

The case for no limits

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Agenda

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- 2 Weaknesses of the methodological approaches
- 3 Cash in circulation in relation to the shadow economy
- 4 Efficacy of caps on cash payments
- 5 The shadow economy and cashless payments
- 6 Alternative solutions

Weaknesses of the methodological approaches

Definition of shadow economy



Underground production:

Legal but concealed, so as to

- Save on taxes or social contributions
- Avoid legal regulations such as minimum wages
- Avoid health regulations
- Avoid administrative regulations



Illegal production: illicit liquor distilleries



Informal sector:

- To secure the income of employment
- Associated with the deduction of taxes and duties, but not the primary goal



Household production for own purposes: Production of agricultural products



Unreported production due to weaknesses **in statistical reporting**



Criminal activities: smuggling, drug and human trafficking

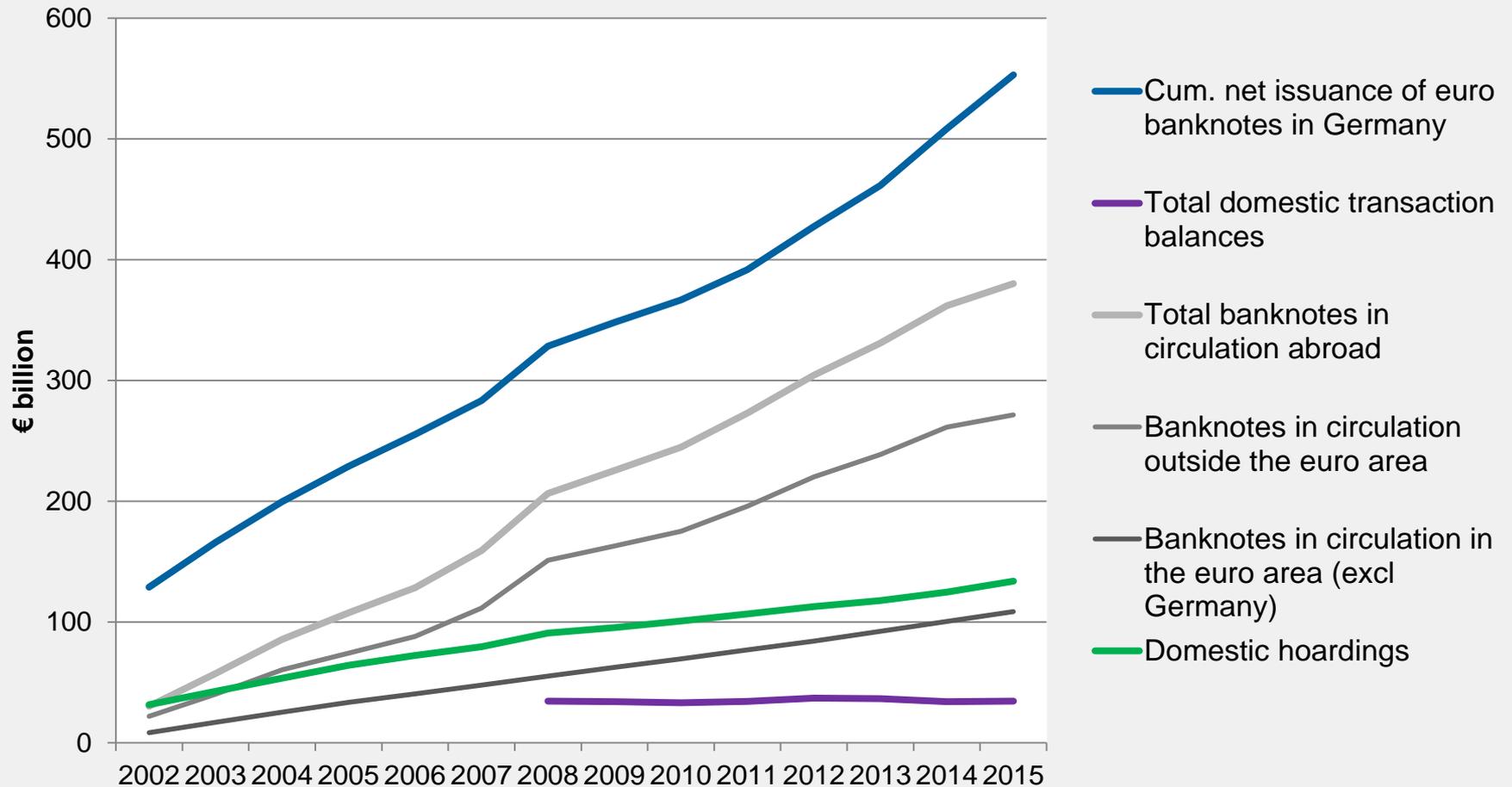
Weaknesses of the methodological approaches

Comparing methods

| Inductive methods | Deductive methods | |
|--------------------------------|--|----------------------------------|
| | Direct methods | Indirect methods |
| Case by case | Micro level | Macro level |
| Europol | Household surveys, eg Eurobarometer, Rockwool Foundation | Different model-based procedures |
| No measurement of overall size | Administrative sources | Cash demand approach |
| No empirical comparison | Underestimates shadow economy | Overestimates shadow economy |

Cash in circulation in relation to the shadow economy

Motives for holding cash



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Cash in circulation in relation to the shadow economy

Transaction volume - 2015

Legal transactions

Deposits at Bundesbank €427 billion
Recycling by credit institutions €168 billion
(thereof as per framework €110 billion)

Total transaction volume below
€600 billion

Shadow economy

No separate cycle, same velocity of
circulation

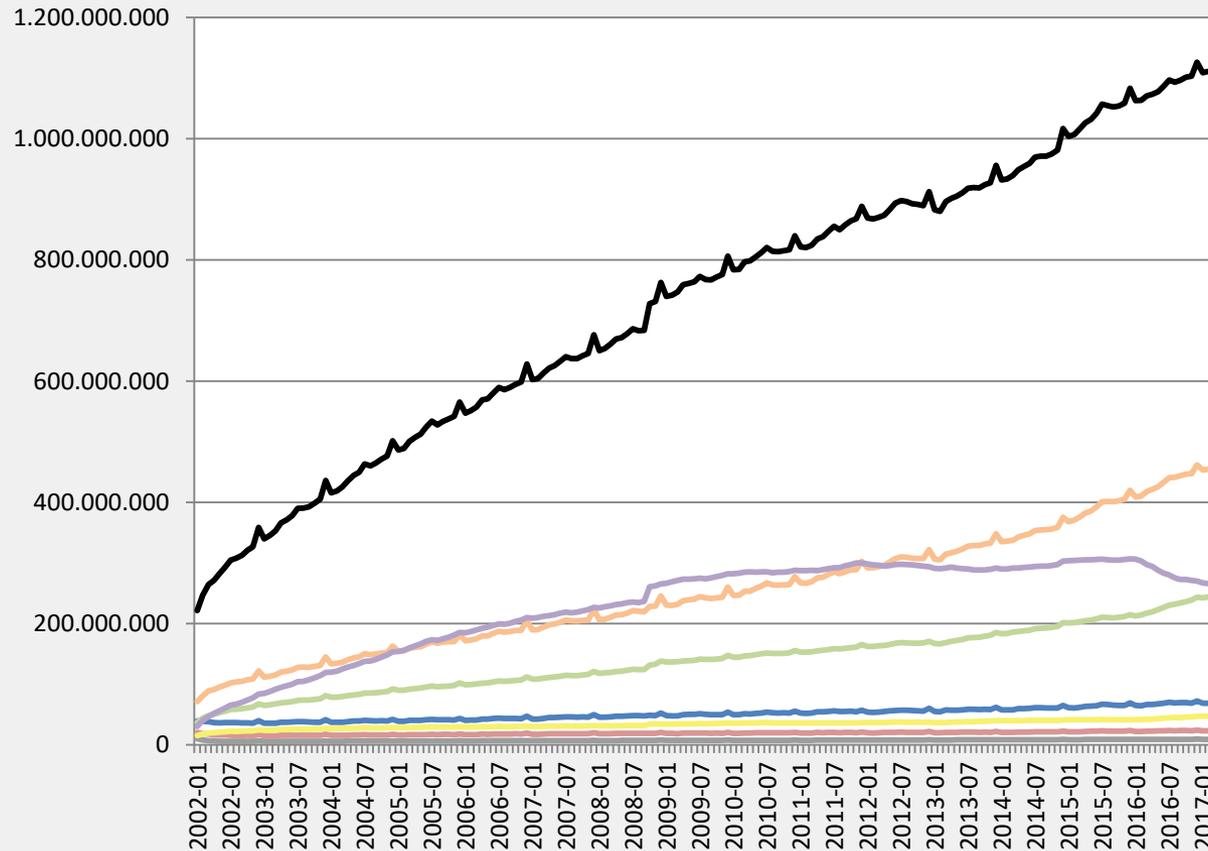
Estimated size of shadow economy:
€339 billion

→ Based on this calculation, every second Euro would originate from the shadow economy.

→ Either the size of the shadow economy is overstated or a considerable volume is conducted by cashless means.

Efficacy of caps on cash payments

Euro currency in circulation (value)



▶ **24%** share of €500 banknotes, in terms of value

▶ **56%** of EU citizens have never seen a €500 banknote



Source: <https://www.ecb.europa.eu/stats/money/euro/circulation/html/index.en.html>

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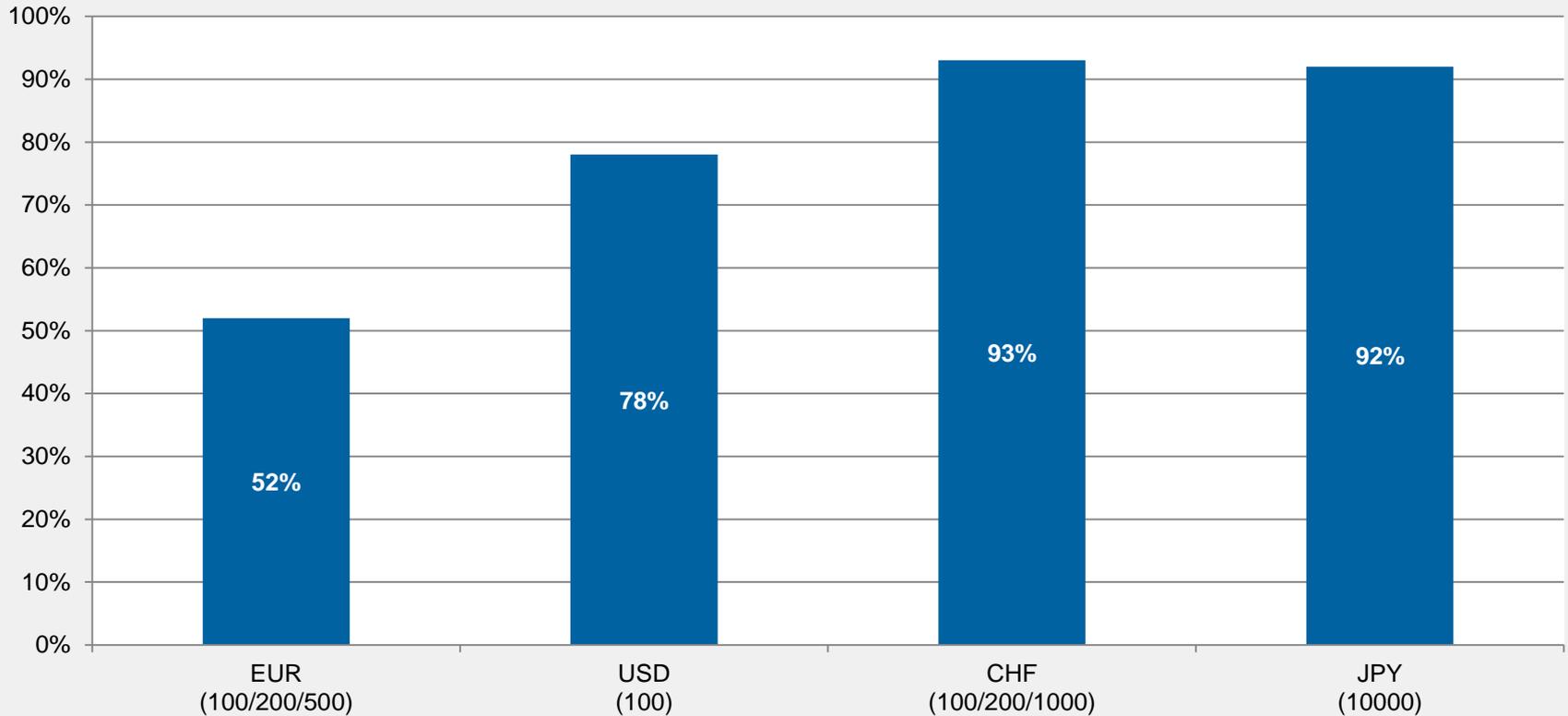
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Efficacy of caps on cash payments

High denominations – a comparison

Last updated: 2015

Share of high-denomination banknotes in terms of value



Sources: CIS, Federal Reserve, Swiss National Bank and Bank of Japan

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Efficacy of caps on cash payments

Limits on amounts payable in cash



* For businesses ** For foreigners *** For individuals

Source: own chart based on information provided by the ECB

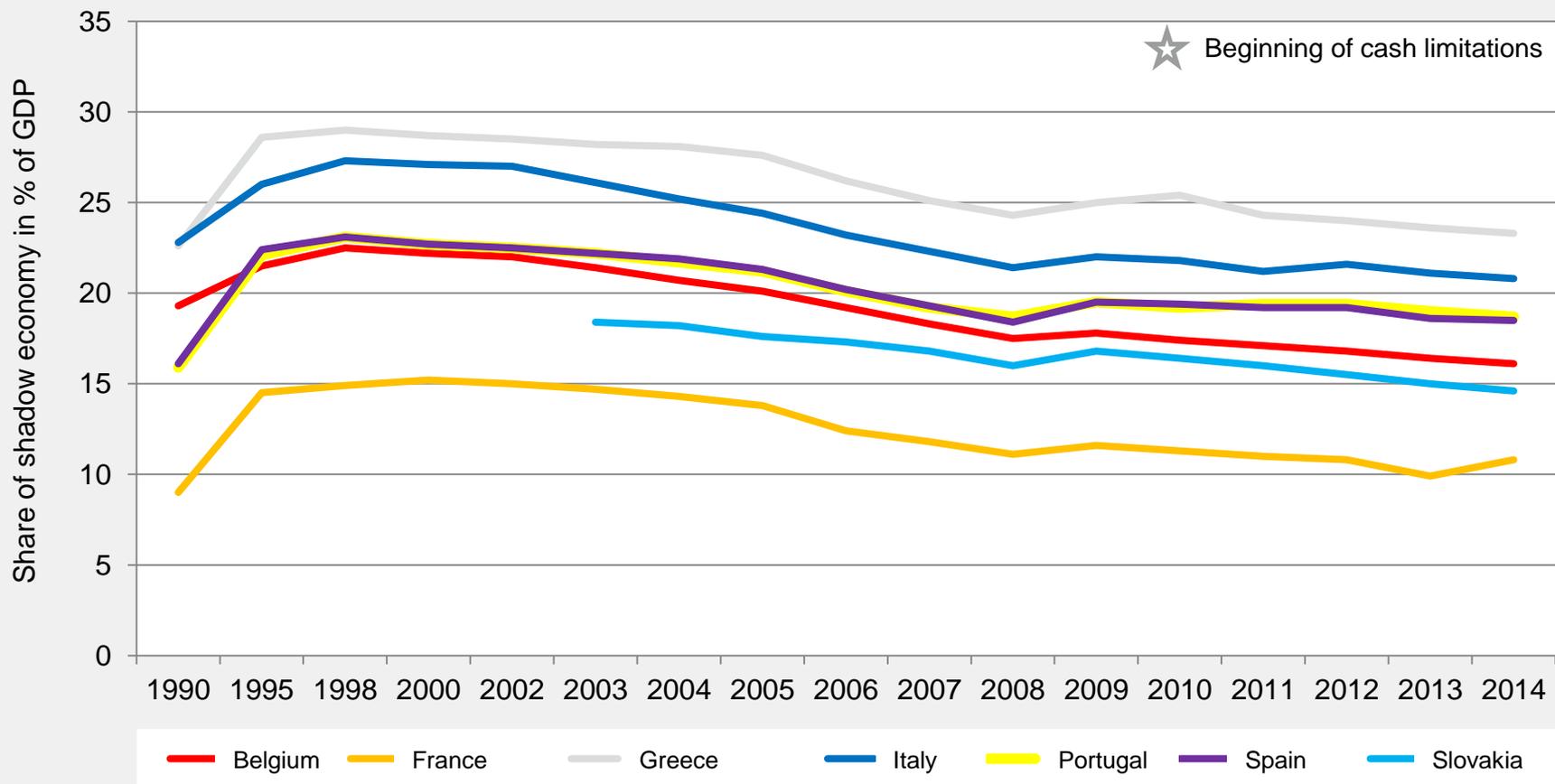
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Current debate about caps on cash

Cash limitations in different euro-area countries



Source: Schneider et al, Shadow economy and tax evasion in the EU

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The shadow economy and cashless payments

Individual cases

→ No known studies on the size of the shadow economy in terms of cashless payments

→ Russian money laundering case US\$20 billion

Tax havens

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- Boston Consulting Group – US\$11 billion
 - Zucman – US\$6.9 billion

Letterbox companies

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- Mossack Fonseca – 215,000 letterbox companies
 - More than 20 German credit institutions involved
 - Tax Justice Network:
 - Germany 8th place
 - Panama 13th place
 - Bahamas 25th place

The shadow economy and cashless payments

Financial Intelligence Unit – Germany

→ Suspicious transactions in 2015 – 29,108

Assets secured in financial investigations unrelated to court proceedings

- • Cash – €4.0 million (6.3%)
- Receivables/rights €36.5 million (57.3%)
- Movable/immovable property €23.2 million (36.4%)

Overview of judgements, penalty orders, indictments, other follow-up responses 2011-15 (17,749 reports back from public prosecutors' offices)

| Year | Judgements | Penalty orders | Indictments | Sub-total | Other | Total |
|--------|------------|----------------|-------------|-----------|-------|-------|
| → 2011 | 58 | 342 | 95 | 495 | 91 | 586 |
| 2012 | 46 | 286 | 88 | 420 | 85 | 505 |
| 2013 | 62 | 228 | 84 | 374 | 97 | 471 |
| 2014 | 50 | 254 | 110 | 414 | 134 | 548 |
| 2015 | 37 | 213 | 71 | 321 | 102 | 423 |

→ Financial control of illicit employment – wrongdoing approx €600 million (0.25% GDP)

→ Either shadow economy is overestimated or measures inefficient

Alternative solutions

Analytical approaches

- • Criminal activity the cause – payments the means of transport
- Analyse interrelationship between cash and cashless, national and international payments
- Criminality unrelated to denomination

Practical alternatives

- • More financial control, especially in vulnerable sectors
- Infrastructure measures (international) such as:
 - Letterbox companies
 - Offshore markets
 - Business tax dumping
 - Lack of intergovernmental liaison
- Infrastructure measures (national)
 - Tamper-proof cash desks in retail
 - Closer monitoring of companies by the tax authorities
 - Better follow-up on reports

Thank you for your attention

