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RÉSUMÉ – L'article met en évidence les problèmes spécifiques de la participation de la Bulgarie à la Première Guerre mondiale tels qu'ils ont été présentés par les principaux économistes bulgares de l'époque. Les réalités géopolitiques de la Guerre des Balkans (1912-1913), la fragilité de l'économie nationale et du système financier ont entraîné l'engagement de la Bulgarie avec l'Allemagne (1915). Elle est entrée en guerre pour réaliser son unification nationale. Outre que cet objectif n'a pas été atteint, sa situation économique s'est aggravée en raison des effets dévastateurs du conflit sur ses finances publiques ainsi que de la dette des réparations de guerre dont elle a dû s'acquitter. À l'issue du conflit, de nouvelles idées de relance et de modernisation, tel que l'agrarisme et le dirigisme se sont imposées.

MOTS-CLÉS – Première Guerre mondiale, Guerre des Balkans, Bulgarie, financement de la guerre, réparations, agrarisme, dirigisme

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ABSTRACT – The article highlights the specific problems of Bulgaria's participation in the First World War as presented by leading Bulgarian economists at the time. The geopolitical realities of the Balkan War (1912-1913) and the fragile national economy and financial system led to Bulgaria's engagement with Germany (1915). It went to war to achieve national unification. In addition to achieving this goal, its economic situation has worsened due to the devastating effects of the conflict on its public finances and the war reparations debt it has had to pay. At the end of the conflict, new ideas of revival and modernization, such as agrarianism and dirigisme were imposed.

KEYWORDS – First World War, Balkan War, Bulgaria, Public Finances, War Reparations, Agrarianism, Dirigisme

# BULGARIA AND THE GREAT WAR (1912–1919)

## Some Issues under Discussion among the Bulgarian Economists of that Time

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### INTRODUCTION

The First World War (WWI) had its deep historical causes and meaning for the Balkan countries and at the same time it brought specific political and economic consequences for them. *The first feature* was the fact that it was a continuation of the two Balkan Wars (1912-1913) thus developing into one long and continuous war. That was why it was said to be the « the Long war and the Great war » engaging the whole period between 1912 and 1919. *The second feature* was related to the economic and financial consequences for the Balkan countries at that time (end of the 19<sup>th</sup> century till the WWI) considered as « the Third world countries in Europe lagging behind economically and socially, a situation which deteriorated into the continuous Eastern crisis, victims of the imperial policy, ready to step into wars, or being the powder-keg of Europe citation » (Ivetich, 2012, p. 13). The war stopped the rapid development of the Balkan countries that had begun a decade ago. *The third feature* was that it led not only to enormous territorial changes (Romania and Greece doubled their territories and population) and to the aggravation of social and ethical issues (mostly the refugee problem)

but also to the emergence of new countries (Yugoslavia was six times bigger than the ex-Serbia itself) and the relocation of the spheres of political influence of the advanced European countries over the Balkan countries.

The paper aims at revealing the main ideas and specific issues of Bulgaria's participation in WWI discussed by the leading Bulgarian economists of that time. Special interest has been taken in the economic development and preconditions for entering into the war, its subsequent commitment and dependence on Germany as well as the devastating effects of the war on public finances and the excessive reparation debt. The Bulgarian state joined the war to achieve its national unification but the fragile national economy and financial system as well as the geopolitical realities after the Balkan Wars were among the major reasons for its entering into long lasting financial and economic commitments with Germany. However, Bulgaria not only failed to resolve its national issue, but also suffered huge financial and economic losses which had a strong impact on its post-war economy and predetermined its place in Europe in the coming decades. Moreover, the economists developed new ideas and policies in order to revive and modernize the economy. A special focus represent agrarianism and dirigisme which were to some extent original theories at that time.

In the first part of the paper I dwell on the main ideas on the war and the economy discussed by the Bulgarian scholars at that time. Moreover, I outline the most important economic issues during the Great War and reflect on them in the next parts. The second part is focused on the main features of the national economy and its limited potential to enter into the war. The third one presents the economic and financial dependence and complex relations between Bulgaria and Germany during the war which and some negative effects on the Bulgarian economy and finance. The last section is dedicated to the war financing and its effects on public finances and debts.

## I. THE GREAT WAR AND THE ECONOMIC DISCOURSE IN BULGARIA

At the end of the 19<sup>th</sup> century the Balkan states gained their independence from the Ottoman Empire after five centuries of domination (14<sup>th</sup>-19<sup>th</sup> century). After the Russo-Turkish wars of 1877-1878 Bulgaria, Serbia, Romania and Montenegro re-emerged on the political map of the Balkans and Europe. However, the liberation war, the subsequent signing of the San Stefano Peace Treaty (March 3, 1878) and later the Berlin Peace Treaty (July 13, 1878) left the so-called Eastern question<sup>1</sup> (about the legacy of the Ottoman Empire) unresolved and put it on the political agenda in the Balkans. Moreover, the Eastern question was in the focus of attention of the leading European countries in the early 20<sup>th</sup> century. The tensions and deep contradictions among the Balkan states created favorable conditions for the Great Powers to expand and consolidate their political and economic influence in the region. The Balkans gradually fell into different spheres of influence. France, Germany, Austria-Hungary and Russia approached the newly liberated countries because of the strategic location of the region, its importance for Europe's trade, transport, economy and its relations with the rest of the world. The outbreak of the Balkan Wars (1912-1913) was the first serious attempt of the Balkan states to resolve territorial and political issues. For Bulgaria in particular, those wars were a major means of achieving national unification and development<sup>2</sup>. However, the Balkan

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- 1 By virtue of the Berlin Treaty, the territory of the Principality of Bulgaria was restricted between the Danube River and the Balkan Mountains (Stara planina), together with the Sofia Sandjak. An autonomous region called Eastern Rumelia was established in the southern parts of the country. Belomorsk, Edirne Thrace and Macedonia were given back to Turkey. Serbia annexed Pomoravia and Romania – Northern Dobrudzha. Austria-Hungary obtained the right to occupy and administer Bosnia and Herzegovina. The independence of Montenegro, Serbia and Romania was recognized. Later on, in 1885 the Unification of the Principality of Bulgaria and the Province of Eastern Rumelia took place, and in 1908 Bulgaria declared itself an independent state.
  - 2 In the First Balkan War (in the autumn of 1912), the coalition between Serbia, Bulgaria, Greece and Montenegro defeated the Ottoman Empire in Thrace, Macedonia, Epirus and Kosovo. The Second Balkan War, also known as the Inter-Allied War, was a conflict between Bulgaria on the one hand and its neighboring countries on the other (Serbia, Greece, Montenegro, Romania and the Ottoman Empire). The reason was the unresolved

Wars aggravated further the political situation in Europe, exacerbated the rivalry between the advanced countries in the region, and as far as Bulgaria was concerned they ended up with important territorial losses which determined its political priority in the coming years. In this regard all the efforts and the whole economy were dedicated to the national unification cause<sup>3</sup>.

The beginning of 20<sup>th</sup> century marked a new period in the economic development of the Balkan countries. They began to establish the main economic and financial institutions and tried to transfer the modern ones from the leading European countries. The development of capitalist relations and the attracting of foreign capital in the region became the main priorities in order to overcome their lagging behind during the period of the Ottoman Empire when the economy was non-market, natural, closed, agricultural and with a primitive credit system. Furthermore, economic advance was both a function of and a basic prerequisite for achieving the national unification for Bulgaria in particular. Moreover, the creation of a modern economy was the primary concern of the Bulgarian economists who developed ideas on the economy and the role and place of the state in it, which were strongly influenced by the national peculiarities and the economic thought of the core European countries. The Bulgarian economists likewise shaped their views and ideas due to their active participation in the political life of the country and their good relations with some of the most prominent European economists and statesmen. The main centre of economic discussion became the Bulgarian Economic Society and its journal which published the most important studies of the economists on war economy<sup>4</sup>.

It is noteworthy that the war issues were an integral and essential part of the Bulgarian economists' research at the beginning of the century. Among the leading economists and statesmen, we could mention: Alexandar Tsankov, Georges Danaïllow, Andrey Lyapchev,

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issue of Macedonia, an area where the interests of all Balkan countries were concentrated due to its ethnic and religious characteristics.

3 According to the Bucharest Treaty, Bulgaria ceded Southern Dobruzha to Romania but it acquired new territories in Western Thrace and the Pirin region. Serbia received Vardar and Greece – the Aegean part of the district.

4 The Society was founded on 9<sup>th</sup> March 1895 and remained the main center of economic debates in Bulgaria for decades.

Kiril Popov, Nikola Stoyanov, Zhelyu Burilkov, Kiril Nedelchev and others. They discussed all the major issues related to the pre-war, war and post-war economy. Those were issues on the extent of preparation and the potential of the Bulgarian economy before entering the wars, the war financing, the state of public finances and debts, its currency and monetary system, etc. In this paper the analyses are focused on some specific issues such as: the fragility of the national economy and its weak potential until the outbreak of the Balkan Wars; the financial and economic dependence on Germany; the devastated public finance and huge amounts of debts. The paper presents the ideas of Professor Tsankov, as well as those of Alexander Stamboliiski because of their originality at that time.

#### I.1. GEORGES DANAILLOW

Georges Danaillow (1872-1939) was Professor of Political Economy at Sofia University. From 1897 to 1898 he specialized at the universities of Vienna, Munich and Berlin under the supervision of some of the leading economists from the German Historical School – Gustav Schmoller, Werner Sombart and Lujo Brentano. Werner Sombart influenced Danaillow's views the most. Professor Danaillow was the founder of the political economy, demography, theoretical statistics and economic history in Bulgaria.

After the outbreak of WWI Danaillow left for Germany to study economic and political issues, and in particular the impact of the war on the economy. He was elected Minister of Trade, Industry and Labor (1917-1918) and Minister of Public Buildings, Roads and Public Works (1930-1931). During 1924-1928 he was a national representative in the League of Nations. In 1929 he headed the Bulgarian delegation that advocated the reduction of the reparations in Paris and Geneva.

Danaillow published his book *Les effets de la guerre en Bulgarie* in 1932 which was the most comprehensive and in depth study on Bulgaria and the Great War. The book came out in French and was funded by the *Carnegie for International Peace Foundation*. It focused on the socio-economic development of Bulgaria during the Balkan wars, WWI up until the early 1930s. It presented the economic and social peculiarities of the country from the Liberation to the Balkan Wars, as well as the processes and issues of the war economy during and after WWI. In

his views the economic structure was of crucial importance and the wars had different impact on and consequences for the countries. The industrialized nations were able to overcome the devastating effects of the war much faster and their recovery was relatively easier than that of the agrarian countries. As far as the agrarian countries (such as Bulgaria) were concerned the destructive effects of wars were supposed to be delayed and the recovery to be longer and more painful for the nation. Danaillow argued: « The wars turned these countries into a desert after they destroyed the agricultural households and their properties and killed the livestock citation » (Danaillow, p. 211). He mainly criticized the lack of an economic plan and policy in Bulgaria at the time of entering into the Great War which led to the severe economic and financial losses.

Danaillow also focused his analysis on the role of the state in the war and post-war economy. He claimed that despite the weaknesses of economic governance during the wars, the growing role of the state eventually contributed to the transformation of the economy after WWI. That concerned mostly agriculture, communications and industry. According to him the growing role of the state also met the expectations of the population. However, he stated that the war radically changed the mind of the Bulgarians who were then convinced that only peace would allow them to fulfil their material and moral goals as well as the national unification.

#### 1.2. ALEXSANDAR TSANKOV

Aleksandar Tsankov (1879-1959) was Professor at Sofia University, Prime Minister of Bulgaria in the 1923-1926 period, and later Chairman of the National Assembly and leader of the National Social Movement. Tsankov graduated in law at Sofia University (1901-1904) and then studied economics in Germany. Tsankov met Lujo Brentano, Gustav Schmoller, Werner Sombart in Munich, Breslau and Berlin. Prior to his stay in Germany he was a Marxist but his acquaintance with the economists at the German Historical School changed his views and ideas.

Professor Tsankov was among the most prominent representatives of the dirigisme (the theory of regulated or administered economy) in Bulgaria. Dirigisme started its development shortly after WWI and continued during the Great Depression and the 1930s. In general,



dirigisme was an attempt by the Bulgarian economists to detach themselves from the sheer adoption and implementation of the Western European theories and ideas and to make their own contribution to the economic science. Although there was no definition of a dirigiste economy, it stood between the free market (*laissez-faire*) and the planned socialist economy. Moreover, it was considered a means of overcoming the defects of capitalism and Bolshevism. Its major instrument was the state intervention in the economy which could have various forms.

The Balkan Wars and WWI inspired the views and ideas of Tsankov. He visited Germany as well as Austria-Hungary, where he studied the role of the state in the economy. Tsankov published several studies such as: *The War of the Nations* (1916), *Our Economic Interests on the Danube and the Sea* (1917), and *The Consequences of the War* (1919). According to him, the war broke out as a result of the competition among the Great Powers in their struggle for colonies, control over the seas and the world markets. Tsankov argued that imperialism was one of the forms of modern capitalism. According to him WWI deprived the world of ideas and that was the reason for the emergence of communism, fascism and national socialism. The war profoundly changed the life and the economy in Europe. Tsankov was a fervent proponent of a new economic system which he called « social capitalism », a system which he believed would dominate in the future. In his views the capital should be social in that system, *i.e.* servicing the whole society without killing the private initiative. Moreover, labor and the capital were supposed to cooperate.

Here's what Tsankov wrote in his memoirs:

I have been studying life, observing already the beginning of the end – the sunset of capitalism; meanwhile, I realized that the political party and the constitutional-parliamentary system brought the changes to life and the rising power of the proletarian masses; all this makes us revise our past beliefs and reform many public and political institutions because the foundations of economic life have shifted and would have to be rebuilt (Tsankov, [1949], 2002, p. 115).

During his governance Tsankov tried to implement his views on the state and the economy. According to him the state should have the right to control and govern capital, to protect workers and to promote industry. He justified the policy of state intervention with the living needs after WWI. His major book was *The Three Business Systems. Capitalism,*

*Communism, and National Socialism* (1942) where he considered Germany the pioneer of socialism and he studied the fundamentals of the socialist society. The state was of primary importance in the dirigiste economy and the private initiative and the private property were supposed to be a «lightened», principle of the new socialist society. Tsankov envisaged the building of New Europe in which socialism would be national rather than international.

### 1.3. ANDREY LYAPCHEV

Andrey Lyapchev (1866-1933) was one of the most influential politicians and economists in the early 20<sup>th</sup> century. He was Minister of Finance in 1918 and Prime Minister of Bulgaria in the 1926-1931 period. He initiated the adoption of the Law on Foreign Exchange Trade and the establishment of a specialized Currency Authority in 1918 to implement foreign exchange trade. Lyapchev also signed the Armistice of Salonica on 29<sup>th</sup> September 1918 which marked the end of WWI for Bulgaria.

Lyapchev supported the classical economic theory and the non-interference of the state in the economy. In his paper *The War and Finance* (1919), he argued that Adam Smith's ideas were still relevant and important after the war. He sharply criticized those who grumbled against private capital or insisted on transition to state capital «thus opening the way to a new society», and he opposed all externally imposed reforms.

Lyapchev wrote about the growing role of the state in the economy:

All the temptations for the establishment of state monopolies and the rapid benefits of them are collapsing in front of our ugly reality. It is doubtful whether the monopolies prescribed by other countries would attract more adherents. It is likely that in our country monopolies will thrive when they come from outside thus making us working hard for a few people while they do that only for themselves and this comes from our national culture in comparison to the foreign culture and also from our moral discipline guided by the passion for material goods (Lyapchev, 1919, p. 14).

His Government had played an important role in rebuilding the post-war economy. It signed two very important foreign loans agreements – the Refugee Loan in 1926 and the Stabilization Loan with the support of the League of Nations in 1928. Later on, on 20<sup>th</sup> January

1930 he signed the Reparations Agreement in Hague which significantly reduced the Bulgaria's debt burden.

#### I.4. ALEXANDER STAMBOLIISKI

Alexander Stamboliiski (1879-1923) studied philosophy in Halle and agronomy in Munich, but he interrupted his education because of illness and returned to Bulgaria, where he headed the Bulgarian Agricultural National Union (BANU). Stamboliiski and his close friend Rayko Daskalov developed the agrarian ideology in Bulgaria<sup>5</sup>. The Balkan and in particular Bulgarian rural agrarianism began its development after the Liberation. It is noteworthy that the Balkan agrarianism was more radical than in other European countries. Rural agrarianism in Eastern Europe and in the Balkans (Bulgaria, Romania, Serbia, Croatia) was strongly influenced by Russian *narodnichestvo* (agrarian socialism after the mid-19<sup>th</sup> century) and Western agrarianism as well. At the core of agrarian socialism was the rural collectivist community (*obsbchina*) which was deeply rooted in the traditions and lifestyle of the people (Baranovsky, 1922 [1915]).

In Bulgaria, the BANU was established in 1899 and later on in 1901 it became a political party. The peasants' movement emerged as a protest against heavy taxes, usury, exploitation of the peasants and the overall backwardness of the Bulgarian village. The Bulgarian peasants' party was the most radical in the Eastern Europe followed by those in Serbia, Croatia, and Romania. It strongly influenced the peasants' movements in the other Balkan countries because it was the first one to come to power (later followed only the Romanian agrarian party) after WWI.

Stamboliiski's theory of professional organizations was at the core of agrarian ideology. In 1909 he published his book *Political Parties or Professional Organisations* in which he clearly set forth his views that the existing political system should be replaced by new political and socio-economic groups called professional organizations that could best

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5 At the beginning of WWI Stamboliiski and Daskalov were sentenced to life imprisonment and later on 25<sup>th</sup> September 1918 they were released from prison. After the parliamentary elections on 21<sup>th</sup> May 1920 Stamboliiski became Prime Minister and Bulgaria was the only country in the Balkans and Europe where the peasants and their party obtained full power and governed independently after the end of WWI. Stamboliiski was blamed by his opponents to have imposed a peasants' dictatorship in the country and a *coup d'état* was carried out against him on 9<sup>th</sup> June 1923 and he was later assassinated.

protect the economic interests of all the people. Stamboliiski considered that there were six classes in the Bulgarian society, which represented the main professions in the country: agricultural, craft, working, industrial, commercial and bureaucratic. Each class brought together people of the same profession with common economic interests. He defined the agricultural class « as the most important, most productive, useful and necessary, the largest and the most vital element in human society ». According to Stamboliiski, the new political and economic order would be the result of a class struggle in which material needs and economic interests were the goals of the struggle, and political gains were a powerful tool without which it was impossible to think about the struggle (Stamboliiski, 1945 [1909]).

Cooperatives were an integral part of the agrarian ideology. The Balkan agrarians identified themselves with the idea of Western agrarianism of creating « cooperative state ». Unlike the Western agrarian economists, the Balkan agrarians considered cooperativism to be the « third path » between liberalism and socialism. Stamboliiski believed that cooperatives were a panacea of all the problems of peasants and a powerful tool for economic development. The cooperative doctrine was based on rural cooperatives of small producers, which predominated in rural areas and had a pronounced social (class) dimension. Uniting all Bulgarian peasants into a national cooperative network became the main purpose of Stamboliiski's regime (Daskalov, Mishkova, 2014; Bell 1977).

## II. CORE FEATURES OF THE BULGARIAN ECONOMY BEFORE THE BALKAN WARS

The major preconditions for the development of the capitalist economy and the transformation of Bulgaria into a modern European state were created in the period from the Liberation to the Balkan Wars. This part is focused on the core features of the economy before the outbreak of the Balkan Wars.

## II.1. AGRICULTURE

During the 1878-1912 period Bulgaria remained an agricultural country with the share of the rural population being about 75% of the total population. Moreover, it was a predominantly smallholders' country where small farms represented about 70% of the total number of farms (939,367) in 1911. The average amount of land cultivated per person was 0.92 hectare and 5.4 hectare per household. The share of arable land represented 51% of the total cultivated land in the country (Danaillow, 1932).

Agriculture was predominantly extensive despite the start of modernization and the upward trend towards intensive farming. The data in the table below shows a significant increase in the number of agricultural machines during 1893-1910. In 1910 only 18% of all the farms had ploughs which were unevenly distributed in the different regions and villages of the country (Berov, 1989).

TAB. 1 – Agricultural machines (number).

Machines	1,893	1,900	1,910
Ploughs	18,170	48,958	114,245
Threshing machines	17	155	1,091
Harvesters	128	1,202	6816
Winnowing machines	9,393	11,928	66,580
Sowing machines	35	257	916

Source: Berov, 1989, p. 330.

Agricultural production was divided into four main categories: cereals, industrial crops, fodder and fruit and vineyards. In 1912 cereals accounted for 75.8% of the total cultivated area followed by fodder – 16.9%. Cereals represented the biggest part of the income in agriculture and exports (mostly wheat and maize) and about 26% of the total production during the 1897-1911 period.

## II.2. INDUSTRY

The development and the gradual modernization of the national industry based on private capital and capital inflows from Western European countries began during the 1878-1912 period. Industrial production developed under the direct protection of the state. Whereas there were only 36 enterprises in the country in 1887, their number grew to 345 in 1911 while during 1904-1911 industrial production increased four times (Danailow, 1932). Industry was dominated by small tradesmen and craftsmen who gradually transformed their small workshops into large factories. The leather, textile and woodworking industries in the country were developed the most.

## II.3. FINANCIAL SYSTEM

*The first and most important feature* undoubtedly was the establishment of the major state financial institutions. On 25<sup>th</sup> January 1879 the Bulgarian National Bank (BNB) was set up as the only state credit institution at that time. In the absence of banking institutions in the country the BNB aimed at providing commercial credit and supporting the country's economic development. In 1885 it was legally transformed into an issuing bank. With the penetration of foreign capital and the emergence of the first private banks in the country the BNB started working only with the major commercial houses and credit institutions. Just before the outbreak of the Balkan Wars the whole commercial credit was centralized in the BNB.

*The second feature* of the financial system was the creation of two state-owned banks – the Bulgarian Agricultural Bank (BAB) in 1903 which aimed to provide agricultural credit and that of the Bulgarian Central Cooperative Bank (BCCB) in 1910 which extended cooperative loans. The BAB had to satisfy the increased borrowing needs of the peasants. It was the successor of the existing Agricultural funds which were the first credit institutions in the country after the Liberation. The funds themselves succeeded the Credit funds of public utility – the oldest credit institutions in the Bulgarian lands introduced by Midhat Pasha in the 1860s<sup>6</sup>.

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6 Midhat Pasha was a Turkish statesman and governor of the Danube vilayet in the Ottoman Empire.

By the beginning of the Balkan Wars the deposits in the BAB significantly increased and the bank extended more loans to both individual farmers and credit cooperatives in the country.

TAB. 2 – Average amount of capital, deposits and loans of Agricultural funds and BAB (in million levs).

Periods	Capital	Deposits	Loans <sup>7</sup>
1895-1903	32.4	24.3	67.5
1904-1912	40.6	55.2	87.9
Growth	+ 8.2	+ 30.9	+ 20.4

Source: Kurkliiski, 1941, 47.

Since the adoption of the first Law on cooperatives in 1907, their rapid development and financing needs urged the state to concentrate the cooperative credit in one bank. The bank extended loans to the urban and rural cooperatives, however the outbreak of the Balkan wars made it difficult to operate and due to the lack of capital it was unable to fulfill its mission.

*The third important feature* of the Bulgarian financial system was the emergence of the first private banks in the country. There were 58 private banks whose capital was 45 million levs including 30% of foreign capital in 1911. The foreign banks began to play an increasingly important role in the national economy just before the outbreak of the Balkan Wars. However, the financing of the domestic industry by those banks was insignificant. The first big private banks (the Bulgarian General Bank, the Bulgarian Credit Bank and the Balkan Bank) were established with French, German and Austro-Hungarian capital: Banque de Paris et des Pays-Bas, Diskonto Gesellschaft, Wiener Bank Verein, and Crédit Foncier (Danaillow, 1932).

#### II.4. MONETARY SYSTEM

The building of a stable monetary system was one of the primary goals of the Bulgarian state. It had to play a major role in the industrialization, the infrastructure and in attracting foreign capital (mainly

<sup>7</sup> Only agricultural loans.

debt). The only way to achieve that was to adopt the rules of the Latin Monetary Union (LMU). Bulgaria and the other Balkan countries adhered to the union's rules informally because their applications for official membership were denied (except Greece, which was admitted to the LMU in 1869). The unilateral commitment to fixing the exchange rate to the gold French franc was undertaken by Romania in 1867, by Serbia in 1873 and by Bulgaria in 1880, *i.e.* 1 franc = 1 lev = 1 leu = 1 dinar. That commitment was over at the outbreak of the Balkan Wars in 1912.

Since 1904 Bulgaria and the other Balkan countries implemented the rules of the gold standard. The new Law on the BNB in 1906 stipulated that the bank had to keep the corresponding quantity of coins equal to one third of the value of the banknotes in gold and half of the value of those in silver. Although the ratio between gold and silver varied considerably in the European markets it remained relatively stable in the Bulgarian market. A relative stability of the currency circulation and the value of the Bulgarian lev was achieved (Danailow, 1932).

## II.5. PUBLIC FINANCES

The state budget was too modest and recorded large surpluses and the Ottoman fiscal regime was not changed between 1878 and 1885. The expenditures steadily increased after 1890 and there followed a period of deficits and financial difficulties due to the establishment of the main state institutions and the need to build the infrastructure and to develop the economy. In this regard *the first feature* of public finances was related to the rapid increase in both the ordinary and extraordinary expenditure of the state. The total expenditure increased more than four times during 1887-1911. The budgetary position was highly dependent on the harvest. According to Professor Danailow's analysis 14 out of 33 budgets recorded surpluses and the rest – deficits. The total budget revenue during the 1879-1911 period was 2,923,700 million gold francs while the expenditure amounted to 3,630,800 million gold francs along with a deficit of 707 million gold francs.

The table below shows the major expenditure during the 1887-1911 period. The largest amount of it was allocated to the defense although its share was 40.6% in 1879 and decreased to 21.7% in 1911. On the other hand, the public debt was very small at the beginning of the period in



1892 and increased 19 times up to 1911. Its share in the total expenditure rose to 24.6% in 1900. In 1911 the public debt reached 865 million gold francs while the total debt was 735 million gold francs (563.6 million gold francs of it was paid off before the wars). The Bulgarian public debt was the lowest among the Balkan countries before the outbreak of the Balkan Wars. The expenditure on education also grew substantially from only 3.2% in 1887 to 6.8% in 1911 (Danaillow, 1932).

TAB. 3 – Public expenditure in million gold leva.

	1887	1900	1905	1911
Public debt	2.1	24.6	31.3	39.9
National defense	16.0	23.7	32.9	44.1
Education	1.6	7.9	12.5	22.7
Railway and ports	6.3	11.9	10.7	16.4
Total expenditure	48.2	109.7	141.1	202.8

Source: Danaillow, 1932, p. 66

*The second feature* of public finances was the rising dependence of the state on foreign creditors. The first two external loans were extended in 1888 and 1889 for railways construction. Later on, in 1892, 1902 and 1904 new foreign loan agreements were signed with the Banque de Paris et des Pays-Bas and other banks. In 1909 two foreign loans were negotiated. The first one was to cover the floating debt and the railways construction while the second one was to settle the debts to Russia (the occupation costs) and Turkey (under the Berlin Treaty). The total amount of foreign loans was 640.77 million gold leva during 1888-1909. However, Professor Danaillow wrote in his book that most of them were used for the purchase of military goods. As far as the state banks were concerned, they also signed foreign loans before the Balkan Wars. The BNB negotiated a land loan in 1909 and the BAB in 1896.

In conclusion Bulgaria was in a relatively good economic and financial situation just before the outbreak of the Balkan Wars. From the Liberation to the Balkan Wars it established the main state institutions and managed to attract foreign capital which facilitated the development of capitalist relations. Furthermore, agriculture became more intensive

and the domestic industry developed at an accelerated rate. The state played a crucial role in those initial stages of the transformation and modernization of the economy.

### III. NEW ECONOMIC AND GEOPOLITICAL REALITIES ON THE EVE OF WWI. FINANCIAL ISSUES WITH GERMANY

The Balkan Wars provoked important changes in the domestic economy primarily related to the structure of agricultural production, exports and the relocation of production centres. According to the Bucharest Peace Treaty Bulgaria lost its granary – Dobrudzha<sup>8</sup>. In this regard Kiril Popov argued: « Bulgaria's economic gravity centre oscillated as its most vital agricultural territory was taken away » (Popov, 1919). In return Bulgaria received Thrace – an area where the highest quality tobacco was grown in the Balkans. That required a huge transformation and reorientation of the economy from the production of cereals to industrial crops which resulted in a significant reduction of wheat export at the expense of tobacco.

According to the Bulgarian economists the small and fragile Bulgaria entered into the Balkan Wars without an economic plan and they exhausted the country's economic and financial resources. The total amount of debts owed to foreign creditors accounted to almost 700 million gold leva which increased to 1,400 million gold leva in 1914/15. During the Balkan Wars debt *per capita* increased from 158 gold leva to 280 gold leva. Despite the economic and financial losses from the wars, moral losses were the hardest to bear for the population and according to Danaïllow: « any war that ends with an unjust act provokes five more wars afterwards » (Danaïllow, 1932).

In political terms the Balkan wars paved the way for a new redistribution of the zones of influence of the Great Powers on the Balkans. In the context of the economic and financial difficulties in the region,

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8 Dobrudzha was the most developed region in Bulgaria in terms of a modern agricultural machinery and equipment. The largest agricultural farms and the biggest mill were located there.

the European countries found favourable conditions for extending their influence and power on the Balkan countries and to attract and involve them in the coming war. The geopolitical map of the Balkans after the Balkan Wars underwent significant changes and that had long lasting effects on their development. For example, Greece and Serbia fell gradually under the influence of France while Bulgaria and Turkey under the influence of Germany and Austria-Hungary. Germany declared its support for the Bulgarian national unification and it became a leading motive for the Bulgarian government to side with Germany in the war although some attempts were also made by the Entente<sup>9</sup>. The fragile economy and financial system of Bulgaria before the outbreak of the WWI intensified and deepened the relations with Germany even before the war and subsequently led to its strong dependence during the Great war.

The main characteristic of the Bulgarian war economy was its economic and financial dependence on Germany and Austria-Hungary. In 1914-1915 several loans were negotiated with Germany which made it the major creditor and investor in the country. Diskonto Gesellschaft played the main role in the financial arrangements<sup>10</sup>. The first loan agreement (500 million gold francs) was signed on 12<sup>th</sup> July 1914, more than a year before Bulgaria's official entry into the war, to settle Bulgaria's debt from the Balkan Wars and to develop the newly acquired territories in Western Thrace. In return, the German banks were granted several privileges including the right to exploit the most important coal mines in Bulgaria (in Pernik and Bobov Dol) and the German and Austro-Hungarian companies gained the right to develop the transport infrastructure (a new railway and a port). The Bulgarian government undertook the commitment with Diskonto Gesellschaft for all the provisions of materials in the coming fifty years. Furthermore, Diskonto Gesellschaft had the right to give up anytime the building of the port

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9 Except for Germany the countries from the Entente tried to attract Bulgaria through the so called « Declosier affaire ». Britain and France proposed to buy all the grain from the Bulgarian market at a higher than the market price and to export it to the countries from the Entente. That was the biggest speculation before the outbreak of the war. Several Bulgarian politicians and tradesmen were involved (Tsankov, [1949] 2002).

10 Diskonto Gesellschaft represented a syndicate of German, Austro-Hungarian, Dutch, Belgian and Swiss banks. The German banks had a share of 66% and the Austro-Hungarian 25%.

and to require concession of other railways. Diskonto Gesellschaft signed this part of the agreement under the condition that 75% of the material and operating supplies would be delivered by German companies and the rest 25% by Austro-Hungarian companies. The loan agreement was signed for fifty years and with 5% interest rate. As far as the exploitation of the coal mines was concerned Germany had the right to set up and manage a company and to control the distribution of dividends.

It is noteworthy that the loan provoked a great debate and opposition in the Bulgarian society as regards the Germany's growing influence in the country's economy and politics. Although Germany did not keep its obligation, that agreement was considered as an important step towards expanding its influence on Bulgaria. Andrey Lyapchev was one of the greatest opponents to the commitment to Germany and in particular to that agreement. He claimed that it did nothing to help the national economy, on the contrary seriously eroded the trust in the government (Lyapchev, 1919).

Under another financial agreement between Bulgaria and Germany Diskonto Gesellschaft agreed to discount 120 million gold francs treasury bonds at 7.5% interest rate to be reimbursed to foreign banks as follows: 27.7 million gold francs to the Russo-Asiatic Bank in August 1914 and 30 million gold francs treasury bonds to Austrian and Hungarian banks by November 1914 and the rest to be left at the disposal of the BNB to pay a part of its debt. That was the only agreement that Germany fulfilled.

The Bulgarian economists studied also the issues regarding the so-called war advance payments. On 20<sup>th</sup> November 1915 Bulgaria signed an agreement with the German and Austro-Hungarian governments for the provision of monthly advance payments of 50 million gold leva (40.5 million marks) for the whole period of the war. In return the Bulgarian government committed to issue government bonds at the exchange rate of 100 francs to 81 marks and 5.5% interest rate. The first advance payments were transferred in the last quarter of 1915 at the amount of 200 million gold francs but later on at the end of 1917 Germany suspended them due to its growing necessity to cover its own war costs. The whole amount deposited by Bulgaria at Diskonto Gesellschaft was 1,350,000,000 gold leva (1.093,50 million marks). This loan was in Reich marks like the previous ones. The suspension

of the transfers practically created enormous financial difficulties for the Bulgarian state which had to cover alone its growing war expenditure. The second major issue was that those advance payments were recorded in the liabilities of the BNB to cover the banknotes. Those advance payments became part of its credit balance as a portfolio to foreign countries which amounted to one billion leva at that time. A large part of that amount (about 625 million leva) was lost later due to the German hyperinflation (Turlakov, 1920).

The financial relations between Bulgaria and Germany further deepened after the signing of a war convention with Germany according to which the Germans agreed to send 12 military divisions or 180,000 soldiers to the Balkans while Bulgaria was bound to provide not less than 4 military divisions. The Germans did not fulfill their obligation and reduced their military divisions while Bulgaria increased its own divisions to 14 each one including between 20,000 and 30,000 soldiers. Moreover, Bulgaria had to bear all the expenses for the soldiers. According to Andrey Lyapchev those expenses varied between 2.5 billion and 5.5 billion leva and were eventually paid by extra credits during the war.

The Bulgarian-German financial relations got even more complicated after the war. In fact, Bulgaria became a creditor to Germany as the German government decided to block the assets of the BNB. Part of the assets were blocked even in 1916. The BNB's archives attest to the following amount of blocked assets during 1920-1923 period: by 30 June 1921 – 90 251.09 Swiss francs and by 30 June 1923 – 56 882.57 Swiss francs unblocked. Due to the blocking and later on to the devaluation of the Reich mark, the BNB incurred great losses at the amount of 660,000,000 gold francs. Germany unblocked the assets in the beginning of May 1923 when the Reich mark depreciated almost completely (Central State Archive, 258K, file 1, a. u 2486).

Germany played also the most important role in Bulgaria's trade during and after WWI. Due to its international isolation Bulgaria's foreign trade was limited only to its allies. Bilateral trade was mostly based on the barter system of exchange of goods. Tobacco reached  $\frac{3}{4}$  of exports in 1917 compared to only 9.93% in 1911. Bulgaria became the biggest tobacco supplier of Germany and Austria-Hungary and a leading country in the international tobacco trade. According to professor Tsankov, in 1917 there was a large increase of Bulgaria's exports (about

86%) in comparison to 1912 which was mainly due to the higher prices of exported goods (especially tobacco). In spite of those positive trends he criticized the rapidly growing state intervention in the economy and the suspension of free trade principles in particular and advocated a new economic model after the war (Tsankov, 1919).

It is noteworthy that the strong economic and financial relations between Bulgaria and Germany during and after the Great War to a high degree predetermined the monetary trajectory of Bulgaria to the German moneyless model of exchange during the 1930s.

#### IV. DEBT AND REPARATIONS ISSUES

The main problem Bulgaria faced after the Great War was related to the need to pay its debts. Debt settlement was hampered both by the extremely limited economic potential due to the great territorial losses and the lack of foreign exchange reserves. Bulgaria lost the most fertile lands in Thrace and its main trading channel – its connection to the Aegean Sea. Dobrudzha remained occupied by Romania. The end of WWI was also marked by an increase of social discontent in the country and an outbreak of social uprisings<sup>11</sup> along with the deepening of debt issues.

The war had a devastating effect on public finances due to the enormous costs incurred by the state and the reparations imposed by the Neuilly Peace Treaty. Despite initial expectations among the Bulgarian statesmen that Germany would bear some costs, they were ultimately incurred by the national economy and the BNB. The main sources of war financing were external loans and mainly extra budgets covered by loans, treasury bills and advance payments from BNB. During the war the ordinary expenditure increased only by 0.41 while the extraordinary one 15.40 times (Danaillow, 1932).

Professor Danaillow argued that the approved extraordinary expenditure (credits) amounted to 13.7 billion levs, 7.5 billion of which were

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11 An example was the military uprising in September 1918 led by Alexander Stamboliiski and Rayko Daskalov.

paid by 30<sup>th</sup> June 1925 and 2.4 billion levs of the extraordinary expenditure was covered by the treasury, and the remaining 5.1 billion levs were the advance payments from the state-owned banks (BAB, BCCB) and mostly from the BNB. It is important to note that for the first time since the beginning of the Balkan Wars there appeared a government credit in the BNB's balance sheet which steadily increased as a result of the country's rising expenditure especially during WWI.

TABLE 4 – War expenditure in levs.

	Paid by the treasury	Uncovered advance payments
Balkan War	297,205,636.49	25,310,925.29
After the Balkan War	84,924,000	47,780,319.29
First World War	1,360,898,000	4,165,819,758.58
Extra budget	628,574,314.13	909,692,079.17
Total	2,371,601,950.62	5,148,603,082.29

Source: Danaillow, 1932, p. 689

Most of the expenditure was covered by the treasury (320,927,153 levs) during the Balkan Wars and after that it was converted into floating debt to the BNB (about 55% of the total financing). The external borrowings were the second largest source of financing (75,000,000 gold francs negotiated with the Banque Française de Paris et des Pays-Bas, reimbursed in 1926 by the refugee loan), a loan from Russo-Asiatic Bank (30,000,000 gold levs), as well as the 30,000,000 levs in advance payments received against treasury bonds from Austrian banks. An internal loan of 96,000,000 gold levs was negotiated. Thus the total cost of financing the Balkan wars amounted to 551 million levs.

During WWI the total amount of expenditure reached 8 billion levs about 6.4 billion levs of which provided by the treasury. The floating debt reached 80% of the total war costs compared to the Balkan wars. Bulgaria negotiated external loans amounting to 1.5 billion levs to finance the war. Although the amount of foreign loans was more than ten times the amount of those for the Balkan Wars their share in total expenditure was about 18.8%. In comparison to WWI the share of foreign loans totalled 21% during the Balkan Wars (Cholakov, 1938).

As a result of the rapid increase in budget expenditure Bulgaria also accumulated a huge deficit - 1.5 billion leva in the period 1915–1918. Table 5 shows that Bulgaria had no domestic debt until the Balkan wars and it increased by more than 114 times from 7.93 million leva to 919.48 million leva during 1913-1919. The domestic debt per capita was only 1.78 leva in 1913, while in 1919 it reached 175.70 leva, i.e. it increased by almost 100 times. In graph 1 we observe that domestic debt continued to grow at an even faster pace in the wake of the war, reaching up to almost 5 billion leva in 1923.

TABLE 5 – Public debt and debt per capita 1910-1919.

Year	Public debt in million		Debt <i>per capita</i>	
	Foreign debt in gold francs	Domestic debt in leva	Foreign debt in gold francs	Domestic debt in leva
1910	517.98	0	121.16	0
1911	610.20	0	140.68	0
1912	603.80	0	137.20	0
1913	699.51	7.93	144.84	1.78
1914	813.22	146.69	166.72	30.37
1915	954.69	138.10	191.81	28.31
1916	954.69	169.16	187.91	33.95
1917	936.01	319.99	186.00	63.59
1918	950.99	688.88	187.10	135.54
1919	3,190.46	919.48	621.50	175.70

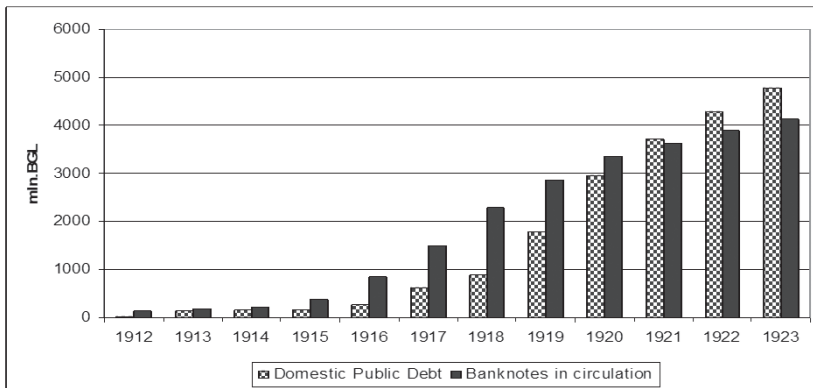
Source: Danaillow, 1932, p. 545

Graph 1 illustrates the trends in domestic debt and the currency in circulation during the 1912-1923 period. The banknotes in circulation in 1912 were 132 million leva while in 1918 their amount rose over 2 billion leva. During the wars the currency in circulation increased 15 times. Since the end of the war paper money reached almost 3 billion leva and exceeded 4 billion leva in 1923. The rapidly growing debt (and especially the foreign debt) was one of the main driving forces of



the lev stabilization which started in 1921–1923 and terminated with the adoption of the Lev Stabilization Act on 3<sup>rd</sup> December 1928<sup>12</sup>. The monetary expansion continued until 1924 when the currency in circulation began to diminish as a result of the adoption of the Law on the restriction of the currency in circulation in 1922.

The BNB's leading role in war financing was also evidenced by the data on advances provided to the government. In 1912 they were only 8 million leva while the same amounted to 143 million leva in 1913 which turned to be 17 times higher. During the First World War they increased from 155 million leva to 1,771 million leva. However, after the end of the war their accelerated growth continued reaching 1947 billion leva in 1923 (Mollof, 1934, Koszul, 1932).



Source: Nedelchev, 1940, p. 81.

FIG. 1 – Domestic debt and currency in circulation (1912–1923).

In regard to the public external debt it was nearly 700 million gold francs in 1913 and exceeded 3 billion gold francs in 1919 which was four times more than the pre-war debt. The increase of the public external debt continued after the war as Bulgaria had to pay military charges to the Entente and its former allies. The reparation debt imposed under the Neuilly Peace Treaty was also to be paid. Bulgaria's debt problems were considered by foreign economists such as Koszul (1932) who claimed

12 On the war, the currency issues and stabilization in Bulgaria, see Burilkov, 1928, Mollof, 1934, etc.

that Bulgaria's external debt per capita was one of the biggest among the defeated countries. The share of France in Bulgaria's total debt was 26%, Germany, 52%, Italy, 25%, Greece, 12.7% and Romania, 10.55%.

Under the Neuilly Peace Treaty (1919) Bulgaria had to pay 2.25 billion gold francs of reparations in 37 years, with 5% annual interest rate and the annuity instalment was 134 million gold francs. On 21<sup>st</sup> March 1923 an agreement was reached and the debt was significantly reduced. The main reason for that was that Bulgaria made counter claims (against Germany, Austria-Hungary and Turkey) for almost the same amount as reparations, and also because of the country's limited payment capacity. According to the agreement the payment was divided into two tranches: tranche A (current payments) and tranche B (payments along with counter receivables). Tranche A amounted to 550 million gold francs payable for a period of 60 years at 5% interest; and Tranche B – 1,700 million gold francs that were interest-free and not due before 1<sup>st</sup> January 1953. At the same time, however, the amounts to which Bulgaria was entitled under the Neuilly Peace Treaty could not be paid before 1<sup>st</sup> February 1953 so they were credited to Part B of the reparation debt. As a result, during 1923-1924 Bulgaria had to pay 5 million gold francs, during 1924-1925 – 6 million gold francs, during 1925-1926 – 7 million gold francs; during 1926-1927 – 8 million gold francs, during 1928-1934 – 10 million gold francs and after 1934-1935 till 1983 the annual amount to be paid was 43.4 million gold francs.

Along with the territorial losses and the tremendous amount of public debt (about 4,518 million leva) Bulgaria was also devoid of its independent economic policy and suffered great economic losses<sup>13</sup>.

The Bulgarian economists clearly stated their indignation and strong disapproval of the Neuilly Peace Treaty. Tsankov reflected in his memoirs:

Bulgaria was punished, humiliated and insulted for the second time; it was also plundered by the deprivation of Dobruzha and also the Struma area. The peace treaty which was imposed to us was identical to all the treaties imposed on the defeated states. The peace treaties signed in the suburbs of Paris concealed the elements of a second war. The peace after this bloody and devastating war was lost at that moment.

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13 The Neuilly Peace Treaty foresaw the establishment of an inter-allied commission with an unlimited power to take decisions on major economic issues in Bulgaria.

The question raised after WWI and now – was how would agricultural Bulgaria adjust to the newly created inter-Balkan and inter-European conditions within the limits of the peace treaties of Bucharest and Paris. Obviously we had to go back to the idea of transforming and intensifying our agriculture, to rationalizing and modernizing crafts, to accelerating the pace of industrialization (Tsankov, [1949], 2002, p. 122).

Furthermore, Kiril Popov called the Neuilly Peace Treaty « the Golgotha of Bulgaria » (Popov, 1919, p. 132).

As far as the economy was concerned, the post-war economic policy was characterized by a significant increase in the state intervention in the economy. A typical example was Stamboliiski's governance. It established a state monopoly on the trade of grain and cereals (the Consortium for the export of cereals, set up in 1919). Although it existed for 2 years only, its activities were sharply criticized by Professor Danaïllow, Professor Tsankov and other leading economists of that time. They argued that the Prime Minister Alexander Stamboliiski and his government (1920-1923) used it mostly for political goals. During its governance Stamboliiski accomplished great reforms in the country. He acted in favour of peasants and restricted free economic initiative. He carried out an agricultural reform under which the peasants were tax-exempt and compulsory labour service was introduced. At the core of the agricultural policy was the idea of the « labour property » (property based on one's own labour). According to it only the owners directly used their land property to meet their family needs. The agrarian reform limited the land ownership of a four-member family up to 30 hectares. The family members were obliged to cultivate the land by themselves. The landowners who did not cultivate the land by themselves were permitted to own not more than 4 to 10 hectares. The lands above the statutory quota were expropriated. The government established a state fund for providing land to the landless and low-income farmers and introduced a progressive taxation of family incomes<sup>14</sup>.

Agrarians pursued a stimulating policy towards cooperatives in the country: they set up financial incentives for cooperatives provided by the state-owned cooperative banks and encouraged the establishment of a more sophisticated cooperative forms was stimulated (forestry, fishing,

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<sup>14</sup> The agrarian reform, its peculiarities and legal framework in Bulgaria and in the Balkans were discussed by M. Deyanova (1935).

and other labour cooperatives). The cooperatives gained a monopoly right to buy grain from the producers. Furthermore, the peasants' party set up the so called *drouzbbi* (*local party units*) in every village which had to establish cooperatives (Deyanova, 1935).

### CONCLUDING REMARKS

We have shown that the Bulgarian economists' main ideas of the war and the economy presented in the paper dealt with practical issues and encompassed some original elements which gave a strong impetus to the development of the Bulgarian economic thought at the outset of the 20<sup>th</sup> century. They reflected both the peculiarities of the national economy before the Great War and the economists' good knowledge and familiarity with the European theories, practices and approaches at that time. The Bulgarian scholars studied in depth the war economy and tried to solve key economic issues in the context of the complex geopolitical situation in the Balkans and Europe. The predominantly agrarian character of the economy and its slow intensification, the weak industry and fragile financial and monetary system from the Liberation to the Balkan Wars were placed at the core of their studies. Moreover, the Bulgarian scholars considered them the major preconditions for the strong economic and financial dependence of the country on Germany during the Great War and consequently for the enormous difficulties and devastating effects of the war on the public finance and debts. The economists were very critical as regards the lack of an economic plan, policy and capacity of Bulgaria to enter into the war and the complicated relations which the state established with Germany. Their primary concern were the debt and reparation issues.

The dirigiste theory and the agrarian ideology developed in the country were a clear manifestation of the existence of specific political, economic and social conditions before and after the Great War. The Bulgarian economists did not want to adopt and transfer the ideas and theories of the developed Western European countries, but rather tried to make their own contributions. They implemented some of their ideas

after WWI to respond to the new territorial, political and social realities and achieve an economic recovery and the modernization of the country. It is noteworthy that the state was considered to play a crucial role in the post-war economy. The state intervention and control were regarded as the most powerful instrument for the socio-economic development of the country. Thus the Great War paved the way for great changes and transformation of the Bulgarian economy and society.

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