



The Slovak koruna will be replaced by euro

Part 1

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The date 1 January 2009 is also the time of the end of the official use of the Slovak koruna as the national currency in the Slovak Republic. This reality is also an appropriate opportunity for us to briefly recall the historical roots of the Slovak currency, as well as some of the facts and historical events that have been influencing the monetary development in our area since the first paper money appeared until the present day.

THE 1892 MONETARY REFORM AND THE FOUNDATIONS OF THE CREATION OF THE KORUNA CURRENCY

Historically, the creation of the crown as the basic monetary unit dates back to the 19th century, more exactly to the year 1892. At that time, the crown (100 halers) – as the currency resulting from a monetary reform – replaced the silver *zlatník*/gulden/florin, which had been used so far. The silver gulden did not represent the metal basis of the Austrian currency due to a disparity between its purchasing power and the market exchange value of the silver amount contained in it. The basis was formed by banknotes; the purchasing power of the gulden was determined mainly by the foreign exchange policy and discount policy of the bank of issue.

The crown currency (*koruna*/krone/korona) was introduced in complicated political and economic conditions of the Austro-Hungarian Monarchy as a so-called gold currency, whose main objective was to achieve currency stability and stability of the currency development.

THE AUSTRO-HUNGARIAN BANK – THE CIRCULATION BANK

According to historical sources, the crown currency introduction was the result of a successful monetary policy of the Austro-Hungarian Bank (Oesterreichisch-Ungarische Bank or Osztrák-Magyar bank), which had been active in Austria-

Hungary through a network of subsidiaries and bank offices since its creation in 1878.

The main offices of the Austro-Hungarian Bank were based in Vienna and Budapest. The Austro-Hungarian Bank gained the reputation of a reliable issuing bank; it managed to work well independently of the monarchy's government power. It was managed by a General Board consisting mostly of respected economists and university professors. The bank was lead by a governor.

However, the gold crown currency did not represent a direct exchangeability of banknotes for monetary metal. The content of the new monetary unit was made up by 0.3280 grams of pure gold. Silver coins with the same nominal value but with the Austrian coat of arms – the imperial crown and an Austrian legend on the one side and with the Hungarian coat of arms – the Hungarian coronation crown and a Hungarian legend on the other side were minted within the new system of coins of the Austro-Hungarian crown currency (Figure 1 and 2).

A picture of the ruler Francis Joseph I. with an Austrian or Hungarian legend situated on the front face side of the coin (obverse) was the common sign of these coins. The Austrian coat of arms with a designation of the currency unit and with the year of issue, or the Hungarian coat of arms with a designation of the currency unit, the legend "Korona" and the designation of the year – the year of minting, were located on the reverse



Fig. 1 A crown of 1892 (creation of the crown currency), Hungarian legend, K.B. – Kremnica Mint, obverse.



Fig. 1 A crown with the Hungarian coat of arms of 1892, reverse.



Fig. 2 A crown of 1915, Austrian legend, obverse.



Fig. 2 A crown with the Austrian coat of arms of 1915, reverse.



Fig. 3 Five gulden of 1762, bankozettel, the first paper money in our territory.



Fig. 4 Five gulden of 1796, bankozettel.

side of the coin. The Austrian and Hungarian crown coinages of the coins of the Austro-Hungarian currency were issued in the period 1892–1916, the K.B. symbol on the coin signifies that they have been minted in the Kremnica Mint.

Both parts of the monarchy were given an order by law to withdraw government notes from circulation. They were replaced at the rate 1 silver gulden = 2 crowns. The reduction to crowns took effect as at 1 January 1900. The replacement of the government notes by the crown currency coins had been carried out by 1903, although the custom to reduce gulden to kreutzers (1 silver gulden was divided into 100 kreutzers) remained among the population for a longer period of time.

The golden crown currency did not represent a full exchangeability of the crown currency for gold. The golden coins issued to circulation at that time were rather supposed to awaken the general impression that the Austrian currency was really a gold currency. The price of golden coins was not fixed, it was formed according to the market situation. In fact, the crown exchangeability was limited to the exchangeability of banknotes for foreign exchange of countries, in which the exchangeability for gold existed. Thus the crown was a gold exchange currency.

THE BEGINNINGS OF FINANCE AND BANKING IN SLOVAKIA

The creation of the Austro-Hungarian Bank and its activity until 1918 as the central bank of the dual monarchy was geopolitically also directly related to the continuing formation of banking in Slovakia. "Continuing" because the roots of Slovak banking (finance) date even further back – to the period before the foundation of the Austro-Hungarian Bank in 1878, although the banking sector in Hungary, and thereby also in Slovakia, was not very developed until the Austro-Hungarian Compromise in 1867 and virtually from the 1848 revolution to the Austro-Hungarian Compromise in 1867 there was no considerable development of finance and banking, which was also due to a general economic stagnation.

Finance and banking in our territory developed only in the following years; for instance the Slovak capital occurred in 3 joint stock savings banks out of 66 joint stock banks and savings banks. The most important one was the Sporiteľňa, úč. spol. Martin [Plc.], because the centre of the Slovak cultural and political life was in Martin at the time.

THE BANKOZETTELS AS THE FIRST PAPER MONEY IN OUR TERRITORY

Considering the importance of the Austro-Hungarian Bank as the circulation bank for the then Austria and Hungary, it is worth mentioning that the attempt to perform independent monetary policy has its origin in the foundation of the Austrian National Bank in 1816 as a privileged institution, by means of which Francis I. issued money – banknotes. Since during the 1st half of 19th century the Austrian currency was regarded by the Austrian society as a metal standard currency, the issuing of banknotes was based on silver coverage.

From the historical point of view, two currencies were valid simultaneously in the Habsburg monarchy at the beginning of 19th century – the convention currency represented by silver coins and paper money – the bankozettels introduced by Maria Theresia in 1762 (Figure 3).

The bankozettels with the epigraph Wiener-Stadt-Banco-Zettel were gradually issued by the Municipal Bank of Vienna until 1806 (Figures 4 and 5). The lowest issued denomination was 1 gulden, the highest denomination was 1000 gulden.

The bankozettels circulation reached 141 million gulden in 1800.



Fig. 5 Five gulden of 1806, face side and rear side, bankozettel.



Tab. 1 Development of the price of 100 silver guildens in 1859

	March	June	September	December
The highest price	112.45	146.70	125.40	125.10
The lowest price	105.00	142.00	117.50	122.90

Source: N. Silin: Rakousko-Uherská banka.

Tab. 2 The state debt at the end of individual years in millions of guildens

Year	1862	1863	1864	1865	1866
Debt	217.289	186.373	174.116	145.800	80.000

Source: N. Silin: Rakousko-uherská banka.

Tab. 3 Decrease in banknotes in circulation in 1862–1866

Year	1862	1863	1864	1865	1866 (at the end of May)
Banknotes	426.87	396.65	375.82	351.10	267.80

Source: N. Silin: Rakousko-Uherská banka.

The bankozettels were the first paper money in our territory. Their main objective was to raise financial resources for the repayment of the state debt to meet the war expenditures after the lost war with Prussia. They were actually government notes and an instrument of the government's budgetary policy. At the beginning of the 19th century, the bankozettels started to lead the silver coins, however their purchasing power was decreasing rather rapidly considering their enormous amount of issue. The high inflation and the existing state debt were the main preconditions for the monetary reform of 1811, during which the Austrian paper currency – the bankozettels – was considerably devaluated.

A new paper currency, the so-called scheins – Einloesungsscheine – was introduced by the Letters Patent on the Remedy of the Monetary Situation issued by Emperor Francis I in 1811 (Figure 6).

The cashing notes – scheins – replaced the paper bankozettels. The creation of the new Viennese currency was accompanied by strong depreciation of money through devaluation, with 100 gold guildens in bankozettels having been equivalent to 20 guildens of the Viennese currency in scheins in 1811. The burden of money depreciation by devaluation continued until 1817. There were 678,715,925 Viennese currency guildens in circulation on the day of foundation of the Austrian National Bank on 6 January 1816.

ACTIVITIES AND THE TASK OF THE AUSTRIAN NATIONAL BANK IN THE MONETARY SYSTEM

The Austrian National Bank carried out 5 issues of banknotes denominated in the convention currency from its establishment in 1816 to 1847. In those days, the currency depreciated mainly by means of various issues of government notes,



Fig. 6 A schein of 1811.



Fig. 7 One gulden of 1860, A – Vienna Mint, obverse and reverse.

i.e. paper money. They were issued in the form of cash certificates and notes, coin notes as well as Hungarian notes better known as a so-called Kossuth notes. Paper money – government notes were not withdrawn from circulation before 1856. In that year, as a manifestation of the effort to return to a monetary system based on a metal basis, inter alia an order was issued, according to which a debtor was obliged to repay his debt to the creditor in silver, if the creditor requested this way of debt repayment. Before the order, banknotes were used to repay debts.

It was discussed more and more, whether gold should be the metal basis of the monetary system instead of silver. In 1857, these efforts resulted in a contract on the introduction of a uniform silver currency, the basis of which was the exchangeability of banknotes for silver. The previously mentioned silver *zlatník*/gulden/florin became the new monetary unit in 1857 (Figure 7).

Strieborný zlatník (i.e. Slovak expression for “silver gulden”) as a coin, or *zlatka* (i.e. the Slovak expression for “gulden”) for paper money, entered the history of the monetary system as the Austrian currency. The emperor ordered to the Austrian National Bank to issue its banknotes only in the Austrian currency, and this order also set the way for the reimbursement of circulating banknotes for the first time in the history of the Austrian National Bank. However, the order covered only banknotes of higher denominations, banknotes of lower denominations – 1 gulden, 2 gulden and 5 gulden – were in circulation in the amount of 139,124,867 gulden of bank currency. The total amount of banknotes of higher denomination in circulation, which were supposed to be exchanged for new ones, was 250,488,592 bank currency gulden. However, the total extent of exchange for silver coins was unexpectedly high and that affected the reserves of the bank in an unfavorable way, which ultimately resulted in a ban on the exchangeability of banknotes for silver in 1859.

The effort to return to exchangeability of currency for silver failed; it resulted in a significant reduction of the metal treasure to the level of 80.1 million gulden in 1859. The amount of circulating banknotes, whose value was permanently decreasing, was 466.7 million gulden; the state debt represented more than 300 million gulden. Strong silver price volatility adversely affected the industrial sector and trade.

THE 1862 REFORM MEASURES

The year 1862, in which the situation in the Austrian National Bank and monetary system was supposed to be reformed, was an important year of the following monetary development phase. The aim of the suggested measures was to adjust and eliminate the debt relationship between the state and the bank, in other words a plan of state debt repayment to the bank was set up. The measures were also intended to improve and to gradually renew the monetary system, with the full independence of the bank of credit transactions being emphasized. The state debt reached 249.3 million gulden at the beginning of 1862 and fell to 80.0 million gulden by 1866.

Between 1862 and 1866, a robust decline in the quantity of banknotes in circulation occurred simultaneously. Data in millions of Austrian currency are stated in Table 3.

The 1 gulden and 5 gulden banknotes were declared government notes in May 1866, the bank having remitted the amount of 112.4 million gulden, representing their total amount in circulation, to the government. Two government notes with the value of 50 gulden each were issued to cover war expenditures. The first one of the two government note emissions was put into circulation in 1866 (Figure 8). The lost war against Prussia, however, resulted in a very severe currency depreciation. The government incurred debts with the Austrian National Bank by issuing paper money and government notes with no possibility to exchange them, and it even imposed on the bank the legal duty to grant to the state a loan according to its needs. Since the banking privilege of the Austrian National Bank was infringed by this order, the situation required a radical solution.

THE AUSTRO-HUNGARIAN COMPROMISE AND THE CREATION OF THE AUSTRO-HUNGARIAN BANK

301.13 million gulden in government notes and 247.02 million gulden in banknotes were in circulation in 1867. The metal treasure represented a total of 108.34 million gulden at that time. The new confederative order of the county associated with the Austro-Hungarian Compromise of 1867 had a strong impact on the monetary development and monetary relations of Austria and Hungary. The issue of state debt repayment and proportional cost coverage were also solved



Fig. 8 Fifty gulden, the face and rear side of a government note of 1866.

at that time – by means of so-called quotas between the two countries. A fundamental problem was solved and subsequently an agreement was made, according to which these countries were supposed to cover the expenditures of the monarchy jointly.

An important change at that time was the introduction of money emissions coverage by means of foreign exchange, with metal coverage being made up by a pre-set 75% share of silver and 25% share of gold. However, the amount of paper money in circulation, i.e. banknotes and government notes, continued to increase in the following years.

FINANCIAL CRISIS

A strong financial crisis, also known as The Vienna crash, occurred in 1873. It was a trade crisis, which was primarily associated with mass founding of joint-stock corporations and with the occurrence of large speculative stock exchange deals. A strong depreciation of securities followed and enormous price losses occurred. The Austrian National Bank was issuing banknotes on money market beyond the allowed framework at that time. Based on

an imperial order, the metal coverage of issued banknotes was abandoned in the same year. The effects of the 1873 crisis were serious for Austria-Hungary. From 1878, the monetary relations of the existing Austro-Hungarian monetary system were directed by the activities of the Austro-Hungarian Bank.

The introduction of a gold crown currency in 1892 was an extraordinarily important act of the Austro-Hungarian Bank from the historical point of view. Although a duty to exchange the crown for gold has never been codified, new regulations on the taxing of banknotes beyond the allowed framework (quota) and regulations on metal coverage were introduced and conditions for a stabilization of the monetary situation were created after a long time. The monetary development was balanced also due to the applied foreign exchange and discount policy, which was a means of regulation of the monetary circulation and of the development of the balance of payments.

The Austro-Hungarian Bank ultimately managed to maintain currency stability, i.e. the stability of the crown, until the breakout of World War I. (1914) through an appropriate discount policy



and the discount of commercial bills of exchange. The war years and the related events, which resulted in the break-up of Austria-Hungary in 1918 and in the creation of new countries, marked

also further significant changes of the monetary system and monetary development of Slovakia eventually Czechoslovakia.

(To be continued.)

THE HISTORY

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