



EUROPEAN CENTRAL BANK

EUROSYSTEM

**Argyris Kahros**  
Market Infrastructure Expert  
European Central Bank

# **Discussion on 'Fiscal Control, Payment Limits and the Demand for Cash'**

**Edoardo Rainone and Massimo Valentini**

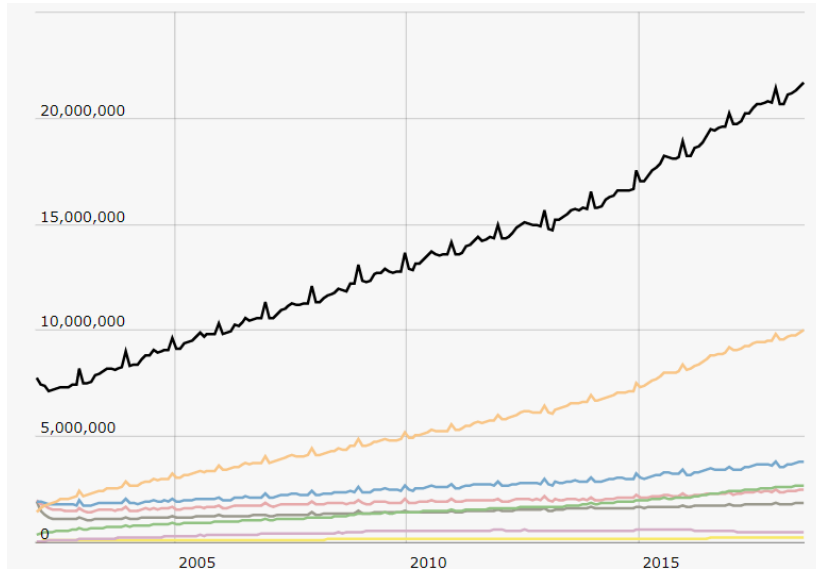
16<sup>th</sup> Payment and Settlement System Simulation Seminar

August 30-31, 2018

Helsinki, Finland

# What are the authors attempting to do?

- Cash is still in high demand despite the increased prevalence of electronic means of payment.



- Italy is a cash-loving country as is evident in the increased net withdrawal of cash from Italian banks.
- What drives this demand for cash?

## How do the authors do it?

- After a preliminary analysis to identify the possible causes for cash demand, the authors choose a set of explanatory variables:
  - (i) Current account remuneration, (ii) banking sector risk, (iii) country risk, (iv) cash payment limit, (v) possibility for fiscal authorities to inspect accounts, (vi) consumption expenditure.
- These variables were then used to conduct a (banknote-specific) econometric analysis—that is, used to assume that *net cash withdrawals* are a *linear* function of *only* these six variables.
- Assuming that these variables can fully explain net cash withdrawals in such a linear functional form, the regression analysis could identify the *main* driving forces for cash demand.

## What do the authors find?

- After carrying out regression analysis, authors identify *two* primary drivers for net cash withdrawals:
  - For net cash withdrawals of €100 and €200 banknotes, the biggest driver seems to be the increase in the limit for cash payments in Italy from €1000 to €3000 (took place as of January 1, 2016).
  - For net cash withdrawals of €500 banknotes, the biggest driver seems to be the ability for fiscal authorities to have current account visibility.
- Growth of cash use seems to be for high-value transactions and for storing value.
- If correct, then authorities seem to have two potential tools for driving cash demand.

# Discussion

- Why is cash demand increasing?
- What variables could be considered missing?
- If growth of cash is partly due to store-of-value reasons, what would happen to cash demand if only lower value banknotes were available?
- Could digital currency offer the conveniences of electronic means of payment in combination with the reassurance of cash in order to finally drive down the demand for hard currency?