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MACEDONIAN MONETARY SOVEREIGNTY IN TIMES OF *BLOCKCHAIN* REVOLUTION

-Abstract-
The adoption of the Constitution of the Republic of Macedonia established the Macedonian central bank as one of the pillars of the Macedonian monetary sovereignty. In the first years of the country's independence the central bank was facing a unique challenge in establishing the Macedonian national currency *the denar* which was done in a period of transition of the Macedonian economy from socialistic to market economy amid wars and political instabilities in the region. Thirty years after the monetary independence, the monetary sovereignty is challenged not only by the process of creation and use of private money *i.e.* cryptocurrencies but also from the process of creation of digital central bank money called central bank digital currencies. After a brief review of the historical moment in establishment of the Macedonian monetary sovereignty the text will discuss different questions related to the effects of digitalization of money on the Macedonian monetary system and the challenges for the Macedonian central bank in this respect.

Key words: monetary sovereignty, Macedonian independence, digitalization, Covid crisis

I. INTRODUCTION

Monetary sovereignty is one of the core elements of the state sovereignty. Form a historical perspective, the right to issue money and the definition of the monetary system is connected to the sovereign's rights which in certain periods of time were unlimited or without any constrains in the law. It is one of the best examples for how something that existed in practice for centuries is incorporated in the legal system or as the roman law provides *Ex post ius oritur.* However, in the legal theory, it was until the 16th century when in his *Les Six Livres de la République* Jean Boden incorporated the notion of monetary sovereignty among other sovereign's powers.
Monetary sovereignty includes several elements: the power to issue notes and coins which is an exclusive competence of the state and one of the symbols of the national identity; the power to regulate money, monetary, banking and the overall financial system; the power do decide and to implement the monetary policy in the country that concerns the money supply and the central bank's interest rates; the power to determine the exchange policy and the exchange rate of the national currency and also the ability to introduce exchange and capital controls[1]. Today we understand the monetary sovereignty in relation to the state theory of money[2] which, at least in the legal theory is essential for understanding the role of the State in the realm of money. In line of

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[1] Rosa M. Lastra, Legal Fondations of International Monetary Stability, Oxford University Press, 2006, pp. 22-23.
[2] Georg Friedrich Knapp, State Theory of Money, Macmillan & Company Limited, St. Martin's Street, London, 1924.

this theory goes the broadly accepted *lex monetae* principle which stipulates that it is in the exclusive competence of issuing country to define its currency, to determine its value and to regulate all the aspects and rules governing that currency. Almost a century ago this principle was confirmed by the Permanent Court of International Justice stating that a state is entitled to regulate its own currency[3].

However, the notion of sovereignty is constantly evolving. Contemporary monetary sovereignty is faced to various constrains. Firstly, there are legal constrains deriving from international agreements on international financial organizations such as the IMF and more importantly limitations deriving from the monetary integration processes as the EMU, for example. Secondly, there are factual constrains deriving from the dominant role of the financial markets, globalization and regionalization processes which makes some aspects of the monetary sovereignty redundant or in simple words useless[4]. In todays integrated markets the possibility for introduction of restrictions of capital movements without harming the economy is low, while the limits of the right to issue money is limited to the money supply and the stability of the prices and external value of the currency. In the global economy the exercise of the monetary sovereignty and the decision and implementation of the monetary policies in general requires coordination and cooperation on supranational level.

As a "crossroads" of the Balkans the Macedonian territory has rich monetary history that spreads through centuries. The region was part of the ancient Macedonian, Roman, Byzantine and Ottoman monetary system. Different sovereigns were minting money while the trade was done in different currencies based on gold, silver or other precious metals. However, the Macedonian monetary sovereignty is linked to the creation of the independent Macedonian state amid the dissolution of SFRY and the adoption of the Macedonian constitution in 1991.

The structure of the paper is the following: after a brief review of the historical moment in the establishment of the Macedonian monetary sovereignty (I) the text explains different questions related to the effects of digitalization of money on the Macedonian monetary system and the challenges for the Macedonian central bank in this respect (II).

II. THE ESTABLISHMENT OF THE MACEDONIAN MONETARY SOVEREIGNTY

The roots of the contemporary Macedonian monetary sovereignty might be found in the documents of the Macedonian Revolutionary Organization where in some documents the organization tried to organize its finances and to regulate the debt[5]. Moreover, after the World War 2 and the creation of the Yugoslav federation where People's Republic of Macedonia was one of the republics, the monetary sovereignty was shared on a federal level while the currency was the *Yugoslav dinar*. However, the Macedonian contemporary monetary sovereignty is linked to the process of dissolution of the SFRY and the creation of the independent Macedonian state. The process of monetary independence was completed in period of economic and political turbulences (1) while the Constitution of the Republic of Macedonia (2) was the most important document that

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[3] Serbian and Brazilian loan Case (1929) PCIJ Series A, Nos 20-21.

[4] Claus D. Zimmermann, A Concept of Contemporary Monetary Sovereignty, Oxford University Press, 2013, p. 16-17

[5] See: Kiki Mangova Ponjavic, Macedonian Revolutionary Organization – Financial Activity and Policy, Macedonian Academy of Sciences and Arts, Skopje, 1994

established the Macedonian central bank and provided a legal basis for adoption of the legal framework for creation of the monetary and financial system in the country.

1. The economic environment in the wake of the Macedonia's independence

In the first years of country's independence the central bank was facing a unique challenge in establishing the Macedonian national currency *the denar* which was done in a period of transition of the Macedonian economy form socialistic to market economy in times of wars and political instabilities in the region. In the period before the independence the trade deficit of the country was more that 500 million dollars while the monthly inflation or hyperinflation rate was 86%. Due to the wars in ex-Yugoslavia and its chaotic dissolution Macedonian companies were excluded from their traditional markets. The shift to new markets demanded time and serious preparations. On the day of independence, the country had modest foreign reserves of 3 million US dollars. In this harsh economic environment with very high inflation, low or inexistant foreign exchange reserves, economic blockades, and destruction on the traditional markets for Macedonian companies the introduction of the national currency was a mission impossible in the eyes of many. The establishment of the new currency was perceived as a final step in the process of independence. However, this process required preparations and logistics for issuance of the notes and coins. In a region which was blocked by wars and economic embargos this was very complicated and time demanding task.

2. The Macedonian Constitution and the monetary sovereignty

The Constitution of the Republic of Macedonia established the Macedonian central bank as one of the pillars of the Macedonian monetary sovereignty. In its article 60[6] the Constitution provided that *the National Bank of the Republic of Macedonia is a currency-issuing bank. The National Bank is autonomous and responsible for the stability of the currency, monetary policy and for the general liquidity of payments in the Republic and abroad. The organization and work of the National Bank are regulated by law*[7]. Those constitutional provisions provided a legal basis for what followed on 26 April 1992 when the Macedonian parliament adopted laws that created a legal framework of the Macedonian monetary system: the law on the Macedonian central bank, the Law on the monetary unit, the Decision on the goals of the monetary policy which were the pillars on the Macedonian monetary sovereignty.

From this perspective, the establishment of the Macedonian central bank and the introduction of the national currency is a success story. Since 1997, the Macedonian currency is stable both internally and externally, the foreign reserves are on the highest level while the central bank has capacities and tools for implementation of a monetary policy providing stability of the denar and on the overall financial system.

Thirty years after the monetary independence, the Macedonian monetary sovereignty faces different challenges as it is the case with other small and open economies with similar economic performances. In the following part the text will try to explain the various areas where monetary sovereignty will be challenged from both internal and external factors.

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[6] The Constitution of the Republic of Macedonia, Official Journal of the Republic of Macedonia No 52, available at: https://www.slvesnik.com.mk/Issues/19D704B29EC040A1968D7996AA0F1A56.pdf

[7] These provisions are still in force. In 2014 there was a draft proposal for amendment XXXV of the Constitution that should have harmonized the provisions relating to the central bank with the EU's *acquis communautaire*. However, the process has been stalled.

III. CHALLENGES IN THE MONETARY FIELD

In the monetary field the authorities are dealing with different challenges related to the monetary stability and the stability of the overall financial system. In times when the markets are integrated while the country is open to the rest of the world the task that should be fulfilled by the central bank most notably the price stability mandate is difficult to be achieved. The challenges for the central bank are linked to various factors as internal or domestic as well as external as a result of events in the global economy. Thus, there are imminent problems deriving from the economic consequences because of the COVID 19 pandemic (1) and there are long-term challenges linked to the process of regionalization and the process of digitalization of money (2).

1. Post -pandemic challenges

The pandemic made profound changes on the entire society and pushed the limits in every aspect of the human living. In the economic field it was as an earthquake which caused tsunami and the effects are yet to come. As a response to the pandemic the major central banks in the world have implemented unprecedented monetary policies using unconventional monetary tools such as negative interest rates, quantitative easing and in one moment, until now unimaginable and just in theory, so called *helicopter money*. Since the financial crisis from 2008 the main global central banks have expanded their balance sheets by $10 trillion, and by approximately $5.5 trillion in response to the economic crisis that resulted from the COVID-19 pandemic[8]. The geopolitical turbulences and tensions are also harming the national economies in countries all across the globe. However, nowadays the global economy is integrated as never before. That makes the markets interdependent while disruptions in supply chains are having significant cross border effects. That makes inflation easily transmissible amid supply or demand shocks in different parts of the world and across different sectors of the economy.

For the time being there are no severe negative effects from these policies, but the big question is if these policies are going to provoke spike in inflation or maybe hyperinflation. At the end of 2021, the annual inflation in the Euro area was around 5% which is well above the ECB's target of 2% but it is still manageable having in mind that the economy is recovering from the pandemic shock. In the same period, the inflation in the Macedonian economy was 4.6 % which is also higher than the central bank's target. Having in mind that Macedonian economy is an open economy highly dependent on the import of goods one may expect that the inflation in the EU as a principal trading partner will influence the prices on the Macedonian market. Therefore, our monetary authorities will struggle to provide monetary stability in terms of internal stability *i.e.* price stability and external stability or the stability of the exchange rate. In the following period we will see how in practice the limitation of monetary sovereignty looks like. Even if our authorities are free to take any decision in the field of the monetary policy, they will decide considering the decisions and moves form other central banks (ECB) and sometimes in coordination with them.

Those are very serious imminent challenges in front of monetary authorities but there are also long-term challenges that will alter the notion of the Macedonian monetary sovereignty.

[8] House of Lords, Quantitative easing: a dangerous addiction? Economic Affairs Committee 1st Report of Session 2021–22 HL Paper 42, p. 10, available at:
https://committees.parliament.uk/publications/6725/documents/71894/default/

2. *Long term challenges*

The inflation and the effects form the monetary policy during the pandemic are constraining the ability of the central bank to provide more assistance for economic recovery and to support the government policies in different domains. However, with smart policies and timely decisions the inflation may be put under control providing price stability as a pre-condition for sustainable growth.

What is more important, on the long run, Macedonian monetary sovereignty is facing far more serious challenges. One is deriving from the European integration process while the other is connected to the process of digitalization of money.

The decision for accession to the EU ultimately implies accession to the EMU and adoption of the euro as a national currency. There is no alternative for the euro adoption. The legal framework governing the monetary union clearly states that no *opt out* clause for introduction of the euro will be provided for the new member states. Thus, on long run, the decision for accession to the EU is a decision for adoption of the euro as a national currency. The dynamics of this process depends on series of events. Fulfilment of strict legal and economic criteria or the Maastricht criteria for accession to the Eurozone and evaluation by the European institutions.

Since its independence Macedonian authorities have put the accession in the EU as one of the top priorities for the country. All the reforms in the country and are done in the light of the preparation for accession and fulfilment of the criteria for membership. There is a broad consensus about this goal in the entire society which makes the adoption of the euro inevitable on the long run. This will have a huge effect on the monetary sovereignty which will be transferred to supranational level to the EU and to its institutions primarily the ECB[9]. However, for the time being, and for well-known reasons Macedonian membership in the EU seems remote which makes the membership in the Eurozone even more distant event.

The process of digitalization of money is also a challenge for the Macedonian monetary authorities that will constrain the exercise of the monetary sovereignty in different ways. As a country and as a monetary system we will be soon faced to one very serious challenge which will have effects in the monetary field, payment system and on the overall financial sovereignty. That is the use of different types of money created under *blockchain technology*, both private such as cryptocurrencies and public as CBDC that will alter the normal functioning of the monetary system.

Cryptocurrencies are private money that may have different characteristics, but the common denominator is that they are using the *blockchain* technology and that they are not issued by any state or international authority. The revolution in this means of payment is that it does not require a third or trusted party for settlement and clearing of the transactions. For the time being the cryptocurrencies are "wrongly" perceived as an investment instrument because of their volatility and constant rise in value. But if this trend reverses and the broad public start to use this new form of money as a medium of exchange the central bank will be unable to implement its monetary policy and be unable to deliver the objectives that are stipulated by the law. There are modest attempts for regulation of the cryptocurrencies but the problem is that individual efforts cannot resolve the question and problems deriving from the issuance and use of the cryptocurrencies. Global or international approach is needed. Given the size of its economy and financial sector Macedonian authorities are unable to deal with this phenomenon if it is not addressed on

[9] On the integration in the eurozone and the economic and legal challenges for the Macedonian authorities in this respect see: Jovan Zafiroski, L'intégrqtion de la Macédoine dans l'Union économique et monétaire. Les questions juridiques et économiques, Stobitrejd, 2016

international level. What they will certainly do is to follow the practice of the big players which are the dominant global economies and their central banks. This will be a major challenge for the monetary sovereignty of the country that on paper will continue to exist but without any effect in practice.

The most serious challenge or danger for the Macedonian monetary sovereignty comes from the creation of the CBDC or the central bank digital currencies that are using *blockchain* technology. The development of the new forms of private money that are using the *blockchain* technology and are trying to replace the use of the traditional fiat currencies issued by the states is perceived as a threat to the monetary sovereignty in the countries. Currently the use of the cryptocurrencies is limited and insignificant in the overall daily payments but having in mind their characteristics in terms of the speed of transactions, low or inexistant transaction costs, anonymity etc. the cryptocurrencies are becoming more and more mainstream. That is a clear signal for the monetary authorities that should adopt to the new circumstances and to accept the process of digitalization of money. Their response came in the form of projects for launch of the central bank digital currencies that will be a certain form of national currency in digital form. That will provide a state control of the digital money while the use of new technologies will bring more advantages for the consumers. The leading central banks have launched projects for creation on CBDC which will see the light of the day in the next few years. According to the ECB's survey carried out among more than 60 central banks in late 2020 the vast majority of central banks in the survey or 86% are either working on or simply exploring the benefits and drawbacks of CBDCs[10]. The ECB[11] has launched a debate about the *digital euro*, its design and characteristic. The Fed[12] is also speeding up the process of creation of the *digital dollar*. Depending on their design *retail* (accessible to all, in all payments) or *wholesale* (accessible to banks and other financial institutions.) they will change the current payment and monetary system. Namely, if foreigners are allowed to have accounts and to use CBDC for domestic and international payments as it is the case for the cash today, the interest for the local currencies will diminish and they will be used merely as a means of payment while the store of value and the unit of account will be some other currency such as the dollar the euro, the yuan etc. The access to this new form of central bank money for foreigners that are coming from small economies with weak currencies will lead to massive transfer of fund towards the main economies that have provided access to central bank's digital money. That will erode that monetary sovereignty of the small countries and will make their monetary policy inefficient while the domestic currency will be used as a means of payment only, while the store of value and the measure of value will be some other currencies of the world's dominant economies. Taking into account the fact that the Macedonian currency is *de facto* pegged to the euro while the dominant trading partner is the EU one may expect the introduction of the digital euro which will be accessible to Macedonian citizens will have huge effect on the country's economic and financial system.

As in the Georges Orwell's *1984* or Klaus Schwab's *the Great reset*[13] regionalism will create a system where a dominant central bank is responsible for the monetary policy and for the monetary

[10] Codruta Boar and Andreas Wehrli, Ready, steady, go? – Results of the third BIS survey on central bank digital currency, BIS Papers No 114, 2021, p. 3, available at: https://www.bis.org/publ/bppdf/bispap114.pdf

[11] ECB, Report on a digital euro, October 2020, availible at: https://www.ecb.europa.eu/pub/pdf/other/Report_on_a_digital_euro~4d7268b458.en.pdf

[12] Board of Governors of the Federal Reserve System, Money and Payments: The U.S. Dollar in the Age of Digital Transformation, January 2022, available at: https://www.federalreserve.gov/publications/files/money-and-payments-20220120.pdf

[13] Klaus Schwab and Thierry Malleret, COVID-19: the Great Reset, Forum publishing, 2020, pp. 109-110

system in a certain region. All the other central banks in the region and the monetary sovereignty deriving from the Constitutions of the countries that are part of that broader region will be a *décor* because in practice it will be without any use. The process of digitalization of money and the creation of central bank digital currencies will foster regionalism and the use of the digital currencies of the major central banks.

IV. CONCLUSION

Thirty years ago, the establishment of the Macedonian central bank and the introduction of *the denar* was the last piece in a very complicated to do puzzle of Macedonian independence. In a period of wars and political instability in the region, with a collapsed economy in process of transition from socialistic to a market economy, high inflation and inextant foreign exchange reserves the country has succeeded in establishing its monetary sovereignty on its territory and introduced the *Macedonian denar* as a national currency. In this respect, adopted thirty years ago, the Constitution of the Republic of Macedonia is one of the pillars in the legal framework for the introduction of the national currency. It established the Macedonian central bank and provided a legal basis for adoption of laws in the monetary sphere.

However, the world that we live in today is different in many ways and our generation faces different challenges coming mainly from the digitalization and regionalization of the money and markets. The accession to the EU ultimately implies introduction of the euro as a national currency. Macedonian monetary sovereignty will be transferred to supranational level to the EU institutions or to be more precise to the ECB. The process of digitalization of money will also affect the monetary sovereignty. The challenge comes from both the use cryptocurrencies and the introduction of the central bank digital money that will alter the traditional understanding of the money and the monetary sovereignty.

The use of foreign digital currencies issued by the central banks in the dominant world's economies will be used more frequently by the public in the countries with small and open economies. The future of the Macedonian monetary sovereignty depends on our ability to see what is coming and to adapt to the new circumstances.

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