

# The Credit Registration Centre and Efforts to Organise Credit Registers in Czechoslovakia in the First Half of the 20<sup>th</sup> Century



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## **KEY WORDS:**

Economic History — Czechoslovakia — First Republic — Credit Registrarion Centre — Central Banking

An advanced credit system is a key precondition for the development of the economy as a whole, as lending intermediates the allocation of free funds to economic sectors. An excess or shortage of credit significantly influences the macroeconomic variables of the economy, because credit affects demand and, in turn, production of goods and services. Sufficient credit is essential to the development of the entire economy, as it enables entrepreneurs to innovate, boosts circulation and maintains sufficient effective demand. However, excessive credit availability carries with it the risk of over-lending by lenders optimistically granting credit to everyone who applies for it. Over-use of credit may therefore lead to a credit crunch caused, by contrast, by a lack of credit as the total amount of funds for lending is exhausted. In a credit crunch, however, funds lent during the “credit euphoria” very often prove to be unrecoverable as, in turn, lenders themselves get into trouble as well.<sup>1</sup>

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1 Cf. the entries *Úvěr* and *Krize úvěrová*, Jiří Novotný (ed.), *Finanční slovník*, Prague 1973, pp. 250–251 and 555–557. Regarding credit and the lending process in Czechoslovakia between the wars, cf. e.g. Jiří Novotný — Jiří Šouša, *Bankovní úvěry a rozvoj průmyslu v Československu 1918–1938*. In: *Československo 1918–1938. Osudy demokracie ve střední Evropě*, Prague 1999, pp. 328–334; Vlastislav Lacina, *Změny v bankovním systému a financování průmyslových podniků po vzniku samostatné Československé republiky*, *Hospodářské dějiny — Economic History*, No. 20, 1992, pp. 87–99; Jiří Novotný — Jiří Šouša, *Úvěrování průmyslových podniků Národní bankou Československou v letech 1926–1938*, *AUC, Philosophica et Historica* 3, *Studia historica* L, Prague 1998, pp. 191–200; Jiří Novotný, *Úvěrové podmínky a postupy Živnostenské banky v meziválečném období*, *Hospodářské dějiny — Economic History*, No. 20, 1972, pp. 101–111; Jiří Novotný — Jiří Šouša, *K úvěrování textilního průmyslu Živnostenskou bankou v meziválečné ČSR*, *Disertationes Historicae*, No. 2, 1994, pp. 195–205; Jiří Novotný — Jiří Šouša, *Úvěrování československého průmyslu bankami v meziválečném období: Živnostenská banka a její klienti*. In: *Československo a střední Evropa v meziválečném období*, *AUC, Phil — Hist* 3 (5), 1994, *Studia historica*, pp. 93–105; Jiří Novotný — Jiří Šouša — Désirée Verdonk, *Beziehungen von Banken und Industrie am Beispiel der Živnostenská banka und des Wiener-Bank Vereines*. In: Alice Teichová — Herbert Matis (ed.), *Österreich und die Tschechoslowakei 1918–1938. Die wirtschaftliche Neuordnung in Zentraleuropa in der Zwischenkriegszeit*, Wien — Köln —



One way to prevent overlending is for lenders to work together on the basis of joint registration of borrowers. This enables them to prevent overuse or misuse of credit by individual borrowers. During 2002, the Czech National Bank launched a system of registration of business sector borrowers called the Central Credit Register. However, such a register is by no means new in the Czech lands. The first attempts to establish one were made at the end of the era of the Austro-Hungarian monarchy.

The beginnings of the credit registration system that started to operate in Czechoslovakia in the second half of the 1930s can be traced to the period shortly before World War I. At that time, it became clear that all over Austria during the 1900s, like in the 1870s, business was booming excessively and groundless speculation was going on. This caused a series of businesses that had been using credit as the foundation of their existence to go bankrupt.<sup>2</sup> Many firms were using credit in a speculative or even fraudulent manner and relying on banks not to inform other banks about the details of their credit relations for reasons of competition.<sup>3</sup> The situation in the banking system of the Czech lands reached crisis point in late 1911, when banks started to experience substantial shortages of funds, exacerbated by massive withdrawals by depositors. The lack of mobile funds led to a major credit crunch in 1912.<sup>4</sup> One of the ways in which banks decided to address the problem was to set up a Credit Registration Centre in Prague in late January 1912. However, this organisation was a purely private enterprise run by Czech banks. According to all sources, its job was solely to record liabilities arising from invoice loans.<sup>5</sup>

The efforts to broaden the protection of lenders against borrowers took a new form following the establishment of the Czechoslovak Republic, when the creation of a national credit register, this time on the basis of the bank of issue, was incorporated into the Act establishing the National Bank of Czechoslovakia of 14 April 1920. Article 33 of this Act dealt directly with this issue, stipulating that: “In the interests of proper credit provision, the Bank shall have the duty to bring about nationwide credit registration and conduct it so that credit misuse is prevented where possible. The Bank shall be entitled to request documents and reports from anybody for this

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Weimar 1996, pp. 235–252; Jakub Kunert, *Průmysl a banky. Archiv České národní banky jako fundament pro výzkum historie českého a československého průmyslu 19. a 20. století*. In: *Průmysl — město — archiv. Archivy a dokumentace průmyslového dědictví*, Prague 2013, pp. 125–150; Jakub Kunert, *Archivní fond Živnostenské banky jako pramen pro studium dějin českého a československého průmyslu*. In: Jana Kleinová (ed.), *Věda a technika v českých zemích mezi světovými válkami, Práce z dějin techniky a přírodních věd*, Vol. 39, Prague 2014, pp. 13–30.

2 Cf. *Stav národního hospodářství, Obzor národohospodářský*, Vol. XVIII, Prague 1913, p. 44.

3 Cf. Břetislav Palkovský, *Národní banka Československá a náprava měny*, Prague 1925, p. 155.

4 Cf. Horák Josef, *Přehled vývoje českých obchodních bank*, Prague 1913, p. 113.

5 Unfortunately, the archive documents give no details about how the Centre actually operated. Cf. e.g.: Archive of the Czech National Bank (hereinafter “ACNB”), archive collection *Živnostenská banka* (hereinafter “ŽB”), ŽB-SI/c, *Protokol výkonného výboru z 30. ledna 1912*, book No. 4, pp. 205–206, box No. 6/100, and cf. ACNB, archive collection *Česká banka* (hereinafter “ČB”), ČB/15/72, *Protokol výkonného výboru z 13. 12. 1912*, book No. 15.

purpose.”<sup>6</sup> According to the explanatory report for this Act, it was envisaged that the new bank of issue would receive monthly reports from credit institutions on the size of loans provided, process them in the form of a statistical register and then inform the participating institutions about what loans the customer had and from how many institutions. To avoid violations of banking secrecy, however, the National Bank was not expected to specify which banks customers had borrowed from.<sup>7</sup> Therefore, the job of the future National Bank was not to examine borrowers’ creditworthiness or to convince lender banks to reject loan applications submitted by overleveraged customers, but merely to enable lender banks to obtain a better picture of their borrowers’ liabilities to other banks.<sup>8</sup>

Despite the provisions of the Act, the credit registration centre was not created automatically upon the establishment of the National Bank of Czechoslovakia on 1 April 1926, even though voices calling for its establishment had already been heard during the existence of the Banking Office of the Ministry of Finance. Efforts on the part of banks even occasionally led to the establishment of credit registration centres. One was established in Plzeň as early as 1923, headed by the director of the Plzeň branch of the Banking Office of the Ministry of Finance.<sup>9</sup> It was formed by mutual agreement between banks operating in the Plzeň region<sup>10</sup> following long discussions during the preparatory phase. One of the key questions was which of the participating banks was to maintain the register. An offer by Spořitelna města Plzně to take on the running of the register proved contentious. It was strongly opposed by Plzeňská banka, which had long-running disputes with Spořitelna města Plzně and threatened not to participate in the registration centre in such case. As this would basically have relegated the centre to insignificance, the banks decided to seek an administrator outside the circle of competing banks.<sup>11</sup> They chose the local branch of the Banking Office of the Ministry of Finance. Jaroslav Preiss, Managing Director of Živnostenská

6 Zákonn č. 347 o akciové bance cedulové ze 14. 4. 1920, Sbírnka zákonů a nařizení státu československého, Vol. 1920, pp. 859–876 and cf. Břetislav Palkovský, Národní banka Československá ..., p. 155.

7 Cf. *ibid.*, p. 155.

8 Cf. *Deset let Národní banky Československé*, Prague 1937, p. 226.

9 ACNB, ŽB-SXV/c-32, Evidenční ústředna úvěrová a pobočky Národní banky Československé, file Plzeň, Dopis centrály Živnostenské banky na filiálku v Plzni z 6. 2. 1922, box No. 64/2201.

10 The centre had the following member institutions: Agrární banka československá, Anglo-československá banka, Banka československých legií, Banka pro obchod a průmysl (former Länderbank), Banka stavebních živností a průmyslu, Česká banka, Česká eskomptní banka, Česká komerční banka, Česká průmyslová banka, Moravská agrární a průmyslová banka, Občanská záložna v Plzni, Plzeňská banka, Pražská úvěrní banka, Řeznicko-uzenářská banka, Spořitelna města Plzně, Všeobecná bankovní jednota and Živnostenská banka. Later on, bank branches in Klatovy, Mariánské Lázně and Domažlice (including Spořitelna města Domažlic) joined the Plzeň registration centre.

11 ACNB-ŽB-SXV/c-32, Evidenční ústředna úvěrová a pobočky Národní banky Československé, file Plzeň, Dopis filiálky Živnostenské banky na centrálu ŽB z 19. ledna 1922, box No. 64/2201.





banka, discussed this proposal with Karel Kučera, Deputy Chief Executive Director of the Banking Office. However, Kučera in fact only supported the registration of bill credit based on rediscount with the Banking Office.<sup>12</sup> When it became clear that the Banking Office was not really interested in patronage of the credit registration centre and that its vision of credit registration did not go beyond bill rediscount, the Plzeň region credit registration centre was initially set up in test mode, headed by the Director of the Banking Office in Plzeň Jaroslav Pospíšil, who ran it as a natural person.<sup>13</sup> It was maintained in this form until 1945 despite the creation of the statutory Credit Registration Centre in the 1930s.<sup>14</sup>

Loans of all types — even those provided outside Plzeň — exceeding CZK 5,000 and granted by the centre's regional participants were subject to registration under the agreement between the participating institutions. Registration pertained to both covered and uncovered loans, with the exception of loans granted on the basis of full coverage by securities.<sup>15</sup> The register was updated once a year and the members filled in questionnaires stating only the name, line of business and address of the customer to whom they had granted the loan. The overview thus did not include data on the size, coverage and drawdown of the loan. After comparing the records received, the registration centre informed the individual members about their borrowers' credit relations with other members of the credit association. In addition, each bank could request information about the customer's liabilities to other lenders before granting credit to a new borrower. It was an undeniable advantage for the participating institutions that they immediately received information whenever someone who had borrowed from them was granted new credit. This enabled them to take flexible action against borrowers and, where appropriate, request further guarantees for the credit they granted.<sup>16</sup> This procedure also prevented the participating institutions from interfering unduly in negotiations between a borrower who had borrowed from them and another financial institution before an application for new credit was dealt with.

In 1923 there was also an attempt to establish a credit registration centre in Bratislava, as the members of the regional settlement association agreed that the complicated situation in Slovakia necessitated one. They proposed to send reports on the size and drawdown of loans by individual firms to the local branch of the Bank-

12 *ibid.*, file Plzeň, Dopis filiálky Živnostenské banky na centrálu ŽB z 13. prosince. 1922, box No. 64/2201, and cf. *ibid.*, Dopis Bankovního úřadu ministerstva financí na Živnostenskou banku z 27. února 1922, box No. 64/2201, and *ibid.*, Dopis filiálky Živnostenské banky na centrálu ŽB z 3. března 1922, box No. 64/2201.

13 *ibid.*, Dopis filiálky Živnostenské banky na centrálu ŽB z 16. ledna. 1923, box No. 64/2201.

14 It was maintained because it registered loans exceeding CZK 5,000, whereas the threshold for statutory registration was CZK 100,000 (cf. below). *ibid.*, Dopis filiálky Živnostenské banky na centrálu ŽB z 6. května. 1944, box No. 64/2201.

15 ACNB, archive collection Česká průmyslová banka (hereinafter "ČPB"), Filiálka Klatovy, pořad. č. 15, složka č. 671, Evidenční ústředna úvěrová při Bankovním úřadu ministerstva financí, Opis zápisu o schůzi místních peněžních ústavů, konané 30. ledna 1924.

16 ACNB-ŽB-SXV/c-32, Evidenční ústředna úvěrová a pobočky Národní banky Československé, Příloha zprávy pro ředitelství ve věci Zřízení evidencí úvěrových u filiálek Národní banky československé z 6. února 1931, box No. 64/2201.

ing Office every month and to receive reports back containing the identity of firms which had also borrowed from other institutions, along with their total debt.<sup>17</sup> However, the plan was not implemented — the Banking Office shelved the matter in 1923 stating that “negotiations are under way on the establishment of such a registration office for the Czechoslovak Republic as a whole in Prague”.<sup>18</sup> A similar unsuccessful attempt was made in the Karlovy Vary area the same year. The member institutions of the Union of Czechoslovak Banks asked the local branch of the Banking Office to maintain a credit register in the form of reports containing only the names of their borrowers. However, the Banking Office also rejected this initiative without giving a reason.<sup>19</sup>



17 ACNB-ŽB-SXV/c-32, Evidenční ústředna úvěrová a pobočky Národní banky Československé, file Filiálka Bratislava, Dopis filiálky ŽB v Bratislavě na centrálu ze 14. února 1923, box No. 64/2201. It is surely noteworthy that in this letter the branch asked the headquarters why a similar credit registration centre had not been established in Prague, where “negotiations about its establishment allegedly took place without results”.

18 *ibid.*, Dopis filiálky ŽB v Bratislavě na centrálu z 6. dubna 1923, box No. 64/2201. The reference to “negotiations [...] on the establishment of such a registration office for the Czechoslovak Republic as a whole in Prague” was probably based on information from the headquarters of the Banking Office of the Ministry of Finance. On 28 April 1923, the Banking Office sent a document to the Union of Banks for discussion, expressing its willingness to take on loan registration: “unless financial institutions prefer an independent institution, to introduce credit registration in the interests of sound credit provision”. The proposal contained an outline of the registration system based on quarterly reports from banks to branches of the Banking Office giving information about their borrowers and the size of their debt. This data was then to be processed by the branches to create regional lists, which would be sent to the Banking Office headquarters in Prague. The headquarters would compile a central list stating “where, with how many institutions and in what amounts the firm has obligations”. The list would then be sent to the branches, which would inform the participating financial institutions of the results. Loans exceeding 500,000 crowns [currency: Československá koruna], and later even 100,000 crowns, were considered for registration.

The proposal was discussed by the Executive Committee of the Union of Banks on 2 May 1923 but did not win sufficient support. The Executive Committee disagreed with the Banking Office maintaining the register, as the Union had envisaged from the start that it would be maintained by Zemská banka (“the plan was the most agreeable to the Union banks”). At the same time, however, Zemská banka was against taking on this role, as it was overloaded with other work. The Banking Office abandoned this plan, probably because of the negative reaction from the Union of Banks, so it did not even reach the agenda of the meetings of the Banking Committee at the Ministry of Finance. ACNB, ŽB/3941/1, Hospodářská skupina “Soukromé bankovníctví”, Prague, file 3 Svazová režie a členský příspěvek Zpráva pro ředitelství o schůzi výboru SČB z 3. 5. 1923 and opis dopisu Bankovního úřadu ministerstva financí na Svaz československých bank z 28. dubna 1923, box No. 3941.

19 *ibid.*, file Filiálka Karlovy Vary, Dopis filiálky ŽB v Karlových Varech na centrálu z 6. srpna 1923, box No. 64/2201. Interestingly, however, the headquarters of Živnostenská banka failed to notice that the registration centre had not come into existence, as it asked its branch about its experience with the local credit register as late as 1938. Cf. *ibid.*, file



The establishment of credit registration centres was again considered during 1925 and 1926, when a private credit register headed by the director of the local municipal savings bank was created in Chomutov. The banks were obliged to provide information about loan size only, not the actual debt balances of their customers.<sup>20</sup> Similarly, Anglo-československá banka asked for a credit registration centre to be created for Žatec and repeatedly tried to persuade the local branch of the Banking Office to manage it.<sup>21</sup> Bank branches in Ústí nad Labem also supported credit registration, based on a proposal made by representatives of Česká průmyslová a hospodářská banka. However, during the preparatory work, which was done by an elected committee of the banks' representatives, it became clear how different the individual institutions' ideas were. First, the proposal that the registration centre should be managed by the local Banking Office was rejected, as according to some representatives its director was too closely linked to the group around Česká průmyslová a hospodářská banka. Furthermore, opinions differed on the geographical reach of the register, as the importance of firms from Ústí went beyond the narrow scope of the region. An understandable demand was therefore made to extend it to the land level or the Czechoslovak Republic as a whole, where it would be managed by Zemská banka. However, the banks' differing views ultimately prevented the registration centre from being set up.<sup>22</sup>

That the establishment of a credit registration centre was indeed one of the key issues in the work to organise the credit area is also evidenced by proposals made by Minister of Finance Karel Engliš to create a nationwide credit registration department, as reported in the press at the time. However, he envisaged the credit register being run by a newly formed institution — Jednota, revizní a důvěrnické sdružení československých bank v Praze.<sup>23</sup> The Ministry of Finance returned to the idea of a credit registration centre in 1928, when it asked the National Bank of Czechoslovakia to apply strictly the 1920 law on its establishment, and specifically Article 33

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Filiálka Karlovy Vary, Dopis centrály ŽB na filiálku ŽB v Karlových Varech z 30. března 1938, box No. 64/2201.

20 ACNB, archive collection Anglo-československá banka (hereinafter "ACB"), ACB/15/182, Protokol pražského výboru z 1. března 1926, box No. 15. During the 1920s, a credit registration centre was established in Jablonec nad Nisou, but the basis on which it operated is unknown. ACNB-ŽB-SXV/c-32, Evidenční ústředna úvěrová a pobočky Národní banky Československé, file Moravská Ostrava, Dopis centrály Živnostenské banky na filiálku ŽB v Moravské Ostravě z 1. prosince 1930, box No. 64/2201.

21 ACNB, ACB/15/148, Reservátní protokol pražského výboru z 1. února 1926, p. 2, box No. 15.

22 ACNB, ŽB-SXV/c-32, Evidenční ústředna úvěrová a pobočky Národní banky Československé, file Ústí nad Labem, Dopis filiálky Živnostenské banky v Ústí nad Labem na ústředí ŽB z 26. května 1925, box No. 64/2201.

23 ACNB, ACB/1/30, Protokol správní rady z 22. září 1926, box No. 1. The fact that Minister of Finance Karel Engliš was not alone in feeling that a credit registration centre was needed is also illustrated by a contemporary article by a journalist named Beneš in Národní listy advocating a credit register modelled on that of the former Austro-Hungarian Bank (see footnote 40 for how this register was maintained). See Beneš, Evidenční ústředna úvěrové činnosti bank, Národní listy, 1 April 1925, No. 90, Vol. 65, p. 6.

on credit registration. However, the narrower bank committee of the bank of issue turned down the request, stating that a prescriptive approach to credit institutions in this area would only cause animosity towards the central bank.<sup>24</sup>

Anglo-československá a Pražská úvěrní banka played a major role in the next stage of the attempts to establish a credit register. Its branches initiated the creation of some other local credit registration centres in 1930 and 1931, probably in an effort to find out how many customers were borrowing separately and secretly from the formerly independent banks from which this new financial institution had been created.<sup>25</sup> Subsequently, the National Bank of Czechoslovakia also took up the initiative in some regions. Negotiations were held in the “banking districts”, i.e. the regions administered by the National Bank’s local branches in Brno, České Budějovice, Uherské Hradiště, Hradec Králové, Jihlava, Košice, Liberec, Olomouc, Moravská Ostrava, Pardubice, Teplice and Ústí nad Labem.<sup>26</sup> However, as it continued to be organised only on the basis of mutual agreement between all the participating financial institutions, the preparatory work on the centres was delayed and in some regions even ground to a complete halt. This happened for several, often recurring reasons. One of them was the non-participation of major local institutions, as was the case in Jihlava and Ústí nad Labem.<sup>27</sup> Another major reason was the requirement of the National Bank of Czechoslovakia that certain penalties be specified for non-compliance with the credit registration agreement and that inspections of the participants’ accounts be possible.<sup>28</sup> Banks in Brno opposed the centre also because they did not want to register loans granted to customers from the Brno region by their headquarters and other

24 ACNB, archive collection Národní banka Československá (hereinafter “NBC”), NBC/21/1, Protokol užšího výboru bankovní rady NBC z 14. ledna 1928, pp. 13–14, box No. 21.

25 On the merger between Pražská úvěrní banka, Anglo-československá banka and Česká komerční banka, cf. Jaroslav Pátek, Anglo-československá a Pražská úvěrní banka. In: *Z dějin českého bankovníctví v 19. a 20. století*, AUC Phil. Et Hist. 5, 1997, *Studia Historica XLVII*, Prague 2000, pp. 109–123, and Jaroslav Pátek, Anglo-československá a Pražská úvěrní banka. In: Vencovský, František (ed.), *Dějiny bankovníctví v českých zemích*, Prague 1999, pp. 314–315.

26 ACNB, ŽB-SXV/c-32, Evidenční ústředna úvěrová a pobočky Národní banky Československé, file Filiálka Ústí nad Labem, Dopis centrály Živnostenské banky na filiálku ŽB v Ústí nad Labem z 6. února 1931, box No. 64/2201. Of these, Anglo-československá a Pražská úvěrní banka initiated the creation of centres at the branches in České Budějovice, Jihlava, Košice, Olomouc and Pardubice. Cf. ACNB, ŽB-SXV/c-32, Evidenční ústředna úvěrová a pobočky Národní banky Československé, file České Budějovice, Jihlava, Košice, Olomouc a Pardubice, box No. 64/2201. Extraordinarily, following its experience with the credit register in Plzeň, the headquarters of Živnostenská banka called upon every branch to sign up to the register. Cf. *ibid.*, Evidenční ústředna úvěrová a pobočky Národní banky Československé, box No. 64/2201.

27 *ibid.*, file Ústí nad Labem a Jihlava, box No. 64/2201. In Ústí nad Labem this concerned a limited partnership from the group of Lipzing Allgemeine Deutsche Kreditanstalt, the bank Wolfrum L. & Co., which had significant positions in local German industrial circles.

28 *ibid.*, file České Budějovice, Jihlava, Košice, Olomouc a Pardubice, box No. 64/2201.



branches.<sup>29</sup> So, after long negotiations, credit registration centres were established only in Liberec and Teplice.<sup>30</sup>

The idea of a nationwide credit registration centre was revived in the early 1930s in the context of the preparation of new banking laws, at a time when it was becoming clear that the measures taken to stabilise the financial sector in the 1920s were not enough.<sup>31</sup> Negotiations to include provisions on credit registration in these new banking laws started in late 1931. The proposal came from the Ministry of Finance, specifically the then Finance Minister Karel Trapl. During December, he invited the Governor of the National Bank Vilém Pospíšil to a meeting and informed him that he ‘would like to implement the organisation of a credit registration centre’. Pospíšil was not against the proposal but pointed out that although the law on the bank of issue mentioned such a centre, the National Bank of Czechoslovakia had no effective enforcement tools to make banks provide information about the loans they granted.<sup>32</sup> Trapl therefore suggested that credit registration be performed by Jednota — revizní a důvěrnické sdružení československých bank, as proposed earlier by the former finance minister, Karel Engliš. However, Pospíšil opposed this categorically, stating that it would have an adverse effect on private law entities if the credit register were to be run by a body subordinated directly to the Ministry of Finance. In his opinion, another disadvantage of such a register would be its sole focus on joint-stock banks. Therefore, the governor of the bank of issue recommended to the minister of finance that the new banking laws should only define the duties of banks in the spirit of Article 33 of the 1920 law. Financial institutions would thus have the duty to submit to the National Bank monthly global reports on their deposits and loans, and the relevant bodies of the National Bank would become entitled to inspect their audit reports.<sup>33</sup> Subsequently, the Union of Czechoslovak Banks together with interest groups of “people’s financial institutions” lobbied for an amendment to this effect.<sup>34</sup>

The final talks on the new banking laws took place during January 1932. The four ministers co-responsible for banks eventually agreed to the central bank’s request

<sup>29</sup> *ibid.*, file Brno, Dopis centrály Živnostenské banky na filiálku v Brně z 18. prosince 1931, p. 3, box No. 64/2201.

<sup>30</sup> Cf. *ibid.*, file Liberec a Teplice, box No. 64/2201.

<sup>31</sup> Cf. Jiří Novotný — Jiří Šouša, *Krize bank za první republiky*, In: *Historický obzor*, No. 1–2, Vol. 13, January–February 2002, pp. 2–14.

<sup>32</sup> “I (Vilém Pospíšil — author’s note) pointed out that the bank of issue does what it can in times of plethora, but that it was hampered by the fact that in times of plethora it does not have enough influence over banks to be able to bring the mechanism of the said reports to life, as well as by the fact that the law on the joint-stock bank of issue merely stipulates a general duty of the bank of issue to bring about nationwide trade credit registration, but that the relevant provision contains no sanctions, so the bank of issue cannot impose mandatory measures here.” ACNB, NBC, NBC/385/3, *Protokol bankovní rady NBČ z 21. prosince 1931*, p. 6, box No. 385.

<sup>33</sup> *ibid.*, p. 7.

<sup>34</sup> ACNB, NBC, NBC/31/2, *Protokol užšího výboru bankovní rady NBČ z 14. ledna 1932*, p. 31, box No. 31.

to be given the tools it needed to maintain a credit register.<sup>35</sup> The new Banking Act No. 54/1932 Coll. was adopted on 21 April, and Article LIII thereof was devoted to the establishment of a Credit Registration Centre at the National Bank of Czechoslovakia.<sup>36</sup> Under the Act, the Government was tasked with issuing detailed regulations implementing Article 33 of Act No. 347/1920 Coll. For the first time, the Act laid down penalties for failure to submit the loan documents and reports requested by the National Bank of Czechoslovakia. Likewise, penalties were specified for the submission of incorrect data. Those who failed to submit documents would be penalised by their district authority for an administrative offence, with fines ranging between 1,000 and 10,000 crowns [currency: Československá koruna], and those who submitted incorrect or incomplete data would be punished by a court and face a jail sentence of between three days and three months or a fine of between 5,000 and 100,000 crowns. On the other hand, penalties were also defined for clerks of the National Bank who breached the principle of secrecy when performing registration. They would face jail sentences of between one and fourteen days or a fine of between 50 and 10,000 crowns.<sup>37</sup>

Although the relevant statutes were not issued until 1936, the National Bank of Czechoslovakia began to prepare for the launch of credit registration soon after Act No. 54/1932 was issued. The Board decided that banks would report to the bank of issue every three months, on 28 (or 29) February, 31 May, 31 August and 30 November. Banks were expected to provide information on all loans amounting to 1% or more of their shareholders' equity. The central bank envisaged registration initially pertaining to joint-stock commercial banks and later being extended to people's financial institutions. It then also considered the most appropriate way of linking the new register with the existing fragmented ones run independently by banks on a private basis. At the time, the National Bank wanted the register to include bill credits, overdrafts, mortgages and guarantees.<sup>38</sup>

During 1934, the preparations for the issuance of a government regulation on credit registration neared completion and the issue also started to be discussed in the Advisory Committee for Financial Matters. Two approaches to the operation of the centre clashed in the debate. The first was a liberal one, according to which the centre would only have to inform lenders if they asked for information. According to the second approach, conversely, lenders would have the duty to ask the centre about the

35 ACNB, NBC, NBC/41/1, Protokol bankovní rady NBČ z 25. ledna 1932, p. 26, box No. 41.

36 Act No. 54/1932 of 21 April 1932, amending the following Acts: Act of 9 October 1924, No. 237 Coll., establishing a special fund to mitigate losses arising from the post-war situation, Act of 10 October 1924, No. 288 Coll, establishing a general fund of financial institutions in the Czechoslovak Republic, and Act of 10 October 1924, No. 239 Coll., on deposit books (certificates) and on audits of banks, and specifying some conditions for businesses and joint-stock companies, see *Sbírka zákonů a nařízení*, Vol. 1932, Prague 1932, p. 253.

37 See Gustav Švamberg, *Ozdravění našeho peněžnictví. Mravní hospodářské — odborné*, Prague 1932, p. 119.

38 ACNB, NBC, NBC/20/3, Protokol bankovní rady NBČ z 20. prosince 1933, pp. 61–63, box No. 20.





borrower's current credit situation before granting any new loan. This approach was favoured, for example, by the credit department of the National Bank and the Ministry of Finance. However, it was opposed by the proponents of the first approach — representatives of financial institutions, especially joint-stock banks belonging to the Union of Czechoslovak Banks, who insisted on entrepreneurial freedom in the provision of credit. Representatives of people's financial institutions,<sup>39</sup> who disagreed with reporting in the case of good borrowers and asked for registration of discount loans only, as with the Austro-Hungarian Bank before 1918, also raised a number of objections to the Act.<sup>40</sup> In their opinion, moreover, establishing a credit register made no sense for small banks, as it would only result in an excessive increase in administration associated with reporting to the National Bank. On the other hand, the Credit Registration Centre was supported by the representative of land banks of a public-law nature, the Director General of *Zemská banka* Ferdinand Tománek, and by the Secretary of the Union of Slovak Banks Imrich Karvaš.

The question of whether the register should include Lombard loans — i.e. loans that by definition are covered — also proved controversial. The National Bank was of the opinion that the lender should know the borrower's overall asset situation and therefore also loans guaranteed by pledged assets, whereas representatives of joint-stock banks and credit unions requested that loans provided against direct collateral should not have to be reported to the Credit Registration Centre. Managing Director Svoboda argued that such loans were similar in nature to mortgage loans, which were not subject to registration. The Director General of the Central Union of Agricultural Cooperatives Ladislav Dvořák therefore proposed that no covered loans be subject to registration. However, that would in essence have meant a substantial curbing of the centre's activities. This proposal was strongly opposed by the Governor of the National Bank Karel Engliš, as in his opinion the only reason why mortgages should

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<sup>39</sup> In the people's financial institutions sector, however, it was mainly civic credit unions (represented by the Association of Credit Unions) which opposed credit registration, whereas savings banks (whose interests were defended by the Union of Czechoslovak Savings Banks) were mostly in favour of it, albeit in a looser form than required by the Act. Cf. ACNB, archive collection *Poradní sbor ve věcech peněžnictví* (hereinafter "PSVP"), PSVP/2/7, *Zápis o schůzi zvláštního výboru P.S.V.P. z 3. prosince 1934*, pp. 7–10, box No. 2. Despite objections to central credit registration, however, credit registration centres for people's financial institutions (with a reporting duty for loans above 30,000 crowns) had already been created at local level — for example in Úpice. *ibid.*, p. 16, box No. 2 and cf. PSVP/2/8, *Zápis o schůzi zvláštního výboru P.S.V.P. z 17. prosince 1934*, p. 16, box No. 2.

<sup>40</sup> The credit register at the Austro-Hungarian Bank only covered discount loans, and those of firms which the banks themselves had registered. If a bank wanted to know whether a customer had loans from more than one bank, it announced this via a branch of the Austro-Hungarian Bank to Vienna, where data on discount borrowers were gathered from branches. The branches compiled reports on borrowers based on information from local financial institutions. Therefore, borrowers often appeared in the register only after one of the lenders had enquired about them. This was by no means a systematically maintained register. Cf. *ibid.*, p. 15, box No. 2 and Beneš, *Evidenční ústředna úvěrové činnosti bank*, *Národní listy*, 1 April 1925, No. 90, Vol. 65, p. 6.

remain outside the register was that they were already registered in the property cadastre. So, the reason why they were left out of the register was unrelated to whether or not they were covered. The National Bank of Czechoslovakia was supported by savings banks representative Jindřich Wild, who argued that there was a need to capture covered loans in order to determine to what extent the borrower was able to repay. This resulted in a sharp conflict with the Chairman of the Union of Czechoslovak Banks Karel Svoboda, who held the view that covered loans could be realised immediately and so did not need to be captured in the register. However, Jindřich Wild countered that the insistence of commercial banks on guarantees regardless of ability to repay was one of the causes of credit crises in Czechoslovakia. This emphasis on ability to repay rather than on collateral — because, as Governor Engliš said “a business is worth scrap iron if it has no income”<sup>41</sup> — basically concluded the debate in favour of registration of all loans (except mortgages) as originally proposed by the National Bank of Czechoslovakia.<sup>42</sup>

Despite a number of objections raised mainly by joint-stock commercial banks through their interest association, the Union of Czechoslovak Banks, government regulation No. 109 Coll. was issued on 24 April 1936 and registration of commercial loans thereby finally entered into force.<sup>43</sup> The regulation introduced credit registration at the National Bank of Czechoslovakia not only for all types of banking institutions,<sup>44</sup> but also for financial institutions,<sup>45</sup> orphan pension funds, private insurance institutions and public-law social insurance institutions. The register covered all types of domestic borrowers except the state, regional administration associations and public-law institutions entitled to collect surcharges and other fees. In the end, therefore, only mortgage loans (with the exception of guarantee mortgages) and loans intended for securities trades, i.e. contango loans, were thus excluded from

41 ACNB, PSVP/2/8, Zápis o schůzi zvláštního výboru P.S.V.P. z 17. prosince 1934, p. 42, box No. 2.

42 *ibid.*, pp. 28–43, box No. 2. The issue of coverage by deposit books posed a similar problem. Cf. *ibid.*, pp. 45–47, box No. 2.

43 “Government regulation issuing detailed rules for the registration of commercial loans to implement Article 33 of Act of 14 April 1920 Coll., on the joint-stock bank of issue, and complementing government regulation of 2 July 1931 No. 114 Coll. on the delivery of decrees in insolvency and settlement proceedings and the publication thereof in the Official Journal.”

44 Namely joint-stock banks, limited liability companies undertaking banking and money transactions, credit unions, credit associations (cooperatives), unions (headquarters) of associations (cooperatives) which were credit cooperatives or credit associations, district credit unions and other types of credit unions formed from contributory and tax funds (corn contributory funds and money contributory funds), savings banks, land credit institutions (including the Sole Traders’ Land Credit Fund in Prague and the Land Farmers’ Credit Fund in Prague), the National Bank of Czechoslovakia, the Czechoslovak Rediscount and Lombard Bank and the Post Office Savings Bank.

45 Financial institutions as defined in Article LII of Act No. 54/1932, i.e. financial and banking institutions operated by individuals, general commercial partnerships and limited partnerships. Collection of Laws and Regulations, Vol. 1932, p. 253.





mandatory credit registration. The minimum loan size for which registration was required was set at 100,000 crowns.

Under the above regulation, the National Bank of Czechoslovakia set up in its credit department an independent commercial credit registration unit headed by Chief Inspector Zdeněk Roos.<sup>46</sup> Every lender institution initially had to submit a report about its borrowers to this unit within two months (stating the name, registered address and line of business and the name of the co-borrower or guarantor) and then had to submit reports on newly granted loans as of 30 June and 31 December each year.<sup>47</sup> Based on these reports, the commercial credit registration unit created a register of borrowers and subsequently added data to it. Using this list of borrowers, the unit informed lender institutions about borrowers who had, or were applying for, loans from them. As for information about firms, the centre only stated whether the borrower had already received credit and, where relevant, from how many institutions (but without giving the names of the lenders). If the borrower had borrowed from more than one lender, the information was supplemented with the sum total and nature of the loans.<sup>48</sup>

The central bank's credit registration unit slowly started up during 1936, with 1 February 1937 set as the fixed date on which the centre would launch the provision of information to lender institutions. The processing of the credit data revealed that the initial concerns that the summarisation of reports on loans of more than 100,000 crowns would involve an excessive workload were unfounded. In the end, the centre registered only 18,000 loans exceeding 100,000 crowns. The Bank Board of the National Bank therefore even started to consider lowering the threshold to 50,000 crowns. However, the opinion was also voiced that a change in the reporting limits connected with the size of the institutions should also be considered, as it was clear that people's financial institutions were able and willing to provide only small loans. Just how important credit registration could be and how truthful the individual institutions reports on loans granted were became apparent still in 1936. This was proved in connection with the insolvency of *Kožní prodejní družstvo řezníků a uzenářů*, which caused a loss of more than 16 million crowns to its lenders.<sup>49</sup> When the debts of this

<sup>46</sup> ACNB, NBC/122/5, Protokol úvěrního odboru NBČ z 25. května 1936, p. 9, box No. 122 and cf. Zdeněk Roos, *Vzpomínky Dr. Zdeňka Roose*, Prague 1987, pp. 66–67 (copy of the original in the Archive of the CNB). The specifics of the credit registration unit and its place in the organisational structure of the National Bank of Czechoslovakia were defined in an internal regulation from the collection *General Regulations No. 39/2*. However, the original is not preserved and we only know of its existence from the “Index of the internal regulations of the National Bank of Czechoslovakia as of 1 April 1938”. ACNB, NBC/796/1, *Služební předpisy*, file *Rejstřík služebních předpisů*, box No. 796.

<sup>47</sup> It was specified that reports were always to be submitted by headquarters on behalf of branches and by audit associations on behalf of people's financial institutions.

<sup>48</sup> Cf. ACNB, archive collection *Diskontní společnost* (hereinafter “DS”), DS/1/15, *Pokyny ohledně obchodních úvěrů u Národní banky*, *Evidence obchodních úvěrů*, box No. 1.

<sup>49</sup> For more details on the case of this leather-making cooperative, cf. *Není důvodu ztráct důvěru v kožní družstevnictví*. In: *Řeznicko-uzenářské noviny*, 19 December 1936, No. 51–52, Vol. 26, p. 461; *-vký-*, *Co učiní kriminální policie s Benou Perelesem*, *Řeznicko-uzenářské noviny*, 4 September 1937, No. 36, Vol. 27, pp. 286–287.

cooperative were examined, it was found that all the participating institutions had correctly reported the amounts of loans granted. However, financial institutions did not benefit from credit registration in this case, as the cooperative became insolvent before the National Bank of Czechoslovakia's information service was launched.<sup>50</sup>

One year after the centre went into live operation, the management of the National Bank decided to introduce the first changes in its work, as practice had shown that it needed simplifying to ensure smooth and efficient operation. At the request of joint-stock banks, reporting of the obligations of direct drawees who had signed promissory notes was discontinued, as was the reporting of movements of various types of loans in a single credit line. On the other hand, it was decided, this time at the request of people's financial institutions, that all borrowers who had simultaneously assumed guarantor obligations should be monitored. Furthermore, the duty to report stocks of discount and guarantee loans as of 31 March and 30 September, which was putting a heavy burden on the National Bank's credit registration unit, was abolished.<sup>51</sup>

Only a year and a half after it was set up, however, the credit registration system had to adapt to the constitutional changes arising from the Munich Agreement. In the second half of November 1938, Czechoslovak financial institutions were asked by the National Bank to remove from the credit register all borrowers whose businesses had their registered offices and financial management in the territories occupied by Germany, Poland and Hungary by 15 December. From then on, therefore, only borrowers whose registered office or branch was in the remainder of Czechoslovakia were subject to credit registration.<sup>52</sup>

During the occupation, the credit register continued to be maintained by what was now the National Bank of the Protectorate of Bohemia and Moravia. In March 1942, a total of 11,711 borrowers (companies and individual entrepreneurs) were registered. They had received 13,721 loans from 932 financial institutions. A total of 10,343 borrowers had taken out credit from just a single lender institution, whereas 1,368 had borrowed from more than one institution. Only about 10% of the borrowers (a total of 222) had loans from more than two institutions. These were mostly businesses from the groups of large banks.<sup>53</sup>

At the end of 1944, the German occupying authorities attempted to significantly restrict and even halt the activities of the Credit Registration Centre in an effort to move valuable labour force out of the financial sector and into the collapsing war economy. The Central Financial Union proposed a major change to the register, namely that only loans exceeding one million crowns should be included. The proposal was based

50 ACNB, NBC/122/13, Protokol úvěrního odboru NBČ z 21. prosince 1936, pp. 13–16, box No. 122.

51 ACNB, NBC/129/3, Protokol úvěrního odboru NBČ z 24. března 1938, pp. 2–6, box No. 129.

52 ACNB, NBC/129/10, Protokol úvěrního odboru NBČ z 24. listopadu 1938, pp. 3–4, box No. 129.

53 ACNB, NBC/133/4, Protokol úvěrního odboru NBČ z 24. dubna 1942, pp. 4–5, box No. 133 and cf. ACNB, NBC/133/5, Příloha k protokolu úvěrního odboru NBČ z 26. května 1942, Sdělení pro schůzi bankovní rady dne 26. května 1942 evidence obchodních úvěrů, pp. 3–4, box No. 133.





on a comparison with the Reich, where Article 9 of the Credit Act (Kreditwesengesetz) of 5 December 1934 laid down registration of all loans exceeding one million Reichsmarks, first by the Aufsichtsamt and later by the Reichsbank. However, most of the National Bank's board members, including the special commissioner of the Reichsbank, Chief Executive Director Erich Sturm, opposed this proposal, citing different reasons for the establishment of the credit registers in the Czech lands and the Reich. The German model was essentially intended to create a central credit policy register and thereby control lending, whereas the register in the former Czechoslovakia was aimed mainly at protecting lenders.<sup>54</sup>

The credit register thus remained in place at the National Bank following the liberation of Czechoslovakia and continued to operate until 1948, when it started to become superfluous as a result of the concentration of the financial sector and later on the basis of Act No. 181/1948 Coll. on the organisation of the financial industry. Živnostenská banka, which had essentially become a monopoly on the Czechoslovak credit market, opposed the further maintenance of a detailed register. Its Managing Director Josef Velek asked the National Bank of Czechoslovakia in April 1948 to transfer the commercial credit register to Živnostenská banka.<sup>55</sup> On the one hand, the National Bank did not object to the transfer of the register of bank loans, but on the other hand it proposed that it should keep the overall register of borrowers, on the basis of which it would inspect the distribution of credit by the categories of financial institutions in the monopolised financial sector. Moreover, the National Bank also insisted on continuing to collect credit statistics.<sup>56</sup> After seven months of protracted negotiations, it was eventually decided just to simplify the register. The register would still be maintained by the National Bank, as stipulated by Act No. 38/1948 Coll. on the National Bank of Czechoslovakia, but would be narrowed to a mere register of the names of borrowers and would not give the size of their liabilities.<sup>57</sup> In addition, financial institutions would centrally report only loans exceeding 100,000 crowns and then submit only quarterly overviews of all loans granted.<sup>58</sup> The simplification of the register was the first step towards its transformation, which took place following the establishment of the State Bank of Czechoslovakia in 1950, as from then on it became a means of credit control by the state bank.

<sup>54</sup> ACNB, NBC/124/31, Protokol úvěrního odboru NBČ z 20. prosince 1944, pp. 8–15, box No. 124.

<sup>55</sup> ACNB, ŽB, S VIII/a-18, Národní banka Československá, file R12 — Evidence obchodních úvěrů, Dopis Živnostenské banky na Národní banku Československou z 5. 4. 1948 a z 15. 4. 1948, box No. 12/1336.

<sup>56</sup> *ibid.*, Dopis Národní banky Československé na Živnostenskou banku z 19. dubna 1948, box No. 12/1336.

<sup>57</sup> Pursuant to Article 3(3) of this Act, the National Bank of Czechoslovakia was tasked with maintaining a credit register and performing credit inspections from the monetary point of view.

<sup>58</sup> ACNB, NBC/88/2, Protokol o 2. schůzi bankovní rady Národní banky Československé z 26. 11. 1948, pp. 96–98, box No. 88 and cf. ACNB, ŽB, S VIII/a-18, file R12 — Evidence obchodních úvěrů, Dopis Národní banky Československé na Živnostenskou banku z 1. dubna 1948 a z 1. prosince 1948, box No. 12/1336.

The central credit register that was established and operated in the Czech lands during the first half of the 20<sup>th</sup> century was a remarkable and specific phenomenon. It was an institution whose roots dated back to the Austro-Hungarian monarchy. Back then, however, the register was only a private initiative run by financial institutions aware of the threat to their liquidity posed by overleveraging of the firms they lent to. It was this effort to keep borrowers under control which led to the restriction of the principle of liberalism in the borrower-lender relationship, with lenders giving up part of their business secrecy in order to maintain their liquidity. As a result, borrowers got into a position where competition between banks prevented them borrowing from more than one institution, as they faced the risk of withdrawal from existing credit agreements if they tried to obtain a new loan without informing their current lender. Credit registration thus resulted in closer borrower-lender ties. On the other hand, the fact that financial institutions did not receive information from their registration centres before credit was granted, did not restrict competition between lenders, as each lender only learned *ex post* about the borrower's indebtedness or overindebtedness with other Czechoslovak credit institutions. Financial institutions entered the era of the new Czechoslovak Republic with these credit registration principles in place and tried to build a nationwide registration system on the basis of them. It is worth noting that large banks such as Živnostenská banka, Anglo-československá banka and Česká průmyslová banka were the biggest supporters of credit registration, whereby they attempted to check the aggressive customer acquisition policy of newly established banks. Beyond any doubt, therefore, credit registration also enabled them to defend their positions in the credit system.

Besides banks' efforts to create a register, the state attempted to mitigate the credit risk of financial institutions and, in turn, protect lenders. To begin with, in the 1920s, banks supported the creation of voluntary registers guaranteed by the state (or the National Bank of Czechoslovakia), but in the 1930s they started to oppose direct institutionalisation of the Credit Registration Centre by law, because they would have had to subordinate their transactions to state control. Ultimately, however, loans did not come under state influence under the government regulation of 1936, as the proposals for mandatory reporting on borrowers were not taken on board. The Credit Registration Centre therefore did not become an organisation of state control and distribution of credit as in neighbouring Germany. In the end, the establishment of the Credit Registration Centre was clearly welcomed not only by the press,<sup>59</sup> but also by financial institutions themselves, as the system proved effective in the identification of problem borrowers. However, the operation of the register during the occupation and subsequent restoration of Czechoslovakia was a mere epilogue to the effort to create a credit registration centre, as during the war lending dropped sharply and in the post-war period the register essentially became superfluous due to the concentration and nationalisation of banks and other financial institutions.

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59 Cf. e.g.: Evidence obchodních úvěřů, Národní listy, 29 April 1936, No. 118, Vol. 76, p. 6.