

# **Societe Generale's Historical Archives and economic stability in South-Eastern Europe: presentation and new research prospects**

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*Xavier Breuil, Historical Archives Societe Generale*

**Abstract:** French banks, which have been present in the Balkans since the start of the 20th century, strengthened their presence in the region in the period just before the First World War and in the interwar years. They have therefore been privileged witnesses of the various economic and financial situations these countries have faced. As a result, their historical archives enable us to look at the question of economic stability in South-eastern Europe from a historical and comparative perspective. This paper aims to present the collections inherited by our historical archives department from Société Générale and other merchant banks, historically prestigious banks and deposit banks.

Once we have presented the various banking institutions and their methods of intervention in South-eastern Europe, we will examine to what extent their archives are an essential source for drawing up a database on the region's economic and financial dynamics. Lastly, but most importantly, they also provide new possibilities for investigating economic and financial stability in the Balkans.

**Key words:** Societe Generale; Banque de l'Union parisienne; archives; South-eastern Europe;

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## 1. Presentation of the various banking institutions and their activity in South-eastern Europe

In addition to the Société Générale collection, the historical archives department also keeps the archives of a merchant bank, *Banque de l'Union Parisienne*, the historically prestigious, *Banque Mirabaud*, a deposit bank, *Crédit Foncier d'Algérie et de Tunisie* (CFAT), and its subsidiary, *Banque de Salonique*. Apart from *Mirabaud*, which was founded in the 18<sup>th</sup> century, all of the above banks were created after the second banking revolution: Société Générale was created in 1864, BUP was founded forty years later and CFAT succeeded *Crédit Foncier et Agricole d'Algérie* in 1909.

Like the other French banks, their penetration into the South-eastern Europe took place in the late 19<sup>th</sup> century. Indeed, French interests in the Balkans began to appear at that time. Prior to 1914, it was mostly a question of covering the public spending needs of countries suffering from a chronic deficit. This coverage represented 80% of the French capital exported to Serbia, 90% of the capital exported to Romania and 80% of the capital exported to Bulgaria. France took on 33% of Romania's debt, 50% of Bulgaria's debt and 66% of Serbia's debt<sup>1</sup>. These loans sometimes took the shape of commercial loans. After World War 1, French banking institutions took part in supporting government borrowing. Firstly, they played an active role in the Treasury bond placements of the early 1920s. Then, under the impetus of the French government and the *Banque de France*, they subscribed to stabilisation loans contracted by the region's various countries in the 1920s and 1930s. *Banque de l'Union Parisienne*, for example, played a key role in the Yugoslav state loan of 1931 and was appointed the Yugoslav government's principal French banker.

French banks also took stakes in some banking and insurance establishments, and created others. Consequently, they provided the loans required for local development. Société Générale gradually became a majority shareholder, as of 1907/1908, in *Banque de Salonique*, a deposit bank created in 1888 from the convergence of French and Austrian interests<sup>2</sup>, which relied on a dense railway network in the northern Balkans and in Thrace to develop its activities. It opened branches in Turkey, in Greece, in what is now called the FYROM and in Bulgaria, as well as in Salonika. There were also branches in Monastir from 1893, Kavalla from 1904, Uskub (now Skopje) from 1907, Dedeagatch (now Alexandroupolis), Xanthi and Drama in 1909, and Souffi, Kumanovo and Gumuldjina in 1910. Even though it maintained a Board member until 1929, Société Générale gradually sold off its stake to CFAT from 1919, with the latter becoming the majority shareholder, thereafter presiding over the bank's destiny. Before 1940, Société Générale also showed its interest in a number of Bulgarian establishments. After playing a minor role in the creation of Bulgaria's *Crédit Foncier*, it took a stake in *Banque Balkanique*. This was a relatively small bank in 1920, with just 6 branches countrywide, but by 1927 it had become the country's 5<sup>th</sup> largest bank in terms of volume of operations and the 4<sup>th</sup> largest in terms of capital.

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<sup>1</sup> A. Plessis, O. Feiertag, "The Position and Role of French Finance in the Balkans from the Late Nineteenth Century until the Second World War", Konstantinos P. Kostis, "Modern Banking in the Balkans and West-European Capital", Aldershot, Ashgate, 1999.

<sup>2</sup> The emanation of the Banque Impériale, Royale, Privilégiée des pays autrichiens (IRP), founded in 1880 to carry out merchant banking activities in Austria/Hungary and in the Balkans, see H. Bonin, "Un outre-mer bancaire méditerranéen. Histoire du crédit foncier d'Algérie et de Tunisie (1880-1997)", Publications de la Société française d'histoire d'outre-mer, Paris, 2004.

In Bulgaria, Société Générale joined forces with *Banque de l'Union Parisienne*. A few years after its creation, BUP moved into this country and other Balkan states, where it sought to develop commercial banking activities. It also took an interest in the activities of insurance companies such as Balkan.

From 1914, BUP was a partner of the *Banque Balkanique*, a subsidiary of Wiener Bank Verein. Along with Société Générale, it held close to 25% of its capital. In 1928, it strengthened its presence within the establishment by taking a further 10% stake. Subsequently, it started contacting with this bank's clients such as *Société balkanique commerciale et industrielle*. Lastly, it supported the 1911 launch of *Crédit Foncier Bulgare*. In the late 1920s, it merged with a *Société Générale de Belgique* subsidiary to create *banque franco-belge et balkanique* (FFBB) in February 1929. The new entity had 9 branch offices in Dupnitsa, Haskovo, Philippopoli, Plevna, Lom, Rutschuk, Sofia, Varna and Vimin.

BUP also entered the Greek market through an alliance with *Banque d'Athènes*. Even though it became a minority shareholder in 1904, BUP established its influence through patronage. *Banque d'Athènes* managed to increase its credit through association with BUP's reputation, with the latter having representatives on the bank's Board. It thus played a major role in the deposit activities of this bank, which in 1910 had seven branches in Greece and three in Crete. It supported companies by, for example, financing loans to the Company for the promotion of the production and trade of Corinthian grapes. *Banque d'Athènes* was the country's second-largest bank by 1918, after the national bank of Greece, and founded with BUP the Franco-Greek mortgage bank.

In Serbia, BUP took part in the founding of the Franco-Serbian bank, whilst in Romania it took a 27.5% stake in the *Banque commerciale de Roumanie* deposit bank, founded in 1906, which ran Bucharest's money market. It strengthened its presence during the interwar years by investing in the Balkans insurance company.

Lastly, these French banks directly invested in industry, although only to a limited extent. Mirabaud participated in the creation of the Bor mining company, located southeast of Belgrade. With 25,000 workers and 115 office staff, this company was responsible for almost all of Serbia's copper production. BUP took stakes in the *Fabriques de Tabac Réunies* tobacco company in Sofia. It also participated in the creation of the Regatul Romana oil company and then Astra Romana. Between the two World Wars, it invested in another sector, the aeronautical sector, creating *Industrie Aéronautique de Roumanie* with Lorraine-Dietrich and Blériot Aéronautique in 1925. Banks supported other operations as well. They allocated capital to develop infrastructure facilities, like the railway network, construction of ports and the financing of public works, such as improving farm installations, and building and communication, navigation and shipping channels.

## **2. Importance of Societe Generale's archives within the framework of a databank**

World War One profoundly changed the region's political and economic organisation. Various countries of South-Eastern Europe had to cope with galloping inflation in the early 1920s, particularly Greece, Bulgaria and Romania, and then with deflation. After 1929, the worldwide crisis hit the Balkans. These economic and financial vagaries influenced French banks, which adopted different attitudes depending on the country concerned, but also depending on the value of the French franc. The

latter's weakness immediately after the war resulted in a reflux of French capital. It was only after the monetary stabilisation of 1926 and the introduction of the Poincaré franc that French interests in the Balkans were renewed in any significant form.

The documents preserved in our archives, notably those relating to Board details, balance sheets and research by financial departments, allow us to carry out a quantitative assessment of the impact of the various activities developed by these banks during a crisis and their contribution to countries' economic stability. Despite the French franc's difficulties, a number of these banks chose to honour their commitments. Although recession followed by deflation affected Romania until 1924/1925, BUP continued to support BCR. To cope with the particularly difficult year of 1924, it reduced its liabilities and repaid its debts to the Western European creditor banks by cutting its commitments and severely restricting credit expansion. BUP aided the stability of BCR by transforming its debt (4.2 million francs) into shares. It thus increased its grip on BCR, which would be confirmed a few years later when, in 1928, its stake rose to almost 48.5%. Its patronage made it possible to attract deposits of more than 200 million lei from foreign establishments, industrials and traders, i.e. a quarter of the bank's deposits. BCR was its largest investment in the Balkans. BCR, which was a deposit bank and commercial bank, was the country's third-largest bank and played a pivotal role on the money markets: in his work on BUP, H. Bonin points out that movements by *Banque commerciale de Roumanie* in the clearing house represented a quarter of total movements in 1929 and 59% more than the Romanian credit bank<sup>3</sup>. That same year, BCR had an account with BUP worth between 14 and 46 million, not including its currency advances of 25 million francs.

Despite initial BUP reticence, the Romanian commercial bank made direct investments in industry. In 1930, 23.5% of its capital investments were channelled into the oil sector, 16.2% into agriculture, 17% into the chemicals industry and 6.4% into electricity.

Following the crisis of 1929, BUP invested in Bulgaria again. Despite the difficulties experienced by the Balkan bank from 1927 onwards, it retained its confidence in the establishment, but adopted a new strategy. To reduce competition, as the country had 128 banks at the time, it looked to *Société générale de Belgique* and its *Banque franco-belge de Bulgarie* subsidiary launched in 1920. *Banque Franco-Belge et Balkanique* (FFBB) was founded in February 1929. It had 9 branch offices in Dupnitsa, Haskovo, Philippopoli (Plovdiv), Pleven, Lom, Rutschuk, Sofia, Varna and Vrinin. In 1932, the bank restructured its network to cope with the financial difficulties it was experiencing. It cut the number of branch offices to six: Dupnitsa, Philippopoli and Rutschuk were closed whilst a branch office in Ruse was opened. However, in agreement with the other shareholders, it wound down *Crédit Foncier de Bulgarie* and incorporated its stake into a rival bank founded in 1928: *Crédit Hypothécaire de Bulgarie*, launched with American capital. In Romania, BCR suffered the massive withdrawal of deposits and a devaluation of its book assets. BUP provided its subsidiary with 50 million francs in 1932, which enabled it to consolidate, but globally, BUP was affected by the crisis in the region. In November 1933, its estimated assets were 150 million francs. In 1929, it pulled out of the Franco-Serbian bank, which was taken over by BIO. It focused on developing its activities in Greece and invested close to 5.8 million francs in the Franco-Hellenic mortgage bank between 1930 and 1935.

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<sup>3</sup> H. Bonin, *La Banque de l'Union Parisienne (1874/1904-1974); Histoire de la deuxième grande banque d'affaires française*, Paris, P.L.A.G.E., 2001.

The balance sheets of subsidiaries and local banks they “sponsored”, and in which they held a stake, provide a precious source of information. Through them, it is possible to know what position these establishments adopted in attempting to stabilise and quantify, branch by branch, the money injected into the economy, the level of cash and foreign currencies, the loans granted to traders and deposits. To illustrate, we will present here the example of a mortgage bank between 1929 and 1932. The report dated 6<sup>th</sup> February 1930 shows that the establishment deliberately restricted its business movements in 1929. However, it did grant 185 loans to Sofia (totalling 2,950,930 francs), or almost 21% of all loans granted in the Bulgarian capital (888 in total) and close to 35% of the total amount granted (8 487 864 francs)<sup>4</sup>. Across Bulgaria as a whole, it granted 397 long-term mortgage loans in 1929, versus 591 during the previous year. The number fell to 118 in 1930 and further below 100 in 1931.

French banks also took part in state borrowing in the Balkans. From 1920, Société Générale and BUP contributed 7 million each to the 100 million loan granted to the Romanian government. Furthermore, Société Générale was one of the three banks that carried out the breakdown of the French government's payments, for 20 million. Two years later, its branches helped out with Romania's consolidation loan. With the stabilisation of the French franc, French banks, encouraged by the government, played a dominant role in the stabilisation loans that allowed financial and monetary modernisation between 1929 and 1935. Société Générale and BUP participated. Bulgaria carried out this reform in 1928, Romania in 1929 and Yugoslavia in 1931. In 1929, Romania borrowed 1000 million at 7%. French banks subscribed to 22% of the amount. Three years later, another loan worth 135 million was 100% subscribed on the Parisian market. Yugoslavia borrowed 1.25 billion in the international market. French banking establishments contributed 675 million, with Société Générale and BUP accounting for 21.5% and 12.5% and guaranteeing 146 137 and 84 375 bonds respectively.

The archives also provide information on direct investments in industry. These were very low overall, both in Romania and Yugoslavia: Société Générale was the only bank to support the Morenix oil company; in 1933, BUP invested 2,500 million francs in Romania and 400 million in Yugoslavia, all of which was channelled to the Bor mining company. The latter, owned by Mirabaud, saw a return to normal activity from 1920. To regain its full production capacity, a 12 million bond loan was launched. Two years later, further investments followed and its capital stock was doubled. In 1931, an additional loan of 40 million francs was granted to enable mining on a new site. Furthermore, Société Générale and BUP partnered Mirabaud in the placement of these bonds. These investments allowed the Company to significantly increase its production, to employ some 5,500 people in 1937 and to become profitable. The build up of reserves meant that the business could keep operating during difficult periods, for example from 1930 to 1932.

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<sup>4</sup> The other loans were granted by: Banque agricole de Bulgarie (153 mortgages), Banque centrale coopérative (39), Crédit foncier franco-bulgare (116), Société coopérative d'associations de fonctionnaires (92), Société d'assurance Balkan, with BUP's participation (129), other insurance companies (71), other banks (133) and other establishments (155).

### 3. From concepts of economic stability to the importance of tourism: research prospects

The archives also contain numerous analyses of the economic and financial situations of Balkan states, as well as of the banks and the industrial and commercial companies in which they invested. The heads of banks went on regular business trips to the region. It would be interesting to use the reports on these trips to see what they thought of the area between the wars, and in particular after the First World War and in the early 1930s. Hence, between 1919 and 1922, their views diverged significantly. Whilst Société Générale was in favour of Romanian borrowing, it was more reticent towards the neighbouring country made up of Serbs, Croats and Slovenians. In 1920, it turned down an offer from Wiener Bank Verein's Croatian subsidiary to join in the State loan of 1921, whilst a BUP Chief Executive said, on returning from a trip to Yugoslavia in 1921:

*“When all is said and done, although on the one hand it is necessary to appreciate the current serious situation and to only carry out business in this country after due reflection, it is, on the other hand, totally unjustified not to give credit to the vitality of a race that will fight with the same economic obstinacy to achieve its aspirations as it has done thus far to achieve its freedom”.*<sup>5</sup>

Throughout the report, the BUP representative insisted on the country's prospects and potential, notably in terms of trade and industry. He was thus convinced that the bank should contribute to stabilising the country, notably by participating in lending but also by investing in the development of the railway network.

Similarly, in 1931, when Yugoslavia contracted a stabilisation loan, opinions differed. The minutes of meetings held by various banks and attended by BUP and Société Générale point to differing assessments of the country's economic and financial situation. *Banque de l'Union Parisienne*, via Beck, a financial research attaché who would become the Franco-Serbian bank's audit inspector a few years later, gave a favourable opinion in June 1930, pointing out that the country's difficulties were more of an external nature, notably regarding relations with Hungarian banks. However, six months later, during another meeting, a Société Générale analyst pointed out that there was a lack of stability in the country and that the data provided by the Yugoslav national bank were questionable. All in all, some doubted that the operation that the Yugoslav government wanted to initiate could be a success.

This research on the varying perceptions of a country's economic situation is also visible when it comes to investments carried out by banks through their branches. Société Générale's archives contain numerous surveys carried out by management amongst the network's branches to evaluate clients' interest. Hence, for the Romanian loan of 1929, a questionnaire was sent out to 98 branches in August 1928: 54 were in favour, 25 did not have an opinion and 19 said that their customers would not be interested. Two went as far as to say that this lack of interest was clearly due to the economic and financial instability of the Balkan region. It is therefore possible to carry out research on all state loans in South-East European countries and to see what clients of French banks, such as Société Générale, thought of the region's economic and financial situation.

Lastly, these archives also raise the issue of the role played by emigrants from the Balkan countries who were sending money back to their motherland. Indeed, in 1931, an estimated 2 million people left Yugoslavia to work in industrialised countries, with an estimated 645,000 of them moving to Italy,

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<sup>5</sup> “Etudes financières, Rapport de Monsieur Courcelles”, BUP archives, n°14675.

635,000 to the United States and 11,000 to South America. A report by Société Générale's finance department specifies, for example, that the increase in unemployment in these industrialised regions led to a reduction in the Yugoslav workforce's and capacity to transfer money and to an almost complete stop in the sending home of cash to say a complete stop – in their ability to transfer cash back home. Furthermore, for many emigrants, the only solution was to return to their country of origin. As these people were devoid of resources, the State had to finance their repatriation. Again, according to this report, this situation jeopardised Yugoslavia's balance of payments. Another report, dated 1936 and drawn up by BUP's finance department, shows that, prior to 1931, the money sent back home by Yugoslav migrant workers totalled 500 million dinars, falling to 206 million in 1932, 122 million in 1933 and 120 million in 1934. There was an improvement to 192 million in 1935 and 214 million in 1936.

A study on the free movement of foreign currency could also be carried out based on data relating to tourism. It is true that such an approach seems to be more difficult than the one relating to free movement of foreign currency resulting from foreign trade. However, as with migration, tourism contributes to increasing national banks' currency reserves. Growth in foreign tourism in Yugoslavia, for example, started as of 1932, and played an increasingly important role in the balance of payments. A report on the country's monetary and economic situation drawn up by BUP shows the extent of the phenomenon: between 1932 and 1936, the number of tourists increased from 86,591 to 257,590 and their spending rose from 217 to 342 million dinars. Although most of these tourists came from countries with foreign exchange restrictions, such as Hungary, Czechoslovakia, Austria and Germany, their contribution in terms of foreign currency was nevertheless estimated at close to 50 billion in 1936.

The various historical archive collections preserved by the Société Générale Group provide an exciting opportunity to look at the economic, financial and monetary history of South-Eastern Europe, notably when it comes to studying the issue of stability. With different types of documents from various types of banks, from universal banks through traditionally prestigious banks to merchant banks, they reveal essential sources for building up a database whilst opening new inroads into research that have yet to be properly exploited.