Uneasy sits the Czechoslovak crown

Susan Greenberg in Prague on the state bank that stands at the eye of the separation storm.

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A group of City dealers met for a bond swap with a difference on Monday. From January the country of issue won't exist.

The bonds, worth \$200 million (£133 million), were sold last year by the State Bank of Czechoslovakia. For the bank it was a first – a symbol of its readiness to join world capital markets – but that first offer must be its last.

Now, with the help of Nomura Securities, the bank has persuaded everyone to transfer obligations to its Czech and Slovak successors. Everyone is happy; the clients keep their above-par investment, and the new banks keep their liquidity and good name.

But it hasn't been easy for the bank, which stands at the eye of the separation storm, and its problems are just beginning.

For a start, the two new states are still not quite sure what currency to use. Czech and Slovak leaders have promised to share the present crown as long as possible. But the smart money is on an early split, and the state bank has already commissioned a new set of exclusively Czech banknotes, ready for summer delivery.

If crisis hits before the crisp new notes are ready, the authorities are prepared. If the money speculators move in, or if Prague and Bratislava diverge too strongly on economic policy, they will put a special Czech stamp on old notes and change over the entire currency within two days.

Tellers are reportedly hard at work, practising their wrist action while men with stop-watches record how long it takes. They have already discovered that the stickers get stick when the money goes through a counting machine.

There's nothing secret behind these preparations, just a keen interpretation of an agreement which spells out the grounds for any future currency split – a set of "divergence criteria", which mirrors the monetary convergence criteria of the Maastricht treaty.

According to Josef Tosovsky, governor of the federal state bank and the man most likely to head its Czech successor, the currency division could come as early as February or March.

The reason for such scepticism is the uncertainty about Slovakia's future economic policy. Mr Tosovsky has had the chance to prove himself internationally as a consistent, independent central banker. But the Slovaks are new to the game and have bigger problems than the more developed Czech economy.

The Slovak government has also changed its tune since the June elections, when it promised high spending. The man most likely to head its central bank, Marian Tkac, has been known to claim that public road-building wasn't inflationary because the expenditure created jobs. He is now trying to change his image, saying Slovakia wants to be "the Switzerland of the East".

The currency split may become necessary, but it won't solve all the problems. A separate Slovak crown would be under heavy pressure to devalue, and the resulting inflation could jump over into the Czech economy. Despite the planned customs union, the split is likely to hit industry on both sides with heavy transaction costs.

It coincides with the launch of a domestic capital market, new private owners of large companies, a bankruptcy law and a stringent new tax system. "Next year will be a real headache for the central bank", the governor said candidly.

The state bank is at the centre of another debate as the Czechoslovak federation argues over the vision of its family heirlooms – the strange story of Slovak gold.

More than seven tons of gold were collected by Slovakia during the second world war, when it was a separate state under Nazi protection, and handed to Prague in 1945 when the two republics reunited. Now Slovakia is asking for it back in one piece, not divided on a two-to-one ratio like the rest of deferral property.

This has sparked waspish comments from Prague about whether the golden bricks were ill-gotten gains, confiscated from the Jews when they were sent en masse to wartime camps, and scathing retorts from Bratislava about Czech hypocrisy.

"The gold stinks when we call it Slovak, but when it's federal gold in Prague, then it doesn't," a Slovak bank official said.

All the same, it may be a gilded Pandora's box. For if the Slovak state wants to claim the wealth of its independent predecessor, says the federal state bank, it should also be made responsible for the war reparations it avoided by reunifying with the Czech lands. Let the bankers sort that one out. ■