

Currency in Circulation: Global Trends and Challenges for Central Banks



**opening presentation
Currency Conference 2008**

Structure

1

Background information about the Czech Republic

2

Economy - overview

3

The role of the Czech National Bank

4

Demand for Cash

5

Challenges and current issues

1

Background information

History

- Czechoslovakia was a sovereign state in Central Europe that existed from October 1918 (when it declared independence from the Austro-Hungarian Empire) until 1992 (with a government-in-exile during the World War II period)
- in 1948 Communists took over political power, all basic freedoms suppressed
- in November **1989**, Czechoslovakia returned to democracy through a peaceful "Velvet Revolution"
- on January 1, 1993, the country peacefully split into the independent **Czech Republic** and Slovak Republic
- **both countries undertook economic reforms and privatizations**, with the intention of creating a market economy



1

Background information

Geography

- **Area:** total 78,866 km² (117th) 30,450 sq mi; the Czech landscape is quite varied
- **Water (%)** 2.0; water from the landlocked Czech Republic flows to three different seas: the North Sea, Baltic Sea and Black Sea
- **Population** 10,349,372 (78th) Density 130/km² (77th) 337/sq mi
- temperate, continental climate with relatively hot summers and cold, cloudy winters, usually with snow



	Rank	GDP
Qatar	1	80,870
Luxembourg	2	80,457
Norway	3	53,037
Brunei	4	51,005
Singapore	5	49,714
United States	6	45,845
Ireland	7	43,144
Switzerland	8	41,128
...
United Kingdom	20	35,134
Germany	21	34,181
Japan	22	33,577
France	23	33,188
...
Czech Republic	35	24,236
Oman	36	23,967
Saudi Arabia	37	23,243
Malta	38	22,907
Portugal	39	21,701
Estonia	40	21,094
Slovakia	41	20,251
...
Russia	52	14,692
...
People's Republic of China	99	5,292
...

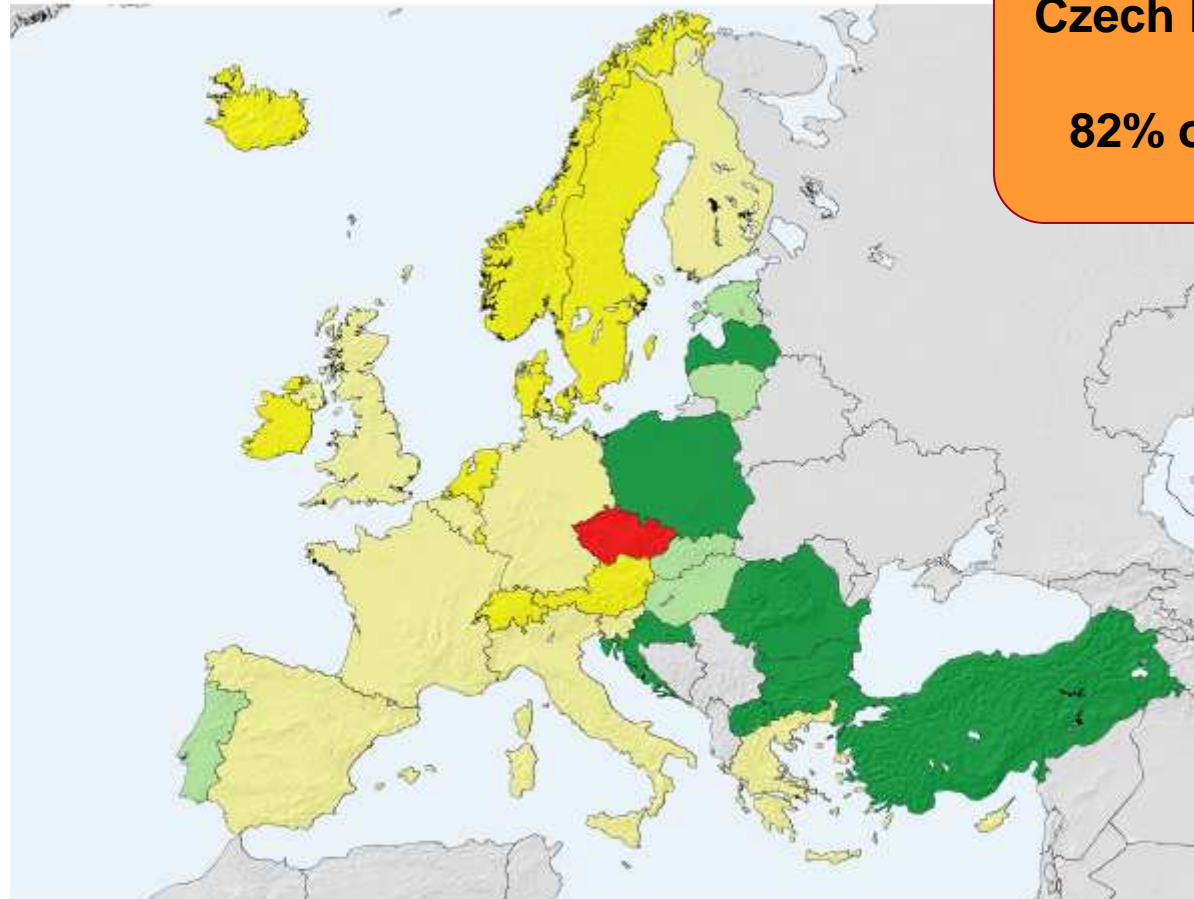
Lists of selected countries of the world sorted by their gross domestic product (GDP) at purchasing power parity (PPP) per capita in USD

source: World Economic Outlook Database-April 2008, International Monetary Fund

GDP per capita in PPS

GDP per capita in Purchasing Power Standards (PPS) (EU-27 = 100)

Based on a comparison with: Czech Republic



Czech Republic

82% of EU27

Legend (Data 2007)

0.3559 - 0.7069

0.7069 - 0.9999

1.0000

1.0001 - 1.4791

1.4791 - 3.5049

N/A

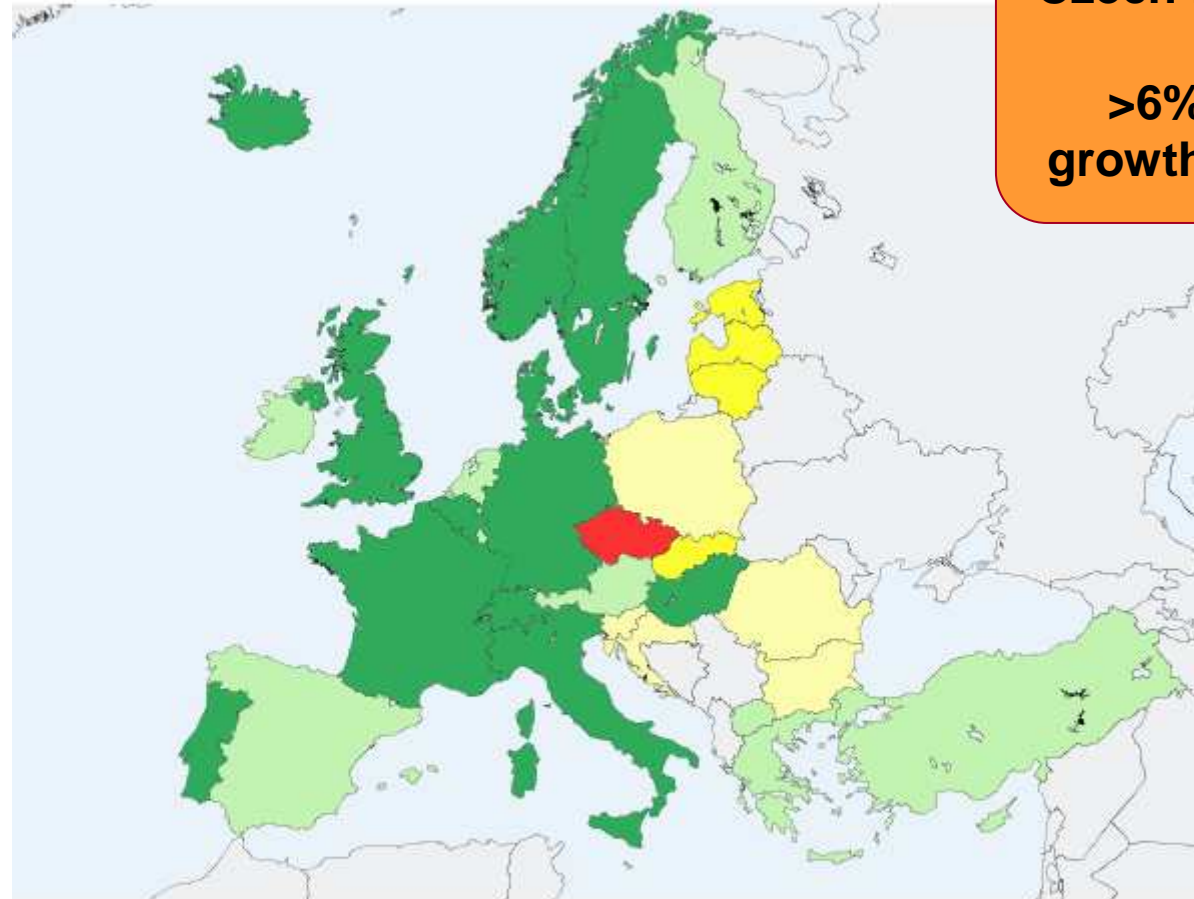
Minimum value:0.356 Maximum value:3.505 eu25:103.8 eu15:111.5

source: Eurostat

Real GDP growth rate

Growth rate of GDP volume - percentage change on previous year

Based on a comparison with: Czech Republic



Czech Republic

**>6% GDP
growth in 2007**

Legend (Data 2007)

0.1207 - 0.5345

0.5345 - 0.9999

1.0000

1.0001 - 1.1207

1.1207 - 1.7931

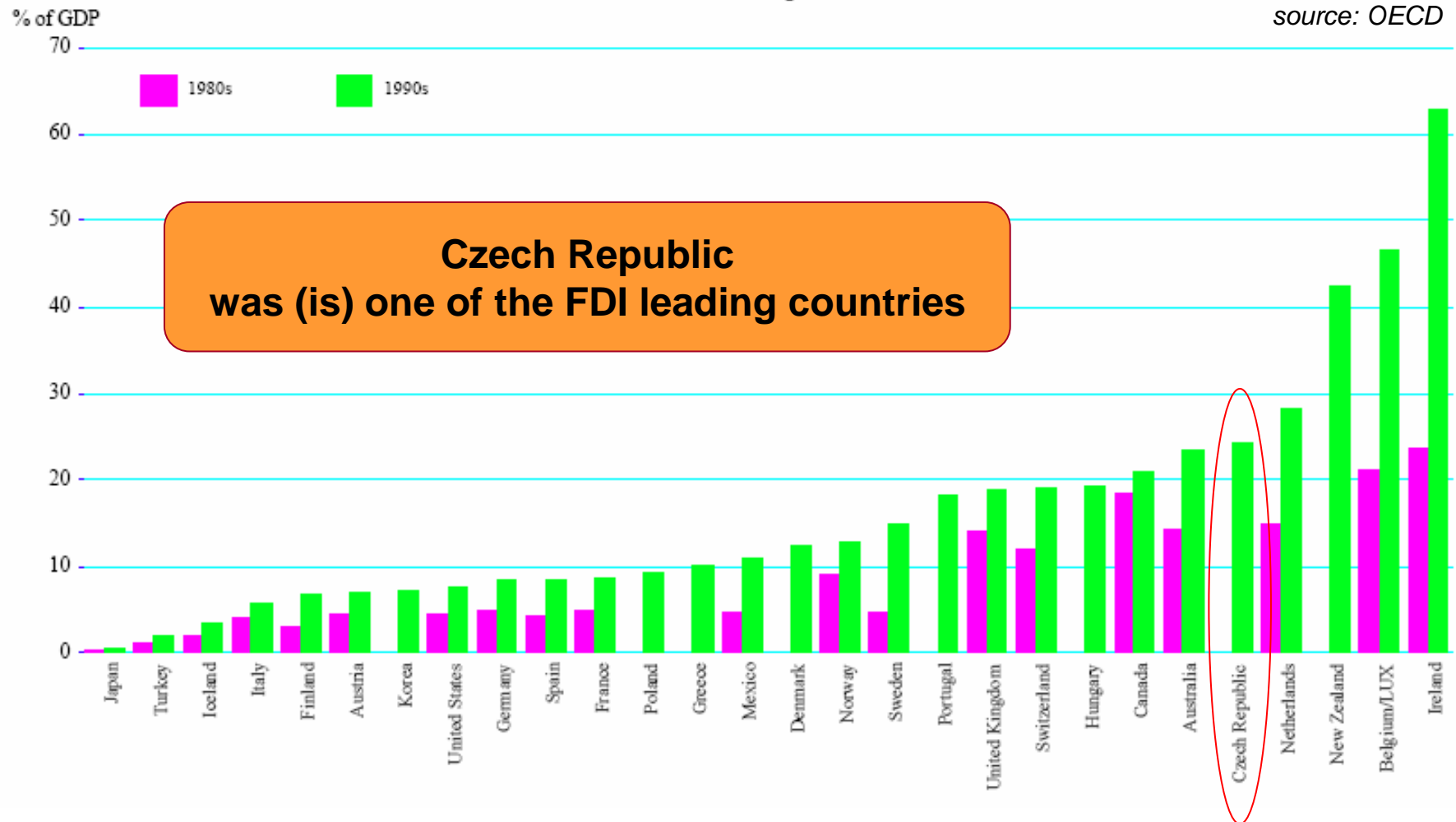
N/A

Minimum value:0.121 Maximum value:1.793 eu25:2.8 eu15:2.6

source: Eurostat

FDI positions in OECD countries, 1980s and 1990s

Inward positions



- the CNB is the central bank of the Czech Republic and the supervisor of the Czech financial market. It is established under the Constitution of the Czech Republic.
- the supreme governing body of the CNB is the Bank Board
- **the primary objective of the CNB is to maintain price stability**
- CNB is strictly independent to any outside interference (governmental, etc.)
- without prejudice to its primary objective, the CNB also supports the general economic policies of the Government
- in accordance with its primary objective, the CNB:
 - sets monetary policy
 - issues banknotes and coins and manages the circulation of currency, the payment system and settlement between banks
 - performs supervision of the banking sector, the capital market, the insurance industry, pension funds, credit unions and electronic money institutions, as well as foreign exchange supervision

3

The role of the CNB

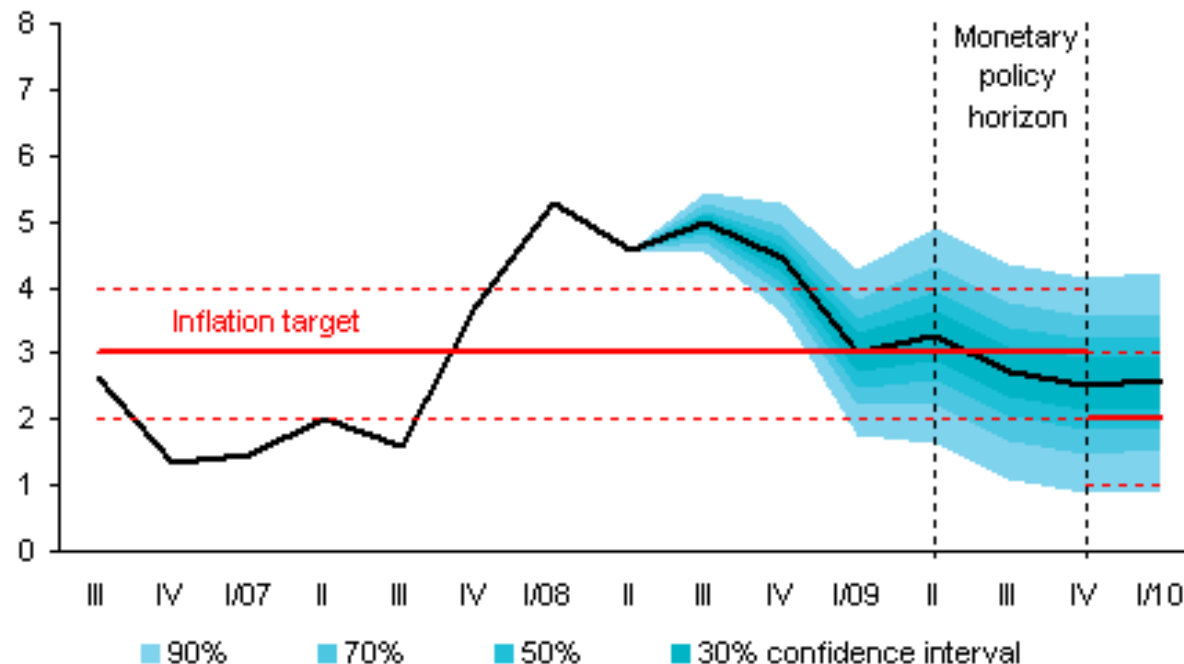
- CNB provides banking services to the state and the public sector
- CNB maintains the accounts of organizations connected to the state budget, including revenue (tax collection) and customs authorities, the Czech Social Security Administration, labour offices, subsidised organisations, state funds and accounts connected to the budget of the European Communities
- under authorisation from the Ministry of Finance, the CNB conducts transactions relating to government securities
- the CNB's headquarters is in Prague. Seven regional branches are located in Prague, Ústí nad Labem, Plzeň, České Budějovice, Hradec Králové, Brno and Ostrava.

3

The role of the CNB

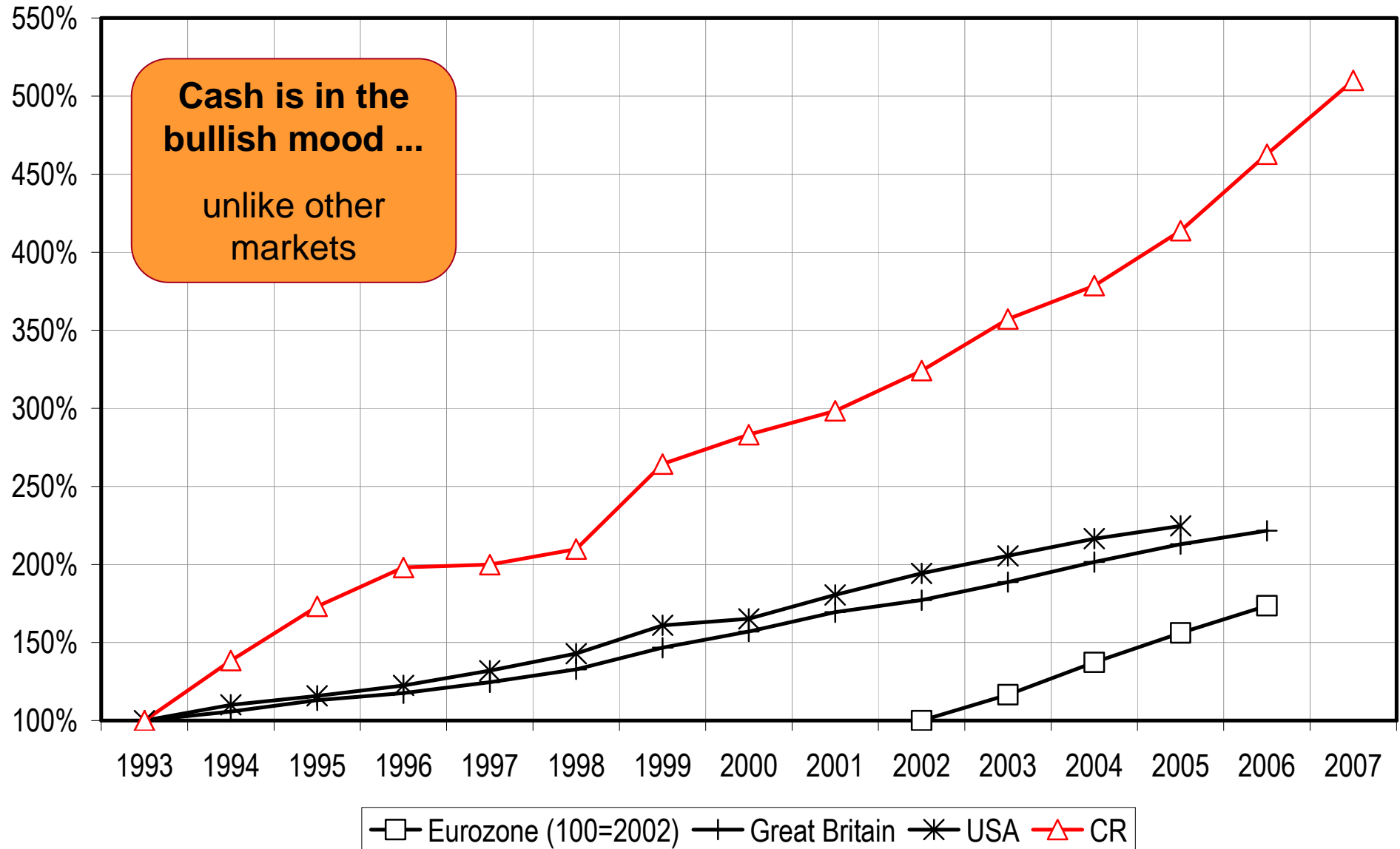
- CNB's primary objective is to maintain price stability
- monetary policy regime - inflation targeting
- CNB achieves its primary objective – price stability – by making changes to key interest rates (currently - 2W repo rate 3.50% since August 2008)
- the interest rate decisions of the CNB Bank Board are based on the current macroeconomic forecast and an assessment of the risks to its fulfilment

The forecast of monetary-policy relevant inflation at the monetary policy horizon



4

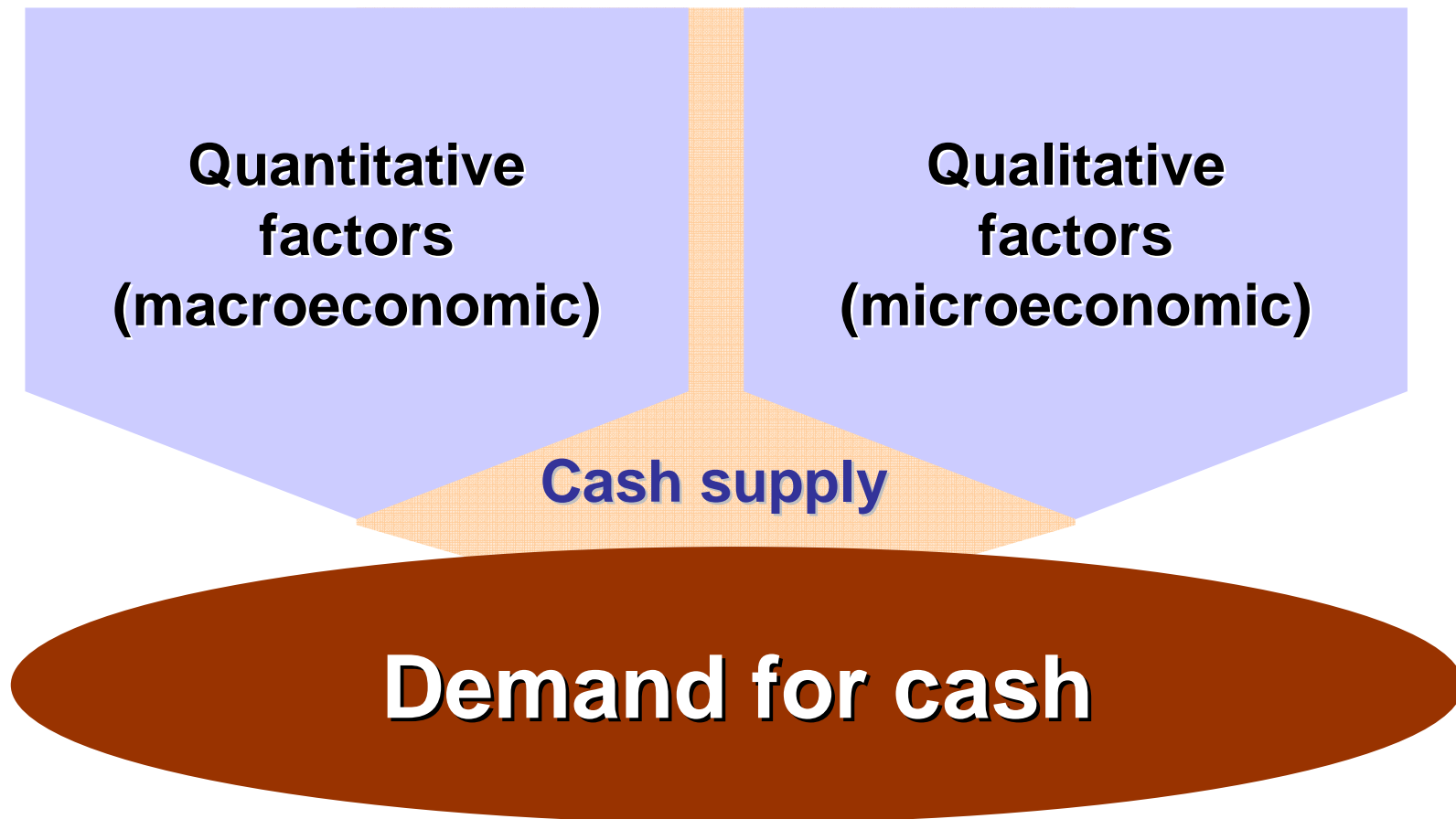
Demand for Cash



4

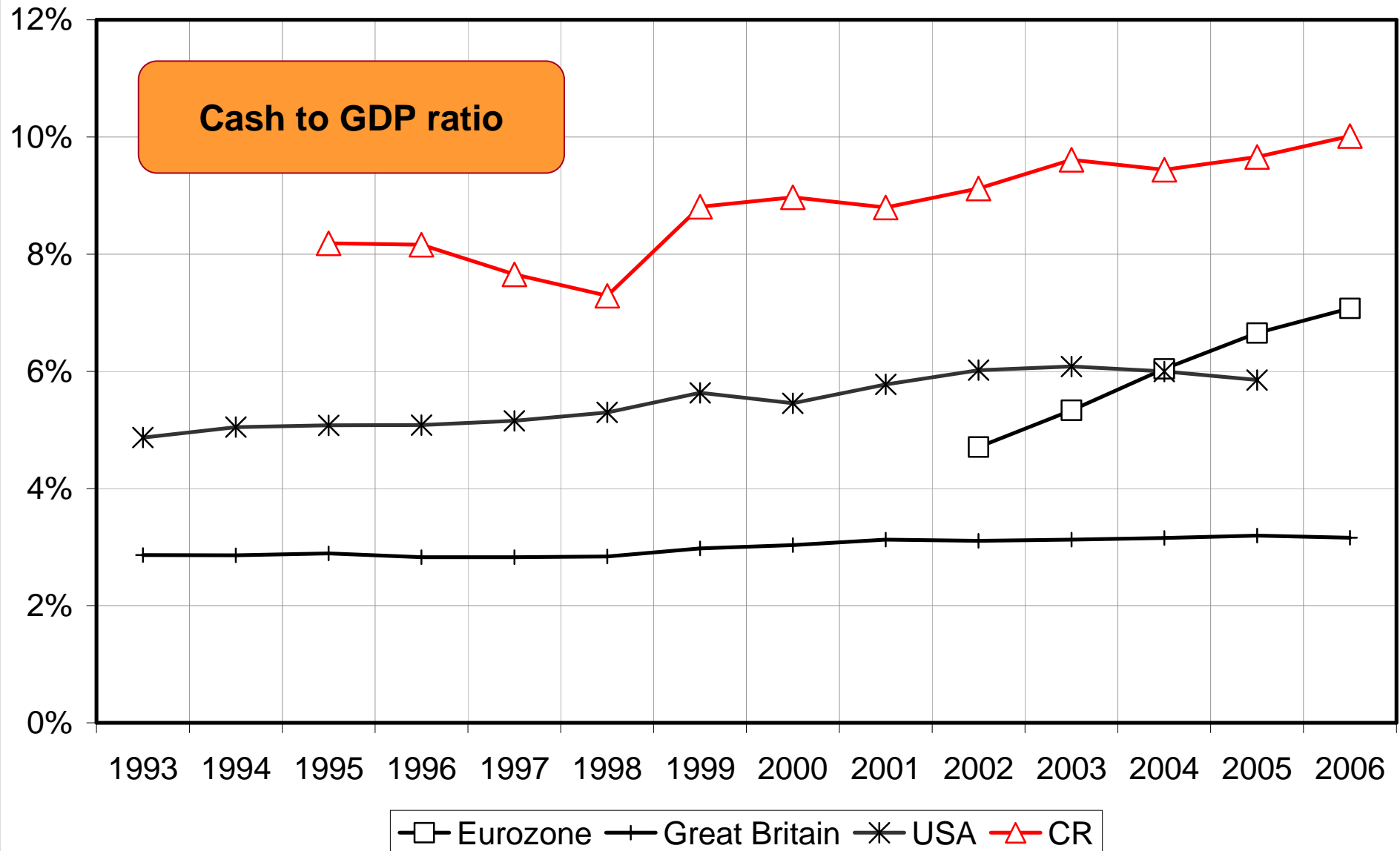
Demand for cash

- currency in circulation is constantly increasing in almost all countries
- what is the driving force, are there any factors causing the cash to rise?



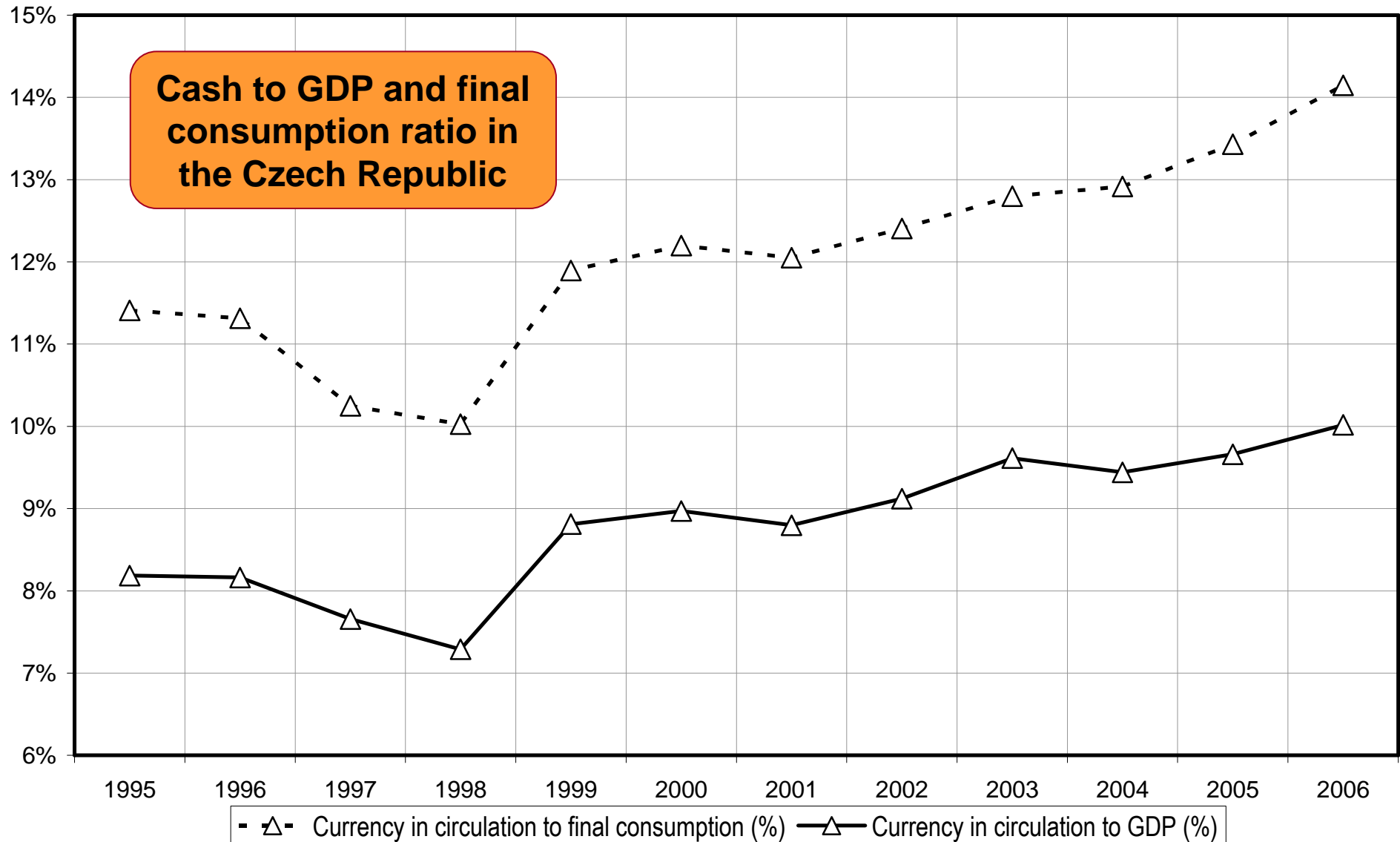
4

Demand for cash - Quantitative factors



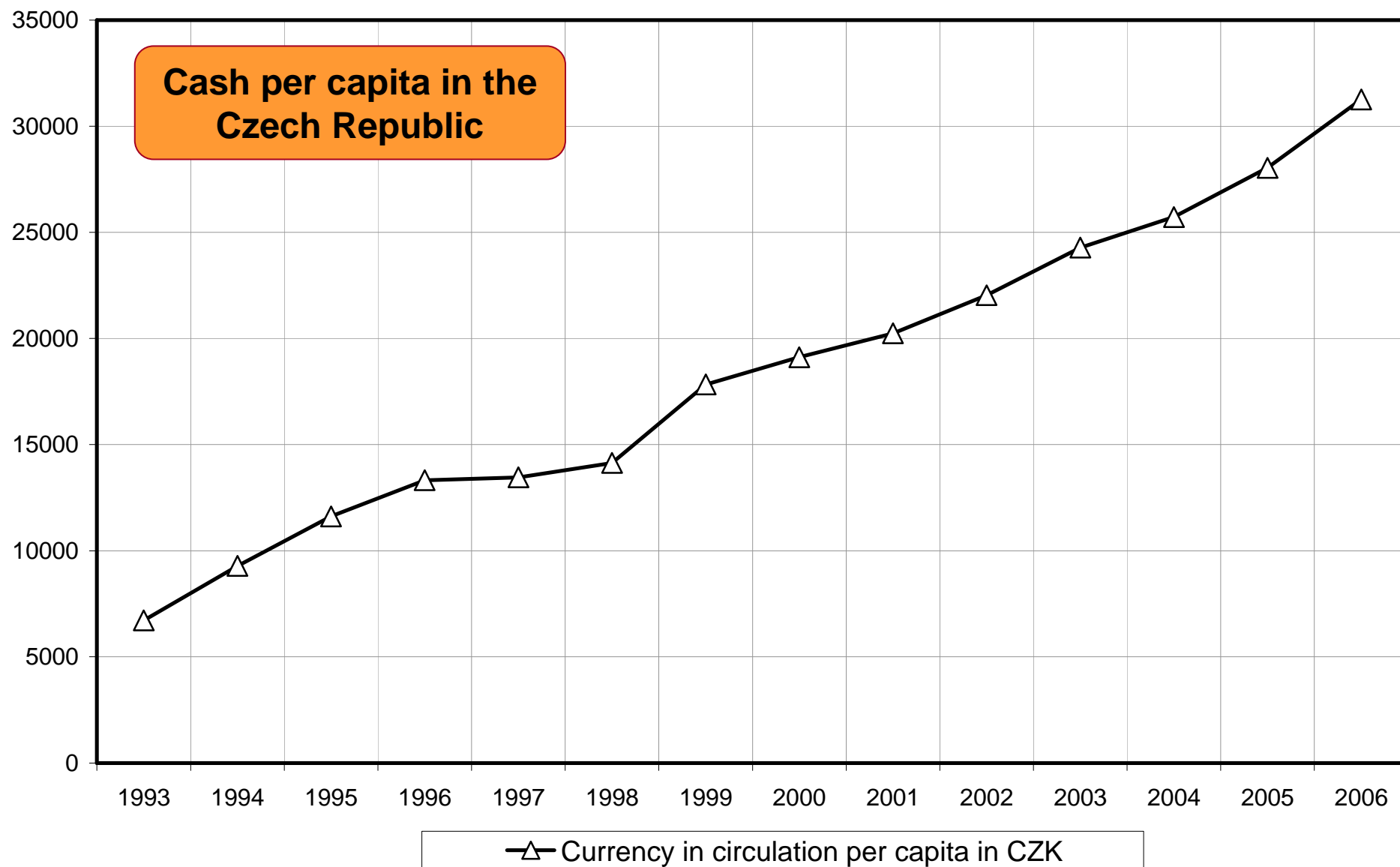
4

Demand for cash - Quantitative factors



4

Demand for cash - Quantitative factors



4

Demand for cash - Quantitative factors

- there are other possible quantitative factors that we can look at:
 - monetary conditions – interest rates
 - inflation
 - increasing number of payment transactions
 - increasing number of ATMs
 - retail payments
 - increasing building industry
 - tourism
 - ...
- but in my opinion there are other much more important factors that are harder to quantify ---- **qualitative factors**

4

Demand for cash - Qualitative factors

■ **Easy accessibility**

- cash is a mean of payment that is easy to acces
- the logistic process enables all citizens to access and use it
- the “storage” process is easy
- it is not dependent on additional IT infrustructure
- it is very liquid

■ **General acceptability and certainty of acceptance**

- cash is generally accepted and its acceptance is even stipulated in legislature
- in most cases cash is an obligation of a state or a central bank

■ **User friendliness**

- cash is thanks to its specific attributes determined to be used widely across all demographic and social groups

4

Demand for cash - Qualitative factors

- **Efficiency**

- transactions in cash are immediately settled without any need for additional infrastructure

- **Anonymity**

- advantage for the users x disadvantage for specific authorities

- **Monitoring and control**

- cash users are more likely to control their budgets (and most of all not to exceed it)

- **Lower costs connected with cash usage**

- fees connected with cash usage are often lower than fees connected with some electronic payments

4

Demand for cash - Qualitative factors

■ Storage of liquid value

- cash is widely used for hoarding (especially during times of uncertainty)
 - specific cash group: commemorative coins
-

■ Safety

- thanks to constant improvements in safety components the ratio of forgery is acceptable (on the other hand e-crime is on the rise)
-

■ Solution for crises situation

- there were many examples (natural disaster, energy blackouts, etc.) when cash is the only functional mean of payment
- economic crises: loss of trust and confidence

■ Infrastructure imperfection

- some countries still lack functional IT infrastructure for wider usage of e-payments
- dual circulation

Quantitative factors

- economic growth
- final consumption
- monetary conditions
- demography
- tourism
- ...

Qualitative factors

- accessibility and acceptance
- user friendliness safety
- efficiency
- monitoring and control
- anonymity, low costs
- storage
- safety
- ...

Cash supply

- solution for crises
- infrastructure

Demand for cash

4

Challenges and current issues

- financial turmoil – loss of trust and confidence
- interesting to watch what will happen during the financial turmoil with respect to the cash in circulation
- position of central banks – **impartial** - cash is one of the components of the wide range of the means of payments
- it is up to the final consumer (or user) of the payment services to choose from this range
- the central banks should be about stability, not only price stability, but about financial stability and also about the stability of payment systems, money circulation and the infrastructure

Challenges for central banks in the field of cash management

- trust, safety ---- STABILITY
- professional operations --- CONFIDENCE
- more efficient methods for cash processing --- LOWER COST

**Thank you for
your attention**