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# *The Function of Local Currencies in Local Economic Development*

## *The Bavarian ‘Chiemgauer Regiogeld’ and the ‘Kékfrank’ in Sopron*

**SUMMARY:** Complementary currencies refer to a monetary system that enhances regional economic activities and cooperations. The aim of this research is to provide an overview of and evaluate local currencies that are less known in Hungary from financial and regional economic aspects through two initiatives, one foreign initiative and one nascent Hungarian initiative. The author tries to find answers to questions concerning how local currencies serve social and economic development and what chances they have in our country. The analysis is interdisciplinary and based on case studies. The author emphasises the socio-political, regional essentials and legal background of the topic. The novelty of the study lies in the fact that no comprehensive publications have been issued in connection with local currencies earlier in Hungary that analyse them from different views of scientific fields. The comprehension of the mechanism and effects of the system can be a starting-point for experts who deal with the idea of establishing local currencies as well.

**KEYWORDS:** local currency, regionalisation, Chiemgauer, Kékfrank

**JEL-CODES:** E42, F36, G20, N24, R51

In Europe, the economic recession dubbed the Great Depression first broke out in Austria in 1931. Through the collapse of major Viennese banks and their branch networks, the banking collapse gradually spread to neighbouring countries, including Germany. A new currency called free money long thought desirable by several economists (among them by Pierre-Joseph Proudhon) was introduced in addition to the national currency to manage the symptoms of the economic exhaustion in the interwar period as well as treat issues like unsecured money supply, disruption of trade relations, and high rates of inflation and unemployment. The tender, which we can call local currency or local money (the first theory of which is linked to the work of *Silvio Gesell* (1958), the founder of the

Freiwirtschaft-theory) not only alleviated the effects of the world economic crisis at the beginning of the 1930s, but in certain regions also boosted local economic activities and cooperation.

My study will examine the role and significance of local currency (in German: *Regiogeld/Regionalgeld*), also called local complementary currency (in German: *Komplementärwährung*) in local economic development. The choice of subject matter can be explained by the fact that several micro-regions in Western European countries have succeeded in stabilising their economies through the use of local complementary currencies. This initiative continues to be a popular instrument among local governments, the civil sector and local SMEs to support regional economy.

## SOME THEORETICAL ASPECTS OF LOCAL CURRENCIES

By the beginning of the 21st century, trade based on the local currency system revolutionised the exchange of locally produced products and services worldwide as well as in several Western European (British, French, German, Austrian, Swiss, etc.) regions.

The aim of the local financial system is twofold. On the one hand, it complements trading with national currency in a given functional region,<sup>1</sup> therefore, the goal of local currency is not to replace the legal tender of the given country. On the other hand, local currency links producers, consumers, associations and communities with a cash and deposit currency-free means of payment, which can only be used in a certain geographical business area (such as a settlement and its suburbs or its wider suburban area).

In terms of economic theories it can be ascertained that local currency is a local manifestation, as it were, of physiocracy, which is regarded by current *mainstream* economics as marginal despite its successful practical application. Physiocrats generally thought it is possible generate the wealth of a nation without foreign trade (Mátyás, 2004). In terms of regional economic development this train of thought implies that although inter-regional (between regions) trade is important it cannot be the sole source of the economy of any society. Trade within the region could become much more beneficial, thereby allowing for development based on the internal characteristics of the region (Soder, 2008). According to the theory of endogenous development, growth within a local framework must be achieved with the participation of local economic organisations (Lados – Rechnitzer, 2004). Until now the focus of local economic development has been on so-called basis and resource-dependent sectors,<sup>2</sup> as these are capa-

ble of dynamic market expansion and of significantly increasing incomes (Lengyel, 2010). However, in local sectors the expansion of market share and the improvement of labour productivity usually results in the bankruptcy of competitors. The use of local means of payment changes this approach considerably, because the development of the local sector in response to the income growth generated by the basis and resource-dependent sector through secondary multiplication effects can be avoided.

One of the unique features of the local currency system is that it functions as a demurrage system. Holders of the papers issued within the currency system must face the depreciation of the currency, mainly determined by demurrage<sup>3</sup> (Kennedy – Lietaer, 2004; Lietaer, 1999). The demurrage of currencies usually depends on the given currency. There are local currencies that have no demurrage (such as the Swiss WIR), therefore its holders can buy products or services at the same nominal value at any given time. The demurrage of the given instrument is in most cases determined on an annual basis, but quite frequently on a monthly basis as well (Lietaer, 1999). Loss in value is an essential characteristic of local complementary currencies, as this serves as the engine of economic blood circulation; demurrage prefers consumption over savings.

Another unique characteristic of the local currency system is that local currency always stays in the local economy; there is no capital export, therefore a significant part of the local economy's wealth remains protected. Goods procured from or exported to another domestic region or abroad cannot be offset with local currency as economic players outside the region do not accept it. Part of produced revenue, therefore, stays in the region, as opposed to being withdrawn through various financial transactions (Kennedy – Lietaer, 2004; Ziegler, 2009).

### *Main features of local complementary currencies*

▶ Is linked to regional economy. The use of the currency outside the region is not possible or is limited according to determined principles.

▶ Complements the national legal tender and is a secondary currency, which enterprises are not obligated to accept. Use is not automatic, which is to say that its use is not obligatory among local economic players or entities.

▶ A local currency is a type of currency that is used instead of other types of payment media, and is also in competition with them (with cash, deposit money, credit card, etc.).

▶ The value of local currencies is fixed by a relevant statute. Usually one unit of a local currency equals a similar unit of the national currency, meaning that the exchange rate of the local currency is 1:1. Exchange rate may be modified in inflationary environments.

▶ Subsidiarity is a key basic principle of the system. The local currency system contributes to improving the social environment of people living in the agglomeration or greater catchment area of the settlement or town, and the increase of the social capital – primarily trust – of the community.

### *Advantages of a system of local currency* (Kennedy – Lietaer, 2004; Lietaer, 1999)

① Local currency has community developing powers, as it helps build the community by allowing individual farmers, small and medium-sized enterprises (SMEs), local service providers and the non-profit oriented sector to more actively participate in local activities.

② Local currency circulates faster than national currency. The same money supply circulates several times due to demurrage and therefore results in significantly greater revenues over the same period.

③ Complementary currencies facilitate more economic production, as well as the satisfaction of unique local and regional needs.

④ Local currency promotes cooperation among economic players with no prior trade relationship and strengthens existing cooperations. It thereby creates a more favourable environment for innovation and development.

⑤ The system allows for the partial omission of development funds from outside the region and fosters endogenous development.

⑥ Local currency improves payment morale among participants, because holders of the instrument gain no advantage by retaining the local currency and derive no profit from its accumulation.

⑦ By supporting healthcare, education and environmental protection, the currency system can facilitate increased utilisation of a region's capacity, and a better utilisation of skills and experiences.

### *Negative aspects of the local currency system* (Kennedy – Lietaer, 2004; Lietaer, 1999)

① The establishment of a non-profit organisation is required for the sustainable operation of the local currency system. This organisation must compile a demand and supply register – that will need constant updating – on the companies and non-profit oriented organisations concerned in the currency system.

② In the beginning, it is not easy to persuade SMEs to cooperate within the system; and afterwards it is difficult to motivate the stakeholders and manage communication between them in this multi-player system.

③ Access to local currency is easy, however efficient spending requires well-thought out decisions.

④ The currency system conveys the impression that SMEs are able to compete with stronger, national, multinational or transnational corporations.

⑤ The success of the currency system is largely dependent on the behaviour of the stakeholders and on fluidity. If agreement is not easily reached between the parties, it will

result in further tension between partners down the line.

⑥ In the case of currencies with demurrage, consumption takes precedence over savings. According to neoclassical growth theory, consumption is only accompanied by economic growth in the short term, and according to Keynesian theory in the short term excess demand is characteristic, and the improvement of the quality of life is only ensured in the long term (Samuelson – Nordhaus, 2003).

Beyond the above, further arguments can be found to support both strengths and weaknesses, however, the above listing contains only the most important ones.

## LOCAL CURRENCY SYSTEMS IN PRACTICE

### Early Initiatives

At the end of the 1920s when the first waves of the world economic crisis reached Europe, many German settlements and towns introduced the money known as *Wära*.<sup>4</sup> By 1931, more than a thousand firms were using the local currency in the local economy to conclude various trade and business transactions. *Wära* began its journey of conquest at the beginning of the 1930s in Southern and Central Germany, and in 1931 became a popular means of payment in Ulm (Baden-Württemberg) and Gera (Thuringia). However, the local currency was not allowed to function for long as in October 1931 it was declared illegal currency and trade conducted with it was prohibited (Kennedy – Lietaer, 2004; Ziegler, 2009).

In Austria, the history of local currencies dates back to 1932. In the midst of the crisis, the mayor of Wörgl (Tyrol) used the so-called Wörgl Schilling (*Wörgler Schilling*) to generate wages for municipal employees. Enterprises operating in the region considered this a for-

ward-thinking initiative and were quick to join in. The technique, which has come to be known as the Wörgl model, was highly popular among the theoreticians of the *Freiwirtschaft*-theory as well. By August of 1933, local currency had been issued to the value of 34,500 Schillings. As the emergency money lost its value very quickly, its circulation accelerated (to 13 times as much as that of the Schilling). The Wörgl Schilling gave a ‘blood transfusion’ to the local economy, and as a result the unemployment rate dropped and the dire financial situation of the town improved dramatically. The process was not looked upon kindly by the National Bank of Austria, and by the time other cities were ready to follow Wörgl’s example, in November of 1933 they had prohibited the use of the local currency. (Kennedy – Lietaer, 2004).

Two other interesting facts are worth mentioning from the early history of the local currency system. Firstly, there are still currency systems operating today that were established in the 1930s. An excellent example of this is the demurrage-free Swiss WIR (*Wirtschaftsring Genossenschaft*) established in 1934. Another interesting fact is that there have been notable initiatives from Central-Eastern Europe and the Far East. The certificate of deposit system introduced in the Romanian town of Media in 1933 was quite similar to its Western counterparts, while in Japan – during the same period – *Labor Banks* issued local currencies.

### Local Currency Systems Today

Over the course of the last two decades, there has been extraordinary demand for the use of local currencies, and today we know of 2,500 different local currencies (Ziegler, 2009). For example, at the time of the 2001 financial crisis generated by the IMF, Argentina used local monies issued by local governments to sustain

itself. In the United States neighbourhood business associations and groups have been multiplying under the slogan of “*Wall Street gain, Main Street pain*” as have voucher-based payment systems (HA-MI, 2009a). According to a recent survey, another two hundred initiatives are in the making (Hoffmann, 2010), of these approximately 70–80 in Europe. In Western Europe the life cycle curve of complementary currencies is in the growth phase, while the central and eastern part of the continent – including Hungary – is still in the introductory phase.

We encounter the most initiatives in Great Britain and Germany, but complementary currencies are becoming increasingly popular in Austria, France, Italy and Switzerland as well. In Britain, more than four hundred city regions have joined the system that has come to be known as ‘*LETS*’ (*Local Exchange and Trading System*). Of the local currencies of Great Britain, the *Lewes Pound*, the *Stroud Pound*, the *Totnes Pound* and the *Brixton Pound* deserve mention. In France, the most popular regional voucher system is concentrated under the name ‘*SEL'daire*’. In Germany, certain local currencies have ties to certain city regions or geographical regions, while others are used at a provincial level (see *Table 1*). From Austria, we can mention the *Gössingtaler*, the *Tiroler Stunde*, *Styrrion*, and the *Talenttauschkreis Vorarlberg*. Expressions symbolising the region are usually important aspects to consider when selecting a name for the currency.

## CHIEMGAUER REGIOGELD

### Its operational mechanism and socio-economic aspects

The Chiemgauer Regiogeld is the local currency of the Bavarian Chiemsee region, and currently the largest currency system of the

German speaking area, as well as the most successful example of a secondary currency of a world currency. The currency, first issued in 2003, was named after Chiemgau, one of the micro-regions of Chiemsee.

One of the reasons for creating the system of local currency was the fact that an increasing number of small enterprises proved to stand no chance against giant corporations, and there was also an extraordinary need for a trained and creative workforce. The objective in the region was to increase the activity rate, and for this purpose students, job seekers and volunteers were provided with various forms of employment. Employees received their wages in local currency, which meant that employers could be certain that employees would spend earnings in the local economy. At the same time, the danger of relocation and migration was also significantly reduced. Another merit of the Chiemgauer is the fact that it has facilitated and is currently still facilitating cultural, environmental protection and education activities, and by supporting the domestic food and light industry it ensures the stability and sustainable development of the region’s economy (Ziegler, 2009). Therefore, everyone wins with the regional currency, because those employed within the programme’s framework receive income, shop turnovers increase, there is effective demand for products produced in the region, and a pre-determined percentage of total revenues are given to non-profit organisations.

The operational mechanism of the Chiemgauer is very simple. Buyers and economic entities can then exchange the regional currency received for Euros for goods and services at the enterprise participating in the initiative. The enterprise can then continue trading with the currency, however, it may also decide to use the currency to procure materials required for operation or pay employee wages, or possibly withdraw it from the enterprise, thus enabling the owners to use it for their own

**LOCAL CURRENCIES IN GERMANY BETWEEN 2002 AND 2007**

Name of local currency	City region and province	Date of creation
Bremer Roland	Bremen (Bremen)	September 2002
Chiemgauer	Chiemsee (Bavaria)	January 2003
Kann-Was	Löptin (Schleswig-Holstein)	January 2004
Serntaler	Berchtesgadener Land (Bavaria)	April 2004
Landmark	Reinstädt (Thuringia)	August 2004
Kirschblüte	Witzenhausen (Hessen)	October 2004
MARKgräfler	Heitersheim (Baden-Württemberg)	October 2004
UrstromTaler	Güsen (Saxony-Anhalt)	October 2004
Hallentauer	Pfaffenhofen (Bavaria)	November 2004
Regio im Oberland*	Wolfratshausen – Bad Tölz (Bavaria)	January 2005
Berliner Regional	Berlin (Berlin)	February 2005
Brod€inheit	Altenkirchen (Rhineland-Palatinate)	April 2005
VolmeTaler	Hagen (North Rhine-Westphalia)	October 2005
BürgerBlüte	Kassel (Hessen)	April 2006
Havelblüte	Potsdam (Brandenburg)	June 2006
Nahgold	Nagoldtal (Baden-Württemberg)	October 2006
Rössle Regional	Stuttgart (Baden-Württemberg)	December 2006
Tauberfranken	Creglingen (Baden-Württemberg)	December 2006
DreyEcker	Schopfheim (Baden-Württemberg)	January 2007
Regio in München*	Munich (Bavaria)	January 2007
Regio im Ostallgäu*	Ostallgäu (Bavaria)	March 2007
Ammerlehtaler	Ammersee bis an Lech and Landberg/Lech (Bavaria)	June 2007
Pälzer	Speyer (Rhineland-Palatinate)	July 2007
Zschopautaler	Mittweida, Frankenberg, Waldheim, Hainichen, Flöha (Saxony)	August 2007
Alto	Hamburg (Hamburg)	October 2007
Augusta	Göttingen (Lower Saxony)	October 2007

Note: \* Belong to same association.

Source: Ziegler, 2009

purposes. If private persons or organisations decide to convert their local currency back to the national currency, they can only do so by paying a so-called regional contribution (*Regionalbeitrag*) of 5 per cent, which means that at any time, they receive 95 per cent of the converted amount in Euros. Sixty per cent of the 5 per cent fee is given to one of almost two hundred public benefit associations (e.g. fire department, school, hospital, etc.). The association receives the regional contribution in the national currency, and can decide whether to once again convert it into local currency. The

remaining 40 per cent serves to cover the expenditures of the issuer of the local currency, the “system administrator” (Schröder, 2006).

The advantages of the Chiemgauer for players of the economy can therefore be summed up as follows (Ziegler, 2009).

► The most beneficial feature for enterprises and producers is that they are able to achieve cost savings. That is because surplus expenses can be reduced. Transactional, shipping, motivational and coordination-related costs can be cut dramatically. Furthermore they can achieve financial (such as surplus) as well as immaterial

(such as stronger entrepreneurial foundation and greater trust) gains. Moreover, the “system administrator” takes over some of the marketing activities of the enterprise. The particulars and product range of participating enterprises become available on the online portal of the Chiemgauer.

▶ Private individuals mostly contribute to the improvement of community spirit as well as the reinforcement of a sense of regional identity, which, in turn, increases their well-being and improves their quality of life. The use of vouchers, through the regional contribution increases investments into local education, culture, and the natural and man-made environment automatically and without additional expenses, where beneficiaries of these investments will ultimately be the individuals themselves.

▶ The most beneficial feature for associations is the fact that they receive a share of the regional contribution. If every month fifty economic entities reconvert their local currency to the value of 200 Euros, the association participating in the initiative will realise a revenue of 3,600 Euros a year.

Since its launch, the Chiemgauer initiative has been the subject of much criticism. Beyond the critical points identified in the theoretical analysis, the following may be highlighted (Ziegler, 2009).

▶ Acceptance rate of the local currency was low in the introductory phase. The first enterprises to join the initiative were unable to ‘pass on’ their vouchers in the desired quantities, because other enterprises, their suppliers or bank branches did not accept the given complementary currency. The currency frequently remained with the producers, who in attempting to avoid value loss were forced to convert more Chiemgauer to Euros than originally planned.

▶ Recipients of Chiemgauer have to make continuous calculations regarding whether

they will be better off by paying the regional contribution when reconverting the currency or with the loss in value when retaining the currency. Entrepreneurs are not eager to pay the ‘forced contribution’, therefore, according to our experiences they usually choose to face demurrage.<sup>5</sup>

▶ The loss in value of the Chiemgauer regularly exceeds the rate of Euro inflation.

▶ Critics of the local currency also frequently raise the question of how great the actual benefit of local currency is. Recipients of the local currency are first and foremost sensitive to their own business environment, and their participation in the initiative does not primarily support community spirit. Improving the image of Chiemgauer is mainly the responsibility of the “system administrator”.

▶ One of the keys to making a local currency successful is continuous, but costly marketing. Locals must be convinced that though the system is unusual, it is far from complicated and does actually serve their interests (Stipsicz, 2009).

▶ Empirical studies support the fact that, to date, the use of the Chiemgauer has not been accompanied by measurable changes of behaviour and mentality, and interregional trade of goods and services has not declined. According to *Schröder* (2006), theory and the success of application in practice are sometimes far apart.

## Financial Aspects of the Chiemgauer Regiogeld

The Chiemgauer has been issued in six denominations, and its exchange ratio is 1:1. The money exchanged for Chiemgauer vouchers earns interest as a security in the local bank. The rates of depreciation for paper-based and electronic Chiemgauer differs. The demurrage of the paper-based means of exchange has been fixed at two per cent every three months

(Ziegler, 2009), meaning that any issued instruments can be in circulation at their original face value for a period of three months. For three months following demurrage, the instrument may be traded for 98 per cent of its face value. This means that the face value of the currency drops eight per cent every year. The depreciation of the medium of exchange also functioning as electronic deposit money starts after thirty days, and the money loses 0.02 per cent of its value every day, which is deducted from the account holder's account.

Until now, the Chiemgauer vouchers issued had to be withdrawn after a year and new ones had to be issued in their stead. However, since January 2010 trading with Chiemgauer vouchers has been extended to two years. If, however, a voucher remains in circulation for longer

than three years, it cannot be exchanged for Euros (Ziegler, 2009).

The success of the currency of the Chiemsee region is well illustrated by the statistical data (see Table 2). The table shows how the number of consumers, producers, associations and communities increases year after year. The second section of the table provides an overview of the key figures of Chiemgauer/Euro conversions. The last section contains significant financial information (total revenue, expenses, speed of circulation, etc.).

According to the most recent data, more than two and a half thousand users participated in the initiative. Statistics show that the Chiemgauer is becoming increasingly popular among the players of the local economy. As a result of the swift circulation of the currency,

Table 2

**STATISTICAL DATA RELATED TO THE CHIEMGAUER**

	2003	2004	2005	2006	2007	2008	2009
Number of private consumers	130	380	700	1 097	1 337	1 713	1 899
Number of producers	100	250	380	540	631	607	587
Number of associations and communities	5	15	50	98	158	179	200
Total number of users	235	645	1 130	1 735	2 126	2 499	2 686
Chiemgauer-purchase (in Euro)	68 286	198 991	349 917	548 947	840 775	1 065 820	1 286 244
Chiemgauer-reconversion (in Euro)	58 286	175 662	333 138	534 709	766 430	922 898	1 145 750
Local currency in circulation (in Euro)	10 000	33 329	50 108	64 346	165 648	308 570	449 064
of this: electronic circulation (in Euro)	–	–	–	8 897	65 977	160 977	309 911
Extent of regional contribution (in Euro)	3 000	8 200	15 312	27 583	38 321	46 145	28 384
Total revenue (in Euro)	75 873	306 140	699 834	1 372 368	2 212 566	2 960 611	4 019 513
Total cost of producers (in Euro)	3 030	16 150	24 056	38 071	58 368	85 298	107 336
Total cost of producers as a percentage of revenue (%)	3.99	5.28	3.44	2.77	2.64	2.88	2.67
Speed of circulation of local currency (days)	9.48	14.13	16.78	23.98	19.24	12.49	10.61
Speed of circulation of Euro (days)	6.84	6.77	6.32	6.42	6.29	6.22	5.11
Speed of circulation of local currency/Euro (days)	1.39	2.09	2.66	3.74	3.06	2.01	2.08

Source: author's own editing, 2010



the region's companies generated revenues of over four million Euros in total (nearly twice the amount of 2007). Trading using Chiemgauer generated close to 20,000 Euros for NGOs in 2009. Ziegler's research (2009) reports that company turnover increased on average by 15–20 per cent thanks to the Chiemgauer.

Considering that the circulation of paper as well as deposit money is essentially built on trust, regular updates and information are very important indeed. It is not only local newspapers and a regularly updated website ([www.chiemgauer.info](http://www.chiemgauer.info)) that serve this purpose, rather these voluntary 'bankers' also attend local fairs with various exhibition stands (Stipsicz, 2009). The introduction of electronic settlement in 2007 under the name Regiocard was a step forward in terms of quality (Ziegler, 2009). It turned out that this way it is possible to involve companies that otherwise never pay each other in cash. The guardians of the German Bundesbank have examined the Bavarian experiment on a number of occasions and came to the conclusion that the Chiemgauer poses no threat to the Euro (Stipsicz, 2009).

## POSSIBILITIES OF THE LOCAL CURRENCY SYSTEM IN HUNGARY

Since the middle of 2008 the financial crisis – with all its antecedents and consequences – has undeniably had a great impact on our economy and economic activity. For many of us it is just now becoming clear how complex and opaque the world's financial systems are. Due to the crisis, the role and significance of money is once again a topic of increased interest, as the goal of each and every economic entity is to mitigate the consequences of the recession. Since the beginning of the 21st century, turbulent globalisation processes have necessitated

the creation of well-thought out and diversified regional strategies. In such an environment, an appropriate strategy could be reliance on a local currency system, which might significantly contribute to minimising unfavourable effects.

The question arises whether Hungary can be pulled out of the trap of the financial crisis by applying the local currency method. Increasingly often we hear about the budding initiatives of the Pilis Korona, the Sopron Kékfrank or the Szolnok Zöld Forint. Local economic players have high hopes regarding the project meant as a regional economic stimulator, though there are many who have voiced concerns. In the current economic situation, each initiative can be considered a forced path, but the introduction of a local currency can also mean the way out of the crisis for certain communities. However, the frequently mentioned economic stimulation actually stands for more than just the above; it is about the organisation of the subsistence market and the possibility of becoming self-sustaining.

### Sopron and the Kékfrank

In Hungary, the HA-MI-ÖSSZEFOGUNK (IF-WE-UNITE) European cooperative society from Sopron was the first cooperative society that set out to stimulate the region (a border region at that) through a local voucher system. This means that economic players have joined the initiative from across the border as well.

The HA-MI cooperative society aims to help enterprises from the Sopron region by introducing a local currency, and therefore have created a fully secured medium of exchange that strengthens trust. According to the concept, the liquidity of enterprises and the satisfaction of needs and demands could all improve, capacities could be utilised at a higher level, and as a result more services and products can be exchanged (HA-MI, 2009a).

From a legal standpoint, the Kékfrank is issued by the HA-MI cooperative, and members can purchase the vouchers in the savings cooperative designated by the issuing cooperative, which holds and pays interest on the Hungarian forint countervalue of the Kékfrank amount. Interest revenues are divided among the cooperative and the members. The Kékfrank shall be launched both as a paper-based and an electronic currency.

As the Kékfrank itself does not bear interest, it is in no one's interest to accumulate it, and as a result it can circulate faster than national currency and could boost the local economy if users conduct exchanges among each other using the Kékfrank. If residents around the Sopron region can conduct their purchases with the Kékfrank, they will increase the turnover of enterprises in the region that are also cooperative society members, as they are also acceptors of the complementary currency (HA-MI, 2009a). As another option, the currency can also be used to provide bonuses to personnel and employees. In this case, the private person does not have to be a cooperative society member, as the person in question is a user, and not an acceptor of the complementary currency. All supporters share in the moral success of the cooperative society, however, only members, members of the acceptor system and users of the Kékfrank share in the profits (HA-MI, 2009b).

The Kékfrank voucher is therefore a complementary currency that is used as a medium of exchange in addition to the Hungarian Forint, and that operates in accordance with Hungarian laws (HA-MI, 2009b). The submission has previously been thoroughly examined at the Court of Registration, the National Bank of Hungary and the Hungarian Financial Supervisory Authority, and it was determined that everything was in order. In the following, I will detail the standpoint of the Hungarian Financial Supervisory Authority (hereinafter referred to as 'Supervisory Authority').

## The Legal Background of Local Currency in Hungary

The issuing of local currency, related record-keeping, and payroll booking could affect financial transaction services. Relevant regulations are contained in Points I/9. and I/9.1. of Annex 2 of Act CXII of 1996 on Credit Institutions and Financial Enterprises. In accordance with the provisions of the above Act, "the issuing of complementary currency<sup>6</sup> – excluding cheques and electronic payment media –" [*Point I./9.1. e) of Act CXII of 1996*] shall be considered payment services. However, "services based on instruments that can be exclusively used in the facilities used by the issuer, or by a limited service provider network — pursuant to an agreement concluded between the network and the issuer —, or which are used to settle the countervalue of a limited range of products or services" [*Schedule II, Point 9.1. (k) of Act CXII of 1996*] shall not be considered payment services. If the exception cited above (limited range) applies, then the issuing of local currency is not a payment service, therefore no restrictions apply to the activity. If, however, the exception cited above does not apply, the activity can only be practiced as a payment services institution (or credit institution) and licensing requirements of the Supervisory Authority shall apply to these types of activities. The Supervisory Authority always investigates whether the conditions of this restricted scope are met — be it in terms of whether a network of shops is restricted, the scale of the amount of products sold, or whether the means of payment in question is used regionally — on a case-by-case basis, and makes its decision on whether the payment instrument in question meets these criteria based on a detailed description of the facts and the draft agreements made available to it. Due to the complex nature of most of these arrangements

not only the services described under Point 9. e) may apply, but the payment services under Points 9. a)–c) should be considered as well. According to domestic regulations, electronic and paper-based vouchers must have 100 per cent liquid security backing. This backing can be either Forint or Euro.

Therefore, no general rules have been drawn up with regard to currency issue, nor is it possible to establish such rules. This means that every initiative related to the establishment of local currency systems must be reviewed and assessed on an individual basis. If the conditions of the restricted scope above are met the way is paved for the initiative to be implemented. With respect to the Sopron Kékfrank initiative, the cooperative society form ensures organisational restriction of scope. Because the statutory conditions applicable to the Kékfrank initiative are met, meaning that it adheres to the legal system of the Republic of Hungary, it became a legal entity in December 2009.

Today, initiatives similar to the Kékfrank are beginning to gain ground in Hungary, although these other projects are not nearly at the same stage of development as the Sopron currency system.

## SUMMARY

One of the most effective means of ensuring long-term competitiveness and decelerating the outflow of local resources is to introduce and use a local currency. This phenomenon is completely new in Hungary and its legal background is inadequately developed, but several European experiences show that with adequate preparedness, and the active participation of the population and economic organisations it can offer a real alternative for local developments. Any socio-economic experiment that aims to improve deteriorating or stagnating living conditions of communities living in the region of towns and cities must also be supported at higher levels of decision making. The basic question is still how the state and the prevailing economic school relates to all this.

I have formed my opinion primarily from the aspect of regional economic processes, which allows us to conclude that initiatives such as the Chiemgauer and the Kékfrank must be supported as they support the development of local economies. I agree with the concerns voiced from a financial and legal point of view and urge their prompt resolution.

## NOTES

<sup>1</sup> Functional (analytical) regions are region types created according to analytical needs. Categorisation may be based on natural-environmental or socio-economic features. The opposite of this is the normative region which expresses political will, has fixed boundaries and where historical factors are considered significant in reaching consensus on administrative units (Lengyel – Rechnitzer, 2004).

<sup>2</sup> In terms of local economic development possible sectors eligible for support may be basis, local or resource-dependent sectors depending on the target markets and the different specific features of sources of income. The basis sector satisfies demand from outside the region and based on

external demand is capable of significant growth. The local sector satisfies demand within the region. Its growth is determined by the size of the local effective demand, which is usually limited. The resource-dependent sector is the combination of the two previously described sectors. Part of demand is local, therefore limited, while the other part is external income which allows for expansion (Lengyel, 2010).

<sup>3</sup> Relevant literature does not use the concept of demurrage consistently, certain – primarily English – sources refer to it as negative interest. As for the most part I have used German language literature for the basis of my study, I will continue to use the term ‘demurrage’.

<sup>4</sup> A type of less widely utilised money which we can consider a forerunner of the currency, *Physiokratisches Geld* was introduced in the mid-1920s. Its name refers to the physiocracy touched upon in the theoretical section.

<sup>5</sup> None of these solutions serve to promote community spirit.

<sup>6</sup> Non-cash payment instruments can be cheques, electronic payment instruments, or any other customised device — as defined in the framework agreement concluded between the payment service provider and the client — that enables its holder to issue a payment order. [*Schedule II, Point 5.1 of Act CXII of 1996*]

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