

TEN YEARS OF THE SLOVAK CURRENCY

At the beginning of this year, we commemorated the tenth anniversary of the establishment of the Slovak Republic and the National Bank of Slovakia as the central bank of the SR. One of the basic attributes of state sovereignty is, without doubt, the national currency. In this connection, we interviewed Mr Ján Mathes, Chief Executive Director of the Currency Division and Member of the Bank Board of the NBS, who was present at the birth of the Slovak currency and was in charge of the operations connected with putting it into circulation.

When did the preparations for the issue of Slovakia's new currency actually begin?

In the course of 1992, we received certain political signals that the federation might break up in the not too distant future. In this connection, it was necessary and appropriate to assess the risks involved in that event and to prepare to meet them. At that time, we were hard at work on the preparation of the new federal currency, which was to consist of two Czech, two Moravian, and two Slovak banknotes. Colleagues from the Head Office of the State Bank of Czecho-Slovakia started sending to Slovakia, for initial consultations, foreign companies specialising in banknote printing. We had no experience of this in Slovakia, nor did we have specialists in the preparation and production of banknotes. During discussions with these companies, we learnt what the production of modern banknotes involves.

In the autumn of 1992, it became clear that the federation would break up and Slovak banknotes would be printed abroad, since there were no printing works in Slovakia and the Czech printing house was reserved for the printing of Czech banknotes. As for the production and supply of coins, we had no reason for concern; we knew we could rely entirely on the Kremnica Mint, which really did its best in this area.

Did you foresee the currency split taking place almost immediately after the break-up of the Czecho-Slovak Federative Republic?

As a member of the Bank Board, I was also on the Monetary Committee of the NBS and participated in all its meetings. It was clear that the monetary union



would soon be dissolved. We expected that it would be cancelled as early as the beginning of January 1993. For us, the 8th of February was an acceptable date, providing sufficient time for the stamping of banknotes.

The stamping of Czecho-Slovak banknotes was a unique event in the history of the Slovak currency. What was it all about?

At the end of November 1992, we already had a clear idea of how we would proceed after the break-up of the federation and the proclamation of the independent Slovak Republic. We had several choices – to print temporary banknotes, so-called coupons; to mark the existing federal notes with stamps or overprints; or to print new banknotes, given enough time. Coupons were rejected due to inadequate protection against forgery. We considered various forms of superimposition, which, however, cannot be applied in the case of used banknotes. Finally, we decided to use special stick-on stamps for the separation of Slovak banknotes from Czecho-Slovak and Czech notes. This was not easy, because the stamp also had to satisfy certain criteria, for example, it had to have an adequate number of security features. In addition, we wanted to ensure that the stamped notes could be processed with the equipment we had at our disposal. The design of Slovak stamps was prepared, due to existing relations with the company, by Prompt, a printing house specialising in securities, and was approved by the NBS for official use after minor adjustments. The stamps were printed in Canada and the first consignment arrived in Slovakia at the end of December 1992.



Czecho-Slovak banknotes in stock at the NBS started to be stamped on 13 January 1993, but initially in relatively small amounts. For example, the level of Sk 10 billion, i.e. ca. Sk 2,000 Sk per capita, was exceeded only on 25 January, but five days later the volume of stamped notes reached Sk 20 billion and on the day of the currency split more than Sk 27 billion. It was necessary to maintain some sort of system, because the stamping of banknotes took place parallel with other work. The employees of the NBS worked many extra hours stamping federal banknotes. Notes were stamped practically everywhere. We got help, first and foremost, from the General Credit Bank (Všeobecná úverová banka), and to a lesser extent from the Slovak Savings Bank (Slovenská sporiteľňa) and the Investment and Development Bank (Investičná a rozvojová banka). Owing to the efforts of those involved, the currency was prepared for the split in due time. All the people who took part in this process deserve acknowledgement.

For private individuals, the exchange of federal banknotes for notes marked with Slovak stamps took place on 4 – 6 February 1993. During this period, the NBS put 76 million banknotes into circulation in a total amount of Sk 24 billion. The average per capita exchange was Sk 4,500.

Stamped notes had only limited validity, and were gradually exchanged by the National Bank of Slovakia for new Slovak banknotes ...

Preparation for the stamping of federal banknotes was accompanied by intense preparation for the issue of a new, permanent Slovak currency. Leading printing works estimated the time needed for the project at roughly two years. However, we needed, for various reasons, the new currency by autumn, i.e. in 10 to 11 months.

Due to lack of time, we decided not to invite tenders from a large circle of designers. We asked Jozef Bubák, one of the participants in the last tender for the design of new federal banknotes, who produced, according to our specifications, designs for five notes in a very short time (2 – 3 months). The printing houses were also pushed to co-operate more actively. We selected three printing houses, with a view to spreading the load of work and reducing production time. This decision proved to be correct. Among other things, we gained some insight into the pricing policies of individual printing works and managed to negotiate really advantageous terms. At the end of August 1993, we put the first 50-crown note into circulation, which was followed by four other denominations, closing the basic series of banknotes in 1993.

The situation in coin production was similar. We requested the Mint to instruct its design studio to prepare designs for future Slovak coins. In the final round, the winning design was that of Drahomír Zobek. The first coin entered circulation as early as 8 February 1993, the day of the currency split. This was the 10-crown coin, which replaced unstamped federal 10-crown banknotes and coins with portraits of Masaryk, Štefánik, and Rašín. The series of Slovak coins was completed on 29 October 1993, with a coin of a nominal value of 10 hellers.

I can say, without false modesty, that we managed, in a record time, i.e. less than ten months after the currency split, to create a consistent series of banknotes and coins of high artistic and technical level, including adequate protection against forgery.

Putting currency into circulation is connected with processing and the control of money circulation ...

We had relatively good experience with the control of currency circulation, and the storage and processing of banknotes and coins. The State Bank of Czecho-Slovakia (SBCS), as well as its Main Office for the SR in Bratislava, applied the most advanced technology for money processing as early as 1979. In 1988, the control of money circulation was fully entrusted to the Main Office of SBCS for the SR. In this area, we had the necessary know-how, as well as technical, material, and personnel conditions throughout Slovakia, but after the delimitation and transfer of the property of SBCS in 1990 to state financial institutions (VÚB Bratislava, KB Prague, and IRB Prague), only one building in Štúrova Street in Bratislava and one in Banská Bystrica remained in our possession. We had no vaults, safekeeping and processing facilities, and we lost part of the banking staff as well. Almost everything was allocated to the commercial sector. We therefore entrusted, as a founding member, the General Credit Bank (VÚB) with the administration of the Slovak money stock. At the same time, we started building, under the federation, safekeeping and processing facilities. We had built, prior to the establishment of the NBS, a spacious vault in Banská Bystrica, a vault in Tomášikova Street in Bratislava, and had begun preparations for the construction of a new building for the Košice branch.

As I said, part of the stock of Slovak money is administered by the General Credit Bank (apart from the NBS), in fourteen branches with the necessary authorisation. This service is rendered on a commercial basis and is rather expensive. As soon as the buildings of our six sub-branches have been completed,



we shall administer the entire money stock at the NBS using state-of-the-art technology, which will fully replace the present method of manual processing.

Is the Central Bank prepared to react flexibly to the demands of money circulation?

It has to. Money circulation in cash and non-cash form performs a similar function in an economy to blood circulation in beings. It must have a mechanism capable of reacting to any situation. As for cash circulation, the precondition for smooth circulation is the availability of banknotes and coins of all denominations in optimum amounts in suitably located vaults.

Since 1989, we have been making a concerted effort to optimise and extend our network of branches, vaults, and processing facilities in Slovakia. We have carried out a number of analyses and compared the technical condition and equipment of domestic storage facilities with those of other central banks. I think we are now able to react to any sudden demand coming from any region, on an ad hoc basis. However, it is necessary to monitor regional demand and to react flexibly and efficiently to signals coming from our regional branches. For example, the Eastern Slovak Region, as a typical distributing region, follows a different pattern of behaviour than the Western Slovak Region, a typical withdrawing region, which takes money out of circulation in Bratislava due to the concentration of the economy and the location of the headquarters of commercial banks in the capital city, and to a lesser extent, in other parts of Slovakia via banks' branches. Since we received Sk 8 billion from commercial banks at the Main Cash Desk of the NBS Head Office alone, it was necessary to continuously replenish the stock of money in the required structure throughout the whole territory of Slovakia.

Another question is adequacy of the money supply. At the Bank Board, we approve a printing and minting plan for each year, in which the required amounts of banknotes and coins of individual denominations are specified for the coming year. In banknote printing, however, we are dependent on foreign printing works, which draw up their production plans so that they are utilised to the full. Hence, they cannot react flexibly enough to sudden demand. In addition, putting out to tender and related activities would prolong this period even further.

At the beginning, we applied a two-year cycle to cover the needs of money circulation. Later, we adopted a three-year system of supply due to increased fluctuation in currency circulation. After all, a three-year system is more advantageous from the financial point of view. We print banknotes for three years

in amounts corresponding to 100 – 150% of the volume in circulation. The new, modern strong-rooms in the building of the Central Bank make it possible to cover any fluctuation in the course of the day, especially in the run-up to Christmas, when demand for cash reaches record levels. Apart from this, the producer also has a certain quantity of banknotes in reserve, which can be shipped to Slovakia within two weeks if need be.

In the supply of coins, the situation is much simpler, since the Kremnica Mint is capable of adapting to sudden demand.

Could you give a brief survey of developments in the area of currency circulation over the past ten years?

The value of currency in circulation is on the increase. In 2002, the per capita figure reached Sk 17,509, compared with Sk 5,804 in 1994. Last year, there were 25 banknotes and 193 coins in circulation per capita, compared with 15 notes and 62 coins in 1994. The most frequent banknotes are the Sk 1000 and Sk 20 notes, while coins are still dominated by heller coins, amounting to 130 pcs per capita in 2002. Banknotes in lower denominations have shorter life-time, while those of higher denominations last longer.

Of the total value of currency in circulation in 2002, banknotes accounted for 97.8%, with the share of notes of the highest nominal value (Sk 5000 and Sk 1000) reaching as much as 87.8%. There is a gradual shift towards higher nominal values, which is reflected in the value of a so-called 'average banknote'. For example, in 1994, the value of an average banknote was about Sk 380 (the sum of the crown values of all banknotes in circulation divided by their number). This value is close to Sk 700 today. In the case of coins, the situation is different. The value of an average coin in circulation is falling steadily, from Sk 2.00 in 1994 to Sk 1.40 in 2002. This is due to the fact that the market is saturated with heller coins, mainly 10- and 20-heller coins, of which only every second is returned into circulation.

The National Bank of Slovakia has pointed out several times that the production of 10- and 20-heller coins is inefficient. Part of the population is, however, concerned that their cancellation and exclusion from circulation could lead to a price increase ...

The numbers speak clearly: the production of a 10-heller coin costs 29 hellers and that of a 20-heller coin 34 hellers. Anyway, to put it simply, these coins



come mainly for the cash-boxes of children or storage containers, where they are kept in isolation from the actual circulation of currency. They are no longer economically justified. Elsewhere in the world, coins of the smallest denominations are also being withdrawn from circulation. The NBS could save the costs of minting, processing, distribution, and other expenses, which amounted to more than Sk 30 million in 2002.

As far as the second part of the question is concerned, we would like to see that the prices of individual goods are not rounded off by the producers or sellers, only the final amount payable for the purchase. In such a case, the cancellation of heller coins would have no, or only a minimum, effect on price levels.

On the pages of Biatec, we keep the public informed of new issues of commemorative coins, which are popular among collectors. What policy is followed by the National Bank of Slovakia in this respect?

We have several themes, which are included in the issuing plan every year. We commemorate important jubilees, in the case of persons we commemorate the anniversary of birth rather than death, and we never deal with local matters, such as anniversaries of foundations of individual towns, etc. We propose themes

which are of value and interest to collectors, and where the technical realisation is an exciting challenge for the Mint, for example bi-metal or tri-metal coins, or coins of atypical geometry. Some central banks have assigned the task of issuing commemorative coins to mints, which transfer part of the proceeds from sales to the central bank. In Slovakia, commemorative coins can be purchased directly from the NBS or from traders, who are mostly commercial banks and dealers in numismatic articles.

In conclusion, allow me to ask a personal question. What is it like to see your own signature on virtually every banknote?

On the one hand, it is a great pleasure, but on the other hand, one takes on a certain obligation with a signature. Signature on a banknote means that the governor of the issuing bank and the person in charge of production guarantee that the note is legal tender and is protected against forgery by an adequate number of security features. Our task was to issue banknotes which are attractive and present an attractive image of Slovakia in the rest of the world. This criterion should be met by every single note.

Thank you for the interview.
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