

INTERNATIONAL MONETARY FUND

January 27, 1947

TO: Members of the Executive Board
FROM: Secretary
SUBJECT: Czechoslovakian Exchange Policy

The attached memorandum on Czechoslovakia has been prepared by the Research Department for the use of the Executive Board in its current discussions.

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INTERNATIONAL MONETARY FUND
Research Department

Czechoslovakian Exchange Policy

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1. Foreign Exchange Rates

Czechoslovakia has a strict exchange control system. All transactions in foreign exchange take place at official rates which are published by the National Bank of Czechoslovakia every Friday. Rates for cable and mail transfers are published separately from those of the foreign bank notes.

Since the monetary reform in November 1945, the official parity rate has been 50 Kcs. to U. S. \$1. The National Bank publishes three rates: Selling, buying, and parity rates. The spread between the selling and buying rates is, as a rule, 0.6 of 1 percent. The recently published official rates for important currencies are as follows:

	<u>In Kcs.</u>		
	<u>Buying</u>	<u>Parity</u>	<u>Selling</u>
U. S. Dollar	49.95	50	50.15
£ Sterling	200.90	201.50	202.10
Swiss Franc	11.59	11.62	11.66
Swedish Kroner	13.86	13.91	13.95

The rates for foreign bank notes are somewhat lower and the spread wider but their market is insignificant and of little importance.

No multiple exchange rates or discriminatory practices exist in Czechoslovakia.

2. Exchange Control System

After the war, the Czechoslovak Government reintroduced the system of foreign exchange control which had been in operation since 1931, but, because of a few amendments, a completely new foreign exchange law was passed by Parliament in January 1946. According to this law, the National Bank of Czechoslovakia, which is the sole bank of issue of the country, is duty bound to control every foreign payment in Czechoslovakia both incoming and outgoing, irrespective of whether these payments are negotiated in foreign currencies or in Czechoslovak crowns. Foreign borrowing or lending is also controlled by the Bank. The purpose of this policy is to control not only actual payments, but also every change in the country's foreign

liabilities.

Practically every sale of foreign currencies requires presentation of the permit of the National Bank, while purchases of foreign currencies by authorized banks are free, but the banks are expected to check the aims for which incoming foreign funds are likely to be used. No payment for the importation of merchandise is possible until after an import license is issued by the Ministry of Foreign Trade in connection with special permit for payment issued by the National Bank. The Bank has a bureau of its own in the Ministry of Foreign Trade in order to expedite the issuance of permits for payments of goods imported.

Payments for other than imports (e.g. capital, interest, dividends, cost of Czechoslovak Legations abroad or travellers' expenditures, etc.) are all subject to approval by the National Bank.

Only a certain number of commercial banks have authority to deal in foreign currencies. They maintain their accounts with banks abroad and a vast majority of all payments are transferred through ordinary banking accounts. Payment agreements with the leading countries of Europe take care of the financial settlements of transfers in a bilateral way. Exceptions are in force, in relation to some countries of Eastern or South Eastern Europe, where the value of currencies does not correspond to their official rate of exchange. In such cases barter trade in the form of individual or general compensation is used.

3. Allocating Foreign Exchange

The procedure established by the National Bank of Czechoslovakia in allocating foreign exchange to the various authorized banks is as follows:

The banks authorized to deal in foreign currencies send their representatives to a daily meeting in the National Bank where every bank presents its estimated need in foreign exchange for the day and announces the foreign exchange receipts it obtained the day before and what it expects to receive in the course of the day. If there is a surplus, the authorized bank may either keep it or sell it to the National Bank, according to the decision of the latter. If its needs are larger than its receipts, the National Bank sells it the necessary foreign exchange. The National Bank itself has a more or less accurate picture as to how much foreign exchange the banks will need from the import licenses and the export licenses issued by the Ministry of Foreign Trade, copies of which are immediately forwarded to the National Bank. Importers and exporters and the general public have no direct contact with the National Bank and deal with it only via the authorized banks.

The authorized banks buy and sell their foreign exchange at rates which are fixed by the National Bank. The importers buy foreign exchange from banks at the selling rate while banks buy the exchange from the National Bank at the official parity rate, plus 1/6th of the spread. From this general rule, there are various exceptions, but even with these, which mostly concern currencies of countries with which Czechoslovakia has clearing agreements, the spread does not exceed 1 percent.

4. There is No Free Market

There is no free market in foreign exchange in Czechoslovakia at present. All exporters and other traders having claims abroad must surrender them to the National Bank either directly or to the authorized banks. Owners of investments abroad must declare them at regular intervals to the National Bank which decides whether they may keep such investments or whether they have to sell them to an authorized bank or to the National Bank itself. Travellers may export only 500 Kcs. of goods while larger exports as well as railroad or airplane tickets must be authorized by the National Bank. This very severe control is necessary owing to the geographical position of the country. For the past two years, Czechoslovakia has been the travelling center of people from South Eastern Europe to the West. Some of these foreign visitors brought in their own currencies without much value and purchased railroad and airplane tickets to the West, the value of which had to be paid by Czechoslovakia in gold or convertible currencies.

The exportation of Czechoslovak notes is prohibited above the total of 500 Kcs. in notes of small denomination.

5. Black Market

There is no black market in foreign drafts, but there is illegal trading in foreign notes. Sporadically, foreign notes, primarily U. S. dollars and Swiss francs, are dealt in by private persons. The volume of transactions is without any importance whatsoever. The price of U. S. dollar notes has varied between 65 to 100 Czechoslovak crowns.

There is also a black market in Czechoslovak bank notes in other countries. They are being hoarded in Austria, Hungaria, Rumania, Yufoslavia, and Poland and quoted at between 20 to 100 percent above the official parity rate.

On the other hand, Czechoslovak bank notes are being sold at the Swiss markets at some discount - about 25 percent. The discount on Czechoslovak notes in New York is about 70 percent.

6. Gold Transactions

All transactions in gold, whether domestic or import or export, are under strict supervision of the National Bank. Private persons or firms are not permitted to hold gold except jewelry, numismatic collections (which have however to be registered with the National Bank) and some memorial coins. Industrial gold can be handled only by specially licensed firms which are under supervision by the National Bank. Goldsmiths are permitted to buy salvaged gold. They have, however, to keep an up-to-date inventory and on request to deliver it to the National Bank.

To a very limited extent, there is some dealing in salvaged gold (against the legal provisions) among private persons. The price is known to fluctuate at approximately the range of the official prices. The official buying and selling rates of gold of the National Bank are -- buying rate, 1 kg. of gold, 1.000 fine, 55,211 Kcs. or \$1,107.53 (1 oz. of gold 1717 Kcs. or \$34.34); selling rate, 1 kg. of gold, 56,531 Kcs. or \$1,133.81 - (1 oz. of gold 1758 Kcs. or \$35.27).