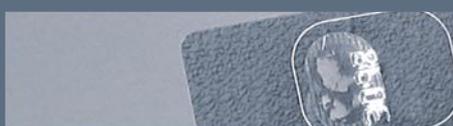
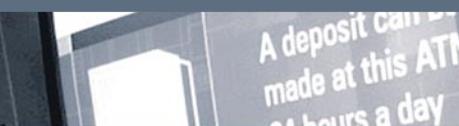


Banking Automation **BULLETIN**



Why is cash usage so resilient?

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BULLETIN



No need to lament the demise of the €500

As we go to print, the European Central Bank (ECB) has just announced that production and issuance of the €500 banknote will cease “around the end of 2018”. The news has raised concerns, not least

among organisations in the cash industry (see perspective by ESTA on page 8).

One of the challenges for central banks when making decisions about banknotes relates to one of cash’s enduring strengths – its anonymity. The ECB knows how many €500 banknotes are in circulation (3% of euro banknotes by volume, 28% by value) but much less about who has them, where they are located or how they are used. Various studies have examined the issue and concluded that high denomination banknotes facilitate illicit activities ranging from drug trafficking to tax evasion; discontinuation of the €500 banknote, it is argued, will disrupt such activities.

The strongest argument put forward by those against the move is that it will have no impact on criminal activity. There is something to this, as it is difficult to imagine that individuals and groups that specialise in navigating around the obstacles put in their way by governments and law enforcement agencies will be knocked off their stride by the removal of a particular banknote denomination.

There are also matters of principle involved – why should law-abiding citizens who want to hoard cash or make large cash payments be inconvenienced by the behaviour of criminals? And is this the thin end of a wedge that threatens the future of lower denomination banknotes?

These are all valid arguments, but they are overblown. Estimates suggest that more than half of European citizens have never even seen a real €500 note, and the level of inconvenience to honest citizens by its removal is modest. The impact on criminal activity may also be relatively limited, but given the scale of the crime involved, even a small impact outweighs the benefits of maintaining the €500 banknote. Add to this the moral question of whether honest citizens really want to use a banknote that is associated with criminals, and it seems clear the ECB has made the right decision – pressure will now grow on the Swiss National Bank to follow suit with its Sfr 1,000 banknote.

The suggestion that this move will speed up the demise of cash more generally is also hard to accept. High denomination notes are virtually non-existent in everyday banking, and if the public increasingly associates €500 banknotes with crime, there is an argument that removing them actually strengthens confidence in the physical currency that remains.

As a final observation, if you do happen to have a €500 note, you may want to hang on to it. The USA discontinued the \$500 note years ago, and it now trades at multiple times face value – type ‘\$500 bill’ into a well-known online auction site and see for yourself!

Dominic Hirsch, Editor

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Editor Dominic Hirsch

Managing Editor Morten Jorgensen

Assistant Editor Tomomi Kimura

Contributors Sam Blackwell, Emily Camara, Chris Herbert, Tom Ikonen, Hormuzd Karkaria, Thierry Lebeaux, Alex Maple, Stephan Okroy, Steve Reinhardt, Mira Sawiris

Subscriptions Manager Abigail Milne

Advertising Manager Felix Kronabetter

For all editorial and advertising enquiries:

Telephone: +44 20 8831 7300 Fax: +44 20 8831 7301

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