Hungarian Financial Capital in the Kingdom of Yugoslavia

Vesna Aleksić[1]

Introduction

Since 1880s, on the scene of international and economic relations of European states, the influx of financial capital of economically developed countries into the economy of underdeveloped and developing countries can be perceived. This was the consequence of the long-lasting banking transformation process, which, due to the increased rate of industrialization, opened possibility for financing various businesses in geographically remote areas. Approximately eighty European banks, different in type, size and power, which constituted the elite of European, and hence world banking, expressed their interest in the Balkans. This occurrence was extremely important for the establishment and development of privately owned banks in newly constituted Balkan states, as for their further development in those areas of the Balkans which were an integral part of the vast Austro-Hungarian economic market.[2]

The establishment of modern banks in Austro-Hungary took place between the years of 1853 and 1890, and was influenced by the example given by European banking aided by French and German capital. Around that time, at a slower pace and under significant influence of Viennese investors, a modern yet quite weak banking centre in Budapest was developing. The first major bank was established in 1841 and that was *Pester Ungarische Commerzialbank* (*Pestimagyar kereskeldemi bank*), while the first credit bank in Hungary, *Ungarische Allgemeine Creditbank* (*Magyar altalanos hitelbank*) was founded in 1867 by Viennese bank *Oesterreichische Creditanstalt fuer Handel und Gewerbe*. Then came the establishing of *Ungarische Escompt- und Wechsler Bank* (*Magyar leszamitolo es penzvalto-bank*) 1869, and *Ungarische Handels-AG* 1890, which was in 1910 named *Ungarische Bank und Handelsgesellschaft* (*Magyar bank es keskeldemi reszvenytarsasag*).[3]

Austro-Hungarian financial capital turned its attention towards the Balkans quite early, mainly because it was not powerful enough to strive towards world expansion. Apart from Austro-Hungarian, French, German and English banks displayed significant interest, even though this region was not their top priority taken in consideration the amount of financial capital they invested in the Middle East. By conducting monetary uniforming and currency reform at the end of 19th century, Austro-Hungary facilitated monetary stabilization and commerce, expedited not only the development of monetary and credit economy, but also the development of banking system and financial capital on its entire territory. Croatia and Slavonia, being the constituent parts of the Monarchy’s monetary and economic system, each had, as early as in 1913, one savings and loan institution (bank, savings bank or savings and loan association) per five to seven thousand citizens whereas in certain areas the ratio was even higher: one savings and loan institution per two thousand citizens. It is important to point out that major monetary institutions founded upon national, that is to say Croatian capital were not that often, if at

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[1] PhD, Faculty of Geoeconomics Megatrend University Belgrade - Serbia

[2] John R. Lampe, Marvin R. Jackson, *Balkan Economic 1550 - 1950 from Imperial Borderlands to Developing Nations*, Indiana University press, Bloomington, 1982, 156-158, 202-217; Andrej Mitrović, *Mreža austrougarskih i nemačkih banaka na Balkanu pred Prvi svetski rat*, u: "Jugoslovenski Istorijski časopis", br. 3 - 4, Beograd, 1988, 51 - 55.

[3] Andrej Mitrović, *Strane banke u Srbiji 1878-1914. politika, progress, evropski okviri*, Beograd, 2004, 38-39.

all, engaged in establishing and financing enterprises, industrial enterprises chiefly, due to the fact that they were strongly dependent on the centers in Vienna and Budapest. [4]

In Serbia the shareholder type banks were necessary in order to finance the infrastructural development, primarily the development of traffic infrastructure. This brought about far-reaching changes not only in the country's economy, but also in the overall structure of the country. Suchlike ideas were just the proof of evident future-oriented policies, which was of extreme importance for a small country in a difficult period of transition from an undeveloped to a developing country that is to say from a non-industrial to an industrial civilization. However, for a long time, it was impossible for the network of loan oriented banks in Serbia to stabilize, either concerning economics or communication. Up to the beginning of the 20th century, entire Serbian banking system was based on large number of smaller banks and savings institutions and their business solely revolved around giving loans to farmers and merchants. Because they were in a state of fragmentation and dispersion, and because the available funds were quite limited, any serious action that would result in more significant participation of these banks in the country's economic life was prevented. It is also important to add, and this is highly characteristic of Serbian political and economic environment of the day, that banks were used as weapons in conflicts between political parties (this was especially the case in smaller towns in which, in certain instances, were as many banks as there were political parties, and these banks would often, instead of giving loans to enterprises, give loans to voters).[5] However, 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). *Pester Ungarische Commerzialbank* stared operating the same year. In 1888 it formed a partnership bank *Banka Andrejević i Ko*, which, as early as in 1900s, managed to become Monarchy's stronghold of financial capital and, during the following several years, the most powerful bank in this country. The bank acted as intermediary when *Pester Ungarische Commerzialbank* bought state issued bonds in 1888 and 1889; in the same year it gave a smaller state loan of 11 million dinars (11 million French francs) with 5% interest rate, and the bank included *Ungarische Agrar- und Rentenbank* i *Ungarische Escompte- und Wechslerbank* from Budapest in the venture. In 1904 the bank was already entrusted with minting 6 million worth of Serbian silver dinars. For many years the bank had a branch office in Šabac (this later became *Šabačka štedionica* - Šabac Savings Bank). A French source informs us that it was "dominant in Belgrade and Serbian market in general" since it had high stakes in commerce and was the creditor of many Serbian banks. [6]

Yet, the headquarters in Budapest estimated that, due to the lack of funds and growing competition in Serbia, the Belgrade dependant bank needed to be consolidated by forming a partnership with a more powerful investor. Decision-making process was governed by international politics, so on April 11, 1908 an agreement was signed with German bank *Berliner Handelsgesellschaft* and from that point to the summer of 1913, the bank from Berlin – at least only nominally – had parity participation in the capital of *Banka Andrejević i Ko,* which was turned into shareholder association and the memorandum read *Banque Andreevitch et Cie societe anonyme*. Its nominal capital amounted to 4,000.000 francs (dinars), which means that it was, according to this indicator, four times more influential than other Belgrade banks at that time. *Berliner*

[4] Mijo Mirković, *Ekonomska historija Jugoslavije*, Zagreb, 1957, 312 - 320; Dušan Mišić, *Pregled jugoslovenskog novčarstva i bankarstva*, u: "Nova Evropa", god. 1923, Zagreb, 1923, 346.
[5] Mijo Mirković, *n.d*, 313 - 314; Danica Milić, *Pregled delatnosti stranog kapitala u Srbiji do Prvog svetskog rata* u: "HIbidrijski pregled", 2, Zagreb, 1964, 100 - 102.
[6] Andrej Mitrović, n.d. 50-55.

Handelsgesellschaft and *Pester Ungarische Commerzialbank* invested 40%, that is to say 60% of the capital. *Banka Andrejević i Ko A.D.* was in effect Hungarian; moreover, its highest-ranking officials came from the Budapest headquarters.[7]

The bank was established with great ambitions in mind. In terms of Serbian financial climate, this was an extremely powerful bank, whose capital was four times larger than that of the second powerful bank. It strived towards achieving prominent, maybe even predominant status in Serbian economy. Its goals were oriented towards expanding by opening branch offices in all major Serbian commercial centers like Niš, Šabac, Smederevo, etc. The branch office in Nis was opened in late 1910 and its manager was Rudolf Ferko, another official who came to Serbia from Budapest. There was also a plan to establish numerous shareholder associations that would have been dependent on *Banka Andrejević i Ko*. This would have been the method of achieving the greatest possible influence in many fields of economy. The original intent of German diplomacy was to use the cooperation of the banks from the two empires to undermine the French influence, and the intent of Austro-Hungarian leadership was to use the cooperation to undermine the independence of the host country. However, Parisian banks had control over the state debts which, in turn, secured them reciprocally large Serbian orders from French factories of heavy artillery and railway material.[8]

Even though it was the most powerful bank in Serbia at the time, *Banka Andrejević i Ko A.D.* within the first two years of its operation did not gain the expected momentum. In the fall of 1910 it invested 50 thousand francs in glue factory ”Munk i Ko A.D.“, and 40 thousand in soap factory “Labud” from Niš, but at that time it suffered failure while trying to set up a Serbian enterprise for asphalt manufacturing. The report of *Pester Ungarische Commerzialbank* submitted to the Hungarian government in December 1915 pointed out that *Banka Andrejević*, during over thirty years of its operations in Serbia, made 9 million francs worth of investments, but, nonetheless, after the Annexation Crisis, its business ventures were burdened by losses, and that the branch office in Niš alone had constant annual deficit of 40 thousand francs.[9]

In fact, the French capital was powerful enough to match each success of German banks on the Balkans. In July of 1910 *Banque Franco-Serbe* was established, its nominal capital amounting to 12.000.000 (3.000.000 in effect) francs. The headquarters of the bank were in Paris, and the branch office was opened in Belgrade. Both in terms of capital available and the strength of banks that backed it up, *Banque Franco-Serbe* was three times more powerful than *Banka Andrejević* which, due to the establishment of a more powerful French competitor, turned to German consulate for help. What came to be evident was that *Banka Andrejević* did not have the support of German Foreign Office because of the two following reasons: first of all, it blatantly refused to separate business from politics thus turning Serbs against it, and secondly, it didn’t advocate German interests to the degree official Berlin dictated. Even though the bank, being a branch office of a Hungarian monetary institution, was not a participant of Customs War that Austro-Hungary waged against Serbia, after the reorganization, it didn’t remain disinterested party during the Annexation Crisis, and so German consul in Belgrade reported that *Banka Andrejević* during the time of crisis “mercilessly pursued its demands and canceled loans”[10]. It was also estimated, generally speaking, that while conducting its business operations, the bank acted as solely Hungarian bank without any consideration

[7] Andrej Mitrović, *Ungarische Commerzialbank na Balkanu do 1918. godine*, u: "Zbornik Matice srpske", 34, Novi Sad, 1986, 44 - 50; isti, *Mreža austrougarskih i nemačkih banaka na Balkanu pred Prvi svetski rat*... 66-70.
[8] Andrej Mitrović, *Strane banke u Srbiji*… 115-120.
[9] Ibid.
[10] Andrej Mitrović, *Strane banke u Srbiji*…123.

for German interests and failing to offer support to German export. The immediate interest of Hungary, being both a constituent of Dual Monarchy and the Central Powers Alliance, was manifest in this situation. Hungary, in fact, considered the neighboring countries south of the rivers Sava and Danube as the sphere of its exclusive interest. It came to be excepted that *Berliner Handelsgesellschaft* bank was an interested party in *Banka Andrejević* in Belgrade, but this was actually a *Pester Ungarische Commerzialbank* branch office that advocated only Hungarian interests often at the expense of Germany. In addition to that, the Balkan Wars followed which, in turn, brought about new and extremely dangerous tension in the relations of Austro-Hungary and Serbia. In the summer of 1913 *Berliner Handelsgesellschaft* bank definitively withdrew its capital from *Banka Andrejević*.[11]

During the time when the First World War was entering its last phase, namely in 1917, *Pester Ungarische Commerzialbank*, in the second volume of the representative book on the company's history, presented itself in the following manner: "Pester Ungarische Commerzialbank was the first Hungarian monetary institution which fully understood that, for the sake of our politics, it was important, even decisive, for Hungarian capital and business to be present in the Balkans, and to establish firm connection between its own interests and those of Balkan states. This is the Austrian and Hungarian bank that studied Balkan states from the viewpoint of economics; at the same time it was the first Hungarian bank to open its branch offices in Serbia, Romania, Bulgaria and Turkey through means of partnership and affiliate business operations."[12]

1. The Kingdom of Yugoslavia – A New Environment for Financial Investment

The end of the First World War brought major changes not only in politics but also in economics and finances of the Old Continent. The disappearance of strong financial centers such as Vienna and Budapest opened up the opportunity, especially in the Balkan region, for other two European centers, Paris and Prague, to establish their domination there. Yet, the importance of the old centers was not completely neutralized. Economic and political relations, enormous knowledge and experience, as well as numerous banking and economic affiliations they once had in the region enabled these centers to become important financial intermediaries. Namely, mediation of Viennese and Budapest banks was of utmost importance for European capital, especially the capital of Swiss, English, Dutch and Belgian banks, which was not directly present on the Balkans prior to 1918. At the same time, this was a unique opportunity for Austrian and Hungarian banks, aided by foreign finances, to reemerge on the Balkan economic scene. In the earlier period, these countries established and affirmed their status by using the influence and prestige of their monarchy, all the while coordinating business interests with the interests of national economy. After the year 1918 and collapse of Austro-Hungary, the two countries had many problems in the states formed on their territory due to their previous policies, but they managed to solve them in a relatively short period of time. Hence, in the case of the Kingdom, old Viennese and Budapest banks astutely used the present situation which was characterized by the state's inability, caused by the complexity of inner political circumstances, to organize a national banking apparatus that would have

[11] Ibid.

[12] Andrej Mitrović, *Ungarische Commerzialbank na Balkanu do 1918. godine*, u: "Zbornik Matice srpske", 34, Novi Sad, 1986, 44 – 50.

been strong enough to successfully cover growing financial needs of industry, traffic, commerce and agriculture, independently of foreign financial influence.[13]

Newly established Kingdom of Serbs, Croats and Slovenians was “the link, bridge between Europe and Asia, between Central Europe, Western Asia and Middle East, open towards the Mediterranean and connected with the Black Sea via Danube.”[14] Such geographical position did not only bear the political, but also immense economic importance in the Europe of the day. A completely new economic region was created, and this novelty was manifest both in terms of size and quality. In fact, an obvious change, more precisely, disintegration of the old economic region and gradual adjustment / integration of this new economic region took place. This change was hidden behind the familiar political conflicts, aftermath of the war and inflation, which meant that the change was not an easy and painless one. The relationship towards the changed market scope was completely different in Serbia and on former territories of the ex-Monarchy. In the first case, the change meant that the market expanded from the population numbering 2.9 million to the number four times larger, while in the later case, it meant market decrease, since the previous market scope of 677.000 km^2 was reduced to 248.000 km^2. This gave rise to the feeling of pride in Serbia because of the fact that many things were now available on the domestic market, whereas in Slovenia, Croatia and Vojvodina this brought about the feeling of surprise due to the realization that domestic market can now offer so little.[15]

Yet, one can not overlook the fact that Slovenia, Croatia and Vojvodina, once mainly agrarian provinces of the former Monarchy, almost overnight became economically most developed provinces of the new state. This particularly applies to Croatia, whose relative advantage was the most obvious, especially in the field of banking and financial capital. Around the year of 1912, there were 1.039 credit institutions in Croatia, the funds in their property amounting to 131 million golden crowns, whereas in Serbia, the capital in similar institutions amounted to 58 million golden dinars. This is why the fact that during the first years following the war (up till 1924), 50% of the Kingdom’s banking capital was concentrated in Croatia and Slavonia, should not come as a surprise. Zagreb, thus, became the center of economic power, that is to say the point of the highest capital concentration, the major industrial and commercial center, unlike Belgrade which became political and legislative center.[16]

In Yugoslavia, several years after the First World War ended, the problem of legal regulation of monetary-financial institutions came to being. At the time, these institutions, diverse in their organization, were not subject to any legal regulations concerning their activity on the monetary market. After the year of 1922, only concessional system of bank establishing was in power, concerning both credit and shareholder type institutions, while the freedom to do business remained. Such condition led to the collapse of some banking institutions (around the year of 1926), and it also stood to endanger the entire banking system of the country. In order to prevent this from happening, the Ministry of Commerce and Industry, under whose jurisdiction the banking and credit operations of the country’s monetary institutions were, took measures to pass a special banking law which would legally regulate the operation of the banks. Due to the

[13] Vesna Aleksić, Banka i moć, Socijalno-finansijska istorija Opšteg jugoslovenskog bankarskog društva A.D. 1928-1945, Beograd, 2002, 45-57.
[14] Branko Petranović, *Istorija Jugoslavije 1918 - 1941, Prva knjiga,* Beograd, 1988, 31.
[15] Mijo Mirković. *n.d,* 339 - 342; John R. Lampe, Marvin R. Jackson, *n.d,* 376 - 382.
[16] Dušan Mišić, *Pregled jugoslovenskog novčarstva i bankarstva,* u: "Nova Evropa", god. 1923, Zagreb, 1923, 347.

great crisis of Yugoslav banking that took place in 1931, and which came as a consequence of a difficult crisis in Germany and Austria, such law was never passed.[17]

Shareholder type banks were almost the sole form of Yugoslav privately owned monetary institutions. When talking about privately owned banks in the Kingdom of Yugoslavia, it is always in reference to shareholder type banks because they represented the majority of the country's credit apparatus, that is to say the sole direct creditor of privately owned enterprises. In the Kingdom, for as long as it existed, the law on shareholding associations was never passed. On the territory of Serbia, the Kingdom of Serbia's Shareholder Law passed in 1896 was in power, and in 1922 it was extended to the territory of Montenegro.[18] On the territories that were once under the rule of the Monarchy, commerce laws containing legal regulations that regulated the activities shareholder associations were in power.[19] In order to prevent the possible confusion that might have sprung out of simultaneous existence of various banking laws, in November, 1919 Kingdom's Council of Ministers passed a ruling which stated that all shareholding associations that were being established or that were expanding their activities on the entire territory of the state needed to obtain the permission from the Ministry of Commerce and Industry.[20] The Ministry also issued special permissions in cases when shareholding associations which were being established were in fact affiliations of foreign companies or banks, that is to say when foreign citizens were among the founders.[21] On the other hand, the Ministry of Finances neither had a particular fiscal policy when it came to foreign capital invested in Yugoslav economy, nor did it have one when it came to the capital which was present in the country in the form of affiliates or branch offices. Laws on shareholding associations on the territory of the Kingdom included regulations referring to branch offices of foreign shareholding associations, while the participation of foreign capital in domestic associations, namely those founded under Yugoslav laws, was not even mentioned.[22]

Due to the vacuum on the market created by political borders, the Kingdom of Yugoslavia's industry expanded faster than the capital accumulation allowed it, so in order to satisfy the needs of existing consumers who were up till then turned towards the neighboring Austro-Hungarian states, it needed to reach out for foreign capital. Shareholder type banks with predominant foreign capital were the ones that supplied monetary funds to Yugoslav industry, at the same time creating banking-industrial concerns that represented typical form of capital concentration.[23]

In the past years, Yugoslav historiography offered inaccurate conclusions concerning the strength of foreign capital in the Kingdom of Yugoslavia; the conclusions were solely based upon the data about the amount of the capital directly invested into particular monetary institutions or industrial enterprises. When the origin of capital in Yugoslav banks is analyzed, the actual methods of the capital's functioning can be disclosed. Companies controlled by the foreign capital were often given a relatively small amount and disproportionately substantial loans, the goal being the evasion of foreign currency regulations and tax evasion. In fact, actual influence of substantial international capital

[17] Arhiv Srbije i Crne Gore (ASCG), Ministarstvo trgovine i industrije KJ (65) f. 997- j.o. 1852.

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

[19] 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.

[20] *Službene novine Kraljevine SHS*, br. 161, 13. 12. 1919.

[21] Feliks Kohn, *Trgovački i pravni leksikon*, Osijek, 1937, 16.

[22] Vesna Aleksic, n.d. 88.

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

was much more powerful than what can be concluded if one only takes into consideration the above mentioned data on the shareholder amounts. Such capital had influence not only on Yugoslav financial market but also on its industry. The development of industry in Yugoslavia, as in all agrarian countries, depended upon the import of machinery, technical equipment and raw material, for which considerable funds were needed. Due to the lack of domestic capital, foreign investments were necessary. Industrial concerns comprised of a number of industrial enterprises, because of their stockholder equity and loan usage, were the ones directly dependent on banks, that is to say foreign capital that controlled them.[24]

The inevitable collapse of mainly banking capital, which occurred during the first several years after the Kingdom was founded, was caused by the total balance decrease by no less than three quarters that took place in monetary institutions of Slovenia, Croatia and Vojvodina. The reason for the decrease was the shift from Austro-Hungarian crown to Yugoslav dinar that was regulated by Monetary Unification Decree issued by the Kingdom's Government on January 20, 1920. The withdrawal of Austro-Hungarian crown stared then, the exchange rate being 4 dinars for1 crown. [25] There was still a deficit of domestic capital even though foreign companies and banks were extensively nationalized, which especially was the case with Austrian and Hungarian enterprises such as *Wiener Bankverein* or *Banka Andrejević i Ko*. In the end, the inevitable happened; through well-known and well-developed Viennese and Budapest channels, foreign capital, indispensable for initiation of country's economic development, once again started arriving to the country.

Despite of that, during the 1920s, economic policy of the Yugoslav state was characterized by various attempts made in order to protect the country's economy from the overwhelming foreign influence. The point was not so much to assign the role to domestic capital that Viennese or Budapest capital once had, since domestic capital was significantly smaller, but to achieve control over monetary institutions which, due to the fact that their headquarters were abroad, were difficult to control. However, insufficient accumulation of domestic capital, as well as the inability of the authorities, caused by the well-known political situation, to devote more energy to economic policy, led to the following: in time, headquarters of foreign companies turned their affiliates into independent "Yugoslav" banks. Foreign citizens, thus, remained the owners of newly established banks, or stocks to be precise.[26]

2. The Power of Hungarian Financial Capital in the Kingdom of Yugoslavia

Poorly conducted nationalization in the Kingdom of Yugoslavia actually led to establishing of even greater number of Switzerland, Lichtenstein or Monaco based holding-companies, which mostly financed cement, timber and metal manufacturing. The reason behind this was that Austrian and Hungarian owners, due to poor interstate relations, chose such type of entrepreneurship, that is to say they chose to establish connections with the West European capital in order to obscure the true nature of

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[24] Antonije Tasić, *Jugoslovensko bankarstvo između dva rata*, u: "Glas CCCLXVI Srpske akademije nauka i umetnosti, Odeljenje društvenih nauka", knj. 26, Beograd, 1992, 148-151; Vladimir Rozenberg, Jovan Lj. Kostić, *Ko finansira jugoslovensku privredu, država - banke - inostrani i domaći kapital u službi privrede*, Beograd, 1940, 23-25; Sergije Dimitrijević, *Strani kapital u privredi bivše Jugoslavije*, Beograd, 1958, 25.

[25] *Službene novine Kraljevine SHS*, II, 13, 18. 1. 1920.

[26] Sergije Dimitrijević, *Vladavina stranog kapitala u bivšoj Jugoslaviji*, Beograd, 1958, 2 - 11; isti, *Privredni razvitak Jugoslavije od 1918 - 1941*, Beograd, 1962, 42; Institut za Ibidrijska 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.

proprietorship in Yugoslav banks or companies. At the same time, West European financial centers used Budapest and Viennese channels because they didn't have confidence in newly established states in Southeast Europe and because they were not familiar with the situation there. Austrian and Hungarian banks were perfect channels for investments since these banks still had their old connections in Yugoslav countries, and the West European financial world considered them to be connoisseurs and specialists not only for southeastern but also Yugoslav market.[27]

When trying to determine which banks and industrial enterprises were in control of foreign, and of course Hungarian capital, analysts are faced with certain problems that are even more complicated if one attempts to determine the amount and origin of the capital. These difficulties can be almost unsurpassable if an unambiguous and precise origin identification of the capital invested in Yugoslav companies is called for. The reasons are many, but he chief one is that precise records of foreign capital and its transfers were never kept in the Kingdom of Yugoslavia; in addition to that, the origin of foreign capital was never clearly displayed and often and deliberate attempts were made to camouflage it even though, due to multiply interlinked relations of major European and world financial groups, industrial concerns, holding-groups, trusts, etc., it was quite difficult to determine the origin of the capital. In this case, credit analysis is particularly problematic because the origin was quite often questionable, due to the fact that apart from the creditor other parties, such as ordering parties, their guarantors and other background institutions were always involved in the investment. [28]

Foreign capital was particularly important in Yugoslav banks. Not only did it influence Yugoslav financial market through the banks mentioned, but it also infiltrated the industry. Namely, major banks controlled by foreign capital would establish their own industrial concerns comprised of industrial enterprises which were dependent on foreign capital via the above mentioned banks either on the grounds of shareholder capital or loans. It was a common occurrence that the foreign capital aspired towards having its own "domestic" banks, and to achieve this goal it would either establish a bank or assume control over one by simple stock takeover. The relations of the capital originating from different countries were extremely interlinked on major financial markets of Western Europe, and consequently, this situation was transferred to Yugoslav banks. In regard to this, Vienna and Budapest, in particular, had immense importance because British, Swiss and Dutch capital was invested via banks based in these two cities. Bearing all this in mind, one can only be certain when talking about channels of capital influx into the Kingdom, or the predominant role of one financial center over the other. The analysis will show that Hungarian, and for that matter the majority of foreign capital in general, was invested primarily in those sectors of industry that offered opportunities for making high profit and, as a rule, rapid amortization; the largest and most influential industrial companies were controlled by foreign capital.[29]

After the First World War, Hungarian financial capital featured in several Yugoslav banks, but its presence was the most dominant in *Hrvatska sveoća kreditna banka D.D.* from Zagreb. This bank was actually an affiliate of *Ungarische Allgemeine Creditbank*

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[27] Bozidar Jurković, *Das auslaundishe Kapital im ehemaligen Jugoslavien*, Berlin, 1941, 232-234; Antonije Tasić, *Jugoslovensko bankarstvo između dva rata*, … na više mesta; Sergije Dimitrijević, *Vladavina stranog kapitala u bivšoj Jugoslaviji…* 34-42; isti, *Privredni razvitak Jugoslavije od 1918 - 1941*, 27-32; Vladimir Rozenberg, Jovan Lj. Kostić, *Ko finansira jugoslovensku privredu…* 112-117; Institut za Ibidrijska pitanja, *Elaborat o britanskom kapitalu u Jugoslaviji…*, 22- 28.

[28] 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.

[29] Vesna Aleksić, *The History of the Allgemeiner jugoslawischer Bankverein AG*, 226-238.

(*Magyar Altalanos Hitelbank*) from Budapest which was founded by *Oesterreichische Creditanstalt fuer Handel und Gewerbe* from Vienna. After the First World War, the Hungarian bank, along with the Viennese bank, was under the strong influence of the French financial group *Rotschild-Union Europeenne industrialle et financiere Paris*. However, judging by all existing analyses, the influence of Hungarian financial capital remained predominant in *Hrvatska sveopća kreditna banka*. The bank soon assumed control over *Opšta kreditna banka* from Subotica, and through loans it issued it had dominant influence on the following industrial enterprises: *Fabrika cementa* in Podsusjed, *Fabrika šećera Bačka A.D.* in Novi Vrbas, *Tekstilna industrija D.D.* in Varaždin, *D.D. za elketrična preduzeća* in Zagreb, *„Pira" D.D. za promet industrijskih i rudarskih potrepština*, Zagreb, *Ribogojstva D.D.* Zagreb, *AEG – Union jugoslovensko društvo za električnu industriju* from Zagreb, *Bačka kudeljara D.D.* Novi Vrbas, *Carinsko skladište D.D.* Zemun, *Velikobečkerečki eksportni mlin*, *Kontinentalno boksitni industrijski D.D.* from Zagreb, *Jugoslovensko Hoffer Schrantz, Clayton*, *Shutteworth D.D.* from Belgrade.[30]

Hungarian capital played major role in one of the largest Zagreb banks, *Jugoslovenska udružena banka* from Zagreb. The bank was formed in 1928 by the fusion of *Hrvatska eskontna banka* (Austrian bank *Laenderbank*, and through it British and French capital, had major influence on the above mentioned bank) and *Hrvatsko-slavnoska zemaljska hipotekarna banka* (the bank's stocks were in the possession of *Pester Ungarische Commerzialbank* (*Pesti Magyar Kereskedelmi bank*). The industrial concern of the new bank was comprised of a significant number of major industrial companies controlled by, first of all, British capital, via *Anglo-International Bank Ltd* from London, then, Austrian capital, via *Credit-Anstalt Banke* from Vienna, and lastly, in significantly smaller degree, Hungarian capital, via *Pester Ungarische Commerzialbank*. The link between Hungarian and British capital in the Kingdom is extremely interesting. According to research, British capital was linked with *Hrvatska sveopća kreditna banka* from Zagreb through Budapest and Rotschild group, so it is assumed that, for a while, British capital, through Hungarian financial channels, had influence on the bank's industrial concern. The main channel through which British capital influenced the economy of Yugoslavia was *Ungarische Allgemeine Creditbank* (*Magyar Altalanos Hitelbank*) which was linked to London financial market.[31]

Hungarian financial capital was also dominant in *Jugoslovenski kreditni zavod A.D.* from Belgrade. This bank was under predominant influence of Hungarian capital via *Ungarische Escompt- und Wechsler Bank* (*Magyar leszamitolo es penzvalto-bank*) from Budapest, and through the mentioned bank, under the influence of British financial capital. Hungarian bankers, along with Swiss, Austrian and Belgian, owned a substantial bond issue in *Bosanska industrijska i trgovinska banka A.D.* Sarajevo-Belgrade. By issuing loans, the bank controlled the following industrial companies: *Bosansko D.D. za elektranu* from Jajce, *Jelice A.D.* from Čačak, *Osiguravajuće društvo "Dunav"*from Zagreb, *Novosadska fabrika kablova A.D.* and *"Metalum"A.D. za trgovinu gvožđem* from Sarajevo.[32]

The analyses which can be found in Yugoslav historiography lead to the conclusion that the share of Hungarian financial capital in Yugoslav banks was 13.1% out of total

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[30] Bozidar Jurković, *Das auslaundishe Kapital im ehemaligen Jugoslavien…*, 256-260; Antonije Tasić, *Jugoslovensko bankarstvo između dva rata*, … na više mesta; Sergije Dimitrijević, *Vladavina stranog kapitala u bivšoj Jugoslaviji…* na više mesta; isti, *Privredni razvitak Jugoslavije od 1918 - 1941*, 45-67; Vladimir Rozenberg, Jovan Lj. Kostić, *Ko finansira jugoslovensku privredu…* na više mesta; Institut za Ibidrijska pitanja, *Elaborat o britanskom kapitalu u Jugoslaviji…*, 67- 72.

[31] Ibid.

[32] Ibid.

foreign capital, and through this share, it financed 24 industrial enterprises. Through *Hrvatska sveopća kreditna banka* alone, it controlled 13 enterprises and 5 banks, and through this bank another 2.8 million dinars were invested in other Yugoslav companies that were not within the bank's industrial concern. When it came to insurance companies, the share of Hungarian financial capital, amounted to mere 3.3%.[33]

Substantial amounts of Hungarian financial capital was invested in Yugoslav industry via Swiss holding-companies. Before the First World War, Austro-Hungarian capital was predominant in timber and cement industry. After the war, due to unfavorable political situation, Hungarian stockholders found it necessary to transfer control over banks and companies in the newly founded Kingdom to a neutral country. They opted for Switzerland, mainly because of tax deductions it granted to holding-companies. Hence, for example, Swiss capital was by far the most influential in Yugoslav timber industry, having more than 50% share out of total foreign capital. However, the following example, which is by far the most illustrative, shows that this was not exactly the case: *Našička tvornica tanina i paripola D.D. Zagreb*, whose shareholding capital amounted to 30 million dinars. According to Swiss data, approximately 400.000 stocks of this mixed forestry company (mechanical and chemical timber processing) was in possession of *Union des Usines et des exploitations forestieres de Nasic S.A. Geneve*, which represented two thirds of total shareholding capital. One third was in the possession of another Swiss company *"CIMA* (*Companie des industries minieres et annexes*). What is interesting is that, even though these companies were Swiss based, the share of domestic capital was only 41%, while the rest of the capital was, in fact, Hungarian. Similar case of predominant share of Hungarian capital via Swiss companies is exemplified by *Narodna šumska industrija* in Okučani, *"Vardi"D.D. za šumsku industriju* and *"Dom"D.D. za drvnu gradnju* from Zagreb. The shares of these three companies were in possession of Swiss holding company"*OFA"*(*Societe pour l'industrie de bois*) from Geneva, in which the influence of Hungarian capital via *Ungarische Allgemeine Creditbank* (*Magyar Altalanos Hitelbank*) from Budapest was quite significant.[34]

Well-known cement factory in Beočin and portland cement factory *"Croatia"* from Podsusjed were in possession of Swiss company "*Cementia Holding"*, which was under patronage of *Bank Blancart & Co* from Zurich. The company was strongly influenced by Hungarian capital via *Orenstein & Spi*tzer company, which was in close connection with British capital. Substantial bond issues of companies *Kontinentalno boksitno D.D.* and *Adria-Bauxit D.D.* actually belonged to *Bauxit-Trust* from Zurich, which was under strong influence of Hungarian capital linked to "*Cementia Holding*" group. In such manner, up till 1941, Hungarian capital, through shareholding capital and financial loans, invested record-breaking 66.7 million dinars in Yugoslav cement industry, thus establishing itself as the top foreign investor in this industry sector**.** [35]

When speaking of participation of Hungarian financial capital in different industry sector via the above mentioned banks and holding companies, the analysis easily points out the priorities. While the sum total of pure Hungarian shareholding and financial loans for the electrical plants was 3.5 million dinars, via"*Central Gaz und Elektrizitaets*" from Budapest which was the owner of "*Jugoslovensko za plin i munjinu*" from Osjek, the statistics show that the participation via Swiss holding companies amounted to 553.7 million dinars, which is more than French, Swedish, American and Czech shareholding

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[33] Ibid.

[34] Bozidar Jurković, *Das auslaundishe Kapital im ehemaligen Jugoslavien…*, 256-257; Vladimir Rozenberg, Jovan Lj. Kostić, *Ko finansira jugoslovensku privredu…* na više mesta; Institut za Ibidrijska pitanja, *Elaborat o britanskom kapitalu u Jugoslaviji…*, 67- 72.

[35] Ibid.

combined. Hungarian capital expressed extreme interest in mining and ironworks, but it directly participated in only two companies, which represented only 1.5% of the total foreign capital share in this industrial sector**.** However, Hungarians were very interested in bauxite manufacturing and export, and for this they used their holding companies founded in Switzerland (already mentioned *Bauxit-Trust* and *"Cementia Holding"*from Zurich). Chemical industry was also quite appealing to Hungarian bankers and entrepreneurs. In the Kingdom of Yugoslavia, their capital was present in 8 companies, which represented 3.1% of total foreign capital investments in this industry branch.[36]

Hungarian capital was predominant in Yugoslav sugar and milling industry, since it owned 15 companies and controlled 37% of total foreign capital investments. Sugar industry was in possession of major domestic banks which were in fact affiliates of foreign banks. Through their banks, Hungarians directly participated in 2 sugar processing factories with 40.55 million dinars of fixed participation. Thus, the amount of Hungarian capital invested in sugar industry was second only to the amount Czechoslovakia invested. In Velikobečkerečka sugar plant, the second largest sugar plant in the country, Hungarian capitalists were in control of two thirds share, whereas Swiss capital controlled one third participation. The situation was the same in another sugar plant "*Bačka"* from Novi Vrbas in which Hungarian capital participation amounted to 42%, while Swiss-owned companies possessed 40% of total shareholding capital. When it came to milling industry, Hungarian capital was by far most dominant. This capital was in possession of Budapest export concerns which, even after the Kingdom was established, maintained control over substantial part of Yugoslav flour export. Thus, "*Hungarija*" concern (*Vereinigt Dampfmuehlen A.G.*) from Budapest owned the mill in Veliki Bečkerek; *First Budapest Steam Mill* concern had control over mills in Senta and Sombor; *Pester Ungarische Commerzialbank* from Budapest, along with Swiss *Allgemeine Depositen A.G.* from Zurich, owned *Pančevo Steam Mill*, and *Gornjobačko paromlinsko A.D.* was also in possession of Hungarian capaital.[37]

In total amount of all shareholding associations based in the Kingdom of Yugoslavia, foreign capital share was over 50%. The analysis of the percentage of foreign capital invested in Yugoslav economy by individual countries indicates that France, controlling 25.01% of capital invested, was the highest ranking, while Hungary was at the eleventh position with 1.30% of capital invested. The fact that Hungarian capital was largely present in Yugoslav economy via Swiss companies should not be neglected. According to this analysis, Switzerland held seventh position, controlling 5.9% of capital invested. In accordance with the same analysis, the foreign capital known and reported at stockholders meetings totals to, expressed in per cents, out of total amounts invested in Yugoslav economy as follows: France 15.45%, or 716.2 million dinars; Switzerland holds the sixth place 3.08% or 143 million dinars, while Hungary, along with Sweden, is the lowest ranking – 0.55%, or 25.6 million dinars. One should also bear in mind that the numbers mentioned are calculated based on officially reported data and publicly presented foreign capital participation in the amount of Yugoslav banks and companies which include 85.4% of capital invested in the country's industry. One must not forget that many shareholding associations in which foreign capital was invested performed long-term loan based investment activity, which were at times manifold larger than national amount. That is why these facts can only serve as orientational data since foreign capital participation, and for that matter, Hungarian as well, was significantly higher than these figures demonstrate. Investment loans should also be added to the capital invested since these loans often equaled, and even surpassed the capital invested or presented.

[36] Ibid.
[37] Ibid.

According to the analysis made in 1937, more than half of industrial credits came from abroad. However, what should be added to this sum is quite substantial amount of money generated through loans that industrial enterprises got from domestic banks in which, in fact, foreign capital was present. [38]

3. Great World Financial Crisis and the Period of Recuperation

Almost simultaneously, while trying to catch up with the newly arisen political, and therefore economic situation created after the Kingdom of Yugoslavia came under the rule of dictatorial regime, representatives of foreign, and, of course, Hungarian capital found themselves in the midst of European Banking Crisis upheaval, caused by the Great World Financial Crisis that sprang up after the 1929 American stock-market crash. Since more than 40.000 million dollar worth of stocks plummeted, American, mostly short-term loans, were withdrawn from Europe, which had catastrophic consequences on European economy. The inability of agriculture, mining, industry and transport to make normal profit led to widespread unemployment and decay of unused production potential. The decrease in price of numerous primary products (from 40 to 50 %), stocks of leading industrial companies and cooperations, and stocks and bonds with fixed interest rate resulted in serious financial crisis, which started in Europe by the crash of "gigantic monetary institution" *Österreichische Credit Anstalt für Handel und Gewerbe* in Vienna.[39]

To maintain the trust of foreign creditors, on whose loans business ventures of the bank were based on, but also to preserve Austrian economy from ruin, Austrian government and *National Bank* took on themselves to rehabilitate the above mentioned bank. The debt that rose to 1.700 million shillings, or 13.600 million dinars, by August of that year, put Austria in a very difficult situation. Austrian government, as the new shareholder in *Österreichische Credit Anstalt*, decided to withdraw the majority of the bank's financial investments in other countries, including Yugoslavia in which *Österreichische Credit Anstalt* had numerous banking and industrial affiliates. Chain reaction that ensued put major privately owned Yugoslav banks, *Prva hrvatska štedionica* and *Jugoslovenska udružena banka*, in a difficult situation. This was the direct consequence of the link between financial, industrial and commercial capital, which was also felt in entire Europe between the years of 1931 and 1935.[40]

While the capital crisis was an economic phenomenon, the result of deficiency at the world capital market, the credit crisis was, in fact, the crisis of trust, which, in times difficult for economy, grew into panic distrust in banks. In the case of Germany, it meant that its banks had to pay up approximately 25 billion marks to their creditors within several months, and Romanian, Hungarian and Yugoslav banks were faced with similar situation. Soon after, banks in the majority of other European countries were in the same position. Immediately after that, in Germany and Hungary, a moratorium was imposed, and its main point was the prohibition on loan approvals, but also on attaining foreign funds necessary for the continuation of production. Since economic life is based on

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[38] Ibid.

[39] Alice Teichova, *Banking and Industry in Central-East Europe in the first decades of 20th century*, in: "150 Jahre oesterreichische Bankengeschichte im Zentrum Europas, Bank Austria Creditanstalt", Oliver Rathkolb/Theodor Venus/Ulrike Zimmerl (Hrsg.), Wien, 2005, 148-161; Više o uzrocima ekonomske i bankarske krize vidi: Džon Majnard Kejnz, *Ekonomski eseji (izbor iz dela)* Novi Sad, 1987. O krahu *Österreichsische Credit Anstalt...* banke, pisalo se dosta u jugoslovenskoj štampi tokom cele 1931. i 1932. godine, iz koje posebno izdvajamo tekstove objavljene u časopisu *Narodno blagostanje*.

[40] Ibid.

constant circulation of money, the above mentioned moratorium resulted in complete paralysis of economic life and turned credit crisis into monetary and capital crisis.[41]

The Great European Banking Crises of 1930s, left manifold consequences to Yugoslav privately owned banks. As the consequence of severe financial problems Budapest and Viennese banks faced, their importance as financial intermediaries in Yugoslavia and on the Balkans diminished. As it turned out, the financing of old Austrian business ventures was not that profitable for the international capital, and the method of cooperation with certain domestic economic and political representatives generated more and more losses. By then, in the entire Europe, there was a tendency to abandon the old concept of "mixed-type" banks which not only financed industry, but also handled depository transactions. The new type banks excluded the possibility to finance companies or even industrial concerns. Bank affiliates in industrially underdeveloped European countries, like the ones in Yugoslavia, were the ones that took the hardest blow. Banks in those countries that credited industry were reluctant to enforce realization of their claims because they were too engaged in the ventures of their debtors, so consequently, the crash of their debtors would have resulted in their own crash. Thus, if these banks were under the control of West European financial centers, they would be in position to expect their help, while affiliates controlled by Budapest and Viennese banks were left to handle the crises on their own and were forced to turn to Yugoslav government and its emission bank for help.[42]

Only after several years was the foreign capital in position to gradually regain an important role on Yugoslav monetary market with new investment and credit activities. Prudent politics was partly a result of the fact that, in major European financial centers, because of the Great Crisis, governments got more seriously involved in economics. The new foreign currency policy, which entailed many regulations and limitations, made it impossible or extremely difficult for foreign, thus Hungarian capital to conduct profit transfer. That is why, instead of importing capital from abroad, foreign owners stopped exporting their profit from Yugoslavia and began to leave in the country, using it either to set up new buildings or enterprises or to expand the already existing facilities. Generally taken, since then foreign capital, apart from the already existing investments which survived the Great Crisis, features on Yugoslav economic scene more often in the form of investment goods or merchandise than in the form of financial investments or credits. Such state of affairs remained unchanged till 1936, but the very next year marked the start of the new period in foreign capital development. It was characterized by an open conflict between German and British capital. Since 1938 apart from political, German economic influence gains momentum in Budapest, which is evident in ever greater German control over Hungarian capital, and consequently, over Hungarian investments, those in Yugoslavia included. The capital which had once been independently invested in Yugoslav timber, cement and sugar industry was now in the hands of German banks representatives who had already achieved control over large share of Yugoslav financial capital.[43] The onset of the Second World War would mark the discontinuation of foreign, and of course Hungarian financial capital influx into this country. In fact, in April 1941, the Kingdom of Yugoslavia definitely ceased to exist.

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[41] Ibid.

[42] Vesna Aleksić, *Banka i moć...*, 59-71.

[43] Gerald D. Feldman, Oliver Rathkolb, *Oesterreichische Banken und Sparkassen im Ntionalsozialsmus und der Nachkrigszeit*, Erste Band, Creditanstalt-Bankverein, Muenchen, 2006, 368-370. Vesna Aleksić, *Banka i moć...*, 121-132.