



EUROPEAN CENTRAL BANK

EUROSYSTEM

ECB views on cash and payments

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Overview

- I. General principles**
- II. Views on different means of payment**
- III. Use of cash**
- IV. Conclusions and future challenges**

I. General principles (I)

Eurosystem statutory tasks:

“The European Central Bank shall have the exclusive right to authorise the **issue of euro banknotes** within the Union.”

(art. 128 of the Treaty)

“The basic tasks to be carried out through the ESCB shall be to promote the **smooth operation of payment systems.**”

(art. 127 (2) of the Treaty, art. 3 of the Statute)

I. General principles (2)

- Idea of **maximizing social welfare** - focus on benefits for the whole society
- None of the social groups shall be excluded
- Public confidence in payment instruments:
 - Low counterfeit rates
 - Sound payment systems
- Increasing **efficiency and safety** of solutions in place
- Smooth functioning of the payment processing chain is crucial for the **confidence in the euro**

II. Views on different means of payment

- **Neutral stance** of the Eurosystem on different means of payment
- A mix of cash and non-cash payment instruments
- Payment habits vary across the euro area
- Efforts to increase efficiency of:
 - Cash-cycle, e.g. technological progress (multi-denominational sorting), Recycling Framework
 - Retail payment services, e.g. Payment Services Directive
- **Oversight** of payment instruments concerning their safety and efficiency

II. Views on different means of payment

Different levels of engagement:

- High degree of integration of the **large-value payment system**
- TARGET2 as a uniform wholesale payment service in the euro area
- TARGET2-Securities project will foster the integration of the collateralised money market
- On the **retail payment market** the Eurosystem conducts oversight activities and acts as a catalyst of change

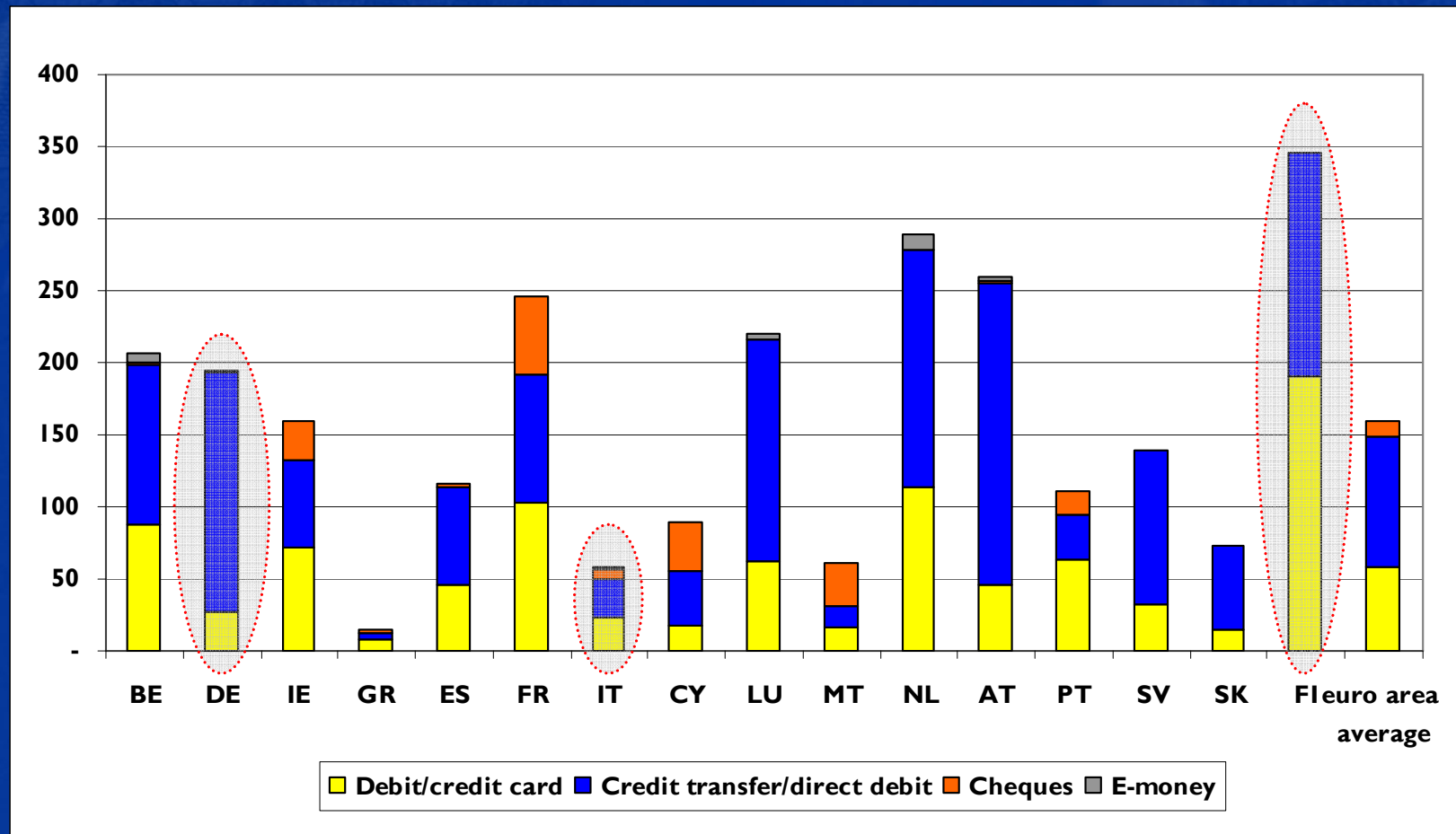
II. Views on different means of payment

The use of non-cash payment instruments:

- Continuously **rising number of non-cash transactions** in the euro area: from 46.8 billion in 2004 billion to 54.8 billion in 2008
- On average 150 million of non-cash transactions per day
- **Different countries** across the euro area have **different preferences** over payment instruments

II. Views on different means of payment

Number of non-cash transactions per capita in 2008



III. Use of cash

Evolution of the dominant payment methods:

- **Transactions in cash** - only estimates available
- Increase in number of **ATM withdrawals**: from 62 million in 2004 to 135.6 million in 2008
- Traditional differences across countries:
 - Recent **DBB study (2009)**: **82.5% of transactions** made by German private customers are **in cash**
 - The study by **Bank of Finland (2008)** estimates a share of **39% cash payments** in daily goods purchases

III. Use of cash

Factors determining the use of payment instruments (I):

- **Value of transaction:** low value payments in cash - below 20 EUR mostly in cash

DBB(2009) / BoF (2008) studies

- **Habits** / impact of demographic factors

DNB (2005) study

- **Transaction speed** - cash and debit cards perceived as the fastest payment instruments

DBN / Jonker (2007)

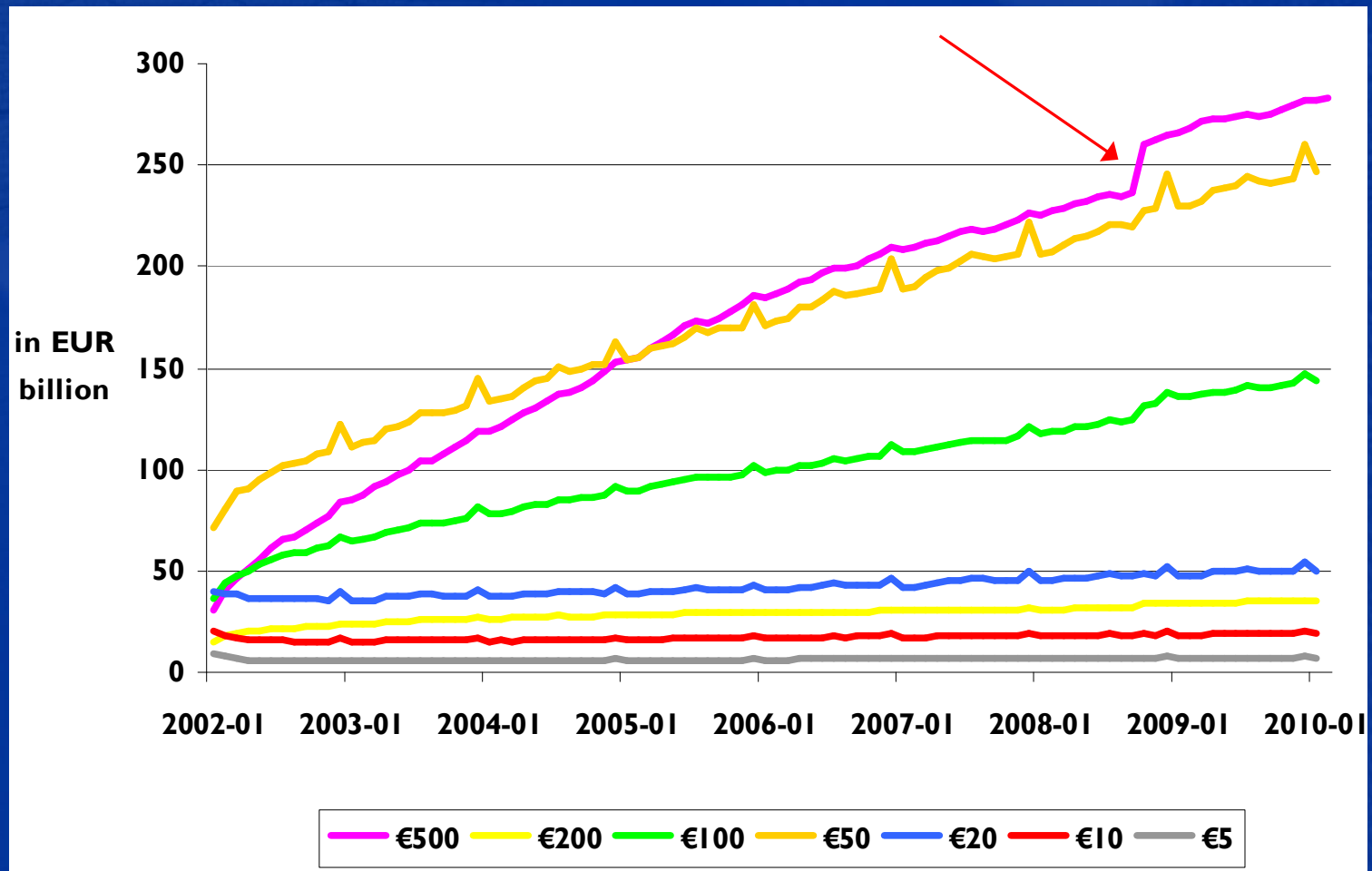
III. Use of cash

Factors determining the use of payment instruments (2):

- Perceived **risks**: cash as safe haven (in crisis situations)
- **Incentives** in place:
 - National regulations
(e.g. mandatory use of cashless payment instruments for certain transactions in France)
 - Economies of scale
FED / Amromin and Chakravorti (2009)
- **Availability** and acceptance
FED / Amromin and Chakravorti (2009) and Bdl / Columba (2009)

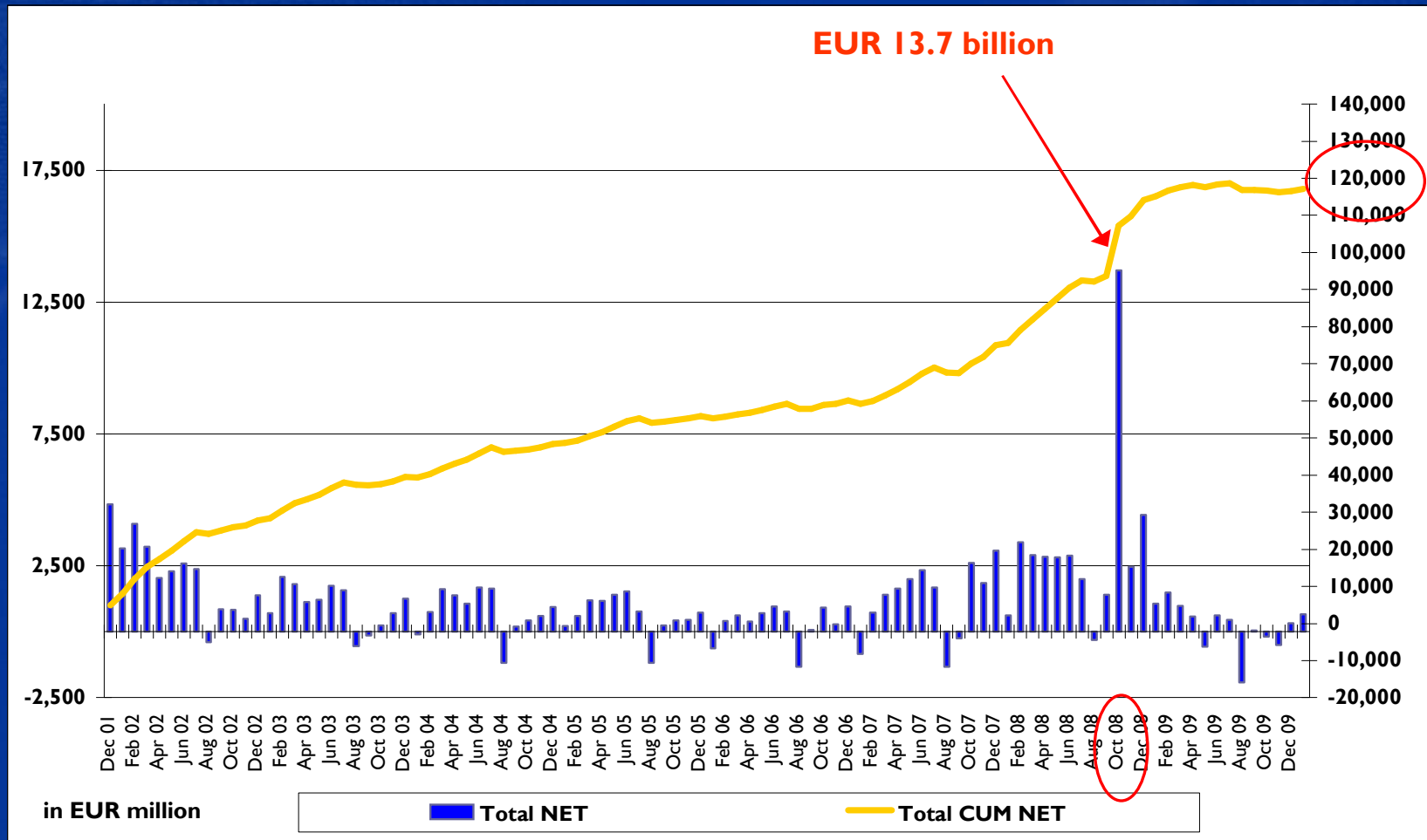
III. Use of cash

Euro banknotes circulation development



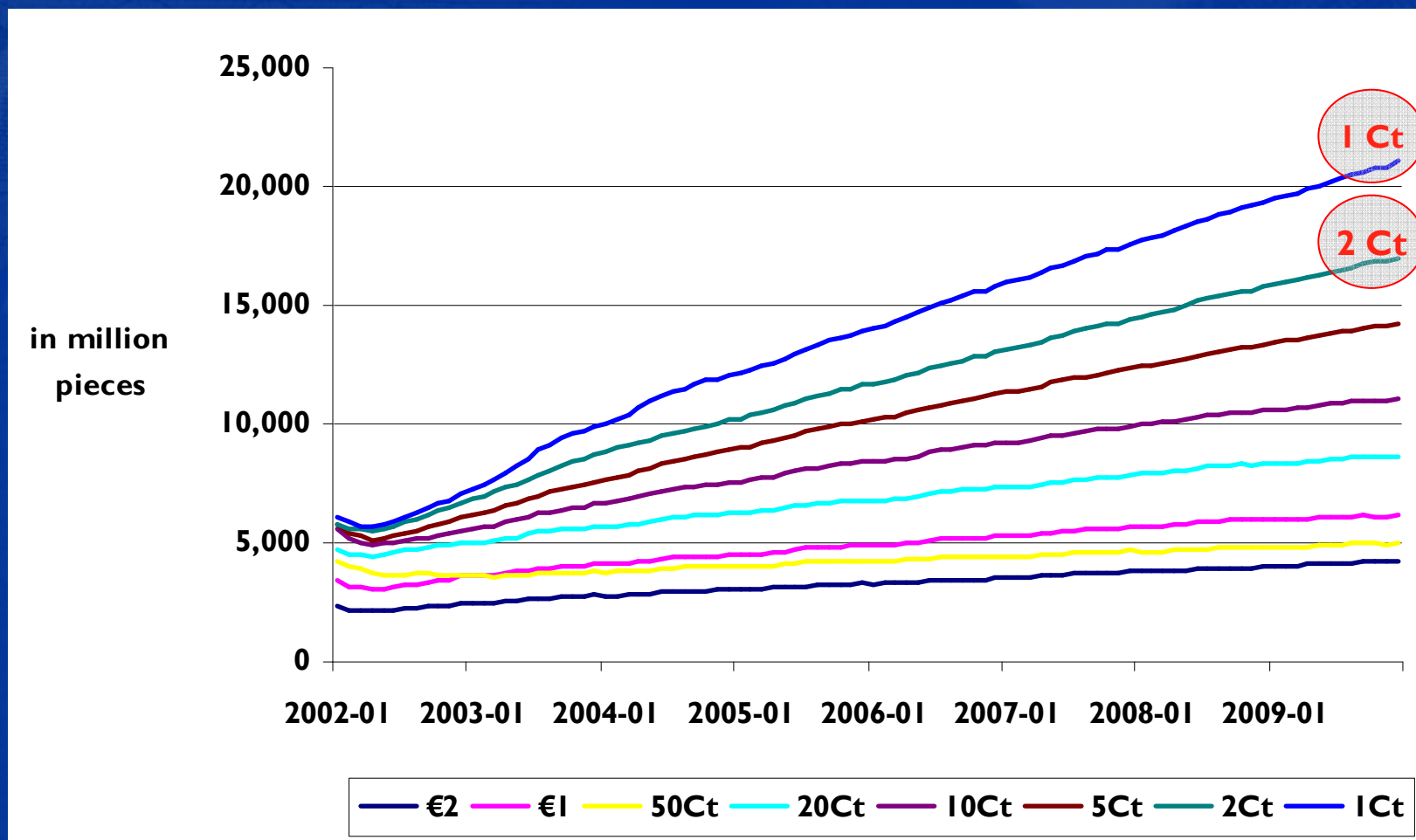
III. Use of cash

International use of euro banknotes



III. Use of cash

Euro coins circulation development



IV. Conclusions and future challenges

Concerning cash and payments:

- **Payment instruments will rather complement than exclude each other**
- **Still the use of cash for transaction purposes may be influenced by the Payment Services Directive**
- **Store of value function of cash is further reinforced by the financial crisis - the role of cash shall not be underestimated**
- **Evolution of non-resident demand is especially relevant for euro banknotes**

IV. Conclusions and future challenges

Eurosystem specific:

- **Gradual change to new series of banknotes**
- **Eurosystem initiatives to increase the efficiency of the cash cycles**
- **Impact of the Banknote Recycling Framework**
- **Role of CIT companies in the cash cycle across the European Union**