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## **ISSUING POLICIES IN CURRENCIES DENOMINATED IN EUROS AND EUROCENTS**

### **SUMMARY**

Globalization and strengthening of integration processes have, among other things, also influenced some solutions relating to monetary sovereignty of particular countries. A great number of transition countries as well as some other underdeveloped countries are facing both inefficiency in their real sectors and problems in their financial sectors. This primarily refers to the instability of the exchange rate of their national currencies, frequent and high devaluations, mistrust of the users in domestic currency, inflation, and the like. Under such circumstances, some countries decide to give up their monetary sovereignty. Prior to such a decision, it is certainly essential to find answers to the following four key questions: a) what does the country win and what does it lose, b) what are the expenses of such activity and for whom is such change acceptable, and c) which form of abandoning monetary sovereignty should be chosen?

Problems can also be significant regarding the possibility that the phases of economic development do not match. Hence, the measures of monetary policy adjusted to the economic cycles of the country whose currency has been chosen as reserve currency need not correspond with the phase of development of the economy in the country using that currency. In the case of Euro as the legal means of payment, the production of Euro coins will begin two years before they are officially put into circulation. In that period (of two years), each year the appropriate quantity of coins will be produced, with a value structure allowing normal functioning of the monetary market in the moment when Euros are put into circulation, which is very important in currency conversion.

With respect to the long Croatian monetary history, but also to the recent issuing activity in the segment of circulation coinage, commemorative circulation coinage and numismatic coinage, all these activities should continue in the future as well.

Commemorative coins are, as a rule, identical to regular circulation coins in all details, including the material of which they are made, with differences only in some details (indicating the occasion on which the coins are issued) or in their value in comparison to circulation coinage. At the moment, such coins are accepted as exclusive legal means of payment but only in the country that has issued them. Correspondingly, the amount of this money is determined by the ECB in keeping with its issuing policy. This money is a part of the monetary mass of the issuing country.

Issuing policy of the EU member countries that have accepted the common currency and those countries that are not EU members but have their legal currency denominated in Euros regardless of the sort of coinage indicate:

- the possibility to diversify the offer of all sorts of coinage following the said criteria, or introducing new criteria for their differentiation or their combinations,
- currency denominated in Euros and Eurocents in each issuing country becomes, in a large part, the object of interest and collecting in other countries with the currency of the same name (and with one common/same side of the coins – reverse) because these are the coins with at least one common characteristic.
- The selection of motifs at the national side of the coins (head) can itself be the reason for choosing this currency as the object of collecting, or it can become an additional reason for collecting in combination with the above section.
- Collecting of these coins will in the future certainly be a part of a much wider process, so that later it will be very difficult if not impossible to secure certain coins at the quality level of coinage that have not been in circulation.

Despite the short issuing activity relating to the currency denominated in Euros and Eurocents, the trends in this field so far strongly suggest some regularity, such as:

- There is strong interest for circulation coins of Euros and Eurocents as objects of collecting even among people whose motivation is not primarily numismatic. Even the most optimistic expectations regarding the new common currency have been absolutely surpassed (not only in the countries that have introduced Euro as their currency, but much wider).
- As soon as Euros and Eurocents have appeared in circulation, a part of these coins were hoarded and became objects of trade at the numismatic market reaching very high prices. The object of collection has namely become much wider because in addition to national reasons for collecting, there are now other motives as well, since the Euro and Eurocent coins have one side (reverse) in common.
- Speculative reasons for treasuring up these coins result from the above mentioned grounds but also from the fact that the beginning of circulation of these coins provides the opportunity to right at the start secure a certain quantity of the coins satisfying strict numismatic standards regarding the state of these coins (preferred quality is that of non-circulated coins).
- Issuing commemorative circulation coins and numismatic coins additionally point at great interest for these monetary forms significantly broadening the field of numismatic interest.

Croatia should therefore quickly design its own issuing policy in the segments of circulation and commemorative circulation coins, and especially in the segment of commemorative circulation coins and commemorative coins.

**Key words: monetary sovereignty, monetary policy, eurization**

## **1. INTRODUCTION**

The process of introduction of common permanent money of the European Union in cash form (coins and banknotes) had been very demanding and long and it has not completed even until today.

From the total of fifteen member countries of the European Union, twelve have introduced the common monetary unit. On the other hand there are also three countries that are not members of the European Union but issue coins denominated in Euros and Eurocents.

The process of introduction of the common money of the European Union had several phases.

Issuing politics of the countries of the European Union that have accepted the common currency and of countries that are not EU members but have their legal means of payment denominated in Euros and Eurocents show certain regularity.

The Republic of Croatia has a long monetary history and in the case of introduction of Euro as the legal means of payment either upon the entry of the Republic of Croatia into the European Union or in case of abandoning of its national monetary unit, this will be of great importance for Croatia in ensuring the recognizability, originality and diversity of motifs in relation to the so far produced coins of other countries and in terms of preserving Croatian national characteristics and peculiarities.

## **2. STAGES OF DEVELOPMENT OF THE INTRODUCTION OF EURO AS THE LEGAL MEANS OF PAYMENT**

The way to permanent currency in cash form (coined and paper money) of the European Union was not only long but also very demanding, full of turns and difficulties, and also uneven in its time continuity.

In the period preceding the introduction of common currency, members of the Union had to coordinate their national economies, legal regulations, and overcome a number of psychological barriers. Here, it must not be neglected that these monetary activities had influence on the countries outside of the and that there was also important external influence on the Union.

The process of introduction of common currency of the European Union took place through several phases.

Phase one practically begins with the end of World War II and with the need and the necessity for economic recovery of European countries and overcoming of the political polarization on this continent.

The result of such circumstances was the establishment of the Organization for European Economic Cooperation (OEEC) in 1948. This association included Western European countries, the USA and Canada.

Activities of the OEEC were not possible without stabilization of the monetary sphere so that already in 1950 European Payments Union (EPU) was established. This institution is connected with accounting money - European Unit of Account (EUA) through which the

conditions for external convertibility of the member countries' currencies will gradually be created.

This monetary aspect of connecting will be realized within the framework of the European Economic Community (EEC)<sup>1</sup> upon the entering into force of the European Monetary Agreement (EMA) in 1958.

The second phase of monetary connecting consists of the foundation of the European Monetary System (EMS) in 1978 and the introduction of ECU in 1979 as the currency unit that has replaced the EUA. The introduction of this currency marked the turning point because ECU<sup>2</sup> became the common currency, the means for reserve and accounting money.

The third phase in the development of the common European currency starts in 1999 with the beginning of the functioning of the European Monetary Union (EMU) and the termination of the work of the European Monetary System, with the central bank of the Union and with EURO as the common currency (in 1995).

This last phase is certainly the most complex and the most demanding one – primarily because the budget deficit, public consumption and fiscal policy do not enable the macroeconomic politics to make any considerable moves.

There is also the loss of national control over the course, the entire monetary but also over the fiscal politics. Within this activity, the introduction of the unique currency has been executed on the 1<sup>st</sup> January 2002. This date marks the beginning of the conversion of national currencies in Euro (all together, the conversion took place in 12 states of the European Union as well as in three states that are not members of the European Union – Monaco, San Marino and Vatican). Introduction of Euro in cash form was possible in those countries that had satisfied the prescribed regulations for the introduction of this currency, i.e., in those among them that have decided to take this step. In spite of the fact that this currency is unique (common), each country introducing Euro, keeps its right to freely decide about the decoration of the obverse of the coins (the national side), while the appearance of the reverse for all denominations are the same for all members of the monetary union.

Within the monetary policy of the European Union there are also fixed deadlines for conversion of national monetary units into Euro. Denomination of all financial instruments in Euro has been carried out as well. Thus Euro becomes the legal and final means of payment in countries that have accepted this monetary unit.

In consistence with the Agreement about the Foundation of the European Union and with the Maastricht Resolutions, the issuing of coined money is in the jurisdiction of the members of the European Union; however, each issue must be approved by the European Central Bank (ECB). The size of the issue of this money is decided by the Council of the ECB, following the prescribed procedure (art. 252) and upon consultations with the ECB with the purpose to adjust denominations and technical specifications for all circulations of coins as well as the measures necessary for the organization of undisturbed monetary circulation within the European Union.

Issuing of commemorative circulatory money and commemorative money (primarily numismatic money) is regulated much more liberally. So the member countries of this

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<sup>1</sup> Founded in 1957

<sup>2</sup> European Currency Unit

monetary union can themselves determine the denomination structure of these issues, the appearance of the coins and the material of which they are made, whereby these coins serve as legal means of payment only in the country that issued them (regardless whether the coins were primarily intended for monetary circulation or whether they have a numismatic purpose), and their nominal value is a part of the total volume of money of the issuing country. For that reason, the country issuing such money must get the agreement of the ECB about the quantities of issued coins.

## **2.1. System of Quality and the Role of the ECB**

In relation to quality, European Central Bank has the following roles:

- It determines the statistics of quality for the production of Euro coins based on the monthly reports of mints,
- It controls the mints of the members countries at least once a year,
- It issues quarterly reports about the mints.

The European Central Bank is in a way a certain "client" of the mints because it is the one putting coins into circulation.

On the other hand, the ECO/FIN Council has agreed to give the European Bank certain rights for quality control.

In relation to Euro coins and their quality, the European Bank has a supervising role and informs the Ministry of Finances in case of important changes in terms of quality.

The practice of the ECB also includes:

- Making statistical reports about the qualities on the basis of monthly reports of the mints,
- It is an important participant in QACSGA
- Making of quarterly reports on the basis of the previously mentioned statistics.

## **2.2. The System of Checking the Quality of Coins**

The basic documents for the coins checking system are:

- QMS – Quality Management System: establishes the main organization,
- TS – Technical Specification: establishes nominal values and tolerance for all characteristics,
- CBIP – Common Basic Inspection Plan, determines the methods of inspection
- Report to the ECB – gives CBIP all necessary results acquired through testing of coins and plates,
- CQAP – Common Quality Assurance Plan.

Quality Check System operates on the basis of several fundamental documents:

- Quality System Management: this is the document that establishes general organization, various responsibilities and the course of the flow of information

- **Technical Specification:** this is the official paper for nominal values and tolerances for every denomination and every characteristic,
- **Common Basic Inspection Plan:** this document has been founded to coordinate all processes and methods of testing (samplings, calibration of measuring instruments, methods of measurement, etc.)
- **Common Quality Assurance Plan:** this is the document that determines the minimum of quality conditions assurance that must be observed by every mint in the minting of Euros,
- On that basis, every mint must present its specific Quality Assurance Plan,
- **Monthly Report to the European Central Bank:** every month, every mint of the member countries publishes a certificate of quality in which all required statistical measurements data acquired throughout the previous month are presented. The form of this Report is common for all mints.

### **2.3. The Role of National Mints in the Quality System of Euro and Eurocent Coins**

The role of every national mint is indispensable in the production of Euro and Eurocent coins. Following the adopted system of checking the quality of coins, every national mint is obliged:

- To send every first coin for cross-checking among all mints of the Union,
- To send samples of the first produced coins of each denomination to other mints in the intention to improve the quality level and to coordinate the measuring methods. Under the term “first coin” it is understood that at least a few million pieces of the respective coin have already been produced, and these first coins are intended to serve as representatives of the industrial production.
- Every mint must produce a report about the quality check and send it to the mint it concerns.
- Such cross-checking has basically proved itself as very useful and important for the determination of final tolerances. Namely, such checks were not implicit in the production of bulging coins, so that the exchange of data and experiences was more than necessary.

### **3. MONETARY SOVEREIGNTY IN CONTEMPORARY CONDITIONS**

Introduction of the common monetary unit of the European Union as the definite monetary unit, in its last phase in the form of coins and paper money (cash) on 1<sup>st</sup> January 2002 is - in the monetary sphere - certainly one of the most significant events of the 21<sup>st</sup> century. It is true that common currency as the result of monetary unions has already been known for a long time, but this undertaking, both in the number of countries it comprises and their economic strength, as well as in the chosen model of the monetary union exceeds by far everything that has been done in this field until now. The gradual approach in the introduction of the common currency, which, admittedly, lasted a relatively long time and had a number of turns and halts, and which was provoking various reaction in the range from approval, over denials and doubts to criticisms, has nevertheless reached its end with common currency becoming a reality. It is understandable that such a global monetary event will not influence only the countries inside the Union (regardless whether they have accepted Euro as their cash or not), but that its influence will reach far beyond the Union.

Globalization and the strengthening of integration processes have, among other, also influenced some solutions regarding monetary sovereignty of particular countries.

A large number of transitional countries, as well as other underdeveloped countries are confronted both with inefficacy in the real sector and with problems in the financial sector. This primarily relates to the instability of the exchange rate of their national currencies, frequent and high devaluations, distrust of the users in their national currency, inflation, and the like. In such circumstances, some states decide to abandon their monetary sovereignty. Prior to such a decision, it would certainly be necessary to find answers to four key questions: a) what are the gains, and what are the losses, b) How high are the costs of such activity and for whom is such change acceptable, and c) What form of abandoning of the monetary sovereignty to choose?

Advantages of abandoning monetary sovereignty and introducing foreign currency are the following:

- Stability of the exchange rate and of the prices
- Security for investors
- Transparency and greater economic openness
- Lower transaction costs

Disadvantages of abandoning one's own (national) sovereignty are the following:

- Entire loss of the national monetary sovereignty (there is no central bank, the country's own monetary policy does not exist)
- Loss of issuing profits (*Fr. seigniorage*)
- Loss of influence of the monetary policy on the real economy.

Advantages and disadvantages of abandoning monetary sovereignty indicate what is gained, and what lost through such a procedure. These are, of course, only frameworks and the actual situation depends on specific characteristics of every particular country, so that there is no unique solution (degree of liberalization of the domestic financial market, the amount of foreign exchange reserves, sufficiently low price of work, existence of strategic goals of economic policy, readiness to renounce a part of the national sovereignty, psychological readiness of the domestic population to abandon their national currency etc.).

Different authors agree that there are three forms of abandoning one's own monetary sovereignty:

- unofficial,
- semi-official, and
- official.

Characteristic of the unofficial form of abandoning of the monetary sovereignty are found in the situations when a country's residents hold a large part of their savings in foreign currency. Beside this foreign currency, the official, legal and definite means of payment is the national currency. There are, understandably, some differences between states, so that some states allow for the foreign currency to be the object of certain financial transactions (from the possibility to deposit foreign currency in banks and freely use these deposits, to the alternative possibility to make partial payments in the foreign currency together with the national currency, and the like).

Semi-official abandoning of the national monetary sovereignty is a case of "higher" rank in this procedure since the foreign currency can be used legally, together with the national currency, in all cash transactions or in the cases where the majority of cash transactions are made in the foreign currency.

Official abandoning of the monetary sovereignty includes the exclusive use of foreign currency on the national territory.

The phenomenon of introducing the foreign currency (most frequently of the American Dollar and Euro) as the currency used for cash transactions in particular countries, regardless of the sort of this activity, is called dollarization, or, respectively, eurization.

The practice of some countries indicates the possibility to also use national currency even in the case of dollarization or eurization (the example of Sudan).

### **3.1. Currency Board as the Intermediate Stage in the Abandoning of National Monetary Sovereignty**

Some theoreticians speak in favor of a transitional solution in the process of abandoning national monetary sovereignty in the form of a Currency Board.

In the country that chooses this form of monetary sovereignty the central bank is still functioning and national currency is the legal means of payment. But compared to classical functioning of the central bank, there are important differences. Most significant among these differences are the following:

- At the "currency board" central bank creates only the cash and not the deposit money. The national currency is fully convertible and has a fixed exchange with for the reserve currency. The total amount of the national money is 100% backed with currency reserves. Additional issues of national money are possible "on the basis of the sovereignty in the BOP, of foreign transfers or of the foreign credits, unlike the classic situation where issues of primary money are also possible "ex nihilo"(out of nothing)."
- Central bank cannot be the "last refuge» for business banks (it does not approve credits to the banks or to the state). It also does not supervise the business banks, interest rates and payment system
- No issuing profit is made
- Taking over of foreign monetary policy (the monetary policy of the country whose currency serves as the reserve currency)
- It is impossible to implement devaluation of the national currency.

Problems can be significant with regard to the possibility that the phases of economic development do not match. Therefore, the measures of monetary policy in the country whose money has been taken as reserve currency, which are adjusted to that country's business cycles need not correspond with the phase in which the economy of the country using that currency finds itself.

## **4. SOME POSSIBLE DIRECTIONS OF CROATIAN ISSUING POLICY IN THE EDITIONS DENOMINATED IN EUROS AND EUROCENTS**

In the segment of money, the market has a number of peculiarities arising both, from the fact that this is a specific product, and, at the same time, from some limitations. Practically, it is

about the monopoly position of the manufacturer and about the exclusive (the only) buyer of this product. In this case these are the Croatian Monetary Institute and the European Central Bank (ECB) under the assumption of the entry of the Republic of Croatia in the European Union, or in case of Croatia abandoning its national monetary unit and introducing Euros (Currency Board), which could possibly be a transitional possibility until the country's entry in this association.

In case of the introduction of Euro as the legal means of payment, the production of Euro coins will start two years before their official release into circulation. In this period (2 years) a suitable quantity of coins will be produced every year according to the structure of denominations, which will allow normal functioning of the monetary market in the moment of release of the Euro coins into circulation, which is an exceptionally significant moment in monetary conversions.

It will be necessary to select the motifs for the 8 denominations of this currency, whereby these motifs must satisfy a number of criteria, such as:

- Recognizability
- Difference in respect to other countries' coins produced so far
- Originality
- Preservation of national characteristics and peculiarities
- Acceptance, not only among domestic users, but on a wider scale as well
- Artistic experience and innovations

Regarding the long Croatian monetary history, but also the recent issuing activity in the segment of circulatory metallic money, commemorative circulatory money and numismatic metallic money, it would certainly be necessary to continue with the activity in this field. It is, however, necessary to make a clear distinction between these two categories of recent metallic money.

As a rule, commemorative circulatory coins are identical with circulatory coins in all details including the material of which they are made, with alterations of some details (this is precisely the mark of the occasion for which the coins are issued) or they differ from circulatory money in their denomination structure. At the moment, this money serves as the legal means of payment but only in the country in which it was issued. Consistently, the quantities of these coins are determined by the ECB according to its issuing politics. This money is a part of the volume of money in the country in which it was issued.

The circulatory metallic money and commemorative circulatory metallic money in most countries (including the countries of the European Union) appears in packages in the quality of uncirculated (UNC) coins (Ger. Stempelglanz – STGL) under the name Mint set (MS), i.e., in a higher quality as Prooflike, or in the Proof quality (Ger. Polierte Platte – PP). In Austria, there is also a quality level marked in German as Handgehoben.

Today these numismatic editions have a relatively large market which consists of numismatists, and all other people (who buy coins as souvenirs, as object marking some occasion / event, etc.).

Issuing politics of the countries of the European Union that have accepted the common currency and of the countries that are not members of the European Union but have their legal means of payment denominated in this currency, regardless of the kind of coins, indicate the following:

- The possibility to diversify the offer of all kinds of metallic money according to the said criteria or by introducing new criteria of differentiation, i.e., using a combination of the two
- Coins denominated in Euros and Eurocents of every single country issuing them also becomes, in a greater part, an object of interest of collectors in other countries that have the same name of their monetary unit (and that share one common side of the coins – the reverse) since it is money with at least one common characteristic.
- The selected motif on the national side of the money (the obverse) can in itself be the reason for choosing this money as the object of collecting, or it can additionally become an object of collecting in combination with the previous paragraph.
- Collecting of this money will in the future certainly be a part of a much larger processes and therefore it will later be very difficult, if not impossible, to secure particular denominations in the quality of uncirculated coins.

In spite of the short period of issuing activities related to the money denominated in Euros and Eurocents, the trends in this field so far strongly indicate certain regularities, such as:

- There is strong interest for circulatory Euro and Eurocent coins as objects of collection even among people whose motivation is not primarily numismatic. All most optimistic expectations about the new common currency have been absolutely exceeded (not only in the countries that have introduced this currency, but much wider).
- At the very appearance of Euros and Eurocents intended for circulation, one part of this money was hoarded and became the object of trade reaching high prices on the numismatic market. The object of collecting has, namely, become much wider in range as well, so that, in addition to national reasons for collecting, it now includes other motifs as well, since the money denominated in Euros and Eurocents has one common side (the reverse).
- Speculative reasons for the hoarding of this money are the result of the previously mentioned reasons, but also of the fact that the appearance of this money makes it possible in the start to supply a certain quantity of coins that satisfy strict numismatic standards regarding their state (preferred is the quality of uncirculated coins).
- Issuing of commemorative circulatory money and numismatic money additionally points at the large interest for these monetary forms, which considerably widens the field of interest.

Croatia should therefore hurriedly create its own issuing politics in the segment of circulation and commemorative circulation money, and above all in the segment of commemorative circulation money and commemorative money.

## **5. CONCLUSION**

Globalization processes have their reflection, among other things, also in the segment of the issuing of money. Not only that the money in real form has not been suppressed or replaced with other more contemporary monetary forms, but is becoming an unavoidable segment of contemporary issuing politics.

The experience with the issuing of Euros and Eurocents in the form of coins indicates a number of possibilities in the management of money.

There are many new possibilities as well as new challenges opening for the countries, which will in the future become members of the European Union, in conducting their issuing politics and attaining a number of effects through this activity.

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