

The Czech crown – A brief history of a currency

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The crown has a long history in the Czech lands

- Czech Republic has kept currency name from Austro-Hungarian era; crown was introduced by Emperor Franz Joseph I in 1892 to replace old florin
- Czech Republic is only successor state to maintain currency name **unchanged to this day**

Czechoslovakia and Czech crown never suffered from high inflation



Territory where the “crown” was once legal tender...



...but while Alois Rašín was in office in Czechoslovakia after 1918...

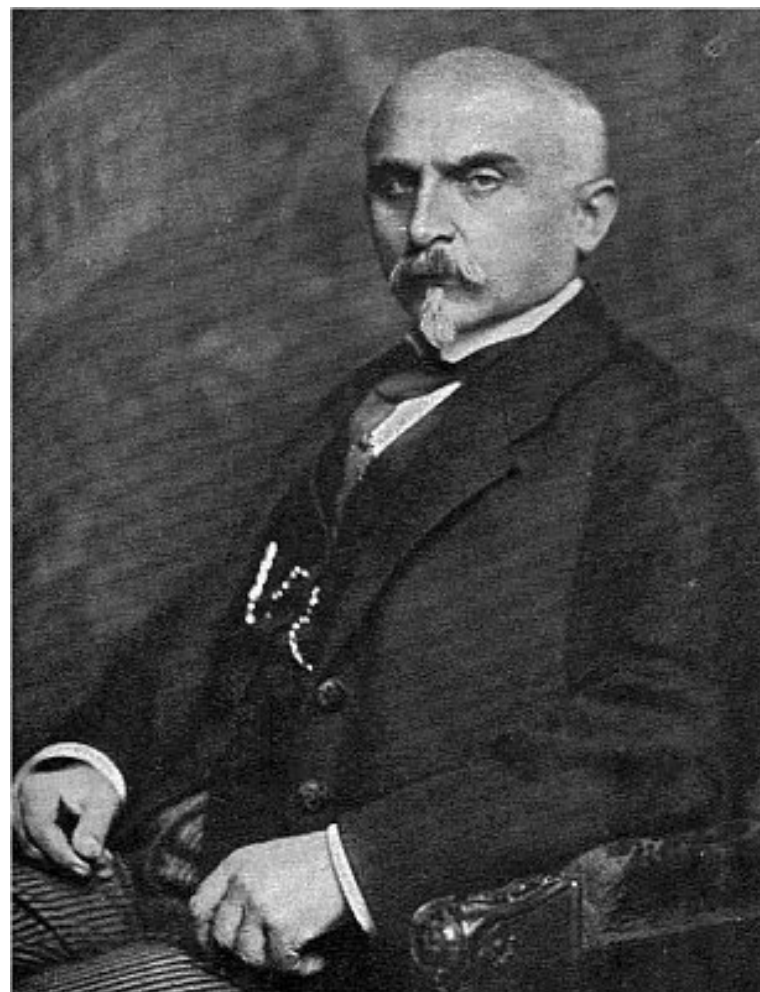
Pursued strict deflationary policy

Austro-Hungarian crown was still in circulation in successor countries in autumn 1918 and winter 1919

On 25 February 1919, National Assembly approved Rašín's secret plan to stamp banknotes

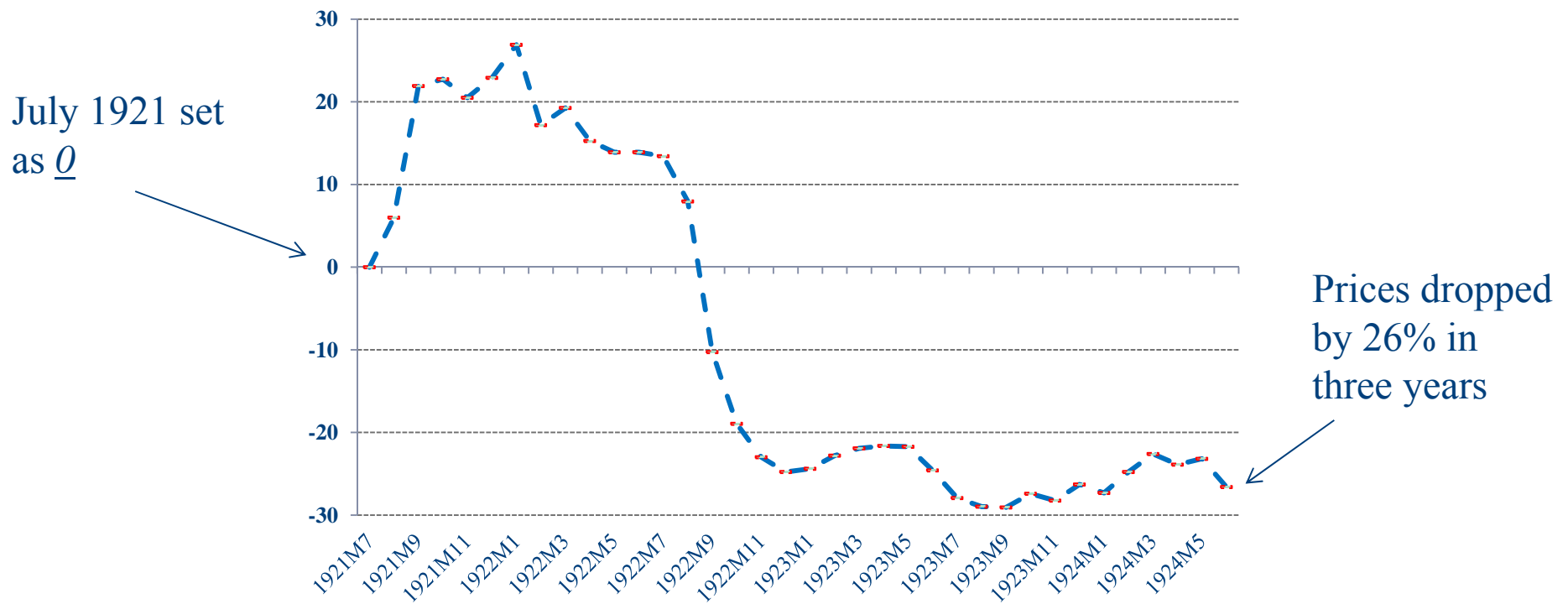
Between 26 February and 9 March 1919, national borders were sealed and notes circulating in Czechoslovakia were stamped

Only stamped notes were recognised as legal tender



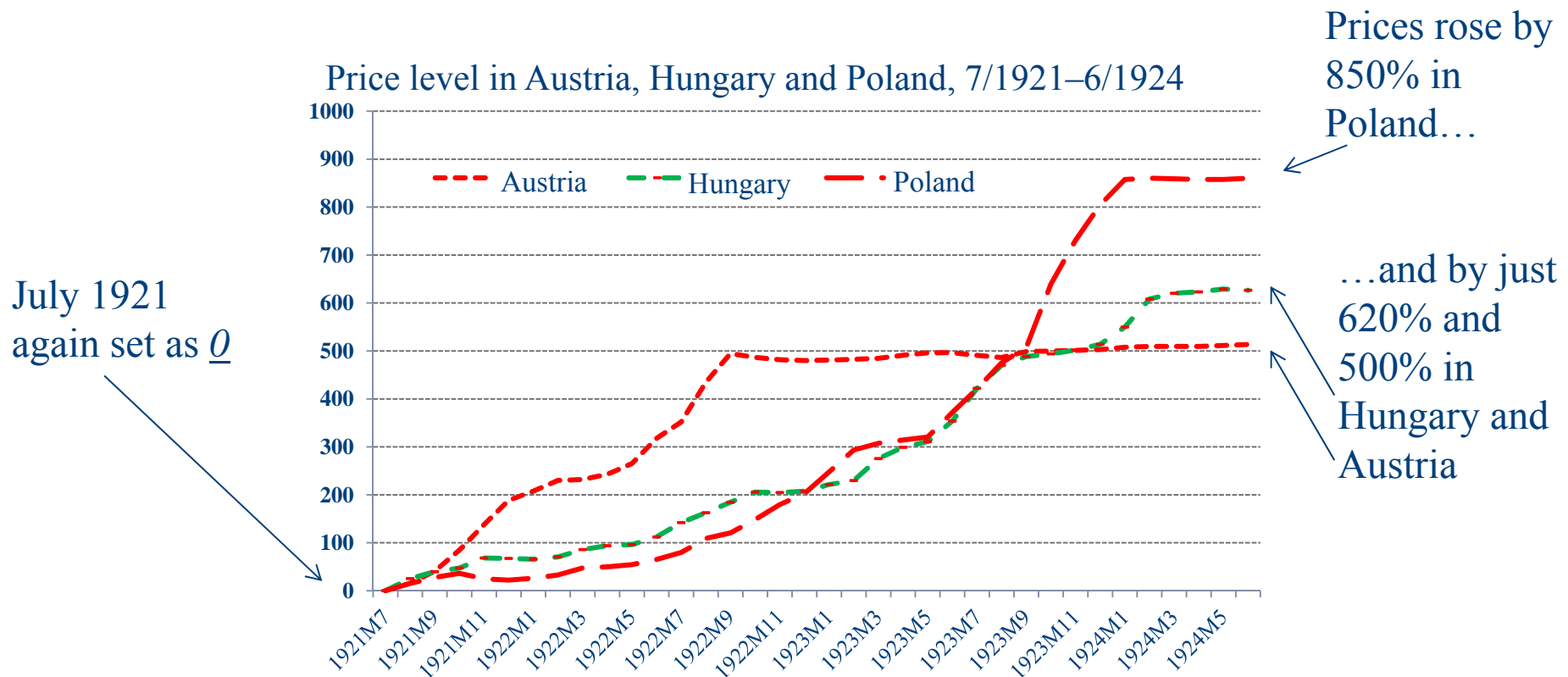
...and the price level went down...

Price level in Czechoslovakia, 7/1921–6/1924



Source: Statistical Yearbook 1925

...other countries printed money like there was no tomorrow

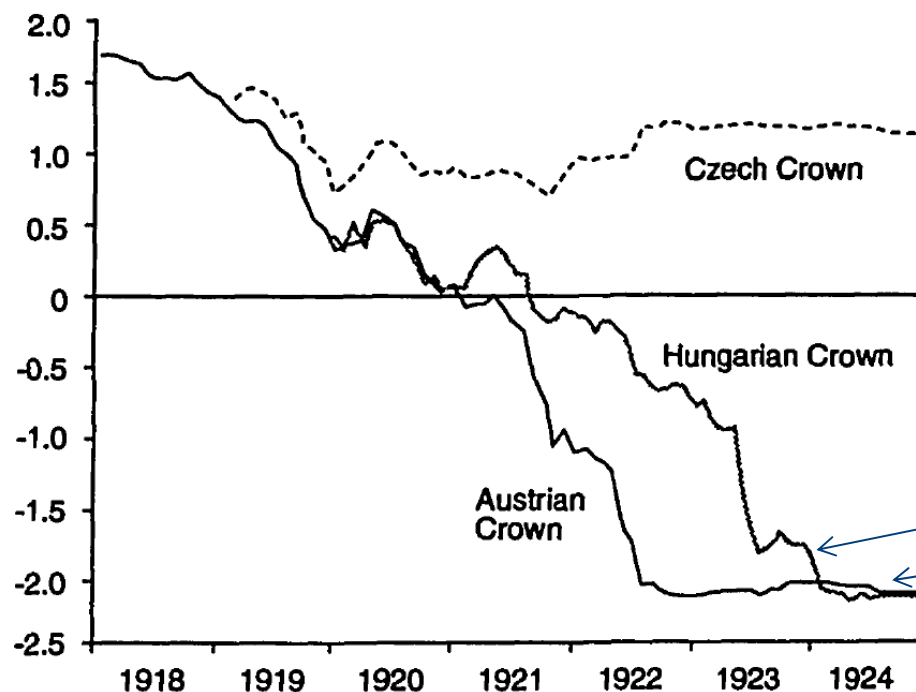


Source: Sargent, T. J (1982): "The Ends of Four Big Inflation", in Hall, R. E. ed. "Inflation: Causes and Effects", University of Chicago Press.

This caused the other “crowns” to weaken sharply

Exchange rate of Czechoslovak, Hungarian and Austrian crown against Swiss franc, 1918–1924

FIGURE 1 Successor Currencies in Zürich (Swiss centimes; end of month; logs)



Down means
weakening of
currency

Czechoslovak crown remained stable...

...while Hungarian and Austrian ones weakened by around 370%

SOURCE: Schweizerische Nationalbank [1944] and Hantos [1925].

The present debate? Nothing new under the sun

- Very similar debate took place in our country **80 years ago**
- Vilém Pospíšil (advocate of gold coverage, i.e. fall in prices, in Alois Rašín's footsteps)
versus
Karel Engliš (advocate of price stability, closer to modern view)

Rašín



Pospíšil



Engliš



- February 1934: Pospíšil resigns as CB governor and is replaced by Engliš, who is intent on devaluing the crown by one-sixth. Thanks to this, the almost-five-year period of recession and deflation in Czechoslovakia comes to an end the same year.

1953 Currency Reform

Greatest blow to crown came in
June 1953

Nevertheless, even “bankrupt”
Communist regime preferred
direct repayment of public
and hidden debt by
population to erasure of debt
by inflation

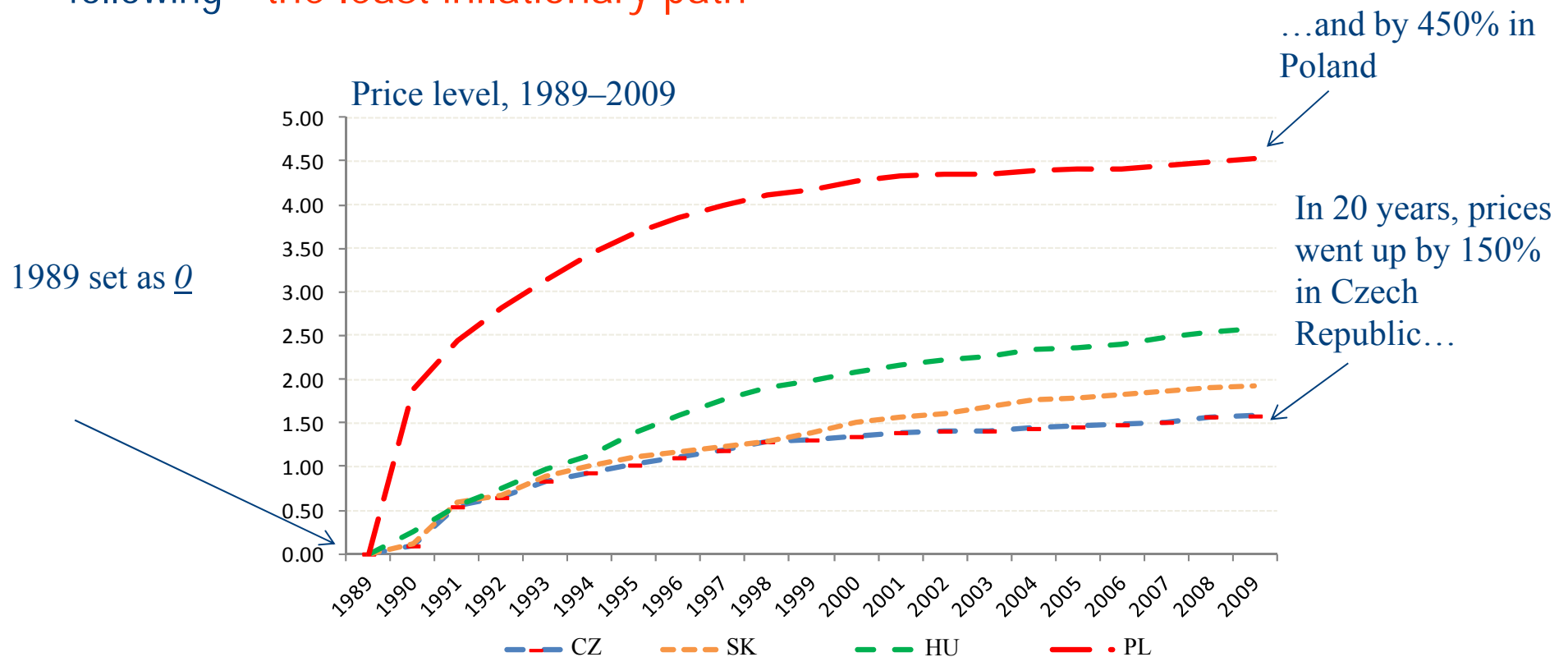
“Our currency is strong and monetary
reform will not take place. Class enemies
are merely spreading rumours about it.”

Antonín Zápotocký, 29 May 1953

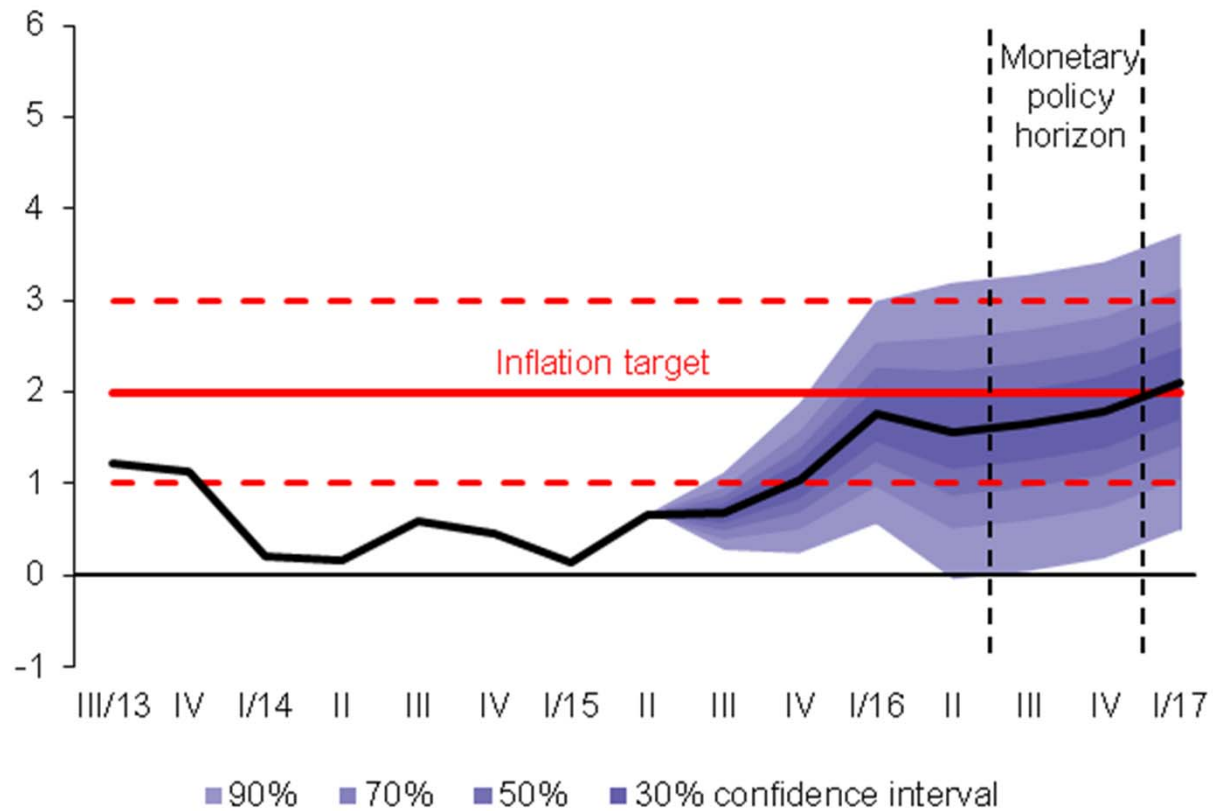


Post 1989...

As far as possible (relative prices had to be adjusted) we again followed – and are following – **the least inflationary path**



...inflation remains under control





Thank you for your attention