

44 YEARS IN BANKING

A KALEIDOSCOPE OF EVENTS, PERSONALITIES AND CROSSROADS

2ND PART

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Banking is a special field of the economy and the life of a society, for while it may be about money, the most important factor remains the person. The basis is system, precision, rigour, which however cannot be allowed to cross over and become a self-serving, all-encompassing bureaucracy dampening fantasy, esprit and intelligence.

Profit is a measure of success, but regard must also be paid to a bearable degree of risk and the continual strengthening of the bank's favourable image.

Competition is a motor for efficiency, though must not go beyond the necessary framework of correctness so that battles temporarily won do not lead to losing the war.

The basic quality of a banker is the ability to gain a client's trust, but in contrast to a fraudster must also be able to keep it, since banks work with money, primarily other people's money. A banker today falls within the most modern idea of a globe-trotter, but the specific features of a given environ-

ment or country must not be underestimated. A banker must be expert, professional, but when enthusiasm too comes into this picture, this must not lead to harm. A banker must have a healthy self-confidence, but also a certain degree of humility and empathy in communicating with the client, because without an awareness of the problems and values of others he/she will be writing their own professional death warrant.

Banks are, from the aspect of values, fates and priorities of personalities, communities, firms and regions literally modern cathedrals, but must not allow themselves to become museums. This means that they must respond to every significant change in the economy, society or life of a large client and, where possible, must react not after some delay, but must foresee and anticipate developments in advance.

This unceasing adaptation at the crossroads of development is yet another essential quality of banks.

The Eighties: mature to cardinal changes

J. A. Komenský: "In order for someone to do well, three conditions must be fulfilled: to want, to know and to be able."

If the seventies were for the global economy years largely of shocks and imbalances, the eighties became a period of the overall reworking of financial markets and banking.

In advanced economies massive torrents of people's assets, information whether in air, road, river or sea transport and in information systems are matched by a gentle and branched network of arteries and veins of money and capital flows. For the thorough repletion of money in the economy serves a system of institutions with their sophisticated techniques, financial instruments and mechanisms.

In the eighties the globalisation process deepened by a significant strengthening in the importance of global fi-

nancial centres. In the skyscrapers of Manhattan, the City of London, the Hausermann Boulevard in Paris, or in the business quarters of Düsseldorf new financial methods, ever more complex and refined financial instruments are continually being invented.

Professionals, accountants are less and less resembling book-keepers and becoming ever more experts. Balance sheets and accounting books are changing into bibles and strategies for serving a firm's management.

The sophistication and diversification of products and instruments on the financial market has acquired huge dimensions with the important process of securitisation, the development of derivatives, options, hedging, swaps and futures. The massive growth in the volume of financing and international liquidities can be seen also in new financial products. The gulf between the "real" and "symbolic" economy has deepened greatly.

Extraordinary changes have also occurred in the organisation and structure of financial market institutions, such as banks, stock exchanges, financial companies,



and the broad range of para-financial institutions. The changes are apparent both at the global level and within banks and financial institutions. Where 20 to 30 years ago changes in an organisation were necessitated by the universalisation and internationalisation of banks, in the eighties and later, especially in the Nineties, such changes were necessitated by the spread of IT, globalisation and tougher competition. Mergers and concentrations of banks for example in the EU can be seen as a sign of the preparation for the new challenges and conditions of an integrated and enlarged Europe.

The need for cardinal changes and adaptation to global trends was felt in the Eighties also in Czechoslovakia. These changes were necessitated not only by new trends in the world, Gorbachov's perestroika in the USSR to name just one, but also primarily by domestic problems of the low efficiency and ineffectiveness of economic management. The investment process was inefficient, unneeded supplies were amassing in production, and the cycle of demand – production – investment - innovation was not functioning.

The extraordinarily severe and acute strategic turnaround economies were faced with was the renewal of the basic functions of money so that the thrombosis in the fluency and replenishment of financial flows was not a brake on the steady flow of goods.

In advanced market economies various types and degrees of financial difficulties may occur, depending on whether this concerns transitional financial problems caused by an unforeseen accident, or longer lasting disruptions in the structure of resources allocated, or whether they have occurred due to a permanently bad state in the management or composition of a firm's shareholders, where the solution comes in the form of its bankruptcy.

In Slovakia, the whole issue of insolvency in the business sectors as a national economic phenomenon was a significant manifestation, or a form of the overall inefficiency of the economy and ineffectiveness of its management mechanisms.

Insolvency through its huge dimensions significantly disrupts the reproduction process in the economy with all related impacts. In place of the businesses' sequestered turnover funds back at the start of the seventies, loans were forced upon them for so-called "permanently revolving stocks". Yet more "sick" loans were provided several times under the pressure of the "support plan", rather than following a thorough analysis of the cash flow. Operating insolvency in the period of 1981 – 1985 for the whole federation reached on average 10.5 billion Czechoslovak koruna and over the years 1986 to 1988 had grown to 34.9 billion Czechoslovak koruna.

It is therefore interesting how in this ferment of accumulated social and economic problems the banking sys-

tem reacted. I have had the possibility to intensively monitor and confront this situation, since after returning from Paris in September 1981 I again entered the CSOB (Czechoslovak commercial bank) branch in Bratislava, from where in 1985 I moved to the main state bank institute to the position of director general, which now enables me to look back shortly on this period.

At the CSOB headquarters, following the death of T. Dubrovay, the post of director general was taken over by A. Brdičko. Even at that time it would have been desirable if the bank's management reacted more energetically to changes in the world, as well as to the needs of foreign trade organisations, in which also in consequence of coming into contact with foreign banks professionalism had grown not only in the commercial field, but also financial and foreign exchange fields.

A great gap existed in the managing and handling of new financial products and their combination in financing diversification of the forms of trade, sophistication of payment conditions, as well as in the framework of assisting manufacturers, which were even then increasingly frequently penetrating foreign markets directly or indirectly, for example through manufacturing corporations, compensation deals or foreign exchange-return loans. In this regard Slovchémia, in Slovakia, went the furthest in readjusting, thanks to the tireless A. Gregor, who managed to procure foreign currency for all the necessary imports and thus contributed at the time to extensive and well-planned construction and modernisation at the companies Slovnaft, Duslo Šaľa, Chemlon Humenné, Chemosvit Svit and others.

I personally was at the time very glad to be involved in the annual comprehensive analyses of foreign trade organisations with the participation of representatives from partner production. In 1983, these included for example the companies Rempo, Imex, Chirana, Intercoop, Interl, Technopol, Petrimex, Drevounia, Kerametal and Omnia.

In Bratislava we tried to maintain good partnerships founded in the birth and development of new foreign trade firms. We held for example regular meetings with foreign currency dealers on the foreign exchange and monetary developments around the world. We also paid significant attention to consultation sessions on payment conditions in the case of extensive imports, for example for Slovnaft, Chemlon Humenné, Celulóžky a papierne, and other companies.

Proof of our regular co-operation with foreign trade organisations lay also in our joint journeys abroad in solving complex financial problems with their foreign partners, accompanying for example the firm Omnia to Metz in France, where a foreign customer having gone bankrupt we secured their exports through an export credit against pledge clause (nantissement) in place of a letter



of credit, which would have otherwise required a 100% block on the loan, i.e. FRF 5 million. Consequently, over the course of the following 2 years the level of Omnia's receivables was reduced by several millions of FRF, exports were not stopped and the foreign firm recovered financially and commercially. Another successful journey was the one accompanying the foreign trade organisation Technopol to Algeria for consultation regarding payment conditions for the export of flourmills and recovering unpaid receivables from some Algerian banks.

In 1985 I moved to the State Czechoslovak Bank. Even if I parted with a heavy heart from the collective spirit and colleagues at the CSOB branch, I felt that after 17 years at CSOB I was becoming threatened by routine, which would not have been good either for me or the bank.

At the Head Office of the Czechoslovak State Bank I realised that any of its activities were predetermined by two spheres of determining factors, which everyone had to respect and fit in line with. In the state bank's centralisation the main actor was the Head Office in Prague, headed by such figures as the chairmen S. Potáč and J. Stejskal and others, who had a strong infrastructure of professionals and mechanisms in the monetary field (A. Krejča) and the foreign exchange field (J. Hájek).

All the basic directives, orders, instructions and plans at this time were discussed in Prague at the Czechoslovak State Bank meeting of chairmen, with the participation of the director general of the Head Office (A. Kostál) or one of his deputies (J. Mudrík, D. Paulík, V. Valach).

The Head Office of the Czechoslovak State Bank in Bratislava remained a place for relations to Slovak bodies in Bratislava and to branches in Slovakia. I look back now on a good team of close colleagues at the monetary section (J. Mališka, A. Celušák, I. Zelinka, J. Zubák, and others), at the foreign-exchange section (J. Šoka, T. Zámečník, A. Babíková, Z. Baklanová, J. Koštiak, and others), and at the investment section (Š. Horváth, J. Tkáč, M. Heldová, and others).

In the middle of the eighties, pressures for far-reaching changes had already reached an advanced stage and therefore it was not always simple to get the correct orientation. The range of reactions and attitudes was also very broad. (Note: The whole of this ferment and loose economic thinking may be better characterised by quoting Valéry Giscard d'Estaing: "One cannot govern by misleading people.")

The position of the Czechoslovak State Bank in this period was full of misunderstanding. In non-banking central bodies the opinion prevailed that a bank could be flooded with anything that others would not do or what others do not feel like doing. The bank and its staff were, not always through their own fault, overwhelmed by other, sometimes unpopular tasks. In a period of limits

on investment, foreign exchange, staff, wages set by others, it was the bank's staff that had to check and apply sanctions. It is understandable that a bank's staff were not always popular in the economic/accountancy sector as well as among the population at large.

For example, some managers at branches of the Czechoslovak State Bank were for most of the year snowed down under with applications and complaints concerning the applications submitted by citizens for foreign currency, and so were often not left with any time to deal with the more serious actual economic and banking tasks. A bank's activities comprised mainly control and repression. The business sector therefore did not regard the bank as a partner.

After 20 years, in the middle of the eighties, the Czechoslovak State Bank was not even at the position where the Slovenian bank had been in 1968, and whose representatives at the time of their visit to the Czechoslovak State Bank had pleasantly surprised me by their interest and resolve in building serious partnerships with clients in an effort to help and support businesses.

The central sphere, political and economic bodies at that time behaved as a thief who in an effort to distract attention shouts, "Get the thief!" They did not understand the basic truism always repeated by the cabinet minister R. Barre at the time of economic crisis in France and by which he also acted, that "one need not tell businesses what to do, rather it is necessary to create conditions so that they act so". To the point, A wise Slovak – unfortunately not an economist – A. Matuska of his time said: "A system may be created only by one who has experience and direction."

I must however at this point defend the hundreds of banking staff who despite this environment showed commitment and fairness.

But it was no longer possible to stop the course of things. Through the public and mass media swept a huge wave of interest in new trends, terms, categories and phenomena. However, from this only the contribution in the development of economic thought was apparent as regards the expansion in the range of terms to include those such as enterprise, risks, disequilibria, adaptation, new forms of trades, etc.

It was indeed a favourable time also for publishing – and also for me. I would like to mention the year 1981, when, for example, I wrote a book *Risks in Foreign Markets and the Return on Foreign Currency* that was republished some years later.

In the mid-Eighties I, together with a team of authors, wrote a textbook on foreign trade for secondary schools in Slovak and Czech and in 1989 published the book *Adaptation – the criterion for an economy's success* that needed no adaptation having been made after 17 November 1989. Besides this, there were many articles



and presentations on the radio and television. I enjoyed giving lectures at the Institute of Management in Government, the Institute of Foreign Affairs and the Slovchémia Institute.

Special importance in the development in the economic thinking of a bank's staff came also in the form of the journal *The Bank's Voice* of the Czechoslovak State Bank. This from its first issue of 15 March 1949 as a successor to the previous banking business journal *To Ourselves*, which was published in the framework of the Slovak Bank.

Following the establishment of a single Czechoslovak State Bank the journal was transferred under its auspices. From the birth of *The Bank's Voice* its spirit was the enthusiast and wonderful person Rudolf Návrát, who was enthusiastic for a good thing, but could also truly lose his temper at injustice or untruth.

He worked at the journal until 1975, when the editorial office of the Slovak section was taken over by E. Janotíková.

From 1956 onwards *The Bank's Voice* became the joint journal for the whole of the Czechoslovak State Bank in Czechoslovakia. Of the important chairmen of the editorial board, it is necessary to mention the deputy chairmen of the Czechoslovak State Bank L. Vaškovič, M. Zámečník and Štefan Jorík as the chairman of the Slovak section. I, too, had the honour to be the chairman of the Slovak section of the editorial board of *The Bank's Voice* over the years 1985 – 89. Of all the members of the editorial board, it is necessary to mention as those most active the following: J. Valach, Š. Horváth, R. Januška, J. Chvíla, J. Mališka, O. Danko and others.

Gradually an extensive network also built up of contributors to *The Bank's Voice* from individual district branches, where mention must be made mainly of J. Bugal, A. Gutmanová, Š. Chodula from Žilina, J. Virgal from Nitra, N. Slaná, V. Trangoš, V. Šikulová, M. Buš, J. Kretz, J. Balkovič, M. Charvát from Banská Bystrica, M. Rišková from Čadca, I. Ross, T. Vaško from Košice and dozens of others.

The journal *The Bank's Voice* played an extraordinary role in moulding young bankers also in the shift in the economic thinking of a bank's staff. Alongside this, it deserved great credit for processing the abovementioned history of banking in Slovakia, for the systematic care of linguistic purity in banking materials.

For all of this, the recognition and thanks are due to *The Bank's Voice*, as well as to the chairmen and members of its editorial board, contributors, and particularly to self-sacrificing R. Návrát. It is no surprise that at the last meeting of *The Bank's Voice* in November 1989 (actually before 17 November) the following verse burst forth from the pen of J. Chvíla:

Well thanks to you all, to whom action was a credo,

*And not cheap words, deceitful mistrust.
Only through work does the tiller's crop shine,
And let that which matured yesterday,
Not to fall from the ear on the way to the garner!
Only thus is the wisdom of the pen assured.*

In the end changes do happen

In 1988 – 1989 the pressure for changes in the economic mechanism was already so great that it was necessary to act. The collapse in the hierarchy and values of the former USSR clearly contributed to this, as did the coming collapse of the communist block in Central and Eastern Europe. Three Acts on the Czechoslovak State Bank, banks and savings institutions, and on foreign exchange management were adopted as early as before 17 November 1989.

The Acts on the Czechoslovak State Bank and banks and savings institutions created the legal and institutional framework for the new banking system from 1 January 1990.

There should have been a polarisation of the issuing and business activities in banking through the separation on the one hand of the Czechoslovak State Bank into a nation-wide issuing bank, and on the other hand the detachment of two new commercial banks in Prague (*Komerční banka*) and in Bratislava (*VÚB*), as well as an investment bank in Prague with nation-wide coverage.

The network of commercial banks was to have been completed by the still existing *Živnobanka* in Prague, *Česká státní spořitelna* (Czech State Savings Bank) in Prague and *Slovenská štátna sporiteľňa* (Slovak State Savings Bank) in Bratislava. Besides these, the specialised CSOB was to continue to operate as a joint-stock company.

As early as 1 January 1989 new measures in the foreign exchange sphere were introduced, such as a single-component exchange rate and foreign exchange limits. In 1989 foreign-exchange auctions were also introduced, where according to a specific procedure interested parties could freely purchase the necessary foreign currencies.

These three Acts were to be the start of further changes, though they were incomplete. For instance, foreign-exchange auctions clearly illustrated a market imbalance between demand and supply for foreign currencies and an unrealistic official exchange rate.

The Acts on the Czechoslovak State Bank and on banks did not consider competition by way of establishing a more extensive network of new commercial banks. Therefore after the "Velvet Revolution", following 1 January 1990, this field needed much further and deeper examination.