced normative system of company establishment while being a part of Austro-Hungary, and, consequently, shareholder type banks in Yugoslavia could be established only under the permission of authorities.¹³ Even though the Ministry had all the preparatory actions in place to pass a special law on banks in order to regulate their operations, and at the same time guarantee solvency and liquidity, that law was never passed.

Thus, the newly founded Kingdom of SCS inherited through its constituents an extensively diverse banking system consisting of a large number of mainly smaller-size institutions. In the early years of the new kingdom, namely until 1927, the number of banks was constantly increasing. The process of establishing new banks was in full swing during 1922, at the height of inflation period. Due to high inflation from 1920 to 1923 the stock exchange was characterized by an intensive trading in stocks and bonds by economic, especially banking institutions. Profit outlook was great, and, hence, joint stock capital of the banks grew. From 1921 to 1924, it increased from 829.8 million dinars to one billion and 919 million dinars. Such development was largely incited by the general tendency to industrialize the country. Not before the collapse of certain banks that occurred in 1926 did the establishing of new banks cease. It was then that the number of banks in the Kingdom, and consequently in Serbia, started decreasing.¹⁴

Decentralization of the banking system was one of the most significant factors that contributed to an extremely high interest rate on the Yugoslav market and presented a serious problem during the entire interwar period. In an attempt to decrease the market interest rate (which was, for example, as high as 30% in 1922), the National Bank of the Kingdom of SCS took measures that implied merging of smaller banks and determining the minimum net capital stock that monetary institutions were required to have in order to be granted loans from the National Bank. These measures could not have yielded significantly positive results, but, nonetheless, by 1930, the process of centralization of the banking system had begun (to illustrate, twenty mergers of monetary institutions were recorded from 1927 to 1935). Furthermore, banking system in Serbia, and even in Belgrade, was also quite decentralized, but not so much in the former constituents of the Austrian-Hungarian Monarchy, apart from Vojvodina. Because Vojvodinian banking system inherited certain negative features from the Hungarian provincial banking, it suffered from hypertrophy of small and weak monetary institutions that prevented capital concentration. That is one of the key reasons why the emergence of unitary banking in Yugoslavia cannot be traced before the late 1920s.¹⁵

¹² Službene novine Kraljevine SHS, br. 161, 13. 12. 1919.

¹³ Antonije Tasić, *Jugoslovensko bankarstvo između dva rata...*, 147-208; Feliks Kohn, *Trgovački i pravni leksikon*, Osijek, 1937, 16.

¹⁴ *Ibid.*

¹⁵ *Deset godina saveza novčanih i osiguravajućih zavoda Kraljevine SHS, 1919 - 1929*, Zagreb, 1929, 19; *Privredni život Kraljevine SHS in: "Kraljevina SHS. Almanah"*, Zagreb, sv. 2, deo IV (1924-1925), str. 248.

3. Operations of Foreign Monetary Institutions' Affiliations and Branch Offices in the Kingdom of Yugoslavia before the World Economic Crisis in 1931

In a state where Parliament dealt more with politics than with social and economic development of the country, in which governments were prone to collapse and ministers to replacement, there were ample possibilities for foreign industrial and financial capital to intertwine and establish connections with state and party leaders, thereby obtaining control over Kingdom's economic life. At the same time, during the 1920s, the new Yugoslav state was putting in efforts to protect its fledgling economy from the overpowering foreign influence. It was not the matter of placing domestic capital in the position previously held by Viennese or Budapest capital (since domestic capital was not of such volume), but of gaining control over banking institutions, which, since their head offices were located abroad, tended to evade control by the Yugoslav authorities. However, since domestic capital accumulation was insufficient and the ruling elite reluctant to implement economic policy measures in the above described political situation, the head offices of foreign banks, in time, resorted to turning their branch offices into independent "Yugoslav" banks. Foreign citizens remained the owners of the newly established banks, that is to say, they continued as owners of stocks and bonds.¹⁶

The Kingdom's Ministry of Commerce and Industry was in charge of granting a special permission for establishing joint stock associations which were affiliations of foreign companies or banks, that is to say, in cases when foreign citizens were among the founders.¹⁷ On the other hand, the Ministry of Finance did not have a clearly defined fiscal policy stance with regard to either the foreign capital invested in the Yugoslav economy, nor with respect to the capital already present in the country in the form of affiliates or branch offices.¹⁸ Laws on joint stock associations in the territory of the Kingdom included regulations referring to branch offices of foreign joint stock associations, while the participation of foreign capital in domestic associations, namely those founded under Yugoslav laws, was not even mentioned.¹⁹

3.1. Setting up Banking and Industrial Consortiums

As the capital market in Yugoslavia was underdeveloped, banks, mainly those owned by shareholders, were the most important channel for providing credits to the economy. For that particular reason the shareholder-owned banks should be looked into more attentively in the Yugoslav context than in the case of countries with a more developed capital market.

Industry was more developed in those parts of Yugoslavia that were constituents of the Austrian-Hungarian Monarchy before the First World War. However, such level of development was not nearly

¹⁶ Sergije Dimitrijević, *Vladavina stranog kapitala u bivšoj Jugoslaviji*, Beograd, 1958, 2 - 11; same, *Privredni razvitak Jugoslavije od 1918 - 1941*, Beograd, 1962, 42; Institut za istorijska pitanja, *Uprava za kordinaciju rada naučnih instituta*, *Elaborat o britanskom kapitalu u Jugoslaviji 1918 - 1941*, njegova ekonomska, politička i obaveštajna uloga, Beograd, 1951, 1- 18.

¹⁷ Feliks Kohn, n.d. 16.

¹⁸ Vladimir Rozenberg, *Inostrani kapital u jugoslovenskoj privredi. U bankarstvu, industriji, trgovini, transportu, osiguranju i ostalim granama privredne delatnosti*, Beograd, 1937, 29.

¹⁹ Milorad Zebić, n.d; see article 91 - 97 Zakona o akcionarskim društvima Kraljevine Srbije iz 1896. with amendations from 1898, paragraph 210 - 217 Trgovačkog zakona za Hrvatsku i Slavoniju, as well as paragraph 210 - 217 Trgovačkog zakona za Vojvodinu.

high enough to satisfy the demand for industrial products of the entire newly created state. Serbian industry was rather modestly developed, and experienced great progress after the Unification. New enterprises were being feverishly set up, and the old ones expanded. Necessary finances were rapidly raised from all over. Nonetheless, funds needed for long-term investment were insufficient. Banks, especially the larger ones, were forced into making long-term investments from their own relatively insignificant funds, but also from short term household deposits. In addition to approving industrial loans, banks were also directly involved in the industrial sector. Namely, a number of larger banks created an array of industrial enterprises. Even though they were custodians in terms of the liabilities on their balance sheets, when it came to their asset operations, they functioned exclusively as commercial banks specialized in long-term financing of the economy.²⁰

Though former Austrian-Hungarian banks had lost their leading economic status during the 1920s, they soon managed to secure support from the Western European banks whose capital thus became closely connected with the Yugoslav banking industry. This was manifest in two ways: through setting up affiliations or partaking in net capital stock of domestic shareholder-owned banks.

Table 1

Affiliations and Banks in the Kingdom of Yugoslavia in 1928²¹

	Number of Banks	Banks' Net Capital Stock (million dinars)	Foreign Capital Participation (million dinars)	Participation (percent)
Affiliations of foreign banks	4	45.8	45.8	100%
Shareholder type banks with Foreign Capital Participation	14	275.8	149.5	54.66%
TOTAL	18	321.6	195.3	60.72%

In seven out of 14 banks with foreign capital participation, this participation represented less than 5% of banks' net capital stock (less than 25% in six banks), while in the remaining ones, with the exception of one bank, banks with foreign capital participation were in possession of majority block of shares (over 75%). In most cases foreign shareholders were foreign banks, other joint stock companies, and only rarely natural persons who, in fact, were representatives of foreign enterprises. Nearly $\frac{3}{4}$ of total foreign participation in Yugoslav banks came from foreign banks, while little over 18% originated from joint stock companies.²²

²⁰ Vesna Aleksić, The History of the "Allgemeiner jugoslawischer Bankverein AG" in Beograd in the context of Yugoslav Banking History after 1918, in: "150 Jahre oesterreichische Bankengeschichte im Zentrum Europas", Bank Austria Creditanstalt, Oliver Rathkolb/Theodor Venus/Ulrike Zimmerl (Hrsg.), Wien, 2005, 226-238.

²¹ Antonije Tasić, Jugoslovensko bankarstvo između dva rata..., 147-208.

²² Ibid.

Table 2

Capital Origin	Foreign Capital Origin ²³	
	The amount in which foreign capital participated in Yugoslav banking	
	million dinars	Percent
French	41.9	21.42%
Czechoslovakian	37.5	19.20%
Austrian (later German)	30.2	15.47%
Belgian	23.9	12.24%
Hungarian	16.7	8.53%
Swiss	10.6	5.36%
Monaco	10.4	5.33%
Italian	9.7	4.96%
English	8.9	4.56%
Dutch	5.1	2.61%
Swedish	0.5	0.32%
TOTAL	195.3	100%

The share of French capital in Serbia amounted to almost 90%, most of which came through the French-Serbian bank. Capital of the French origin combined with the capital from other West European countries was rarely present in other shareholder-owned banks. This was not the case with the Czech capital, which in Yugoslav banks was often combined with Austrian, British or Belgian capital. The share of Czech capital in Serbia was approximately 65%.²⁴

Due to shortage of capital, the development of the capital market in Yugoslavia was not possible. Hence, banks were the sole creditors of the country's economic activity. Instead of obtaining necessary funds through stocks and bonds emission, the economy had to turn to drafting loans which monetary institutions approved through checking accounts. This situation directly resulted from the country's capital deficiency. Up until 1925, the crediting of economy through checking accounts (generally speaking) was on the constant rise. During 1926 and 1927, certain decline was recorded, which can be explained by the fact that a number of banks, especially in Serbia, crashed due to their imprudent industry ventures. Checking accounts transactions peaked in 1930 when, compared to 1922, they nearly doubled.²⁵

Apart from funds made available to companies through loans (1699.8 million dinars), shareholder-owned banks supported industry through running their own enterprises (166 million dinars), acquiring company stocks (624.8 million dinars) and participating in consortium ventures (209.2 million dinars). Thus, the total participation of shareholder-owned banks in the country's economy amounted to 2 billion 699.8 million dinars. Taking in consideration that the loans worth 1699.8 million dinars were allocated mainly to industrial companies, 85.4% of which were joint stock companies, and that bank-

²³ Ibid.

²⁴ Vladimir Rozenberg, Jovan Kostić, *Ko finansira jugoslovensku privredu? država - banke - inostrani i domaći kapital u službi privrede*, Beograd, 1940, 23-27.

²⁵ Ibid.

owned enterprises, as well as those with monetary institutions' participation, were in most cases engaged in industrial production – we may say that the total participation of banks in the industrial sector was two and a half billion dinars.²⁶

Table 3

Loan-based participation of banks in various industrial sectors²⁷

Industry sector	Total credit value (million dinars)	Loans approved by private banks (million dinars)	Loans approved by private banks based on total credit value (percent)	Loans approved by foreign institutions (million dinars)
Wood industry:				
Companies with bank participation	453	220	48.1%	117.5
Other companies	754.3	115.2	15.3%	411.1
Mining and ironworks industry:				
Companies with bank participation	115.8	71.9	62.1%	22.4
Other companies	620.9	145.3	23.4%	341.6
Chemical industry:				
Companies with bank participation	61.1	26	42.5%	14.7
Other companies	223.3	30	13.4%	47.7
Food industry:				
Companies with bank participation	121.7	74.5	52.6%	15.3
Other companies	447.2	92.2	20.6%	105.2
Agro- industry:				
Companies with bank participation	32.5	10.6	32.6%	----
Other companies	447.2	35.7	31.4%	12.8
Textile industry:				
Companies with bank participation	174.3	22.8	13.1%	72.5
Other companies	595.2	215.4	36.2%	184.6
Metallurgy:				
Companies with bank participation	449.7	110.5	24.6%	170.1
Other companies	468.4	21.2	4.6%	86
Cement industry:				
Companies with bank participation	141.5	27.7	20.3%	76.9
Other companies	369	103.9	28.2%	137.1

²⁶ Antonije Tasić, Jugoslovensko bankarstvo između dva rata..., 147-208.

²⁷ Ibid.

Funds invested in wood industry through loans were most substantial (335.2 million dinars), but their overall participation in total loan value approved to industrial companies, was the greatest in mining and ironworks. Bank loans approved to textile industry were quite substantial as well (238.2 million dinars). More often than not, banks tended to approve loans to those industrial companies in which they had capital investments. Cement and textile industry were the exception, however. In the case of cement industry, banks' participation in its total loan value was 20.3% in companies with bank participation, and 28.7% in other companies. In the case of textile industry, the ratio is even higher - 13.1%: 36.2%.²⁸

The table shows that foreign capital displayed significant interest in investing in the Yugoslav industrial sector. Loans approved by foreign institutions were quite substantial. Majority of industrial enterprises were supported by foreign rather than domestic banks' financial funds. Such was the case with mining and ironworks industry, metallurgy and cement industry. In terms of crediting the electrical power industry (which is not included in the table), there was an enormous disproportion in foreign versus domestic banks' participation. Namely, out of 485.2 million dinar worth of loans this industry had at its disposal, only 24.3 million dinars came from domestic banks, while 408.5 million dinars came from foreign sources of finance (remaining 10.4 million dinars came from public credit institutions). The participation of foreign institutions was smaller only in case of food and agro-industry. The investments of public credit institutions (National Bank and two state monetary institutions) were more than two and a half times smaller than those of private banks (26.02% : 9.99%). Namely, private banks participated with one billion and 699.8 million dinars, or 26.02% of the total value of loans approved to mainly industrial companies. Other creditors participated in the following manner: National Bank contributed 5.68%, State Mortgage Bank 4.31%, foreign creditors 44.64%, and other creditors 19.35%.²⁹

3.2. The Role of Serbian Political and Financial Elite in the Activities of Foreign Banks in Serbia

As has already been observed, legislation on joint stock associations in the Kingdom contained regulations that applied to branch offices of foreign joint stock associations, while domestic associations in which foreign capital was invested, namely those founded under the Yugoslav legislation, were not even mentioned. Aware of this fact, foreign banks' management structures in the 1920s opted to transform their branch offices located in the territory of Yugoslavia into domestic joint stock associations. The requirement was for a certain percentage of stocks to be in the ownership of Yugoslav citizens (usually 50 to 55%), while at the same time at least half of the managers on the Board had to be elected from among those same Yugoslav stockholders. In this way, apart from foreigners, who were the actual owners, citizens of Yugoslavia, the so called "štomani", managed to be represented on the management boards. These people were well-connected and quite influential on public administration, and through them it was possible to achieve and maintain contact with the most important and influential state instances. In exchange for high profit-related management bonuses, and without actually participating in bank management, they secured support of the state, or at least the support of some members of the ruling elite, in certain business or financial transactions conducted by

²⁸ Ibid.

²⁹ Ibid.

banks across the Kingdom. It is well known that foreign representatives carefully scrutinized all those who had any influence on the Serbian economic and political scene, and who could in the best way possible, serve their interests. In the years preceding the crisis, dividends paid to stockholders amounted to 8%, while in 1932 this percentage was as low as about 2%.³⁰

The union of banking and industrial capital was realized by having, on the one hand, bank managers sitting on management boards of numerous companies, and, on the other, the most prominent Serbian industrialists acting as members of management boards of monetary institutions with foreign capital participation. In this way, the immense power and control was concentrated in the hands of a small number of economic and political state representatives and foreigners who gained significant financial, political and social influence in Yugoslavia. Being an integral part of the Kingdom's urban social stratum, which represented a minority at the time, this banking class of economic elite, was "merely a drop in the sea of uneducated masses", was closely linked to West European capital and their representatives. They played an important role in modernization of the Yugoslav society, especially if one takes into account that bankers had the knowledge without which economic and financial development and the overall progress of the society would not have been possible.³¹

Affiliates and branch offices of foreign banks, that is to say modern, European mixed-capital type banks, were an important moving spirit behind the modernization of the economic and social life in Serbia, a country which was in between the traditional and modern worlds during the interwar period. Serbian society was also quite incongruous, economically disintegrated, nationally heterogeneous, religiously hermetic, and politically polarized. In such circumstances, these influential banks, being closely and extensively connected with the country's life, were in a position to spread, first of all, contemporary ideas concerning financial business practices and conducting financial transactions. The fact that people of enormous importance, both in the context of the European and world banking, were on their boards of managers, also facilitated rapid and successful gaining of respect from some prestigious international banks, which were almost unavoidable when it came to investing significant amounts of European capital into the Yugoslav and Serbian economy.³²

Foreign-owned banks were also socially important on their own, since, in time, they created a specific bourgeois stratum of bankers and bank clerks, who held prominent positions on the social ladder, and who were constituents of two, out of three social groups considered to be "promoters" of modernization of the Yugoslav society's in interwar period. In a country in which undereducated and unskilled bank clerks were quite common, and in which political affiliation was a key element in social promotion, staffing of these banks was an example of an institution's concern with its own business ventures rather than with the politics. As such, they were in a position to spread European entrepreneurial spirit and culture, but also to promote West European civilization standards in Yugoslavia (and in Serbia as well) - a mainly agrarian country at the time. Simultaneously, however, they were under political, economic and social influence of the environment in which they operated, especially through domestic clients, but also through local bank clerks.³³

³⁰ On methods of foreign branch offices' transformation into domestic bank see: AJ, General Yugoslav Banking Society, Joint-Stock Company Archival Holdings (151) f. 1- j.o. 2.

³¹ Vesna Aleksić, *Banka i moć, Socijalno-finansijska istorija Opšteg jugoslovenskog bankarskog društva A.D. 1928-1945*, Beograd, 2002, 93-120.

³² *Ibid.*

³³ *Ibid.*

4. Economic Situation in Serbia during and after the Financial Crisis

The Great Crisis of the European banking was brought about by the Great World Economic Crisis, caused by the stock market crash in America on October 29, 1929. Namely, since the value of more than 40 billion dollar worth of stocks declined, American, mostly short-term loans were recalled from Europe, with catastrophic consequences for the European economy. The inability of agricultural, mining, industrial and transportation companies to generate standard profits led to extreme unemployment rates and deterioration of capacity utilization. The decline in prices of numerous primary products (as high as 40 or 50%), stocks of leading industrial companies and co-operatives, and stocks and bonds with fixed interest rate resulted in a difficult banking crisis, whose onset in Europe was marked by the crash of “mammoth monetary institution” *Österreichseche Credit Anstalt fuer Handel und Gewerbe* from Vienna.³⁴

After the First World War, this bank became the symbol of Austrian banking resilience, and through its loans controlled 70 – 80% of the Austrian industry and commerce, as well as a significant number of industrial companies and monetary institutions in the so called Austrian-Hungarian successor countries. Starting from the mid 1920s, half of the bank’s stocks were owned by *Anglo-International Bank Ltd.* from London, *Schweizerischer Bankverein* from Basel and *Amstelbank* from Amsterdam. Already unstable due to the unsuccessful merger with *Bodencredit-Anstaltbank* from Vienna that took place in September 1929, *Österreichseche Credit Anstalt fuer Handel und Gewerbe* bank suffered further losses in May 1931 amounting to 140 million shillings or one billion and 200 million dinars, which, to give an example, equaled the value of the total bond portfolio of the Kingdom of Yugoslavia’s National Bank. In order to maintain the trust of foreign creditors, whose loans were the basis of bank business operations, but also to protect Austrian economy, Austrian government and its National Bank assumed responsibility of the bank’s financial recovery. The debt which reached one billion and 700 million shillings, or 13 600 million dinars, in August that year, put the Austrian state in a difficult position. Being a new stockholder of *Österreichseche Credit Anstalt fuer Handel und Gewerbe* bank, Austrian government decided to withdraw the majority of bank’s financial investments from other countries (Yugoslavia being one of them) in which this bank had a number of banking and industrial affiliations. Chain reaction that ensued put leading Yugoslav and Serbian private banks in a difficult position. This happened as a direct consequence of interconnectedness of the financial, industrial and commercial capital and was felt in a similar manner across whole of Europe in the period between 1931 and 1935.³⁵

However, suspension of German reparation payments that took place at the time of the Yugoslav currency legal stabilization (1931) prevented National Bank from supporting monetary institutions when investors came rushing to their counters. Thus, acute psychological crisis of banks could not be neutralized, and consequently turned into chronic, that is to say structural crisis, which in time affected almost every private bank in Yugoslavia. We may say that despite numerous legislative interventions

³⁴ Herbert Matis, *Oesterreichs Wirtschaft in der Zwischenkriegszeit: Desintegration, Neustrukturierung und Stagnation*, in: “150 Jahre oesterreichische Bankengeschichte im Zentrum Europas”, Bank Austria Creditanstalt, Oliver Rathkolb/Theodor Venus/Ulrike Zimmerl (Hrsg.), Wien, 2005, 124-147; Yugoslav press wrote extensively on *Österreichseche Credit Anstalt fuer Handel und Gewerbe* bank collapse throughout 1931 and 1932; special attention is called to texts published in *Narodno blagostanje*, and particularly: Velimir Bajkić, *Kreditanstalt - Larma bez razloga*, III, 25, Beograd, 20. 6. 1931, 389.

³⁵ *Ibid.*

by the state, this crisis was felt during the whole interwar period.³⁶ Namely, it was only in 1937 that a certain improvement occurred, yet it was of such limited scope that it was difficult to claim that the decrease in the volume of credits approved against checking-accounts had finally stopped. Bearing in mind that many banks were very much interested in the fate of their clients, that is to say industrial companies in which they had made financial investments, without exaggerating we may say that toward the end of the period credit operations of Yugoslav banks decreased to such a degree that they became barely existent. Of course, such conclusion holds only if Yugoslav banking is regarded in its totality. In the case of top 20 Yugoslav banks, most of which had foreign capital participation, the decrease had stopped a year earlier: namely, as early as in 1936, these banks recorded an increase in the volume of credits approved against checking-accounts, and in 1937 the level recorded in the last quarter of 1934 was finally regained.³⁷

4.1. Measures Taken by the National Bank and Yugoslav Government in order to overcome the Crisis and Establish Firmer Control over Foreign Capital

In Yugoslavia, there was no deeper, organic connection between the National Bank, as a central monetary institution, and other credit institutions. Special situation in the country did not allow for the money issuing institution to become the actual monetary market regulator. One of the reasons why this organic connection was not established lies in the fact that the National Bank's position on crediting almost always depended on the currency situation, that is to say, it was almost completely subordinated to currency.

During the interwar period the opinion prevailed that private banks could not rely on the support of the National Bank in case of unexpected wave of creditors' distrust. This thesis is further corroborated by the fact that before the end of 1937, the National Bank of the Kingdom of Yugoslavia found itself twice in the position of having to provide credits to banks so as to stop the withdrawal of savings deposits; however, National Bank did not act in either of the two instances. In 1923, unaided, banks managed to withstand the surge of creditors, but not without significant difficulties.

However, in 1931 the distrust toward banks grew to such an astounding level that banks were completely unable to prevent the ensuing damage on their own. Soon, the entire credit system organization found itself in the state of utter turmoil, and the National Bank could no longer avoid provision of emergency lending, but the volume of loans approved at that time was nowhere near sufficient for the banks to overcome the acute stage of the crisis. For that reason the National Bank imposed a moratorium on repayments by banks worst hit by the unexpected deposit withdrawal.³⁸ The issuing institution, hence, did not guarantee the so called indirect liquidity to credit institutions. What is more, by the ruling passed on 8 August 1931, and in order to revoke the extremely high profit margin

³⁶ Antonije Tasić, *Kriza jugoslovenskog bankarstva (1931-1941)*, in: "Glas CCCLXVI Srpske akademije nauka i umetnosti - Odeljenje društvenih nauka", Beograd, knj. 27. (1995), str.141 - 167.

³⁷ Ibid.

³⁸ Ivo Belin, *Kreditna politika Narodne banke i kriza kredita*, in: *Nova Evropa*, Knjiga VIII, br. 11 i 12, 1923, Beograd, 538-559; Dušan Plavšić, *O sanaciji našeg bankarstva*, u: *XX vek*, God. I, februar 1938, br.2, Beograd, 125-140.

(of approximately 866 million dinars) on approved yet unused loans, the National Bank significantly worsened the already difficult situation for the Yugoslav banks.³⁹

Once it became clear that it was highly unlikely that banks would be able to maintain liquidity during the crisis and continue to function normally, Yugoslav government took measures in order to revitalize the country's credit system organization. Hence, on 22 November 1933, the Bank passed *The Ruling on the Protection of Monetary Institutions and Their Creditors*. Other special rulings followed: on protection of credit cooperatives, on monitoring decrease in expenses of banks under protection and on maximizing interest rates.⁴⁰

According to *The Ruling on the Protection of Monetary Institutions* which was amended on 23 November 1934, three different protective regimes were made possible: payment delay, financial recovery and non-insolvent termination. Only active banks had the right to delay payment. Passive banks had to enter the state of non-insolvent termination; however, among passive banks there were also banks whose survival was in the country's economic interest. They were subjected to financial recovery – under favorable and special conditions. Such legal regulation was of an utmost importance. Its purpose was dual: in the first place, the regulation was aimed to improve the state of the banking system and monetary market in general by supporting banks that were not culpable for the problems that befell them, or that played an important role in the country's economic life and, in the second place, such legal regulation was intended to eliminate from the banking system every institution proven to be insolvent.⁴¹

From that point on operations of protected banks were under strict government supervision. Minister of Commerce and Industry was entitled to order inspection to determine whether the bank was active, which was not only the case when protective measures were to be approved, but also while payment delay was under way. The Minister had the right to appoint a commissary to survey the operations of a protected bank, and in case of financial recovery, old financial claims not exceeding 40% of the total were to be transformed into priority stocks and placed in a special reserve fund. In February 1938, the possibility to utilize the right of protection was abolished. Up until that point, over 360 banks were placed under protection measures. During the same year, ten or so banks voluntarily declined previously requested and approved protection, which led to the conclusion that the period of stabilization had set in, and so the state representatives once again set about establishing legal basis that would regulate the activities of credit institutions. In the period immediately preceding the Second World War, the issue of the law on banks (that is to say, legal regulation) came into focus once again. Placing banks under state control, as specified by the project, was justified by the errors that had previously occurred in banks' business operations, and due to which the country's economy and its citizens were suffering.⁴²

However, all of these state interventions, either emergency or systemic, were applied mainly to private banks. State banks were never in such difficulties that private banks had to endure – their business operations even improved significantly during periods of crisis. Besides, state banks were not

³⁹ When in 1938 and 1939 savings depositors came into the state of perturbation caused by the world political situation, National Bank acted differently than in 1931 instructed by the experience gained during the 1931 crisis – it prevented the withdrawal of deposits by more extensive crediting of banks at the very sign of alarm, see Antonije Tasić, *Kriza jugoslovenskog bankarstva (1931-1941)*...141-167.

⁴⁰ Ibid.

⁴¹ Ibid.

⁴² Ibid.

many. Postal Saving Bank, which had specific objectives, and State Mortgage Bank, the largest and the sole institution specializing in approving mortgage loans, apart from Commerce Fund Mortgage Bank, were the only two state banks in Yugoslavia.

Thus, while the volume of savings deposits at Postal Saving Bank and State Mortgage Bank amounted to 738.5 million dinars at the end of 1930, it increased to 2 billion and 632.9 million dinars before the end of 1937, that is to say, the total increase was one billion and 894 million dinars or 356.52%. At the same time, the decrease of savings deposits in private banks was nearly 5 billion dinars (it dropped from 10 billion and 294 million dinars to 5 billion and 306 million dinars). Evidently, due to the rising distrust, a significant amount of money withdrawn from private banks was deposited in state banks. During the banking crisis no new state monetary institution was established although in some countries the solution for banking and credit crisis in general was found in establishing new credit institutions which were either state-owned or privileged. This leads us to conclude that the Yugoslav state did not intend to nationalize the banking system, at least not in the near term. Throughout this period, domestic banks in majority foreign ownership continued to finance the functioning of industrial companies, but with significantly smaller amounts than was the case in 1931. Besides, new political and economic situation created by aggressive influx of German financial capital from 1938 onward, definitely changed the power balance in the Yugoslav and Serbian private banking.⁴³

5. Conclusion

Political changes induced by the events of 1918, in addition to their long-term economic causes, led to a sweeping process of economic disintegration and reintegration in Yugoslavia and Central Europe. At the same time, these changes were also qualitative in nature since they implied the transformation of liberal industrial capitalism into monopolistic capitalism whose main feature was the merger of industrial and banking capital into financial capital. Due to the market vacuum created by the newly established political borders, industry developed more rapidly than its capital accumulation allowed, so, in order to satisfy the needs of the existing consumers who, in the past, were a part of the Austro-Hungarian market, it had to resort to foreign capital. Private banks in majority foreign ownership provided the Yugoslav industrial sector with the necessary funding, and simultaneously created banking and industrial consortiums which represented the typical form of capital concentration.

In the historiography of the postwar Yugoslavia, up until its dissolution, a non-valid conclusion is drawn on the power of foreign capital in the Kingdom of Yugoslavia because it is based solely upon data concerning the volume of capital directly invested in monetary institutions or industrial companies. In fact, the actual influence of major international capital was much more significant than data on the net capital stock volume might indicate. The paper shows that private banks in majority foreign ownership influenced not only financial market, but the industrial sector as well. The development of industry in all agrarian countries, Serbia being one of them, depended upon the import of machinery, technical equipment and raw materials, which necessitated substantial funding. Due to the lack of domestic capital, foreign investment was necessary. However, as a general rule, foreign capital prevented accumulation of capital in the Kingdom by taking the profits (in the form of

⁴³ Ibid.

dividends, entrepreneurial profit and loan interest) out of the country. Industrial consortiums comprised of several industrial companies, through their joint stock capital and the use of loans were in fact dependent on banks, that is to say foreign capital that controlled them. In such a way, political influence was often practiced through economic matters, and beginning with 1938, political influence turned into direct pressure.

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