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THE HISTORY AND THE FUTURE OF CROATIAN MONEY - LEGAL AND ECONOMIC ASPECTS

POVIJEST I BUDUĆNOST HRVATSKOG NOVCA – LEGALNI I EKONOMSKI ASPEKTI

ABSTRACT

In the course of its history the Republic of Croatia has not always autonomously created its monetary system, e.g. it did not always have a fully established monetary sovereignty as a part of a complete national sovereignty. The monetary system was formed in 1994 by introducing kuna as an official means of payment and the complete monetary sovereignty was achieved on the 15th September 1997 when Yugoslav Dinar was converted in the area of the Croatian Danube region. By joining the Euro-zone, the Republic of Croatia loses its monetary sovereignty ipso facto and ipso iure, running out of the possibility to create an autonomous monetary policy and it remains without its national currency.

Key words: money, Croatian money, monetary system, sovereignty, monetary sovereignty.

SAŽETAK

Ulaskom u eurozonu Republika Hrvatska ipso facto i ipso iure gubi monetarni suverenitet, ostaje bez mogućnosti autonomnog kreiranja monetarne politike i bez nacionalne valute. Dakle, fiskalna politika ostaje joj jedino ekonomsko sredstvo kojim se može služiti glede što bolje kvantitativnog i kvalitativnog zadovoljavanja javnih potreba svojih građana.

Ključne riječi: novac, hrvatski novac, monetarni sustav, suverenitet, monetarni suverenitet.

1. Money in Ancient Time

Coins appeared rather late in the Croatian national territory, and this refers especially to the domestic issues of money. The oldest coin that appeared in the Croatian national area was copper and silver coins that were minted by early Greek cities in Dalmatia. The money from the island of Hvar (Pharos) dates from the fourth century B.C. and on the island of Vis the minting activities are noted from the end of the third century till the middle of the first century B.C. In the later historical period when Croatian national territory was a part of the Roman Empire, Roman coins were used in circulation, and afterwards till the 14th century there were Byzantine, Frankish, Frizah, Hungarian, Austrian and Venetian money in circulation. (Mirnik, 2008, 125-143)

In the first period of the Roman Empire Roman coins were minted only in Rome, but from the time of Emperor Diocletian on, the minting went on in other cities of the Empire. Thus there were solid proofs that the oldest Roman state mint in the Croatian national territory was founded in Siscia, today's Sisak in the third century.

In the Middle Ages there were three monetary systems that had been of particular importance for the goods and money transactions in the Croatian national territory: the Frank system introduced in the ninth century by Carl the Great; the system of *Frizah Denar* introduced in the mid-twelfth century and it was named after the mint in Frizah, Carinthia; Hungarian monetary system of the twelfth century and of centuries to follow.

2. Money in Feudalism

The oldest Croatian coins are considered to be silver *denari* and *poludenari* that were minted by Hungarian king Andrew II, a Croatian duke, at the end of the twelfth century and in the beginning of the thirteenth century, more precisely from 1197 till 1204. On these coins there was the inscription "*Andreas dux Croatiae*". The design of these coins resembled the *Frizah Denar* and it weighed 0.94 grams of silver fineness 800/1000 (Dolenc, 1993, 20-21).

Hungarian kings, beginning with Bela IV (1235-1270) minted coins even for Slavonia. During their rule they governed Slavonia as ban's dominion so that the money was given the name of *Slavonian Banovci*. In 1256 this money was minted in Pakrac and since 1260 it had been minted in Zagreb till 1360 when it ceased. During these 104 years of minting the type and the size of *Slavonian Banovci* had remained the same, the diameter measuring 1.6 cm and the weight was 0.96 g of silver of constant fineness. The money minted in Zagreb mint was very appreciated and gladly taken due to its silver purity and the beauty of fabrication. (Dolenc, 1993, 30-31).

In the mid-thirteenth century the Dalmatian town of Spalatum, today Split, began minting five types of autonomous money based on the model of Hungarian money. However, based on the Venetian approval, the other Dalmatian towns of Šibenik, Zadar, Trogir and Hvar began minting copper and some silver coins. On the coin obverse there was the lion of St. Mark and on the reverse side there was the image of the town's patron saint. At the beginning of the fifteenth century in Split the duke Hvoje Vukačić Hrvatinić minted his own coins, *Groš*, with the image of Saint Dujce, the martyr and the town's patron saint. Hrvatinić had four types of coins minted, namely gross with the family coat of arms, gross with the ducal coat of arms, half of the gross – a dinar and a quarter of the gross – a half dinar (Mirnik, 2008, 123-139).

In the early Middle Ages, during the reign of the Byzantine Empire in the Balkans, in the Republic of Dubrovnik, as well as in other states under Byzantine influence, there were gold solidus and silver and copper coins in use. Afterwards, during the Venetian rule (1205-1358) the Byzantine money was replaced by Venetian silver *Groš* or *Metapon* that was joined by the Venetian gold ducat or sequin in the year of 1284. The Dubrovnik very own monetary system represents a combination of Byzantine and Venetian monetary systems. In 1337 Dubrovnik began minting its own money - *Dinar (grossi)*, caring the image of St. Blasius, the patron saint, and the inscription that it was Dubrovnik money. The Dubrovnik monetary system consisted of copper and silver coins, at the rate of 30 copper Minca = 1 gross. *Kopuća* was a copper coin minted in Dubrovnik before the year of 1294, a year prior to the great fire, and the minting of a silver *gross* started at the beginning of the fourteenth century, to be more precise, in 1337. On the obverse of these coins there was the image of St. Blasius, on the averse there was the image of Jesus Christ and these coins had the standardized weight of 1.951 g. Due to various political (the change of the patron state) and natural disasters (the earthquake of 1520 and 1667 then the Plague of 1527), Dubrovnik money continually changed its shape, weight, value and names. Among other things, in the sixteenth and seventeenth century Dubrovnik money were minted in large quantities but the weight and the fineness of the precious metal were reduced which resulted in the name *Dinarić* in the early seventeenth century. In 1683 Dubrovnik citizens started minting silver *Perper* (1 *Perper* = 12 *Dinarića*) and in 1725 they began minting *Thalers* (1 *Thaler* = 60 *Dinarić*) and *Halfthaler*, following the model of the Austrian

monetary system. At the end of the eighteenth century they minted *Libertina* (1 *Libertina* = 2 silver ducats or 80 *Dinarića*). In the period from 1337 till 1803 money of various types, 15 altogether, were continuously minted in Dubrovnik. The money was being minted in the very own mint, that since the sixteenth had been located in the well-known Dubrovnik Palace of Sponza or Divona and its last coins minted were *Perpers* and *Halfperpers* originating from 1801-1803 and their content of silver was below 50 % of their weight. Dubrovnik monetary activity was completed by this series of coins because the French occupying army entered Dubrovnik on the 25th May 1806 and the Republic of Dubrovnik was abolished on the 31st January 1808. After the French Army, the Austrian army came to Dubrovnik in January 1814, which had been confirmed a year afterwards at Vienna Convention. (Dolenc, 1993, 44-59)

Croatian bans (engl. vice-roys) brothers Pavao I Šubić Bribirski and Mladen I Šubić Bribirski, and Pavao's son, Mladen II Šubić Bribirski, minted money in Bosnia but on the Croatian soil. Croatian ban Pavao I Šubić Bribirski (around 1245 till the 1st May 1312) was a Croatian nobleman who ruled the entire Croatia from the mountain of Gvozd to the river of Neretva, and Dalmatia at the end of the thirteenth century and in 1299 he added to his name the title of master of Bosnia – *dominus Bosnae* (Šišić, 2004, 201-202). At that time he was one of the most influential political and military figures on the territory of Croatia, Hungary and Bosnia. Namely, at that time Croatia was in personal union with Hungary (1102 -1527) led by the Hungarian Arpad dynasty (1102-1301). Despite this fact, in economic terms, Croatia and Dalmatia were independent of Hungary. Therefore, they had the right to issue money (*ius cudendae monetae*) and to put it into circulation. "The coins of ban Pavao were minted following the design and weight of the contemporary Venetian *gross* and *matapan*, so that his mints would easily and perhaps unobservedly get into circulation. There was the only difference in the inscription. Two types of viceroy Pavao's money were known; the first type caring in the first place the inscription of the viceroy's name: *DUX PAVL* and in the second place the name of his brother Mladen I: *BAN MLADEN*, who ruled from 1302 till 1304. The second type had next to Pavao's name the name of his son Mladen II: *BAN MLADEN SECUNDUS*, who governed Bosnia from 1305 till 1312, e.g. until the death of his father. The location of the viceroy Pavao's mint is not known because the preserved historical sources do not provide this information. It was most likely located in his fortified town of Skradin where he would often gladly stay. Ban Pavao could not provide the silver needed for minting in Croatia because there was not one silver mine in the area of his rule. However, when he became the master of Bosnia he provided silver from the Bosnian mines and he started minting his own money, which was later on continued by other Bosnian rulers, viceroys and kings" (Dolenc, 1993, 74-78)

Count Nikola Zrinski III (1489-1534) also minted his own money and in 1521 there was his own mint in Gvozdansko. He minted *silver Denari* of silver supplied from his own mines. Judging by the quality of the money it can be concluded that he had excellent masters blacksmiths. His *Denari* of 1521 and 1526 were minted of the solid 8-Lot silver and judging by their content they correspond with the older state money – *moneta antiqua* . Besides *Denari*, Nikola II minted also grosses, thalers and pfennings. (Dolenc, 1993, 74-78).

3. Money in the Nineteenth and the Twentieth Century

The coins from the time of the general, the count and Ban/viceroy Josip Jelačić Bužimski are considered to be original Croatian money. In 1848 the Council of viceroy started minting silver forint (average weight of 9.50 g and diameter of 26.5 mm) in its own mint and in 1849 copper *Križar* , average weight of 9.61 and diameter of 26.5 mm (Dolenc, 1993, 62).

During the existence of the Independent State of Croatia (ISC) the official currency was *Kuna* (1 *Kuna* = 100 *Banica*). Then the series of banknotes was issued by the Ministry of national economy, the State Treasury and the Croatian National Bank. The *ISC-Kuna* and the *Kuna* of the Republic of Croatia were printed by the same printing company, e.g. Giesecke & Devrient in the German city of Leipzig. On the 26th May 1941 *Kuna* was officially put into circulation in the ISC and at the same time there was German *Reichsmark* (till the 23rd August 1941) and Italian *Lira* (till the 31st

December 1941) in circulation. After these dates *Kuna* was the only official means of payment in the ISC. The *Kuna* banknotes were put into circulation as follows: 50.00; 100.00; 500.00 and 1,000.00 *Kn* on the 26th May 1941; 10.00 *Kn* on the 30th August 1941; 50 banica, 1 *Kn* and 2 *Kunas* on the 25th September 1942; 5,000.00 *Kn* on the 15th July 1943; 1,000.00 and 5,000.00 *Kn* on the 1st September 1943. In addition to these banknotes, the banknotes of 10,000.00 and 50,000.00 *Kn* should have been put into circulation. The printing proof of a 10,000.00 banknote was made on the 1st September 1943 (the only known copy can be found in the Leipzig Museum) and the bill of 50,000.00 *Kn* had been prepared but it was never released for printing. In the ISC there was less luck with coins; a certain amount of experimental coinage was made, and there were excellent samples of artistic design of *Banica* and *Kuna* but due to the high inflation and war situation there had never been large-scale minting and circulation. Therefore, small and drab zinc coins of 2 and 1 *Kuna* were minted. In addition to this, there was an unofficial gold coin of 500.00 *KN* and there were several types of the experimental coinage that were known. The exchange rate of *Kuna* against the German Reichsmark (RM) had been changed a few times: on the 26th July 1941 it was 1 RM = 20.00 *KN*, on the 31st December 1941 1 RM = 25.00 *KN*, on the 31st December 1942 1 RM = 37.50 *KN*, on the 31st December 1943 1 RM = 40.00 *KN*, on the 31st December 1944 1 RM = 80.00 *KN*, on the 6th May 1945 1 RM = 120.00 *KN*. After the collapse of the ISC the conversion rate for the *Dinar* of the Democratic Federal Republic of Yugoslavia was carried out in the period from the 30th July to the 9th June 1945 and it was 40.00 *KN* = 1 *Dinar* (Prebeg, 2006, 240-249).

In the course of the nineteenth and twentieth century there were mostly foreign money in circulation on the Croatian national territory: Austro-Hungarian; Austrian currency in Istria and Dalmatia and Hungarian currency in Northern Croatia; Italian currency in the region under the Italian rule between the two World Wars and during the Second World War; Hungarian currency in Baranya and Međimurje during the Second World War; the German *Reichsmark* in the territory of the Independent State of Croatia during the Second World War. During the period of the two Yugoslavias (the Kingdom of Yugoslavia and the Socialist Federative Republic of Yugoslavia), the Croatian national territory was an integral part of their monetary system, e.g., it belonged to the monetary area of the Kingdom of Serbs, Croats and Slovenes till 1929, the Kingdom of Yugoslavia till 1941 and the Socialist Federative Republic of Yugoslavia after the Second World War till 23rd December 1991 when Croatian *Dinar* was introduced instead of the *dinar* of the former Yugoslavia. Namely, that was when the monetary sovereignty of the Republic of Croatia had been established. For this reason there will be a short presentation of the currency of the Kingdom of Serbs, Croats and Slovenes (the Kingdom of Yugoslavia) and of the Socialist Federative Republic of Yugoslavia. The official currency in the Kingdom of Yugoslavia was *Dinar*, according to the legal provisions of the Law on the national bank of the 20th January 1920 and according to the Law on money of the 11th May 1931 of which the article no. 1 stated: "The currency of the Republic of Yugoslavia is *Dinar*. The value of *Dinar* is worth the value of twenty six and a half milligram of pure gold." After the end of the Second World War the new Yugoslavia was established, that adopted *Dinar* as its national currency. This was done respecting legal provisions of the Law on withdrawal and exchange of the occupation banknotes of the 5th April 1945 that stated, among other things: "The currency of the Democratic Federative Republic of Yugoslavia is *Dinar* – abbreviated DIN, that is divided into 100 *Para* – abbreviated p." (Brekalo, 2012, 31)

4. The Monetary System of the Republic of Croatia

The formation of the monetary system in the Republic of Croatia is divided into two phases: the first one went on from the 6th October 1991 till the 10th May 1994, when the second phase began, and it has been going on until nowadays, its main feature being the introduction of *Kuna* as the permanent Croatian national currency, until the accession of the Republic of Croatia to the Euro-zone. The first monetary act was issued by the Government of the Republic of Croatia at its session held on the 6th October 1991, when it adopted the Regulation on measures to protect the Republic of Croatia from the possible misuse of the *Dinar*, NN, no. 53a/1991. This Regulation in the Republic

of Croatia limited temporarily the use of cash by individuals on order to make each payment to legal persons and natural persons engaged in the sale of goods or the provision of service in the amount of more than 5,000.00 Dinar. The second and the most important step towards the formation of the monetary system in the Republic of Croatia, was to establish the Croatian National Bank (CNB). Thus, the first monetary effects in the Republic of Croatia can be spoken of after the 23rd December 1991 when this Regulation came into force through the legal force of the Government of the Republic of Croatia. Based on this Regulation the Croatian National Bank was founded (the Regulation on the Croatian National Bank). According to the stated Regulation, the Croatian National Bank became the central bank and at the same time came into force the Decision on the introduction of Croatian Dinar as a means of payment in the territory of the Republic of Croatia, NN, no.71/1991 (Brekalo, 2006, 57-76). Croatian Dinar banknotes that were issued in accordance with the Decision on the introduction of Croatian Dinar as a means of payment in the territory of the Republic of Croatia and the Decision on the denomination, the form and the basic characteristics of the Croatian Dinar, were put into circulation on 23rd December 1991. The replacement of the SFRY-Dinar for the Croatian Dinar (HRD) was carried out by: SDK, banks, post offices and other financial organizations. The SFRY-Dinar banknotes and coins were replaced at a ratio 1:1 and the replacement lasted from 23rd to 31st December 1991. The second phase in the complete establishment of the monetary system of the Republic of Croatia started on the 10th May 1994 when the Council of the Croatian National Bank took the Decision on the denomination and basic characteristics of the banknotes *Kuna* and *Lipa* coins, NN, no. 37/1994. According to this Decision, *Kunas* and *Lipas* were put into circulation on the 30th May 1994, the Croatian Statehood Day, when the replacement of the Croatian Dinar banknotes started and it went on till the 31st December 1994. The replacement was carried out at a ratio 1 HKN : 1000 HRD by the CNB, The Payment Institute, commercial banks and the Croatian Post Office.

Establishing monetary sovereignty of the Republic of Croatia on its entire state territory was not an easy process the main reason being the temporary occupation of certain areas. Unlike the formation of the monetary system, the formation of which can be viewed in two phases, the establishment of monetary sovereignty had gone through four phases that coincide with the establishment phases of the territorial sovereignty of the Republic of Croatia (Brekalo, 2009, 266-268). The last phase was completed on the 15th September 1997, when the conversion of the SRY-Dinar was performed (Matić, 2006, 208).

5. Monetary Sovereignty of the Republic of Croatia and the Euro-zone

The Republic of Croatia is a country in transition that gained its state independence and international recognition in 1992. Twenty-one years afterwards the Republic of Croatia is on its way to become the twenty-eighth member of the European Union and the first of July this year is the target day of its accession to full membership of this intergovernmental and supranational union of European states. After joining the European Union but before entering the Euro-zone and putting Euro into circulation, the Republic of Croatia must meet the convergence criteria laid down by the Maastricht Treaty, which represent the economic conditions in the assessment of the preparedness of Member States to participate in the economic and monetary union. In other words, before entering the Euro-zone the Republic of Croatia has to achieve high degree of price stability with an inflation rate not exceeding 1.5% in relation to the inflation rate in the first three countries with the most stable prices. The budget deficit may be moving up to 3% of GDP and the public debt may reach 60% of GDP the most. Therefore the control of the public debt and the budget deficits are the only two fiscal convergence criteria. In addition, the Republic of Croatia has to have a stable exchange rate and the average nominal interest rates must not exceed 2% in relation to the interest rates in the three countries with the lowest inflation rate. Being a new member state of the European Union, the Republic of Croatia, in order to meet the mentioned Maastricht criteria as soon as possible, has to join ERM II or the exchange rate mechanism whose framework does not allow to perform devaluation of the national currency against Euro for at least two years. After entering the

EMU the Republic of Croatia has to spend at least two years within the system of ERM. That is, until it will have met the convergence criteria, the Republic of Croatia is participating in the economic and monetary union as a member state with the exception of the use of the Euro and the exchange rate for Croatian Kuna is dealt with as a matter of common interest. By joining the Euro-zone, the Republic of Croatia loses its monetary sovereignty *ipso facto* and *ipso iure*, running out of the possibility to create an autonomous monetary policy and it remains without its national currency. Thus, fiscal policy remains its only economic tool that can be used in order to meet the public needs of the citizens regarding, both the quality and the quantity, in the best possible way (Brekalo, 2011, 165).

6. Conclusion

After joining the European Union and after fulfillment of the convergence criteria which represent the economic conditions for the entry into the European Monetary Union or the Euro-zone, the Republic of Croatia as an entity of the international law voluntarily loses its monetary system and monetary sovereignty. Thus, having taken the political will to accede to the European Monetary Union, the official policy of the Republic of Croatia voluntarily made a decision to lose its monetary sovereignty. Therefore, the Republic of Croatia as an international legal entity will no longer be able to autonomously create its monetary system, which will be reflected in the autonomous adoption of monetary regulation; the establishment of national monetary unit; the determination of the national currency value and the way to maintain this value; the definition of the form of banknotes and coins as means of payment and transfer; the establishment of the monetary authorities that will guide monetary policy, etc. By joining the European Monetary Union, Croatia *ipso facto* and *ipso iure* loses its monetary sovereignty; Kuna ceases to be a measure of value, means of payment, transfer and accumulation.

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