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# CROATIAN MONETARY STRATEGY IN THE CONDITIONS OF GLOBALIZATION

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## **Summary**

The author starts from the assumption that Croatia will access the European Union. Following this assumption, he analyzes the possible scenarios of Croatian monetary strategy based on the achievements of the country's monetary policy, on the degree of acceptance of the convergence criteria and on the exceptionally rich and miscellaneous Croatian monetary heritage. The author also emphasizes and inaugurates solutions which are most effective for Croatia, winning recognition for the Croatian contribution to this global process.

**Key words:** money, monetary policy, Euro, globalization, information systems

## **1. Introduction**

Globalization is reality today; it is the only possible model of development and the only option. Information systems, electronic media and the development of technology stretch the limits by introducing new dimensions into all segments of life and activity. This is the reason why states, especially those like Croatia, have even more reasons to participate in these trends.

A special segment of globalization processes is the monetary sphere. Monetary dimension of these processes is of exceptional importance for every country. Money is a multidimensional phenomenon; its role is inseparable from economic life. Money is not merely a constituent part of economic life; through measures of economic policy, as a part of the general economic policy, and through managing money, it is possible to influence global processes.

The short period since the introduction of the Euro as the common currency in the countries of the European Union (EU) suggests the need to consider these demands and challenges and to adjust to them. Although the countries that have introduced the Euro have given up their own monetary sovereignty, they have not only the option of implementing the common monetary policy, but also a number of possibilities of managing metallic and paper money. In that segment, they are markedly independent. Earlier experiences relating to the conducting of their own monetary policy, monetary heritage but also to innovation and new technologies can only emphasize this.

## 2. Framework for Accession to the Euro System

Today, the Euro system consists of a total of 12 EU members<sup>100</sup>. The legal framework of the introduction of the common currency includes the Accession Treaty (Art. 4) and the Treaty on the Foundation of the European Community (Art. 122). Further, as the condition for the introduction of the Euro, each state must join the Exchange Rate Mechanism (ERM2). Basic assumptions of the ERM2 are: multilateral system of fixed exchange rates (with a permitted oscillation of the exchange rate of +/- 15%, prohibition of unilateral devaluation of the national currency in relation to the Euro, and adoption of the most important adjustments of economic policies regarding the stabilization of prices and fiscal policy and conducting a credible policy of fiscal consolidation (in connection with the monetary, fiscal and structural policy).

Joining the ERM2 and satisfying its conditions and convergence criteria (standards) are the first stage in the introduction of the Euro. Here, the new EU members must conduct their exchange rate policy as an element of common interest and as the principal goal of their monetary policy, and they must establish stability of prices.

The activities performed so far in the new EU member states relating to the introduction of the Euro, point at several important elements.

The first of these elements is the formal satisfaction of the criteria for the introduction of the common currency; a detailed preparation of these activities will follow in all countries, most frequently through coordination of the activities of the respective national central bank and the ministry of finances. Almost all countries decide to take only a very short period prior to the introduction of the common currency (the earliest in 2006 – Estonia, and the latest by 2010 – the Czech Republic) in its cash form, which has already been referred to as the “big boom”. Furthermore, a special segment of preparations includes the activities relating to the choice of the national side (obverse) of the coins, which is in the exclusive jurisdiction of national monetary authorities.

## 3. Some Options in Conducting Independent National Monetary Policy

Upon the adoption of the common monetary unit, and after it had met all the requirements, the member state has several options of activity in the segment of monetary policy, in spite of the fact that it has adopted the common monetary policy.

Independent monetary policy fields include primarily the issuing policy in the segment of cash money (both metallic and paper money). Although the total quantity of metallic and paper money denominated in Euros makes the money supply of the Union, and as such it comes within the competence of the European Central Bank (ECB), national central banks have been left the possibility to act independently in respect of the structure of money supply.

In fact, the issue in question here is the management of cash money for the purpose of realizing financial and other effects. The most important financial effect is the realization of issuing profit as non-fiscal profit of the issuer of money. However, other effects of this activity are of no less importance either; these effects are in fact economic and they relate largely to the increase of the demand for cash money in different ways.

The greatest possibilities for conducting an independent national monetary policy are in the segment of metallic money. It is the metallic money that today, in conditions of globalization, has some additional dimensions, regardless of the fact that coins are the least represented in the money supply

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<sup>100</sup> Eleven states (Austria, Belgium, Finland, France, Ireland, Italy, Luxembourg, Germany, the Netherlands, Portugal and Spain) have introduced the Euro as bank money on 1<sup>st</sup> January 1999; Greece has done the same on 1<sup>st</sup> January 2001. On 1<sup>st</sup> January 2002 all 12 countries have introduced the Euro in cash form (as banknotes and coins). Denmark and Great Britain have a special position with the right to decide themselves about the introduction of Euros upon the fulfillment of convergence criteria (opt-out right), i.e., they need not introduce the Euro if they do not satisfy the convergence criteria. Sweden as the member of the EU has the status of a departing state. As a result, in a referendum organized in 2003, Swedish citizens have decided not to introduce the Euro. Ten new EU members that have accessed the Union on 1<sup>st</sup> May 2004 (Cyprus, the Czech Republic, Estonia, Latvia, Lithuania, Hungary, Malta, Poland, Slovakia and Slovenia) have a status similar to that of Sweden. Most of the decisions relating to the monetary policy do not apply to these states as long as they have not introduced the Euro. Euro is also used as the monetary unit in countries that are not members of the EU on the basis of the previously concluded monetary agreements with some of the EU members. The most important among these countries are: Monaco, San Marino and Vatican, which also issue Euros in metallic form.

This monetary form is issued as circulation metallic money, occasional circulation metallic money and occasional metallic money. Therefore it is not a unique category. This fact, together with other activities, opens a wide variety of options for the issuers of this money.

According to the Acquis Communautaire of the Union, all these categories of metallic money are legal means of payment, whereby circulation metallic money is used as legal means of payment in all countries of the Euro System, and occasional circulation metallic money and occasional metallic money can be used as means of payment only on the territory of the country in which they were issued.

The basic distinction between these categories of money is determined by the functions performed by a particular category of this money.

Thus circulation metallic money primarily functions as means of payment, just like the occasional circulation money whereby the latter category also has marked promotional function. This promotional function is closely connected with other dimensions of money, such as cultural, artistic, tourist and, eventually, economic.

Occasional metallic money has primarily the function of preservation of its value, because it is most frequently made of precious metals. Of course, this category of money also has all aspects of the promotional function in all its segments.

Through the examination of the convergence criteria relating to the monetary sphere, it can be concluded that over a relatively long period of time (1996 – 2003) – i.e. in the period in which kuna<sup>101</sup> has been serving as the legal means of payment – Croatia has been satisfying the conditions relating to price stability and exchange rate fluctuation of the national currency. (Tables 1 and 2)<sup>102</sup>.

Table 1

Average annual inflation rates

Year:	1996	1997	1998	1999	2000	2001	2002	2003
Rate:	3,5	3,6	5,7	4,0	4,6	3,8	1,7	1,8

(From 1994 to 1998 Inflation Rate was measured by retail prices index, and from 1999 onward it has been measured by the consumer price index).

Table 2.

The average exchange rate (HRK: 1 Euro)

Year:	1996	1997	1998	1999	2000	2001	2002	2003
Exchange rate:	6,8047	6,9597	7,1366	7,5796	7,6350	7,4690	7,4068	7,5634

Length of the process of introduction of the common currency in cash form (about 6 years) and plans for the replacement of the national monetary unit with common currency in the new member countries have imposed the need for Croatian adjustment to these processes.

<sup>101</sup> Croatia has carried out its monetary emancipation in three phases. Phase one consisted of the introduction of the Croatian dinar as a temporary monetary unit (in December 1991). The reason for the introduction of the temporary money was largely the amortization of inflation. Inflation was expected primarily because of the war and war situation that was reflected in the occupation of a part of the state territory, in a large number of refugees and banished persons, etc. This temporary money was also supposed to provide the time necessary for the preparation and introduction of permanent money. Phase two of Croatian monetary sovereignty is characterized by the introduction of kuna and its hundredth part - lipa as the legal means of payment in May 1994. With regard to the fact that in the moment of the introduction of kuna almost a quarter of the Croatian territory had been occupied, this monetary process could not take place simultaneously in all parts of the internationally recognized Croatian state. In those parts of Croatia that were under the control of the United Nations (Eastern Slavonia, Baranya and West Sylvania; Croatian Danube Basin), the process of introduction of kuna has preceded the establishment of the sovereign Croatian authority. This was the third phase of Croatian monetary sovereignty. At the same time, up to the present day, such monetary solution has represented a precedent in the world.

<sup>102</sup> www.hnb.hr

#### **4. The Past Issuing Activity of the Euro System Countries**

Issuing activity of the Euro System countries includes the issuing of paper money with unique design for all countries as well as issues of circulation metallic money, occasional circulation metallic money and occasional metallic money.

##### **4.1. Circulation Metallic Money**

The circulation metallic money consists of a denomination series of 8 coins (denominations). Every country issues circulation metallic money with its own national side (the obverse). A number of Euro System countries have used the right to specify the actual year of minting on this money (years other than 2002 when the coins were actually put into circulation.). The result of such approach is a total of 163 different pieces of circulation metallic money in the moment of introduction of the Euro in cash form.

Including the year 2004, a total of 55 billion pieces of coins were issued.<sup>103</sup> In 2004, the ECB allowed the member countries to change the national side on the denomination of 2 Euros. In this way, the offer of this category of money is being diversified. Furthermore, this option allows for a part of this circulation money to be transferred into the category of occasional metallic circulation money.

##### **4.2. Occasional Metallic Circulation Money and Occasional Metallic Money**

The issuing of occasional metallic circulation money and occasional metallic money is regulated more liberally. Issuing countries themselves can independently decide about the denomination structure, appearance of the coins and the material of which they will be minted. Since these categories of money, together with the circulation metallic money and paper money, constitute the money supply, their issuing requires the permission of the ECB.

The importance of these two categories of metallic money can be illustrated by the very number of issued denominations which has reached 284 catalogue numbers, including the year 2004. In fact, in all Euro System countries, these two categories of metallic money are minted in 13 different denominations.

#### **5. Croatian Monetary Heritage and Present Day Experiences in the Issuing of Croatian Money as an Integral Part of the Common Money Denominated in Euros**

Croatian monetary activity is closely connected with the historical circumstances of the development of Croatia.

Disunity of Croatian countries has conditioned different monetary solutions and a large number of different types of money.

Money issues that constitute the corpus of Croatian money reach from the first coins struck in the 7<sup>th</sup> century<sup>104</sup> to those minted today.

Ever since the 7<sup>th</sup> century, Croatian money has been issued continuously, although in different geographical areas. The basic groups of Croatian money consist of the following issues: imitations of Byzantine money, money of the White Croats, Croatian Friesachers, Slavonian denars, money of the Dubrovnik Republic, money of Croatian rulers (bans / viceroys) in Bosnia, autonomous money of the towns of Split, Zadar, Trogir, Šibenik, Kotor, Donja Lendava and Krapina, money of the Croatian aristocrat family Zrinski, of Nikola Iločki, Josip Jelačić, money of other states intended for Croatian countries or towns, money with Croatian inscriptions and/or Croatian heraldic marks (minted under Venice, France, Hungary, Austria), imitations of Croatian money, money issued in various state unions in which the Croats have lived, money of the Independent State of Croatia, and contemporary Croatian money.

Contemporary Croatian issuing activity is relating to the period since the Republic of Croatia has won its independence. The past monetary solutions and the experience in issuing politics and activity combined with historical experiences can significantly influence the development of this activity in the moment of acceptance of the common monetary unit.

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<sup>103</sup> Money Trend, Vienna, no. 3/2005, p.8

<sup>104</sup> Various forms of traditional money, as well as money perforce and miscellaneous auxiliary assets were used on the territory of Croatia as well.



The existence and operation of the country's own mint and the achieved results on the plan of metallic money management suggest the possible directions of development of this activity in the near future.

Today, Croatia realizes issuing profit, on the average, for the whole denomination series (a total of nine denominations).<sup>105</sup>

Upon its admission into the EU, Croatia will certainly multiply its effects in this segment of monetary policy. There are more reasons for this. The first are the so-called "mechanical" conditions relating to the economy of scale. The acceptance of the Euro as the Croatian national monetary unit links the destiny of this money to general movements on the monetary plan in the whole Union. Furthermore, benefits are connected with the recurrent connection between the kuna and the Euro with the current rate of 7.5 kunas for 1 Euro in rounded figures. Croatian issuing profit must be increased at least by the same rate.

Here, there are also various derived reasons based on the economy of scale, such as the expected greater hoarding of this money by the users (on the average 30 % of the coins are recalled from circulation for various reasons every year) since the number of users is growing significantly, the expected liberalization in the segment of issuing of this money, which is strongly advocated by some states so that there have already been some changes, and other activities.

The said effects and trends can be considerably improved by quality selection of the motifs for the national side of the coins. Attractive motifs can additionally encourage the users of this money to collect the coins as souvenirs, partially also as the national money since the obverse sides of all coins in circulation in the entire Euro System are identical, so that they are also national money. Collectors of the national money of neighboring states will also, probably, continue to collect this money in the future; however, their collection will then be based on coins denominated in Euros and Eurocents.

Some changes can emerge in relation to the designation of the manufacturers of this money (mintmarks, sigils of the designers of the money, etc.) on the denominations themselves, which can additionally increase the demand for these coins.

The collecting of this money will in the future certainly be a part of a much wider process and it will therefore, after a while, be very difficult, if not impossible, to supply particular strikes in the quality of uncirculated money.

Some of this money is hoarded for entrepreneurial reasons and soon becomes the object of trade on the numismatic market, sometimes reaching the hundredfold prices for particular series of this money.

Freedom in the monetary policy management relating to occasional metallic circulation money and occasional metallic money, expressed through the free choice of denominations, technical characteristics, material, and motifs applied on this money additionally emphasizes the possibilities for the activity of every national monetary authority in this segment of money issues.

A special sphere of activity of the national monetary authorities could be the issuing of paper money. Since the Euro banknotes exist only as circulation money with unique appearance (design) and nominal values, certain changes will have to be made on this plan as well.

Today, there is also a growing tendency of issuing occasional paper money in many states of the world. These positive experiences should therefore be used in the Euro System as well. Such approach would additionally increase the issuing profit and initiate other economic benefits.

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<sup>105</sup> Issuing profit is realized in the production of the fifth denomination onwards. The reasons for such management of metallic money must be sought in the well chosen denomination structure, in the stability of kuna and its relatively great purchasing power, but also in the experiences in the issuing activity in all categories of this money.

These effects can be considerably augmented through additional efforts. These include primarily creating new needs for this money, influencing the traditional behavior regarding the treatment of the national currency, and other activities.

## **6. Geocoded data**

All of monetary activities are based on global information system and standards which becomes structure of them. Geocoded data used for various types of analysis on European Union and state level was very important space link with changing Europe today.

## **7. Conclusion**

Globalization as the only possible model of development today can, under certain conditions, additionally stimulate the development.

The sphere of monetary economy constitutes a segment of activities where the states can find additional benefits, in spite of the fact that by accession to monetary integrations they lose a large part of their monetary independence.

Croatia, as a country that plans its future in the EU, can realize significant national advantages on the basis of its experience, knowledge, innovations, scientific approach to the issue, and exceptionally rich monetary heritage.

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