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DM/74/15

INTERNATIONAL MONETARY FUND

European Department

Money, Banking, and Credit in Czechoslovakia

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February 1, 1974

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Money, Banking, and Credit in Czechoslovakia^{1/}

I. The Banking System and Institutions

In Czechoslovakia, the banking system plays an important role in the implementation of national economic plans. There are two major financial networks consisting of the Czechoslovak State Bank with its regional and district branches and the State Savings Bank with its local branches. In addition, there is the Czechoslovak Commercial Bank, which handles foreign exchange payments and finances foreign trade enterprises, and a small state-owned bank which deals in noncommercial foreign transactions.

The role played by financial institutions in Czechoslovakia in implementing national economic plans was not essentially changed by the economic reforms that took place in Eastern Europe in the 1960s. The State Bank, which is the most important financial institution, continues to have the task of providing the financial means needed to satisfy predetermined production and investment targets. However, the reform did bring about changes in the operations of the banking system. The major change is the increased importance of credit and interest rate policies as economic instruments influencing the behavior of enterprises. Also, greater financial independence at the enterprise level as a consequence of the reforms has necessitated strengthened overall coordination. This has increased the responsibilities of the State Bank in ensuring that finance is used economically and for the most efficient projects. Another recent development is the extended role of the Savings Banks, which have become important sources of credit for small workshops, private and cooperative housing, and for purchases of consumer durables.

1. The State Bank of Czechoslovakia (Statni Banka Ceskoslovenska)

The State Bank of Czechoslovakia was established in 1950 and reorganized several times thereafter. At present, it consists of a central office in Prague, a central institute in each of the two constituent republics, located in Prague and Bratislava, and about 115 branch offices situated throughout the country. The authority of the State Bank vis-à-vis the individual Ministries, including the Ministry of Finance, was enhanced with the law of November 10, 1965. Prior to this law, the Bank was directly subordinated to the Ministry of Finance. The law provides for the appointment of the Bank's General Director and his Deputy by the Government and the Director has the rank of an Administrator of a Central Organ of the State Administration. The State Bank is essentially responsible to the Council of Ministers, but in basic financial and currency matters, the General Director of the Bank takes action in agreement with the Ministry of Finance.

^{1/} I am grateful to Mr. János Somogyi of the Eastern European Division for his useful comments in the drafting of this paper.

The State Bank is the bank of issue, a banker for the State, a commercial and investment bank for all branches of the economy, and an organ of the State's foreign exchange monopoly. It is responsible for the management of internal currency circulation, for the granting of credits and arrangement of settlements within the national economy, for the financing and controlling of capital projects, and for the management of the country's gold and foreign exchange reserves. It keeps entries on State Budget revenues and expenditures and releases the budgetary means for financing capital construction, ensuring, at the same time, that they are economically used. Furthermore, it exercises control functions over enterprises independently from the supervising of credit operations.

The State Bank controls the temporarily free financial resources of all Czechoslovak enterprises and organizations. Transactions among enterprises and organizations, whether economic or budgetary, are conducted almost entirely as book transfers or noncash settlements through the accounts kept at the State Bank. Commercial loans, advance payments, or financing among economic and budgetary units are not permitted. Loans are provided by the State Bank. This arrangement allows the Bank to supervise economic transactions and facilitates control over their conformity with the related plans.

One of the major responsibilities of the State Bank is the preparation of comprehensive annual financial plans based on the economic plans, which are formulated largely in physical terms. The financial plan, which consists of a cash plan, a credit plan, and a foreign exchange plan, and is subject to approval by the Government, covers all the financial flows in the economy, including the State Budget and the budgets of the republics and localities. All enterprises, organizations, and government agencies have to adhere to the financial plan.

The State Bank has a statutory fund, a general reserve fund, and other funds established by law. Allocations are made out of the Bank's profits to these funds, especially the general reserve fund, at a fixed rate and the remainder is transferred to the State Budget. Possible losses are covered from the respective funds of the Bank and if these funds are not sufficient, they are settled by the State.

2. The State Savings Banks (Statni Sporitelny)

The system of State Savings Banks is another important component of the Czechoslovak financial system. Their major task is the collection and management of the population's savings. The activities of the State Savings Banks include the provision of savings facilities for individuals, the extension of personal loans, the clearing of payments of some nonprofit organizations and private persons, the organization and carrying out of educational programs aimed at increasing the level and spread of savings, and the management of the Czechoslovak State Lottery.

All deposits with the State Savings Banks are guaranteed by the State. Deposits earn interest, prizes, or premiums. The rate of interest paid ranges between 1.5 per cent to 5.3 per cent, depending on the type of savings deposit.^{1/} Approximately 13 per cent of the deposits are used for granting loans to the population and the remainder is transferred to the State Bank where it serves as a source of credit to the national economy. Loans are extended to individuals for the construction of family dwellings and for the purchase of some consumer durables (including cars), to newly married couples to cover some of their expenses, to meet temporary financial needs (death, illness, etc.), and for repairs and reconstruction of privately owned houses. The payments are made as noncash transfers. The borrower has to state his place of work and how much he earns. The loan repayments are automatically deducted from his pay. The maturity of the loan and the interest rate charged depend on the purpose for which the loan is granted. In general, the interest rate varies between 3 per cent and 5 per cent and the maturity between one year and three years, with longer maturity for some loans. There is also a maximum limit to the amount of the loan for each specific purpose. Occasionally, some loans are made without a specific purpose, but the borrower is charged a higher rate of interest on such loans.

The activities of the State Savings Banks are directed and supervised by the Ministry of Finance. For this purpose, the Ministry has set up the Chief Administration of the State Savings Banks. The executive organs of the Chief Administration are the Provincial Administration in Bratislava and the Regional Administrations in the individual regions. These administrations and their offices form a uniform State Savings Banks system operated according to uniform principles. State Savings Banks are established in every district according to need.

3. The Commercial Bank of Czechoslovakia (Ceskoslovenska Obchodni Banka)

The Commercial Bank of Czechoslovakia, a joint stock company with the head office in Prague, was established on November 27, 1964 and started its operations on January 1, 1965. Its share capital of 500 million Czechoslovak koruny was fully subscribed by financial, foreign trade, and cooperative enterprises. In 1971, it had about 66 institutional stockholders. Overseas representatives were established in 1965^{2/} in Lebanon, Indonesia, and India and have contributed to the development of cooperation with the banks in these countries.

^{1/} 1.5 per cent interest on travelers' deposit accounts, which can be paid in and withdrawn at any State Savings Bank or its branch office; 2, 3, 4, and 5.3 per cent interest on deposits subject to no notice of withdrawal, 6 months' notice, 12 months' notice, and 5 years' notice, respectively. On lottery savings books, the possibility of winning a prize replaces interest.

^{2/} Lebanon, registered office in Beirut in May 1965; sphere of activity Syria, Jordan, and Kuwait. Indonesia, registered office in Djakarta in July 1965. India, registered office in New Delhi in August 1965.

The Commercial Bank carries out certain functions previously executed by the State Bank, including the provision of banking services for foreign trade enterprises and organizations, research on international trade, and participation in the drafting and execution of foreign trade plans. It carries out payment relations with foreign countries resulting from Czechoslovak foreign operations and keeps accounts to handle various payments, credit, and other interbank arrangements. The Commercial Bank makes payments in convertible currencies, through bilateral clearing accounts, and by means of multilateral settlements in transferable roubles through the intermediary of the International Bank for Economic Cooperation in Moscow. In addition, it is authorized to undertake noncommercial foreign exchange operations, to extend credits, to accept and grant bank guarantees, and to accept and place deposits on fixed terms. The Bank undertakes short-term and long-term credit operations in connection with Czechoslovak imports and exports. It grants credit to foreign customers for Czechoslovak merchandise, directly or through the intermediary of their banks.

4. Other banking institutions

a. The Trade Bank (Zivnostenska Banka)

The Zivostenska Banka, which has its head office in Prague and a branch office in London, handles financial transactions for private individuals and nonprofit institutions. The head office accepts deposits on current accounts for foreigners in domestic and foreign currencies, and keeps accounts in domestic currency for Czechoslovak citizens who work abroad. The branch office in London handles all kinds of payments transactions and operations in money and foreign exchange markets. Its aim is to contribute to the smooth flow and development of payment relations between Czechoslovakia and other countries.

b. The Investment Bank (Investicni Banka)

In 1950, at the time the State Bank was established, the granting of credit for capital construction was undertaken by the Investment Bank. Experience acquired during the subsequent years, however, showed that separate financing of operational and investment needs of enterprises by two banks made it difficult to assess the effectiveness and the repayability of credits granted. For this reason, in 1958, the activities of the State Bank were extended to cover also the financing of investments. The Investment Bank has not entered into new transactions since then, and its activities are confined to administering certain assets created in the past.

II. Monetary Control

1. Planned management of money in circulation

a. Cash plan

The stability of the Czechoslovak currency is based on the planned management of money in circulation, which is made possible through planned control over the whole national economy, and ensures that the evolution of money in circulation is in line with the development of production. The State Bank, acting under the directives of the Government, is responsible for the management of money in circulation. It drafts annual and quarterly cash plans on the basis of national indices indicating the planned development of the national economy and submits them to the Government. The cash plan determines the cash flowing from various sources (expenditures) into the State Bank, State Savings Banks, and post offices (receipts)(Table 1). It also contains entries to accommodate the circulation of a small volume of cash among organizations for the few transactions permitted outside of the noncash settlement system. The cash plan indicates the amount of money to be put into or withdrawn from circulation during the planned period. This amount is the difference between total cash receipts and expenditures. In approving the cash plan, the Government fixes not only the amount of cash to be put into or withdrawn from circulation, but also the volume of seasonal fluctuations in the supply of cash, and the limit to the cash holdings in the tills of the Bank. This determines the extent of the right held by the Bank to put money into circulation.

When enterprises^{1/} withdraw cash from the State Bank, mostly for the payment of wages and salaries, a new inflow of money from the Bank tills is brought into circulation. Conversely, as the population spends its incomes on the purchase of goods, payment for various services, and for taxes, the money ceases to circulate and returns to the Bank tills. In this way, the Bank organizes the circulation of money and manages it in accordance with the approved cash plan and the requirements of the economy. The State Bank is authorized by the Government to check whether the amounts demanded by enterprises for the payment of wages are in the planned proportion to the output of the enterprise in question and whether they are in conformity with the planned productivity of labor in that enterprise.

^{1/} State enterprises form the basic production units in the Czechoslovak economy. Associations of enterprises act as intermediaries between enterprises and the Ministries. There are also State cooperatives (producer, consumer, and agricultural cooperatives).

This management of money turnover guarantees that all the means of payment not needed as currency in circulation turn into temporarily free funds in the bank accounts of enterprises and may be used for granting credits. At the same time, it can be assumed that fluctuations in the money in circulation are not so much a result of substantial alterations in the cash held by enterprises and cooperatives, but are caused by changes in the cash holdings of the population.

b. Balance of the money incomes and expenditures of the population

One of the major components of the consolidated financial plan is the "balance of the money incomes and expenditures of the population," which is the plan covering the money flows involved in personal consumption, that is, the sources from which personal money incomes are generated and the purposes for which they are spent. The use of cash, as opposed to bank transfers and checks, is almost entirely confined to this field. In Czechoslovakia, as in other socialist^{1/} economies, a major characteristic of the monetary system is that transactions among enterprises and individuals are made in cash. Salaries, wages, pensions, and other benefits are paid in cash and retail sales are for cash. Private individuals may have savings deposits, but private checking accounts do not exist.

As all payments affected by enterprises in cash (i.e., payments of wages, salaries, pensions, and some purchases) are fixed in advance by the State Plan, the plans of the Ministries and of enterprises; and since the sale of goods and services and the expected savings of the population are also planned in advance, it is possible to estimate the development of the population's incomes and expenditures and the corresponding changes in the money in circulation. In other words, the balance of the money incomes and expenditures of the population, which represents the change in cash held by the population, enters into the cash plan drafted by the State Bank. The balance is confined exclusively, however, to the recording of money flows and does not attempt to cover payments in kind, which can be an important element in the income of collective farm members.

A major aim of the monetary planning described above is the control of inflation by balancing the purchasing power of the population against the volume of consumer goods available. During the plan period, the flow of currency to households is kept within the planned amount by means of tight bank control over withdrawals of cash by enterprises for wage payments. In the production sector, the policy is to allow enterprises only a minimum level of cash balances in order to strengthen the Bank's control over transactions of enterprises and to prevent any misdirection of resources. The whole procedure is notable in that it represents a macroeconomic control (of inflation) affected through control of microeconomic units (enterprises). This mechanism is further enhanced by the credit control policy of the Bank.

^{1/} "Socialist" as used in this paper has the limited sense referring to socialist systems of the U.S.S.R. and East European countries.

Table 1. Cash Plan of the Czechoslovak State Bank

<u>Receipts</u>	<u>Expenditures</u>
Receipts of retail trade and public catering establishments	Wages
Receipts of transport enterprises	Pensions, bonuses, compensations under insurance
Receipts of entertainment and cultural establishments	Purchases of agricultural products from the population
Receipts of the other enterprises rendering services to the population	Payments from accounts of Agricultural Cooperatives
Taxes, fees, etc.	Payments by the Post Offices for transfers among the population
Rents ^{1/}	Other expenditures
Deposits on accounts of the Unified Agricultural Cooperatives	
Population's deposits ^{2/}	
Operational receipts of the Post Offices	
Payments to the Post Offices for transfers among the population	
Other receipts	
<u>Total</u>	<u>Total</u>
Balance of turnover tills of the State Bank (limit) ^{3/}	Balance of turnover tills of the State Bank (limit) ^{3/}
Allocation to turnover tills of the State Bank from the State reserve funds (increase of money in circulation)	Transfers from turnover tills of the Bank into the State reserve funds (decrease of money in circulation)
<u>Grand total</u>	<u>Grand total</u>

Source: Basic Questions of the Financial Economy of the Czechoslovak Socialist Republic, Ministry of Finance, Prague, 1965.

- ^{1/} Paid for housing provided by the State.
^{2/} Transfer of savings deposits from State Savings Banks.
^{3/} Money in the turnover till of the State Bank forms a part of the money in circulation and serves to ensure current payments made to enterprises. At the close of the day, the money in the turnover till must not exceed the limit fixed by the Government. Any excess must be transferred to the State reserve funds. If the payments from the till exceed the receipts, the State Bank must draw on the State reserve funds.

2. Bank control over enterprises

a. Credit control

The State Bank tries to ensure the maximum mobilization of resources in the economy by concentrating in its accounts all temporarily free resources and distributing them by means of credits extended in accordance with the requirements of the planned development of the economy and in coordination with the planned management of money in circulation. Much of the Bank's control function is made possible through the granting of credits to enterprises. Before a loan is made, the solvency of the enterprise is checked. During the entire repayment period, the Bank regularly reviews the balance sheet of the enterprise. If it is revealed that credit is used for a purpose other than that for which it was granted, immediate repayment is requested. The Bank also has the authority to impose penalty interest rates and to restrict further loans. At the same time, Bank branch offices verify if the volume of stocks held by enterprises correspond to the amount authorized for seasonal stocks and the necessity of these stocks for plan fulfillment.

The maturity of credits is fixed by the State Bank. Bank branch offices check regularly whether enterprises and cooperatives fulfill the plan and operate in such a way as to be able to guarantee repayment of credits within the fixed term. This necessitates control over all branches of their activities, including their production and sales plans, development of stocks, generation of profits, etc. Periodically, the State Bank submits to the Government an analysis of the credit plan fulfillment, and the established shortcomings and remedial measures are then discussed with the enterprises and the Ministries involved. The State Bank may impose checks on the management of enterprises regardless of whether they have an outstanding bank loan or not. In such cases, however, the Bank does not have any compulsory means of dealing with the enterprises concerned and if the need arises, it addresses itself directly to the organizations above them.

In addition to extending short-term credit, the State Bank also finances capital investments. In Czechoslovakia, the funds and accounts relating to capital investments are not handled by separate specialized investment banks. In this respect, the Czechoslovak system might be regarded as more centralized than some other socialist economies. All funds for financing capital investments, that is, financial means of the State Budget, Ministries, National Committees, enterprises, and cooperatives are concentrated in their accounts at the State Bank. Capital investments are financed from these accounts under the supervision of the State Bank. Strict regulations are in force governing construction activities and purchases of machinery. The release of funds for capital investments is dependent upon observation of norms with respect to construction time periods, investment limits, standards, economical spending, and other such factors. The State Bank also controls the use of funds allocated to enterprises out of profits and depreciation allowances for financing capital construction.

b. Control through settlements

A major feature of the Czechoslovak system of financial payments, as in other socialist economies, is the channeling of the transactions of all enterprises, budgetary, and other organizations through one main bank account for each unit. The concentration of all financial means in the State Bank makes it possible to carry out the maximum number of transactions in the form of bank transfers. The current transactions of any given enterprise or organization are conducted through one account, referred to as its current account. All receipts and payments from daily operations are recorded in the current account, including transactions with suppliers, purchasers, superior organs, the State Budget, and transfers to and from the enterprises' various accounts for specifically earmarked funds. The receipts credited in the current account include loans granted by the Bank. The payments due from the account are honored only up to the amount of the credit balance on the account. Although overdrafts are generally not allowed, in some cases one of the Bank's methods of lending working capital actually amounts to permitting a limited overdraft.

Enterprises are allowed to keep only minimal cash balances. They can withdraw cash from their bank accounts for the payment of wages approved by the Bank and for a few small cash transactions. As a rule, the cash they receive from the sale of goods to the population must be deposited daily in the appropriate Bank branch office. The keeping of accounts of all enterprises, cooperatives, budgetary, and other organizations, and the affecting of noncash settlements among them enables the State Bank to follow the development of their economic affairs, whether or not their obligations are being met in time, and to see that profits and taxes are being paid into the State Budget, etc. It also forms the basis for the Bank's statistics.

c. Control through wage funds

In control through wage funds, the State Bank uses a fixed ratio between wages and output for each enterprise as a basis for extending a loan. The State Bank may ask the superior organization of the enterprise to take the necessary measures whenever unfavorable wage developments endanger the enterprise's solvency and its ability to repay credits. Under extreme conditions, when there is a significant violation of the wage ratio by the enterprise, the Bank may do more than merely refuse to grant new loans or request early repayment of existing loans, it may also refuse the withdrawal of cash by the enterprise to the extent that the set ratio is not maintained. This control over withdrawals of cash intended for payment of wages is one of the measures taken to secure the stability of currency in circulation.

3. Cash implementation of the State Budget

The means of the State Budget and the funds of all local budgets and budgetary organizations are concentrated in the accounts of the State Bank. Under the instructions of the Ministry of Finance, other Ministries, and budgetary organizations, the State Bank affects payments from these funds and obtains in this way a current and operative survey showing the development of budgetary revenues and expenditures. In performing this cash and clearing service and, at the same time, releasing the budgetary means destined for financing capital construction, the State Bank exercises control over the maintenance of budget discipline and the economical use of budgetary means.

4. Management of gold and foreign exchange reserves

A foreign exchange reserve is formed at the Czechoslovak State Bank in order to have foreign exchange resources available for the payment of imports, repayment of credits, and other expenditures abroad. It results from the surplus of the balance of payments and is held in gold and convertible currencies. It may also comprise credit balances on the clearing accounts and deposits of the State Bank kept on current accounts with foreign banks. A major function performed by the State Bank in the area of the foreign exchange monopoly of the State is the planned management of gold and foreign exchange reserves. The Bank participates in the drafting and implementation of the foreign exchange plan, which is essentially a balance of payments plan, approved by the Government and serving to ensure the mobilization and employment of all foreign exchange resources in accordance with the needs of national economic development.

Severe restrictions apply to the transfer of money or valuables by individuals and to travel in the West, while liberal bilateral currency allocations are made for travel in other socialist states. Residents are not permitted to own or trade gold, or export precious metals and stones. They cannot own foreign currencies or bank balances abroad, trade in foreign securities, or export and import national banknotes. All foreign currency receipts have to be declared to the authorities and deposited at the State Bank.

5. Effectiveness of the control mechanism

As described above, the Czechoslovak State Bank exercises control over virtually all financial flows in the economy. In addition to control through wage funds, noncash settlements, and credit extension, the State Bank has the authority to intervene directly in the activities of enterprises and to request, at any time, detailed reports on financial matters. Enterprises are obliged to discuss their individual plans with the State Bank, which checks that the tasks set by the State Plan and the State Budget are being implemented and enforces measures to ensure fulfillment of all planned targets.

The major instrument of monetary control in Czechoslovakia is the credit policy. The State Bank, with its widespread network of branch offices, is the only source of operational and investment credits for the national economy. Commercial credits between suppliers and customers are not permitted. Consequently, in the Czechoslovak economy, bills of exchange do not circulate, and extension of credit against bills, discounting and rediscounting of bills are not practiced. The only form of credit is direct bank credit.

The State Bank's credit policy is the main administrative tool of the planning process. Currency issues are of secondary importance to issues of credit, and there are no demand deposits. In socialist economies, controlling the supply, and to a lesser extent the cost of credit, is the most effective form of monetary control. Certain restrictions apply, however, in the area of credit extension. In Czechoslovakia, for example, the State Bank cannot grant or deny credit to enterprises entirely on its own discretion and it acts basically as an agent of the Government in performing this function. Nevertheless, within the limits set by the National Plan, the Bank exerts its influence on economic activity primarily by making it possible for enterprises to adjust production to planned aggregate demand. In other words, the Bank tries to accommodate rather than regulate planned aggregate demand through microeconomic control, that is, control over the activities of the individual enterprises. This system is quite distinct from the one existing in market economies where monetary control is mainly a macroeconomic tool serving to influence the level of aggregate demand.

The effectiveness of monetary control in Czechoslovakia, as in other socialist economies, depends largely on the quality of enterprise plans. Only realistic and balanced enterprise plans can form the basis for the State Bank and respective enterprises to conclude credit agreements that ensure an efficient use of the enterprises' resources. There has been a tendency on the part of enterprises, however, to exaggerate their requirements with respect to investments, stocks, imports, etc., and thus put considerable demands upon the financial resources of the economy, while at the same time failing to fulfill their tasks regarding cost reductions and formation of own financial resources. The role of the credit plan is reduced if it does not reflect the real economic situation of the enterprises, which is the case if their production plans are not realistic. To prevent this, the State Bank regularly assesses the economic performance of the enterprises.

III. The Role of Credit and Interest

1. Central management of credits

The central management of credits is made possible by concentrating all the temporarily free financial means of the economy in the State Bank and using them as a source for granting credits. The State Bank administers these resources and redistributes them among enterprises through operational and investment credits. In performing this function, the Bank drafts annual and quarterly credit plans which are closely related to the individual plans of the enterprises, State Savings Banks, the State Budget, and the cash plan for the management of money in circulation. The credit plan shows the net changes expected during the plan period in the amounts of various types of loans outstanding and the sources that are expected to provide the loanable funds. It represents, in effect, a summary of the financing of the production sectors of the economy that is conducted on the basis of bank credit rather than direct budgetary grants.

In the credit plan, the liabilities side shows the resources, and the assets side shows the required operational and investment credits. In balancing the credit plan, the State Bank checks the amount of funds concentrated in its accounts and verifies the credit demands of enterprises and organizations, determining their credit needs in such a way as to ensure the fulfillment of the National Plan and the efficient employment of financial resources. The branch offices of the Bank also participate in drafting the credit plan by submitting drafts of the credits needed by the enterprises located in their areas of operation. Credits approved by the credit plan are distributed among branch offices by the head office of the Bank.

The volume of money issued cannot be changed in regulating the credit plan. The State Bank is not allowed to put money into circulation to cover credit requirements. Since the volume of money in circulation in each period is fixed in the cash plan directly by the Government, the State Bank does not have the discretion to increase this source in the credit plan and must balance the plan by changes in other items.

Table 2. The Credit Plan of the Czechoslovak State Bank

Requirements (Assets)	Resources (Liabilities)
A. <u>Operational credits</u>	1. Means of the State Bank
1. Credits on stocks	2. Current deposits of enterprises and cooperatives
2. Credits on costs	3. Investment funds of enterprises and cooperatives
3. Accounting credits	4. Means of the State Budget
4. Other credits	5. Means of State Savings Banks deposited with the State Bank
5. Reserve for the granting of operational credits	6. Other resources
B. <u>Investment credits</u>	7. Money in circulation
1. To enterprises	
2. To cooperatives	
3. Overdue investment credits	
4. Reserve for granting investment credits	
C. <u>Other assets of the State Bank</u>	

Source: Basic Questions of the Financial Economy of the Czechoslovak Socialist Republic, Ministry of Finance, Prague, 1965.

2. Types of credit extended by the State Bank

a. Operational credits

Before January 1, 1966 the basic working capital of enterprises was financed through interest-free grants from the State Budget, and the amount required was determined by the application of various norms appropriate for different sectors of the economy. Seasonal peak requirements of working capital, which exceeded the basic minimum requirement, were borrowed from the State Bank, and interest was paid on such loans. These loans were contracted for specific purposes connected with production and could not be diverted to other uses. The Bank was authorized to charge a penalty rate of interest or to refuse additional loans to enterprises if the terms of the loan contract were not observed. Control over working capital proved difficult under this system since it was virtually impossible to maintain a correct set of norms for determining basic working capital requirements and the application of sanctions by the Bank on violations of loan terms was not always effective. Loans tended to exceed the amounts actually required, resulting in unplanned accumulation of inventories. Failures to repay were usually covered at the expense of the State Budget.

Effective January 1, 1966, a new system was introduced and the State Bank became the major source of financing working capital needs. Assets in the form of working capital held by enterprises on that date were transformed into state financial reserves and enterprises received bank loans on which they were required to pay an interest rate. These operational (short-term) credits were granted for specified purposes such as credits for seasonal stocks, seasonal costs, claims against customers, etc. Since enterprises and cooperatives usually had sufficient own resources to cover their normal quantity of stocks and other normal operational requirements, the Bank granted credits primarily for the planned temporary increase in operational needs, especially for stocks during certain periods of the year. For example, the Bank branch offices granted credits to state farms and agricultural cooperatives to cover their seasonal expenses until the time of the harvest. Enterprises purchasing agricultural products from state farms and agricultural cooperatives were granted credits for the accumulated seasonal stocks until the time when these stocks were processed or sold. Besides these special-purpose credits planned in advance, Bank branch offices granted credits for tiding over temporary financial difficulties of enterprises and cooperatives on the condition that they take all the necessary steps to eliminate their shortcomings and attain the production targets set by the Plan.

This system of extending operational credits has remained essentially unchanged since it was first adopted. The major additional features are the expansion of credits against claims, various forms of credit assistance, which are designed to restrict the transfer of insolvency from inefficient enterprises, and credits to supplement the enterprises' own working capital and to be paid off within a period of up to two years.

b. Investment credits

Investment finance in socialist economies is derived from budgetary grants, bank credits, and enterprises' own funds.^{1/} Before the economic reforms of the mid-1960s, budgetary grants, which did not have to be repaid and which were free of interest, were the major means of financing investments. In Czechoslovakia, the proportion of this type of financing had reached 68 per cent in 1963. In searching for a solution to the poor economic performance of the early 1960s, which was attributed largely to the shortcomings in the planning and finance of investment, it was decided to give preference to credit over budgetary finance on the grounds that credit was repayable and carried an interest rate, which made it possible for the cost of capital to be reflected in the total cost of production. In addition, greater efficiency of investment was ensured through increased bank control.

Since the new policy was adopted in 1967, direct budgetary financing of investments has been limited to special projects such as the construction of infrastructure for the development of backward regions, investment in administration, health, welfare, education, and defense, while substantially larger portions of fixed capital have been financed by bank credit. Investment credits are granted for limited periods of time and their repayment must be ensured. There is an interest charge varying around 6 per cent. To prevent enterprises from using investment credits as a balancing item and creating disproportionate and excessive indebtedness for extended periods of time, the terms of granting investment credits have recently been more specifically defined. For investment projects approved directly by the Federal Government, credits are granted up to 40 per cent of the cost of the project, while for investments by the enterprises credits are granted up to 40-60 per cent of the cost of the individual projects. Credits on some machinery and on housing construction may be granted up to the full amount of the cost. Investment credits are, in principle, granted for eight years and in the case of agricultural organizations, for ten years. Beginning in 1970, credits for projects valued below a certain minimum have been granted only in cases where they can be repaid within three years.

A growing source of investment finance in Czechoslovakia has been enterprises' own funds. After the reforms, enterprises have been able to accumulate substantial funds of their own, especially since they could retain larger portions of depreciation allowances and were encouraged to sell surplus fixed assets. This has led to some reduction in bank control over enterprise investments in recent years, although bank credit still remains a significant source of investment finance.

^{1/} In Czechoslovakia, there are some joint-stock companies, the initial capital of which was provided by enterprises or institutions. The shareholding entities are usually major suppliers of components, finance, or some service and they participate in the management and profits of their subsidiary. Such companies with limited liability are found mostly in trade and manufacturing.

3. Interest rates

In socialist economies, credit and interest rates do not play as significant and flexible a role in the allocation of resources as in market economies. The total amount of credit to be extended during a given period is planned, so that the allocation of resources is determined centrally, in light of the existing capacities of the economy and its future needs. Consequently, the role of interest rates is limited to ensuring the most effective use of financial resources, and the demand for credits is not regulated to any great extent by means of interest rates. Enterprises and cooperatives are paid interest on the money deposited in their bank accounts and are charged interest on the credits granted to them. Interest is used as an incentive to encourage enterprises and cooperatives to maximize concentration of all their free resources in their bank accounts rather than have them tied up in stocks, to induce them to repay credits in the shortest possible time, and to influence their decision making as to how their financial resources should best be employed.

Differentiation of interest rates has been introduced and is governed mainly by the term and purpose of the credit, and economic performance of enterprises. Higher interest rates are charged by the State Bank to induce enterprises to eliminate their shortcomings and to repay their loans promptly. Operational credits for the planned requirements of enterprises are subject, as a rule, to lower interest rates than those granted to overcome temporary financial difficulties. The rate on investment loans is, in some cases, lower than on short-term credits. Projects of high social priority may be granted concessional rates and those specifically approved by the Council of Ministers may be interest free. Credits directly promoting the progress of technology may be extended at preferential rates. Favorable interest rates, differing from those fixed for the other branches of the economy, are set for investment and operational credits granted to agricultural cooperatives.^{1/}

^{1/} There is no separate agricultural bank in Czechoslovakia financing the agricultural sector. The major forms of financial assistance to agricultural cooperatives are State subsidies and credits granted by the State Bank.

IV. Recent Monetary and Credit Developments

1. Currency in circulation, deposits, and loans

From 1967 until mid-1969, the role of the National Plan in the management of the Czechoslovak economy was weakened resulting in considerable shortages of material resources and strong inflationary tendencies. The rate of growth of currency in circulation, which had dropped to 5.2 per cent in 1965, rose to an unprecedented level of 24 per cent in 1968. Monetary incomes of the population grew by approximately 12 per cent in 1968, while the rate of growth of deposits of the population dropped to 8.6 per cent. The comparable average rates of growth of monetary incomes and deposits were 6.6 per cent and 13 per cent, respectively, during the preceding three years. The rate of growth of expenditures of the population almost doubled in 1968 and 1969 over its level in 1967, averaging 12.5 per cent during the two years (Table 3).

The same expansionary tendency was observed in the payments and settlements transactions of State economic organizations effected through their accounts at the State Bank. The number of cleared payments vouchers rose by approximately 7 per cent in 1968 as against 0.4 per cent in the previous year, and the number of settlement items^{1/}, which had declined over the previous two years, grew by 29 per cent. The number of cash operations of economic organizations also increased, though at a much slower pace, and recorded a growth of 1.3 per cent in 1968 and 4 per cent in 1969 (Appendix Table III).

The excessive growth in the incomes and expenditures of the population and economic organizations caused a sharp increase in the demand for goods and services leading, in the face of domestic shortages, to an increase in imports, especially from the member countries of the CMEA. This resulted in a reduction of Czechoslovakia's credit balance with the International Bank for Economic Cooperation.^{2/} There were uncontrolled price increases and a substantial decline in the purchasing power of the Czechoslovak koruna.

To restore the functioning of the economy, a number of regulatory measures were adopted. The May 1969 Directive of the Central Committee of the Communist Party, together with the January 1970 Resolution, represented a package of consolidation measures designed to have a strong anti-inflationary impact. As a result, there was a fundamental turnabout in 1970. The growth of monetary incomes of the population dropped to 4.4 per

^{1/} Items for which payments transactions have not been completed.

^{2/} A large part of the payments turnover of Czechoslovak foreign trade is realized by means of multilateral settlement in transferable roubles through the intermediary of the International Bank for Economic Cooperation in Moscow.

Table 3. Monetary Incomes and Expenditures of the Population, Currency in Circulation, Deposits, and Loans

	Monetary incomes of the population	Expenditures of the population	Currency in circulation	Deposits of private individuals ^{1/}	Loans to private individuals	Ratio of loans to deposits (In per cent)
(In billions of Kcs)						
1964	143.3	139.0	9.7	31.2	3.3	10.6
1965	152.9	147.8	10.2	35.6	4.3	12.1
1966	161.9	156.3	11.6	39.5	5.6	14.2
1967	173.6	166.7	13.1	45.1	6.5	14.4
1968	194.3	187.5	16.2	49.0	7.3	14.9
1969	216.5	210.7	17.3	53.9	7.7	14.3
1970	226.1	215.8	17.8	63.5	7.9	12.4
1971	238.8	226.8	19.5	73.8	10.1	13.7
1972	252.8 ^{2/}	239.2 ^{2/}	22.0	85.4	11.7	13.7
(Percentage change on previous year)						
1965	6.7	6.3	5.2	14.1	30.3	14.2
1966	5.9	5.8	13.7	11.0	30.2	17.4
1967	7.2	6.7	12.9	14.2	16.1	1.4
1968	11.9	12.5	23.7	8.6	12.3	3.5
1969	11.4	12.4	6.8	10.0	5.5	-4.0
1970	4.4	2.4	2.9	17.8	2.6	-13.3
1971	5.6	5.1	9.6	16.2	27.8	5.6
1972	5.9	5.5	12.8	15.7	15.8	--

Source: Statni Banka Ceskoslovenska, Bulletins, 1971-1973.

^{1/} Balance at year end.

^{2/} Preliminary figures.

cent and a larger part of consumer demand could be met domestically since the creation of material resources exceeded the planned target and the supply of consumer goods increased. There was a price freeze, which helped to restore the stability of the Czechoslovak koruna. In 1970, currency in circulation rose by only 2.9 per cent to Kcs 17.8 billion and private savings deposits recorded the highest increase to date by 17.8 per cent, reaching Kcs 63.5 billion. The amount of loans by savings banks to private individuals continued to rise at a decelerating rate, and its ratio to total deposits held by the population fell from 14.3 per cent in 1969 to 12.4 per cent in 1970. In 1971, currency in circulation rose by 9.6 per cent to a level of Kcs 19.5 billion, surpassing the rate in the State Plan. This upward trend continued in 1972 when currency in circulation registered a further 12.8 per cent increase and reached Kcs 22 billion. Monetary incomes of the population grew by 5.6 per cent and 5.9 per cent, respectively, in 1971 and 1972. Deposits of the population rose by 15.7 per cent from Kcs 73.8 billion in 1971 to Kcs 85.4 billion in 1972. The stabilization of the internal market led to the relaxation in the granting of consumer credits. Loans to private individuals totaled Kcs 10.1 billion in 1971 and Kcs 11.7 billion in 1972, with their share in total deposits averaging approximately 14 per cent in both years.

2. Financing of State economic organizations

a. Sources of investment finance

In Czechoslovakia, State economic organizations now rely mainly on their own resources for the financing of capital construction (Table 4).^{1/} These resources consist essentially of depreciation allowances, profits, and receipts from sales of capital assets. The principles of planned management, effective from 1972, have reduced the role of profits and increased that of depreciation allowances in the financing of investments. Payments to the State Budget on depreciation of capital allowances have been abolished, so that this source of finance is now available in increased amounts to enterprises for their own use in the fulfillment of the planned volume of capital expenditure and the repayment of investment credits. At the same time, the rate of payment to the State Budget on profits has been raised by 10 per cent.^{2/} To increase the material motivation of enterprises, reserves created at the central organs and branch managements have been made available to enterprises for exceeding planned investments on the condition that larger financial resources than envisaged in the investment plan are ensured by the enterprises' own means, especially by raising profits.

^{1/} Own resources are also being increasingly used to cover the growth of permanently needed stocks, while temporary increases of stocks and other working assets are financed mainly through bank credits. (See p. 14).

^{2/} With the exception of the rate on profits of enterprises in the fields of mining and energy.

Table 4. Sources of Investment Finance of
State Economic Organizations

(In per cent)

	1968	1969	1970	1971	1972
Total financing	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>
State funds	14.1	11.1	14.3	28.2	19.0
Bank credits	26.3	23.7	22.1	19.2	24.5
Own resources	59.6	65.2	63.6	52.6	56.5

Source: Statni Banka Ceskoslovenska, Bulletins, 1970-73.

Grants from the State Budget are confined to those projects specified in investment plans which are strictly in public interest and in those cases where other forms of financing are not sufficient to ensure fulfillment of the investment plans. Attempts have been made to reduce the share of State funds in the financing of capital expenditure but these were not very successful initially as indicated by the rise in the share of State funds in total investment financing from 14 per cent in 1970 to 28 per cent in 1971 (Table 4). In 1972, however, there was a substantial decrease in the share of State funds in financing investments and this trend is expected to continue.

The third source of investment finance is bank credit, the share of which in the total financing of investments has gradually declined from 26 per cent in 1968 to 19 per cent in 1971 but rose to almost 25 per cent in 1972. The share of this source of finance, however, is expected to decline to about 18 per cent by 1975 as plan-based repayments of investment credits exceed new credits.

b. Operational and investment credits

Operational and investment credits granted by the State Bank to State enterprises and economic organizations registered increases until 1970 when a more restrictive credit policy was adopted to counter the inflationary trend of the 1968-69 period. As a result, operational credits declined by 9 per cent in 1970 and by 17 per cent in 1971, when they totaled Kcs 145 billion (Table 5). Investment credits continued to expand through 1970, though at a much slower pace, and declined by 6.6 per cent in 1971 to a level of Kcs 63.2 billion (Table 6). In 1970, operational credits granted to industrial enterprises fell by as much as 30 per cent over the level of the previous year, while increased amounts were made available to cover the planned creation of inventories in building and internal trade. Operational needs of industrial enterprises were covered increasingly from their own resources. The slowdown in the growth of investment credits in 1970 was observed mostly in industry and in building trade as the number of new construction starts were restricted. The same trend continued in 1971, with both operational and investment credits extended to these two branches of the economy registering decreases.

In 1972, operational and investment credits increased by 5.5 per cent and 9.7 per cent, respectively, over their levels in 1971, and reached Kcs 153 billion and Kcs 69 billion. Most of the growth in operational credits was for industry, internal trade, and agriculture. Enterprises establishing higher targets in their plans than those specified in the State Plan, benefited from a preferential credit treatment in the form of reduced interest rates for the operational credits granted. In investment credits, the largest increase was in industrial credits while those extended to agriculture and foodstuffs, and to internal trade continued to decline.

Table 5. Operational Deposits and Credits of
State Economic Organizations by Economic Sectors^{1/}

(In billions of Kcs)

	1968		1969		1970		1971		1972	
	Deposits	Credits								
Total	45.0	171.3	60.6	192.4	71.9	175.1	27.6	145.0	27.5	153.0
Of which:										
Industry	10.1	81.5	13.7	85.4	16.1	59.5	7.6	58.3	8.1	63.1
Building trade	18.0	23.8	26.8	33.0	33.4	37.2	0.7	9.0	0.9	9.0
Agriculture and foodstuffs ^{2/}	6.8	23.5	7.4	25.2	7.2	21.6	6.1	22.4	6.6	23.7
Transport and communications	2.0	4.5	1.9	4.6	2.6	5.0	1.9	3.3	1.6	3.4
Internal trade ^{3/}	0.3	16.9	0.7	19.3	0.9	27.9	0.6	29.6	0.5	32.0
Enterprises control- led by national committees	3.3	7.9	4.3	8.4	4.4	7.5	1.6	5.2	1.6	5.1

Source: Statni Banka Ceskoslovenska, Bulletins, 1969-73.

^{1/} Balances at the State Bank at the end of the year.

^{2/} Including unified agricultural cooperatives.

^{3/} Including consumer cooperatives.

Table 6. Investment Credits to State Economic Organizations by Economic Sectors^{1/}

(In billions of Kcs)

	1967	1968	1969	1970	1971	1972
Total	25.5	41.5	58.4	67.7	63.2	69.3
Of which:						
Industry	9.2	20.7	32.2	38.6	34.7	39.2
Building trade	1.1	2.2	3.5	4.4	4.2	4.8
Agriculture and foodstuffs ^{2/}	9.0	10.0	10.6	10.6	9.7	9.4
Transport and communications	0.8	1.6	2.5	2.9	1.5	1.3
Internal trade ^{3/}	0.2	0.5	0.8	0.9	0.9	1.0
Housing cooperatives	4.7	5.5	6.6	8.0	9.6	11.2
Organizations controlled by national committees	0.2	0.5	1.0	0.6	0.5	0.5

Source: Statni Banka Ceskoslovenska, Bulletins, 1970-73.

^{1/} Balance of investment credits at the State Bank at the end of the year.

^{2/} Including unified agricultural cooperatives.

^{3/} Including consumer cooperatives.

c. Interest rates

In line with the restrictive credit policy adopted in 1970, some changes were made in interest rates. The State Bank raised interest rates on long-term credits by 2.0 per cent to 2.5 per cent and on short-term credits by 1.5 per cent to 2.0 per cent, while interest rates on deposits were also raised by about 1.0 per cent to 2.0 per cent, depending on the type of deposit (Table 7). Enterprises were encouraged to reduce their credit requirements by increasing the use of inventories accumulated from previous years and raising profitability.

Effective from 1972 there were some further changes in interest rates. The measures taken included the lowering of interest rates and the introduction of new allowances and sanctions related to interest payments with the purpose of encouraging enterprises to make better use of their finances. Interest rates on credits which previously ranged between 8.0 per cent to 10.0 per cent were lowered to about 6.0 per cent, while interest rates on deposits were reduced to 1.5 per cent for deposits of up to one year and 2.5 per cent for those over one year (Table 5). Under the new system of allowances and sanctions, enterprises may, on the one hand, be granted a reduction of up to 50 per cent on the rate of interest for mobilizing targets in their plans, increasing exports and/or reducing imports, improving the use of stocks, speeding up construction, and operating plants at full capacity. On the other hand, the State Bank may refuse to grant credit and may raise the rate of interest on outstanding loans by as much as 50 per cent if enterprises show serious shortcomings in fulfilling plan targets, failing to repay their loans, and using credit for purposes other than those for which they were granted.

Table 7. Interest Rates on Credits and Deposits

	1969	1970	1972
Credits extended by the State Bank			
Operational credits			
Credits on seasonal stocks	6.5	8.5	6.0
Current account credits	8.5	10.0	6.0
Long-term operational credits	6.0-7.5	8.0-10.0	6.0
Investment credits			
Long-term	6.0-7.5	8.0-10.0	6.0
Short-term	6.0-7.5	10.0	6.0
Credit assistance ^{1/}	8.5	8.5-10.0	6.0-8.0
Rationalization credits ^{2/}	--	8.0	4.0
Deposits at the State Bank			
Over one year	2.5-4.0	4.0-6.0	2.5
Under one year	0.9-1.8	1.8-2.9	1.5

Sources: Statni Banka Ceskoslovenska, Bulletin, 1969; and Czechoslovak Economic Digest, November 1971, August 1972.

^{1/} Credits granted to overcome temporary financial difficulties.

^{2/} Credits extended for improvements in production techniques.

V. Economic Reforms of the 1960s and their Impact on the Banking System of Czechoslovakia

The reforms of the 1960s were an attempt to improve economic performance and to lay the basis for further economic growth in socialist countries by ensuring more efficient use of existing resources and the adoption of a more effective investment policy. This was to be achieved basically by greater enterprise autonomy and stronger material incentives. There was to be some decentralization of decision making from the central organs of the Government to the associations of enterprises. The basic economic unit would still be the enterprise, but the associations of enterprises would cease to be passive intermediaries between Ministries and enterprises, and would become effective economic units, controlling enterprise activities with the combination of central directives and economic incentives.

Under the influence of these changes, which were taking place in differing degrees throughout Eastern Europe, the Czechoslovak economy experienced a transition from a more or less standard, centrally planned system toward a more decentralized system. This resulted in a mixture of previous, centrally determined practices and new, incentive based methods, such as the application of profit criteria, measures designed to promote more efficient use of labor and capital, and policies regarding the availability and terms of bank credit. All these measures were intended to subject the enterprises to the consequences of their own actions. The Central Government, although retaining its role in the allocation of resources and in the determination of wage and foreign trade policies, set fewer and less detailed targets than in the past.

These developments were accompanied by an attempt to change the organization of the Czechoslovak banking system in 1969. To evaluate the outcome of this effort, it is necessary to go back to the credit reform, which took place in Czechoslovakia in the early 1950s. This reform established the main principles for the extension of credit and thereby defined the control function of credit. The fact that credit was to be extended for the attainment of plan targets, that it had to be direct and tied to a specific purpose, that it had to have the necessary material backing and a time schedule and, above all, that it had to be repaid, made it an effective instrument of control in plan fulfillment. A unified credit fund was created with the concentration of the temporarily free financial resources of the economy in the State Bank. By making credit available to enterprises from this fund, based on the principles stated above, the State Bank was able to determine the shortcomings and failures of individual enterprises and to indicate ways to overcome them.

Under this system, which is currently in operation, the temporarily free financial resources of the economy form the credit fund of the Socialist State rather than the State Bank. By means of the banking system, these resources are centralized and redistributed in accordance

with the targets of the State Plan. The banking system, therefore, does not have an autonomous position in the system of management. Also, there is no place for interenterprise commercial credits, since such a practice would be contrary to the principles upon which the creation and use of the credit fund is based.

The economic reforms of the late 1960s favored changes in the credit system in the direction of an institutional separation of the credit and issue functions of the State Bank and the establishment of a commercial banking system. This meant the abolition of a unified credit fund and the unified principles of credit extension. These tendencies were checked in early 1970 when the central management of the economy was strengthened, and the principle of one bank as a combined bank of issue and credit extension was reconfirmed. As a result, the State Bank continues to exist as a single institution comprising the functions of a central bank and a commercial bank. It has increased responsibilities in the field of credit control and plays an important role in the implementation of the National Plan through its credit and interest rate policies. Nevertheless, it remains basically an administrative, rather than a policy-making organ of the State.

Although the economic reforms in Czechoslovakia did not result in major institutional changes in the banking system, or in significant organizational changes within the existing banking institutions, there was an endeavor to move to an economic mechanism which is guided in part by financial relations rather than solely by directives derived from the plans. The need for increasing the effectiveness of financial plans and their influence on material plans was recognized as illustrated in the following quotation from the principles of planned management effective from 1972: "Financial and credit relations must exert an active influence on the effective character of development both in the process of framing and carrying out the plan; they must ensure the required harmonization of material and financial processes. They also must bring pressure to bear upon enterprises to increase effectiveness and promote their interest in good economic results."

Table I. Deposits, Loans, and Currency in Circulation, 1960-1972

(In billions of Kcs)

Year	Deposits of the population during the year		Balance of deposits at year-end			Loans to individuals	Amount of currency at year-end
	Deposited	Withdrawn	CSSR ¹ /	CSR ¹ /	SSR ¹ /		
1960	14.4	12.1	19.4	16.0	3.4	2.4	7.3
1961	15.4	12.5	22.3	18.4	3.9	1.9	8.8
1962	16.6	14.0	24.9	20.3	4.6	1.6	8.9
1963	16.5	13.9	27.5	22.2	5.3	3.0	9.0
1964	17.6	13.9	31.2	24.9	6.3	3.3	9.7
1965	19.5	15.1	35.6	28.1	7.5	4.3	10.2
1966	20.6	16.7	39.5	30.8	8.7	5.6	11.6
1967	23.7	18.1	45.1	34.7	10.4	6.5	13.1
1968	26.8	22.9	49.0	37.0	12.0	7.3	16.2
1969	30.5	25.6	53.9	39.7	14.2	7.7	17.3
1970	38.3	28.7	63.5	46.7	16.8	7.9	17.8
1971	39.3	29.0	73.8	54.0	19.8	10.1	19.5
1972	41.7	30.1	85.4	62.1	23.3	11.7	22.0

Source: Statni Banka Ceskoslovenska, Bulletins, 1971-1973.

1/ The Constitutional Law of October 1968 proclaimed the Czechoslovak Socialist Republic a federal state with two constituent republics, the Czech Socialist Republic (CSR) and the Slovak Socialist Republic (SSR).

Table II. Monetary Incomes and Expenditures of the Population, 1960-1972
(In billions of Kcs)

Year	Total incomes	Of which:			Sickness and social security benefits	Total expenditures	Of which:	
		From wages	From agriculture	From sickness and social security benefits			Purchase of goods	Payment for services
1960	121.1	84.4	10.4	18.9	119.6	88.6	15.0	
1961	128.4	89.5	11.9	20.1	124.1	91.9	16.1	
1962	132.0	92.5	11.2	21.5	129.3	96.1	17.0	
1963	135.4	93.6	10.5	22.3	132.8	98.4	17.6	
1964	143.3	98.2	12.1	23.2	139.0	101.2	18.6	
1965	152.9	103.4	12.5	24.3	147.8	106.3	19.9	
1966	161.9	108.9	13.0	25.4	156.3	111.0	21.3	
1967	173.6	116.6	14.4	26.6	166.7	117.3	22.6	
1968	194.3	129.3	16.2	30.7	187.5	132.6	24.0	
1969	216.5	142.6	17.3	37.6	210.7	143.3	27.1	
	157.6	106.7	10.9	27.3	154.3	108.0	20.2	
	58.9	35.9	6.4	10.3	56.4	40.3	6.9	
1970	226.1	148.2	17.6	40.3	215.8	150.8	28.5	
	164.3	110.1	11.4	29.1	156.7	108.9	21.2	
	61.8	38.1	6.2	11.2	59.1	41.9	7.3	
1971	238.8	154.9	18.0	41.8	226.8	158.4	29.8	
	172.6	114.7	11.6	30.1	164.1	114.1	21.9	
	66.2	40.2	6.4	11.7	62.7	44.3	7.9	
1972 ^{1/}	252.8	163.2	19.0	44.7	239.2	166.4	31.1	
	182.2	120.4	12.2	32.0	172.6	119.5	22.8	
	70.6	42.8	6.8	12.7	66.6	46.9	8.3	

Source: Statni Banka Ceskoslovenska, Bulletins, 1970-1973.

^{1/} Preliminary figures.

APPENDIX

Table III. Settlement and Payment Transactions of the State Bank, 1960-72

Year	Internal settlements and payments			Foreign settlements and payments	
	Number of cleared payments vouchers	Number of cash operations	Number of settlement items	Number of accounts of organizations	Number of transactions
1960	255,456	13,268	45,970	226	2,454
1961	247,267	12,639	42,618	209	2,394
1962	243,383	13,238	41,313	196	2,362
1963	245,623	13,195	40,933	199	1,947
1964	249,417	15,018	40,979	174	2,335
1965	252,706	15,872	38,548	153	2,879
1966	245,000	16,165	35,480	123	3,362
1967	246,027	16,604	35,205	115	4,700
1968	263,110	16,822	45,281	130	3,984
1969	241,839	17,517	57,684	148	5,585
1970	271,807	17,941	60,813	158	6,665
1971	283,565	19,727	72,772	170	7,407
1972	292,446	19,423	82,935	175	7,821

Source: Statni Banka Ceskoslovenska, Bulletins, 1970-1973.

Table IV. Profit and Loss Account of the State Bank

(In millions of Kcs; on December 31)

	1968	1969	1970	1971	1972
Expenses					
Interest paid	4,450	4,714	4,289	4,553	4,920
Commissions	98	100	111	133	169
Personal and material costs	397	466	582	788	519
Profit	<u>4,436</u>	<u>5,112</u>	<u>8,311</u>	<u>8,523</u>	<u>5,171</u>
Total	9,381	11,392	13,293	13,997	10,779
Earnings					
Interest received	9,318	11,231	13,129	13,669	10,523
Commissions	45	143	106	108	94
Other revenue	<u>18</u>	<u>18</u>	<u>58</u>	<u>220</u>	<u>162</u>
Total	9,381	11,392	13,293	13,997	10,779

Source: Statni Banka Ceskoslovenska, Bulletins, 1969-1973.

Table V. Profit and Loss Account of the Commercial Bank

(In millions of Kcs, on December 31)

	1965	1966	1967	1968	1969	1970	1971
Expenses							
Interest and other expense paid	147.5	241.7	650.3	714.5	1,153.0	1,767.5	1,720.3
Commissions paid	2.4	5.7	16.7	4.6	4.9	9.6	9.4
General expense							
Salaries	15.8	17.1	19.5	20.7	28.6	31.4	31.4
Material expense	5.9	6.8	9.7	14.6	18.1	26.4	29.9
Rates and taxes	67.3	73.8	99.7	226.9	361.2	507.7	559.3
Appropriations out of profit							
To the reserve fund	33.4	36.6	49.6	111.5	121.5	122.7	130.8
To other funds	6.4	7.7	16.4	63.8	65.3	66.5	74.4
Dividend	25.0	25.0	37.2	49.0	56.0	56.0	56.0
Undistributed profit ^{1/}	1.2	3.9	--	--	0.3	0.2	0.4
Total	305.6	418.3	899.1	1,205.6	1,908.9	2,588.0	2,611.9
Earnings							
Interest received	290.5	398.0	849.7	1,075.5	1,474.7	2,201.4	2,111.9
Commissions received	14.3	19.1	44.1	126.3	332.4	384.3	493.4
Other income	0.8	1.2	1.3	2.4	1.8	2.3	2.1
Undistributed profit from preceding years	--	--	4.0	1.4	--	--	4.5
Total	305.6	418.3	899.1	1,205.6	1,808.9	2,588.0	2,611.9

Source: Ceskoslovenska Obchodni Banka, Annual Reports, 1965-1971.

^{1/} Transferred to the following year.

APPENDIX

Table VI. Balance Sheet of the Commercial Bank
(In millions of Kcs, on December 31)

	1965	1966	1967	1968	1969	1970	1971
Assets							
Cash in hand	93.1	49.4	23.3	19.6	20.9	25.3	23.4
Gold in hand	108.9	108.9	108.9	98.8	98.8	98.7	98.8
Checks and bills in foreign currencies	50.1	70.2	275.4	70.4	26.1	23.7	23.0
Securities	--	--	22.1	46.1	57.9	63.8	67.3
Balances with banks abroad	1,325.7	1,397.6	1,600.8	694.3	1,405.4	1,186.1	1,676.0
Advances to customers	9,493.4	9,806.9	10,845.0	13,048.5	15,385.2	17,213.0	18,355.0
Real estate, buildings and equipment	20.6	22.2	25.7	24.2	32.3	36.6	36.1
Other assets	6.4	19.1	65.3	29.3	46.0	272.9	262.1
Total	11,098.2	11,474.3	12,966.5	14,031.2	17,072.6	18,920.1	20,541.7
Liabilities							
Share capital	500.0	500.0	700.0	700.0	700.0	700.0	700.0
Reserve fund	53.4	95.0	147.8	259.2	380.7	500.4	634.3
Other funds	6.4	13.6	29.0	88.4	143.8	205.9	275.3
Current accounts	4,045.4	3,987.1	3,298.2	4,782.1	7,037.8	8,202.4	7,847.8
Deposits	6,455.9	6,828.4	8,730.7	8,140.7	8,375.5	8,928.8	10,833.8
Other liabilities	5.2	19.4	21.8	11.5	378.3	326.0	191.9
Undistributed dividend	25.0	25.0	37.2	49.0	56.0	56.0	58.2
Undistributed profit	1.9	5.8	1.8	0.3	0.5	0.6	0.4
Total	11,098.2	11,474.3	12,966.5	14,031.2	17,072.6	18,920.1	20,541.7

Source: Ceskoslovenska Obchodni Banka, Annual Reports, 1965-1971.

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