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SOME PECULARITIES OF THE MONETARY POLICY FRAMEWORK OF THE LEGAL TENDER

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Legal tender - is a form of money that according to the national legislative document is expected to be used as payment of any form of debt.

Legal tender is a form of money. The money and legal tender are here synonymous as James Thayer states [5, p.73-80]. Therefore, an asset or any object that tends to be determined as money is required to correspond to the main functions and attributes of money. According to Frank D. Graham [2, p.2-4], an object could be stated as money if it serves as a medium of exchange, store of value, and unit of account. The medium of exchange is any object that is widely accepted as a payment for goods and services. The store of value is an object that could be exchanged for the same amount of goods in the future as it is possible in 16 the present. In other words, it is an object that doesn't depreciate with time. The unit of account is the object with which the value of goods and services could be expressed [3, p. 5]. The problem with the monetary functions triad is that it provides a very wide and simplified conceptual framework, according to which an enormous amount of objects could be classified as money. Also, it is commonly accepted that money doesn't necessarily have to fulfill all of the three determined functions and an object could be theoretically identified as money if it only corresponds to at least one function of money.

To serve as a proper medium of exchange money should be convenient, widely accepted in transactions, cheap to operate, and easy to transfer. To store the value the ‚potential‘ money should be liquid, transferable, have a stable price, and confirm ownership by attachment to the owner. In conclusion, the applied model could not only determine whether the object could be stated as money but also to answer the question: ‚To what extent it is money?‘ [3, p. 20]. The intrinsic attributes that are focal for the triad of monetary functions, the object that could be determined as money should be: Divisible - could be divided into measurable parts that express the same proportion of value; Fungible - the object and its measurable parts could be interconvertible; Identifiable - could be easily identified; Securable - could be easily protected; Seigniorage cost - could be produced and exploited at low cost; Uniqueness - should be complicated to counterfeit. The additional intrinsic attributes based on the domain: Anonymous - difficult or impossible to track the transactions; Digital - present in the digital form; Durable - high durability of the object; Physical - should be physically tangible and ; Portable - should be easily transported or sent; Disintermediated - transactions are not gross-settled but can be settled directly; Finite supply - the number of objects is limited; Fiat authority - the object should be legally accepted; Usage - degree of adoption of an object; Institutional recognition - acceptance by the formal institutions; 17 Asset-backed - the existence of the external reserves. The additional intrinsic attributes based on the domain: Private - private money controlled by non-government sources vs. public money by a sovereign government. Transfer mechanism - the way the transactions of the object proceed Transfer protocol - the ability to recognize the source and destination of the transaction Socially recognized - the degree of the social acceptance The logic of implementation of the model is the following. Firstly, we define the domain of the transactions, establish the context, technological and social environment, and also the purpose of the use of money. Secondly, we need to determine the attributes and the capabilities of an object that are based on the attributes. Finally, we figure out whether the discovered features correspond to the triad of monetary functions after which we could assume that the object may be stated as money and as a result would be relevant to become a legal tender. To be able to provide a comprehensive correspondence of the cryptocurrency to the legal tender framework it is also significant to define which monetary policy tools should be applicable for the form of money that tends to be the legal tender. According to Ozer Ozcelik, [4, p.10] the main goals of the monetary policy are: 1. sustainable low inflation; 2. price stability; 3. sustainable economic development; 4. high employment; 5. interest rate stability. As Charles Goodhart [1, p.293] states the Central Bank has four main tools to maintain the mentioned above goals: • reserve requirements; • open market operations; • interest and discount rates adjustment. The most significant tool that indirectly influences the level of unemployment and inflation is open market operations. The open market operations are characterized by the purchase and selling of the government securities that in turn influence the level of bank reserves in the economy, the level of interest rates, the pace of economic activity, etc.

The purchase of the government securities increases the supply of reserves of the banks which lowers the borrowing rate and when the government is selling securities the supply of the reserves it increases the cost of borrowing reserves and provides additional funding for the budget. Concerning the reserve requirements, they are established for the commercial banks to hold minimum balances of legal tender typically based on the percentage of their liabilities and when averaging provisions are allowed, banks can fulfill reserve requirements based on average reserve holdings during the maintenance period. The Central Banks are also the monopoly suppliers of the legal tender currencies. As the commercial banks are obliged to convert their deposits into such a currency they are required to keep the reserves in the form of a currency and deposits at the central bank. The final monetary policy tool that developing countries are trying to avoid is the adjustment of the interest rate at which commercial banks borrow funds from the central banks.

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