

THE ORIGIN OF THE NATIONAL BANK OF SLOVAKIA

THE RESULT OF A LONG JOURNEY TO NATIONAL SOVEREIGNTY

Ing. Egon Hlavatý, DrSc. – Ing. Ivan Zelinka

The establishment of the National Bank of Slovakia in 1993 represented a historic step in the complex development of Slovak banking. Its historical roots go back to the 1940s and 1960s. The concluding phase of this process came on 18th November 1992 with the passing of Act no.506/1992 Zb. on the National Bank of Slovakia and it not only confirmed the legitimacy of the continuing preparations for building the institutions of a new sovereign state, but also set the direction for further work on the building of these institutions. Much has already been written on this process. However, not everything has been said about the problems and obstacles in this route, their causes and consequences, which hindered the building of the NBS, and so they are less known. The tenth anniversary of the establishment and functioning of the National Bank of Slovakia may be a good opportunity to uncover some of these facts, and in relation to direct witnesses also the last.

The first attempts to create a federal monetary system

Štátna banka československá (the State Bank of Czechoslovakia) began its activity on 3rd July 1950¹. It took over all the rights and obligations of the National Bank of Czechoslovakia, Živnostenská banka, Slovenská Tatrabanka and Poštová sporiteľňa. This meant the culmination of the process of concentration and centralization of Czechoslovak banking, which started after the end of the Second World War in 1945, and it significantly accelerated the reconstruction of the republic as a totalitarian state of Soviet type after 1948. In the framework of the institutional centralization of banking, all



The building of the former State Bank of Czechoslovakia, in which the National Bank of Slovakia began operations

the functions of banks, including the specific currency issuing functions, were merged. In addition, the last remnants of national sovereignty in individual institutions were removed².

However, this system did not function and by the end of the fifties and the sixties it evoked discussion about a more effective and more rational model for the Czechoslovak financial system. Renewal of the division between the currency

issuing and commercial activity of banks was regarded as the first essential step. However, the approach to implementing these steps was not direct and from the beginning there was an effort to preserve a unified State Bank of Czechoslovakia and its centralist position. Especially the proposed avoidance of a federal organization of the system encountered strong opposition in Slovakia.

The point of view of a group of Czech economists³

¹ Act No. 31/1950 Zb.

² It significantly strengthened the position of the Headquarters of the SBCS in Prague, where all currency issuing activity was concentrated. The Regional Institute of the SBCS in Bratislava, which had no equivalent in the Czech Lands, was reduced in number of staff to 40, which was about half the number appropriate for a regional branch in Slovakia. It was completely excluded from monetary activity.

³ The commission consisted of: Prof. A. Červinka, M. Kohoutek, Dr. M. Koudelka, Doc. I. Kožešník, Dr. M. Sokol and Doc. J. Toman.



entrusted with working out „Plans for solving the economic problems connected with the new constitutional arrangement“ in June 1968 unambiguously demanded central currency issuing banking. They argued that the currency issuing policy of the federation would not be secured only by common rules, but required a „spirit of interpretation“ of these rules.

The conception of the Slovak economists on the question of the organization of the monetary system in federal conditions started from the view, that the federation should have a united but joint currency. This also determined the currency policy and its implementation in all questions, which are decisive for a united federal currency. Such an understanding of currency did not exclude the right of the republics to participate in managing this common currency and implementing measures of monetary policy. According to the ideas of the Slovak economists, such an inalienable right of the national republics had to be secured not by a single central bank, but by a joint monetary system composed of independent legal entities – federal and national banks⁴. The joint monetary policy would be created and implemented with the participation of the federal and national parts of this system⁵. Such a system was included in the accepted common Position on the Federalization of the Czechoslovak Socialist Republic of September 1968, which stated: „Direction and control in currency issuing activity will be carried out by the federal issuing bank and the national issuing banks, which are independent legal persons directed in questions of currency issuing by principles (underlined by E.H.) issued by the federal currency issuing bank...“

At the same time, a unified monetary policy had to be implemented by the board of the federal currency issuing bank, in which the two nations would have equal representation and use of the majority of one nation would be excluded. These principles were also expressed in constitutional Act no.143/1968 Zb. z. of 27th October 1968, which placed currency issuing among the joint activities of the federation and the two republics. The management of the federal bank had to belong to a collective organ composed of an equal number of citizens of the Czech and Slovak Republics.

⁴ Such systems were known at the time in the USA and Yugoslavia.

⁵ A special working group was established at the SBCS in Slovakia, to solve the theoretical and practical problems of a federal monetary system. It consisted of: Prof. I. Gajerová-Hlavatá CSc., Prof. D. Hanes DrSc., Doc. O. Kamiač CSc., Prof. I. Karvaš, Prof. J. Spišiak DrSc., Doc. J. Thomas and Dr. A. Zirin. From the various possible monetary systems for the federation, the group finally supported the proposal mentioned above.

Although the establishment of a federal monetary system was agreed and approved in the constitutional act, and preparations were made to establish all its parts, it was not put into practice after the beginning of the „Normalization“ process, because it was designated a solution unacceptable for socialism. However, the idea of „becoming independent“ also in the organization of the banking system was not forgotten.

This fact still played a role in the assessment of the last reforms to be prepared and implemented in the State Bank of Czechoslovakia in 1988-1989. The conclusions of the previous discussion were considered as far as they concerned the pre-conditions for more substantial changes to the directive system of running the national economy and transition to a market economy, but more realistic approaches to an authentic federal organization of society were avoided, and the centralist view of possible solutions persisted. Perhaps this was most clearly visible in the area of currency issuing banking. Therefore, this reform could not correspond to ideas about a more realistic constitutional organization of the Czechoslovak Federal Republic, which would also be reflected in the organization of the banking system.

New impulses to monetary independence in the nineties and the obstacles to their implementation

The change in the socio-economic system in 1989, which also enabled changes in banking, reopened the question of constitutional organization and brought the questions of possible changes in the organization of the federal currency system into the programme of the day. For Slovak economists, this was an opportunity to reopen the problem of creating a currency system on the basis of a common currency in the federation, as was mutually agreed and constitutionally accepted already in 1968. However, the Czech side constantly cast doubt on this agreement on the currency question and unambiguously insisted on the application of a centralist conception of a single currency, reflected in the pre-Munich idea of a single central bank. V. Klaus stated this in the following view⁶: „... as human society we have one Sun, but do we have a joint Sun? It appears that we have only one Sun, although it shines for all, and it is the same with our single currency.“ The argumentation was more rhetorical than theoretically and practical-

⁶ This opinion was delivered in the discussion on constitutional organization in Milov in 1990, and published in *Ekonomické listy*, 9/1990.



ly justified, since the essence of the problem was the participation of Slovakia in the solution of common affairs.

In the initial stage of discussion in 1990, when the basic question of the organization of the state and federation was not decided, precisely the federal organization of the monetary system was in the centre of attention, and diametrically different points of view were one of the serious obstacles to agreement. The Slovak economists and political representatives, that is, were promoting a solution, which had already been discussed, mutually declared and accepted in 1968⁷.

However, it is necessary to openly say that even before the possible division of the state began to be more seriously considered in Slovakia and intensive official and unofficial talks were occurring between Czech and Slovak representatives about a mutually accepted and rational organization of the common state, the Czech side already began to prepare economic and legislative measures for the break up of the Czecho-Slovak Federal Republic.

The Czech prime minister Pithart submitted a detailed report on the measures prepared for the separation to a non-public session of the Czech National Council on 22.5.1991⁸. However, the introduction admitted that their preparation had started by the end of 1990, when the government of the Czech Republic started internal work on steps to minimize any break downs in the economy in a critical period, maintain the continuity of production and secure the functioning of the basic structures essential for running the economy. Although the preservation of the federation was not entirely excluded, the government of the Czech Republic prepared measures for all possible eventualities⁹, in three groups according to the deadline for their preparation:

- 1) for the period of the prepared works,
- 2) for „D“ day – according to the date of division,
- 3) after the day of division of the economy.

For example, for the area of finance, the tasks of the State Bank of Czechoslovakia (SBCS) included proposing decisions about organizing the currency situation in the newly formed states with the alterna-

tives of a common currency or two currencies. It had to prepare measures both for the case of a common currency with a system for its functioning and for the alternative of two currencies, that is, for carrying out the monetary separation.

The Slovak authorities obtained information about the existence of this so-called „catastrophic scenario“ of the Czech government only later. The Slovak National Council considered it at a session on 1st December 1991 on the basis of information from the Slovak prime minister. The Slovak authorities did not adopt a similar comprehensive programme in the following months. The Czech government undoubtedly gained a time advantage from this step of almost two years over the Slovak government.

It is also necessary to say that these steps did not remain in theoretical or verbal form, but the necessary measures for their implementation began to be taken already in advance. While in 1990 the Czech and federal authorities worked jointly on an optimal solution, in 1991, the Czechs already worked on the implementation of division. On 2nd September 1991, the Division of Monetary Circulation of the SBCS in Prague already ordered the printing of „stamps for privatization coupons“ with values of 10, 20, 50, 100, 500 and 1000, which corresponded to the values of the Czechoslovak banknotes of the time. As was already usual in such cases, the Slovak members of the bank board were not informed. This order was understandably a cover name for the real aim, since no use of stamps on privatization coupons was planned in the process of coupon privatization. When the whole embarrassing case was revealed, the order with the printer of securities was cancelled. However, apart from such measures, by the end of 1991 and especially in the first half of 1992, they adopted measures to paralyse the ability to act of the leadership of the bank in Slovakia and abroad. Especially in 1992, when it was already more or less clear that the division of the state was coming, this had a negative effect on preparations, and this was in a situation in which a week had the value of month. The real position and legal powers of the national centre of the SBCS for Slovakia did not enable it to openly make advance preparations for the division.

In this situation, the centre of the SBCS for Slovakia was forced to inform the Slovak government that the most important problems in the probable changes in the constitutional organization of the Czecho-Slovak Federal Republic lay in the currency area, and it was not sufficiently prepared. At the same time, as a reaction to the set of monetary and financial measures of the Czech government in 1991, it prepared, also in 1991, a framework „Set of essenti-

⁷ See, for example, the article by E. Hlavatý, *Ako s menou v autentickej federácii* (How to organize the currency in an authentic federation), *Národná obroda*, 4th July 1990.

⁸ The statement by Pithart to the Czech National Council was given in full to the Slovak prime minister Čarnogurský.

⁹ The warning in the introduction was symptomatic: „It would be an act of serious negligence, if the government of the Czech Republic did not consider the eventuality of disintegration as one of the real possibilities, and if it did not prepare for it. Therefore, by the end of last year, it had already begun to prepare the necessary approaches and measures...“



al measures to secure the functioning of the monetary system and finance in the event of changes in the constitutional position“ and submitted it to Čarnogurský's government. However, the prime minister hesitated to give instructions in this area.

However, passive waiting for developments was not appropriate in this situation. Therefore, the most necessary measures were taken in advance by the Regional Institute of the SBCS with the expected changes in mind. Selected employees were sent to the German Federal Republic for a study visit. The Regional Institute bought on its own initiative and responsibility, a multi-storey building on Tomášiková ulica in Bratislava. The Institute of Banking Education was founded in advance, with the aim of preparing professional staff, since there were not enough of them in Slovakia.

On 13th July 1992, the framework set of measures was also sent to Mečiar, by then prime minister of the Slovak Republic, and in July 1992, after a delay of almost two years, they began faster preparations of the most important measures for the possibility of the sudden break up of the Czecho-Slovak Federal Republic. A seven member group was created in July 1992, with representatives of the ministries of finance, the economy, transport and communications, the interior and the Centre of the SBCS for the Slovak Republic. It prepared the first steps in the monetary field for the independence of Slovakia, including for separation of the currencies.

However, the situation changed, and the danger of a sudden, undirected break up of the federation diminished. The Civil Democratic Party (ODS) and the Movement for a Democratic Slovakia (HZDS) concluded a political agreement on 23rd July 1992 with the following terms:

- dissolution of the Czecho-Slovak Federal Republic by passing an act on dissolution of the federation and the settlement of property and other relations;
- the need to conclude agreements between the Czech Republic and Slovakia about mutual relations in the economic, civil, foreign-policy and defensive areas.

In the economic area, this concerned conclusion of agreements about a customs union, free trade zone and free movement of productive factors. Agreement about monetary union was also considered. There would be above-standard relations between the successors.

This basically changed the situation. It strengthened the position of the Slovak component of central banking. It was no longer a matter of strengthening the powers of the Headquarters of the SBCS for the Slovak Republic, but of creating a sovereign central

bank for Slovakia. This required very much more demanding work and very little time remained for it, not even a whole half year.

It is understandable that the different conditions and longer time available to the Czechs than to the Slovaks influenced the preparedness for the division of the economy and the monetary system and creation of the necessary central monetary institutions. The earlier start of the Czechs already played an important role in the preparation of the talks about division of the state. It enabled more detailed balancing of the effects and problems of dividing the economy for the economy of the Czech Republic, on the basis of which, delimitation proposals and demands could be approached with knowledge of the expected consequences.

The Czech Republic had a functioning, staffed and equipped central bank, but Slovakia needed to build a central bank from the foundations. The existing Headquarters of the SBCS for the Slovak Republic was very limited in its activity. Essentially, it only mediated contacts between the federal central bank and the central authorities of the Slovak Republic. Its participation in the formation of monetary policy and its implementation was very limited. The commercial banks with their headquarters in Slovakia and the institutions of the financial system in Slovakia were connected to the federal headquarters of the SBCS by financial relations. Foreign relations were almost entirely the responsibility of the federal headquarters. The personnel and material equipment of the federal headquarters of the SBCS fell to the Czech National Bank (CNB). At the beginning of 1992, the Headquarters of the SBCS for Slovakia had 84 management staff, a number which had to be increased to 134 according to directives from the federal headquarters. The Federal Headquarters of the SBCS and the Headquarters of the SBCS for the Czech Republic, which merged, had more than 1200 staff at this time.

The beginning of specific steps towards the establishment of an independent National Bank of Slovakia

In the interest of coordination and accelerated work, the „Principles and procedure for establishing the National Bank of Slovakia“ was worked out in September 1992. It was submitted for discussion by the presidium of the government of the Slovak Republic. Meanwhile, the staff of the Headquarters of the SBCS for the SR were already occupied with work on:

- preparation of a monetary union;



– establishment of a Bank Accounting Centre, which would take over inter-bank clearing of payments after Slovakia became independent. The NBS would take over responsibility for the coordination, integrity and effectiveness of the inter-bank payment system in Slovakia.

In this context, it is appropriate to mention that at the time of preparation for the establishment of the National Bank of Slovakia, the economy was being transformed and the economic mechanism reconstructed. This increased the demandingness of the work, but it was also possible to adapt the content and performance of the activities according to the new demands of the economic reforms.

Building on the new Constitution of the Slovak Republic, basic legislative norms were prepared, including the above mentioned Constitutional Act on the Dissolution of the Czecho-Slovak Federal Republic and the division of property. The passing of Act no.566/1992 Zb. on the National Bank of Slovakia on 18th November was important for the establishment of the National Bank of Slovakia. These legal norms not only definitively confirmed the legitimacy of the continuing preparations to build the institutions of the new sovereign state, but also set the orientation of the reform works. The existing legal norms were amended and new norms adopted in this spirit.

Creation of the basic functional units was one of the primary tasks. They were:

a) the Department for Bank Supervision, which had to take over the task of granting licences to newly established commercial banks, setting the rules for prudent business and supervision of the observance of the conditions of the licences and established rules;

b) The Monetary Policy Section with the main task of working out the monetary programme and analysing its fulfillment;

c) The Banking Operations Section, which had to take over and implement the financial operations in relation to the commercial banks and the institutions of the public finance sector;

d) The Foreign Economic Section, which would carry out foreign currency operations, especially administration of the foreign exchange reserves, debt servicing for itself and the government, securing the exchange rate agenda and fulfilling roles connected with the NBS's relations with international financial and banking organizations;

e) The Currency Issuing Section, which would secure the issuing of banknotes, the striking of coins and their distribution, as well as the administration of the stock of cash;

f) A section responsible for the above mentioned

coordination and effectiveness of inter-bank payments.

It was equally urgent to create the following departments to secure activities concerned with the internal needs of the NBS: secretariat, legal, personnel, public information, account, statistics, internal control and auditing, administration and protection of the buildings and other property of the NBS. In this context, it is appropriate to mention especially:

– the establishment of the Institute of Monetary and Financial Studies and

– preparation to publish the specialist banking magazine BIATEC.

Thus, to fulfill the required functions, both external and internal, the initially very inadequately equipped bank had to increase the number of its employees and train them, as well as to obtain and equip operating premises.

The need to establish the following specialized organizational units must be added to these urgent tasks:

– the already mentioned Institute of Banking Education, which became a special organizational unit of the NBS on 1.1.1993. Its purpose was to prepare and raise the qualifications of specialists and managers from the Slovak banking sector;

– the Archives of the NBS taken over from the SBCS. They were established by the Regional Institute of the SBCS for Slovakia on 31.8.1951 as a historical documentary section with the mission of collecting, classifying and storing documents about the activity of the financial institutions in Slovakia.

The dissolution of the SBCS on 31.12.1992 and establishment of the NBS on 1.1.1993 were associated with urgent obligations to transfer the remaining accounts held by the Federal Headquarters of the SBCS for entities with their headquarters in Slovakia, especially commercial banks and institutions of public finance, administer the opening of accounts of these entities in the NBS and take over the appropriate documentation. At the same time, the assets and liabilities of the dissolved SBCS were divided and the shares of the NBS officially taken over. In reality, only the agreed results of the division of property and resources were settled. The overall result of the division and the division of the gold remained, their settlement was already not the responsibility of the NBS, but was included in the overall division of all the property of the dissolved Czecho-Slovak Federal Republic. A special commission was established to complete the division of the property of the federation, with equal numbers of representatives of the two republics appointed by the two governments.



Conclusion

The currency division of the former Czechoslovakia and the creation of the National Bank of Slovakia occurred unexpectedly smoothly and without greater upheavals, in spite of the problems, unclear areas and obstacles we spoke of, although the Czech Republic and Slovakia prepared for the division in entirely different and basically unequal conditions. We have tried to show that the fact that the act of dissolution was not unexpected and the idea of monetary sovereignty had deep roots in the thinking of economists and leading bankers, also had a clear influence on these results. The possibility of successfully operating a central bank relied on the positive experience of the first Slovak National Bank and on the preparation for reform of the banking system in 1968. There were personal and personality pre-conditions here among people, for whom the activity of a central bank was not unknown and who could participate in the functioning of the NBS from the beginning. The positive results of the beginning of the NBS also had a favourable influence on its further development.

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