

## **MANAGEMENT IN THE FUNCTION OF ENLARGEMENT OF THE ISSUING PROFIT**

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### **Summary**

The author starts from the thesis that it is especially necessary to manage the production of cash money, taking into consideration and applying the conceptions of modern management. Cash money (metallic and paper) is a specific “product” that is produced according to the needs of monetary traffic, as well as meeting the standards related to modern notaphily, i.e. numismatics. For several reasons, the author elaborates his thesis on the example of the issuing of Croatian contemporary metallic money. The most important of these reasons are that Croatia has its own mint, that issuing metallic money makes it possible to attain significant non-fiscal effects through its management, and that the issuing of national money has wider cultural, social, legal and other dimensions. In the elaboration of his thesis, the author takes into account the influence of the globalization and integration processes in which Croatia is a participant.

*Key words:* management, innovation, issuing profit, money, exchange rate, Euroland

### **1. Introduction**

The notion of contemporary Croatian monetary system is connected with the establishment of the sovereignty of the Republic of Croatia. After declaring its independence (on 30<sup>th</sup> May 1990) on 23<sup>rd</sup> December 1991 Croatia introduced its transitional, temporary monetary unit - the Croatian Dinar. For practical reasons and because of the impossibility to coin metallic money, only paper money was put in circulation in three series of denominations and on three occasions. After this monetary unit had carried the load of inflation and provided the preconditions for the introduction of permanent money, on 30<sup>th</sup> May 1994 the new monetary unit – kuna, and its hundredth part – lipa were introduced. On that date, kuna banknotes in 8 denominations and circulatory metallic money denominated in kuna and lipa in 9 denominations were put into circulation.

This act of sovereignty has provided the conditions for managing cash money through the realization of issuing profit.

### **2. Issuing Profit**

Issuing profit is the non-fiscal income of the issuer of cash money, and consists of the difference between the nominal and issue par of the money. It is therefore relating to the primary money issue that is in the domain of the national central bank (national central banks), i.e. of transnational central banks.

Issuing profit in the production of paper money is much greater than in the production of metallic money since, as a rule, the nominal values of paper money are considerably greater.<sup>1</sup>

In spite of this fact, states with developed market economies try to manage their metallic money as well, regardless of the fact that this monetary form is the least represented in the volume of money. There are multiple reasons for this. Primarily, it is rational management of metallic money with the realization of substantial non-fiscal income in the form of issuing profit, the specific export of the “product” that has an explicitly emphasized national peculiarity, participation on the contemporary global numismatic market and employment of the free production capacities that have an exceptionally high productivity.

Issuing profit is realized in economies that satisfy certain conditions and have a systematic monetary and numismatic politics. Especially important is the stability of the national or, respectively, transitional currency. Currency stability is also the foundation of successful monetary politics, in other words, of wider macroeconomic stability. Furthermore, the purchasing power of money (its intrinsic value) and the course (its extrinsic value) strongly influence the issuing profit rate. So, as a rule, money with greater intrinsic/extrinsic value realizes larger issuing profit. The size of the country additionally augments the possibilities of managing metallic money. Larger countries, through the economy of scale and under fulfillment of certain conditions, make issuing profit more easily. Monetary unions with common currency, such as the European Monetary Union where the national currency is also the legal means of payment in other member countries of the Union, only emphasizes this.

The issuing profit rate is influenced, among other things, by the demand for the metallic money, which is largely the result of habits of its users, their preferences, traditions and other reasons that are not always clearly observable or measurable. The demand for metallic money can also be influenced by the offer of goods or services for the purchase of which this monetary form is more practical (use of various vending machines, advantages in handling this monetary form in everyday payments of small sums, etc.)

The existence of the same nominal values in metallic and paper form (the “overlap of denominations”) can influence the demand for a particular monetary form as well.

### **3. Issuing of Coins in Croatia**

Croatia has its Croatian Monetary Institute (Hrvatski novčarski zavod – HNZ) as the national mint among whose founders and owners is the Croatian National Bank (Hrvatska narodna banka – HNB). Basic activity of the HNZ is the production of coins for the needs of the Republic of Croatia and for the needs of other states.

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<sup>1</sup> The exception is one or, rarely, more of the lowest paper money denominations with the same nominal value as the highest denomination/s of coins in some countries. In Croatia, this is the denomination of 5 kuna.

In spite of the fact that HNZ has the monopoly position in the Republic of Croatia, this company must necessarily respect and apply the conceptions of modern management, that is, "create strategies that include flexibility, adaptability and the ability to predict changes in the environment".<sup>2</sup> There are at least two reasons for this: the first is that HNZ as a public company has to make profit, and the second is the expected membership of the Republic of Croatia in the European Union (the EU). The planned introduction of Euro makes this even more important.

The product line of the HNZ includes four kinds of metallic moneys, and these are:

- circulation metallic money;
- commemorative circulation metallic money
- commemorative metallic money and
- commemorative metallic money outside of the existing monetary system.

### 3.1. Circulation and Commemorative Circulation Metallic Money

Circulation and commemorative circulation metallic money is primarily used in monetary circulation and has a circulation and payment function, and secondarily it also has numismatic, cultural, tourist and other purposes. This kind of metallic money, together with other monetary forms, makes the volume of money. It is therefore created or cancelled according to the needs of the monetary transactions. It is precisely this fact that may partially be the limiting factor in its issuing.

The circulation metallic money of the Republic of Croatia contains a total of 9 denominations (1, 2, 5, 10, 20, 50 lipa, 1, 2, 5 kuna). Between 1994<sup>3</sup> and the December of 2003, a total of 1,014.077.176 kuna and lipa coins were coined for which 3,357 tons of metals were used.<sup>4</sup>

HNZ makes profit in the production of denominations of the nominal value of 20 lipa (5<sup>th</sup> denomination in the set) and in the denominations with nominal values of 50 lipa, 1 kuna, 2 kuna and 5 kuna. The profit has been observed on the annual level, separately for each year of coining and according to the quantities and structures for particular denominations according to the needs (orders) of the HNB.

A possible enlargement of the quantities of coined denominations could increase the profit and move the threshold of profitability.

Following the above, HNB makes issuing profit, on the average, by issuing circulation metallic money in the entire denomination line. This puts Croatia into the rather small group of countries that make issuing profit by issuing this kind money.

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<sup>2</sup> Ljiljana Vidučić: *Financijski management*, RRIF plus, Zagreb, 2000, p. 6)

<sup>3</sup> First denominations carry the mark of the year of coining 1993.

<sup>4</sup> Data provided by the HNZ.

Croatian commemorative circulation metallic money has been issued in 10 denominations - eight denominations identical to the circulation coins, one denomination (5 kuna) has a different artistic solution and the denomination of 25 kuna was issued in 15 motifs, i.e. catalogue numbers. The commemorative circulation coins have a total nominal value of 52,815.000 kuna, and the number of coined examples is 10 million. All commemorative circulation coins have been made of base metals or alloys.

The increase of the issuing profit is partially influenced also by the offer of complete sets of circulation and commemorative circulation money for the purposes of numismatists and collectors.

### 3.2 Commemorative Metallic Money and Commemorative Metallic Money Outside of the Existing Monetary System

Croatian commemorative coins were first issued in 1994. This kind of money is made of silver (nominal values 100, 150 and 200 kuna) and gold (500 and 1000 kuna). So far, a total of 113,500 coins have been coined with the total nominal value of 35,600,000 kuna.

**Table 1. COMMEMORATIVE CROATIAN COINS IN GOLD AND SILVER**

	Nominal value (kuna)					
	100	150	200	500	1000	Total
Number of motifs (Catalogue numbers)	5	9	12	8	5	39
Total quantity (pieces)*	25,000	27,000	29,000	18,500	14,000	113,500
Nominal value**	2,500,000	4,050,000	5,800,000	9,250,000	14,000,000	35,600,000

\* Planned quantities

\*\* The value should be corrected according to the actually coined quantities of those denominations for which only the maximum number to be coined was set, so that these quantities are not fixed (data about the numbers are unavailable).

A larger part of these commemorative editions was coined in series (2 to 5 denominations) in which either different denominations of the same series have the same motif, or every denomination carries a different motif. Quantities for all denominations are regulated in advance, with the exception of some denominations for which the maximum quantity is determined.

Commemorative coins are legal means of payment in the Republic of Croatia, although they were originally coined for numismatic purposes. This form of money is sold in Croatia at a price that is 30% above the nominal value of the coins.

As for the commemorative coins outside of the existing monetary system, the Republic of Croatia has issued two denominations with the nominal value of 1 ducat. All together, 8,000 of such coins were coined.

By coining commemorative metallic money, HNB realizes issuing profit.

#### **4. Some possible Directions of the Croatian Issuing Politics in the Segment of Metallic Money**

Croatian issuing politics in the segment of cash money has been largely determined by the fact that in 2004 our country has become a candidate for the membership in the EU. It is to be expected that this process will be terminated by the admission of Croatia into this association, which opens the question of accepting the common monetary unit - Euro - in the cash form. The dominating opinions are that Euro should be introduced as the monetary unit of Croatia upon its admission into the Union. Such opinions largely determine the future activities of the monetary authorities in this area.

##### **4.1. Issuing Politics of Euroland Countries and Countries That Have Introduced Euro in Cash Form**

As the common monetary unit in cash form, Euro has to date been introduced by 12 EU member states (Austria, Belgium, Finland, France, Greece, Ireland, Italy, Luxembourg, the Netherlands, Germany, Portugal and Spain) and by three states that are not members of the EU (Monaco, San Marino and Vatican) on the basis of previously concluded monetary agreements with the countries whose currency they have used as reserve currency (Euroland countries), all of which followed upon the fulfillment of the convergence criteria.

Common metallic circulation money denominated in Euros and Eurocents has been issued in 8 denominations: 1, 2, 5, 10, 20, 50 Eurocents and 1 and 2 Euros. Regulations have determined the form for the common side of the coins (reverse), while every state has been given the right to individually create the national side (obverse) of the coins.

According to the Agreement about the Foundation of the EU and the Decisions of Maastricht, issuing of metallic money is in the jurisdiction of the EU members but requires the approval of the ECB. The Council of the ECB decides about the size of the issue of this money, according to the prescribed procedure (Art. 252) and following the consultations with the ECB the purpose of which is to adjust the denominations with technical specifications of all coins in circulation and to satisfy all the measures necessary for the organization of undisturbed monetary circulation inside the EU.

The circulation metallic money is the legal means of payment in all Euroland countries.

The European Central Bank (ECB) has allowed that the coins may carry the actual year of coining.

All together, 5 EU states (Belgium, Finland, France, the Netherlands and Spain) have used this possibility and have issued all circulating denominations of Euro and Eurocent coins with marks for the years 1999, 2000, 2001 and 2002. By doing so, these countries have enlarged the number of different denominations (regarding the years of issue).

Something similar was done by Monaco. However, instead of four issues, this country put only two issues of coins into circulation. As a result, the number of different denominations in the moment of putting Euro and Eurocent coins into circulation reached the total of 163 pieces.

In 2004, ECB gives the EU members permission to change the previously determined national side of the denomination of 2 Euro, which was immediately done by a number of states (Greece, Finland, Luxembourg,...) thus additionally increasing the number of different Euro and Eurocent coins.

The issuing politics of Euroland countries in the segment of the circulation metallic money so far suggests the following:

- there is a possibility of diversification of the offer of this kind of money by meeting the said differentiation criteria, by introducing new ones (e.g., symbol of the mint, or the like), or by using a combination of both;
- in every single country that is issuing coins denominated in Euro and Eurocent, these coins do not only satisfy the needs of monetary traffic but they also – in a large part – become objects of collection interests in other countries that have the monetary unit of the same name (and with one common - same side of the coins – the reverse);
- the choice of the motif on the national side of the money (the obverse) may be, in itself, the reason for taking this money as the object of collecting, or it may become the reason for collecting it in combination with the above;
- in the future, collecting this money will certainly be a part of a much wider processes and therefore it will later be very difficult, if not impossible, to secure particular coins in the quality of money that has not been in circulation
- a part of this money is being hoarded and soon becomes the object of trade on the numismatic market reaching high prices (especially the coins of Monaco and Vatican).

It is very easy to observe the fact that this money, in addition to its primary function of the means of payment and trade, also has a significant secondary function that can be described as numismatic, artistic and cultural.

Croatian experiences in the issuing of its national money (kuna and lipa) through the realization of issuing profit guarantee that these tendencies would also continue after the introduction of the Euro. This can be corroborated by a simple

comparison with the recurrent connection kuna - Euro which is, at the moment, 7.5:1. Mechanical application of this ratio between two currencies shows the minimum possible growth rate of the issuing profit. Cheaper (and lower quality) alloy that is used for the coining of Eurocents will additionally, together with the smaller number of denominations in the denomination sets of Euros and Eurocents, increase the issuing profit.

A special part of the issuing activity of Euroland members includes the issuing of commemorative circulation money and commemorative money. The issuing of these kinds of coins has been regulated much more liberally. So, EU member countries can themselves determine the denomination structure of these editions, the appearance of the coins and the material of which they will be coined. However, this money is the legal means of payment only in the country in which it is issued. Its nominal value is included in the total volume of money of the issuing country. This is the reason why the country issuing such money must have the consent of the ECB about the quantities of issued pieces.

Concluding with the year 2004, all Euroland countries have issued their national commemorative circulation money or commemorative money denominated in Euros. The possibilities in the issuing of this money can be well illustrated by the number of denominations, i.e. catalogue numbers that these countries have issued in this short time. Austria has issued 24 denominations, Belgium 6, Finland 10, France 121, Greece 27, Italy 13, Ireland 2, Luxembourg 3, Monaco 4, the Netherlands 9, Germany 22, Portugal 17, San Marino 14 and Vatican 12, which makes a total of 284 different denominations. These issues include 13 different nominal values (1/4; 1.5; 5; 8; 10; 12; 20; 25; 50; 100; 200; 400; and 500 Euro).<sup>5</sup>

Therefore, the issuing of commemorative circulation money and commemorative money represents an exceptionally significant sphere of activity of the monetary authorities. Precisely these positive experiences of the Euroland countries in combination with a number of our own monetary solutions can secure considerable non-fiscal income for the Republic of Croatia.

The issuing of paper money is a segment of monetary politics that is of special national interest, since in this money there is a great difference between its nominal value and the manufacturing costs. Croatia does not have its own printing office for paper money, and thus does not have the conditions for the printing of Euro banknotes. This fact makes it necessary for Croatia to purchase these banknotes in one of the Euroland countries that produce this kind of money. For these reasons, HNB will have to reach an agreement with the ECB regarding the issuing profit rate for this monetary form. The experience and knowledge of the issue collected so far point at the possibility to maximize these requirements at 30 % of the nominal value.

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<sup>5</sup> Money Trend, Vienna, No. 1/2005, pp. 121-139

## 5. Conclusion

Issuing national currency is one of the important characteristic of the sovereignty of every state.

In this field, Croatia has a long, although discontinuous tradition but it also has different monetary solutions as the consequence of the division of Croatian lands. This exceptionally rich monetary heritage, together with other conditions, may be the basis for the development of this activity, regardless of the intention of Croatia to join the European Union.

Partial abandoning of monetary sovereignty, i.e. its transferring to the transnational level in the EU need not necessarily reduce the issuing profit.

Quite on the contrary, the use of standards and cognitions of modern management and of the marketing in the production of cash money – especially in the production of coins – can have significant influence on the increase of the issuing profit. It is therefore possible and necessary to manage cash money like any other goods. Diversification in the offer of metallic money, selection of motifs, artistic attainments, tourism and systematicness in such activities, together with innovation, are some of the necessary efforts.

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