Jens Weidmann: Opening speech at the Deutsche Bundesbank's third cash symposium

Opening speech by Dr Jens Weidmann, President of the Deutsche Bundesbank and Chairman of the Board of Directors of the Bank for International Settlements, at the Deutsche Bundesbank's third cash symposium, Frankfurt am Main, 13 June 2016.

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1. Introduction

Ladies and gentlemen, good morning and a very warm welcome to this, the Deutsche Bundesbank's third cash symposium. We launched our cash symposium as a platform for fostering dialogue and promoting interaction between the various stakeholders in the cash space. So it gives me great pleasure today to officially open what is already the third cash symposium and to see that there is quite obviously strong and enduring demand for an event of this kind.

And if you ask me, there's no better place to host this event than Frankfurt. This city, after all, has close ties with money, and with cash and coinage, too. And I'm not saying that just because of the nearby bank towers or the Bundesbank's own collection of coins and banknotes, which, incidentally, ranks among the country's four largest and will this year be celebrating its centenary – though that's not exactly a ripe old age in the world of numismatics.

No, ladies and gentlemen, the city of Frankfurt's close ties with cash also have a lot to do with where we chose to hold today's symposium. Many of you will already know, I'm sure, that Bethmannstrasse, the street in which today's venue is situated, was named after Bethmann Bank, a credit institution established by the Bethmann brothers back in the 18th century.

But fewer of you, I suspect, will be aware that back in the late 17th century, an ancestor of the Bethmann brothers, a certain Konrad Bethmann, was employed as mintmaster for Princess von Nassau-Holzappel in what is today the German federal state of Rhineland-Palatinate. The profession of a mintmaster was without doubt a reputable one. But even back in those days, people certainly had their wits about them when it came to filling the state coffers. The debasement of small coins like the pfennig or the groat was quite a widespread phenomenon, especially so in the era in which Konrad lived.

So back then, mintmaster Bethmann may well have been among those generally suspected of debasing the coinage – that is to say, of "tipping the scales", possibly even at his employer's behest. And to be absolutely honest, aren't we central bankers, too, often widely suspected of "tipping the scales"? After all, in an era in which money is made of paper, and the metal value of coins is less than their face value, it has become much cheaper to manufacture currency.

It was to nip any such suspicions in the bud that the European Treaties committed the Eurosystem to the objective of maintaining price stability and made it independent of political influence. The rationale for this was that preventing monetary policy from being subjugated to the fiscal whims of governments would keep the value of money stable. That is why central banks attach such great importance to sound government budgets and fiscal compliance – criteria which, at the end of the day, serve the overriding goal of shielding monetary policy.

2. Cash – an anchor of confidence

German sociologist Georg Simmel wrote more than a century ago that "... money ... is perhaps the most concentrated and pointed form and manifestation of confidence in the socio-political organisation and order." Money and confidence are inextricably linked. And confidence in a currency has its roots in cash. That is perhaps even more true for the euro than it is for other currencies since euro cash – the common means of payment we use throughout the euro area – is the most manifest symbol of European integration.

It's the calling card, if you will, of every single European institution, something that passes through everyone's hands on a regular basis. That's one reason why cash is so hugely important for us. And that's why we at the Bundesbank set high standards for the quality of the cash we introduce into the system. Quality has its price, of course – in this instance, it's our dedication to providing a sufficient quantity of cash that consistently meets high quality standards.

Just over two years ago – at the second cash symposium, in fact – Professor Otmar Issing recounted how, shortly after he took office at the Bundesbank in 1990, he was informed, only half-jokingly, by the then-Bundesbank President Karl Otto Pöhl that the Bundesbank was not only responsible for monetary policy but that it was "primarily a business engaged in transporting and distributing banknotes". The staff levels, Mr Pöhl explained, were proof of that.

Not all that much has changed since then in this regard. Cash-related operations endure to this very day as the most labour-intensive of our five core business areas. Saying that, the number of staff involved in running the Bundesbank's cash operations has almost halved over the past twelve years.

And it's not as if cash is a pastime the Bundesbank has chosen to indulge in. It's a field where we mainly respond to the general public's payment habits. And one thing is for sure: Germans love cash. Although overnight and short-term bank deposits nowadays make up the lion's share – more than 90 %, in fact – of money, it is still the case that the majority of purchases in Germany are settled in cash. Cash is used in 80 % of transactions, though that figure is dwindling somewhat. It would only be a slight exaggeration to say that money is what you save in accounts but spend as notes and coins.

Germany is the world's number one country in the use of cash. For one thing, this is because Germans have a strong preference for cash – indeed, this is particularly evident when one considers how customers tend to pay at petrol stations. Not only is that a point of sale where customers can pay either by card or in cash in all the countries observed; transaction values are roughly the same, too.

But there are still further factors that have a bearing on whether and how much people tend to pay in cash. These include ease of access to ATMs, the rates of interest on current accounts, the extent to which retail merchants accept card payments, and how much effort card providers put into boosting the popularity of card payments by running marketing campaigns or loyalty schemes.

Many of these factors also play a role in the relatively strong propensity to use cash in Germany. As a case in point, if more retail merchants in Germany accepted debit or credit card payments, that would undoubtedly drive down the share of cash in higher payment amounts – though I admit that this does bring to mind the question "What came first: the chicken or the egg?".

Even if this scenario were to materialise, debit and credit card payments would not crowd out cash payments altogether. Contrary to what some might believe, cash isn't actually a particularly expensive form of payment. Indeed, in terms of costs per transaction, cash payments are far cheaper than both debit and credit cards. Only when the costs are regarded as a share of the transaction amount does cash lose out to debit cards, but not to credit cards. So there's certainly nothing unreasonable about paying small amounts in cash and using a card for larger purchases.

And of course, cash tends to grow in popularity whenever confidence in the financial sector evaporates. Only last summer in Greece did we see banks shutting their doors for days on end and long queues forming at ATMs. And Germany, too, saw how popular cash can be during the financial crisis, when, in the wake of the Lehman Brothers insolvency, the Bundesbank issued as many €500 euro banknotes in a single month as it had done in the entire previous year. Only euro banknotes are sole unrestricted legal tender; only they give the general public the cast-iron certainty that they are in full possession of their money at all times, free from any influence. That's why it is often said that "cash is king".

All these aspects are worth considering in the current deliberations over whether or not to place constraints on cash payments. I know full well that politicians are doing their utmost to clamp down on terrorism. But there is not a single academic paper I know of that proves, beyond any doubt, that restricting the use of cash really is an effective means of combatting organised crime, tax evasion and international terrorism.

Whereas potential resolutions on an upper limit for cash purchases are still pending, the Governing Council of the ECB has already taken a decision on the €500 note, namely to discontinue production. The new series of euro banknotes will therefore no longer include the €500 note. Following an adequate transitional period which will probably last until at least the end of 2018, the issuance of €500 notes will be discontinued as well. The time can then be used to produce other banknotes. This time will certainly be needed, as €500 notes account for as much as one-third of the currency circulating in the euro area (in terms of value).

What this means is that, in the future, more banknotes will need to be printed in order to cope with a rise in the quantity of currency in circulation. Moreover, I do not expect the €500 banknotes returning to the Eurosystem to be fully deposited in bank accounts. There are initial signs that the public is already beginning to trade in their €500 notes for smaller denominations. The quantity of euro notes will therefore tend to rise overall – along with the costs of their manufacture, quality assurance and transportation.

At least the €500 note will remain legal tender and can be exchanged at national central banks for an indefinite period of time. In other words, €500 notes still in circulation will not be recalled or withdrawn. This means that an approach which we at the Bundesbank have always practised has prevailed. In my view, this is an important point. Any other action would not have been conducive to confidence in the single currency.

Moreover, the debate on the abolition of the €500 note has led to the Governing Council of the ECB coming out clearly in favour of cash. This signal is especially important in the current low-interest-rate environment, as restrictions on the use of cash are, in some cases, mentioned in the same breath as proposals to do away with cash altogether, as that would be one way of making it easier to broadly push through negative deposit rates in the context of an even more accommodative monetary policy.

However, in my opinion, such proposals would be wrong and an entirely disproportionate response to the monetary policy challenges close to the zero lower bound. The right approach is more a question of strengthening the growth forces in the euro area as a way of moving rates away from the zero lower bound going forward. And there's another thing I wish to express very clearly: there is no need to loosen monetary policy any further in the current environment, either. Let me explain this briefly below.

3. Economic activity and monetary policy

3.1 Economic activity

The global economy is on a moderate growth path. Though its momentum is weaker now than we had expected a little over half a year ago, the fears that prevailed in the financial markets every now and then did not materialise. However, right now we are seeing a shift in the dynamics of growth. In the emerging markets, where the situation had clouded over perceptibly at the beginning of the year, the situation is stabilising to a degree. The recessionary tendencies plaguing Russia have died down, although a sustainable recovery is not yet in sight. In China, growth prospects repeatedly required downward revisions in the past. The shift in growth seen thus far, though, is consistent with China's transition to a more servicesoriented, domestically driven economic model; if we look at it that way, we have no cause for anxiety.

And those countries which derive a large proportion of their value added from commodity exports are likely to benefit from the latest recovery of commodity prices, especially the significant increase in oil prices. By contrast, the United States and United Kingdom recently saw a slight deceleration of growth, with US growth being curbed by the oil industry delaying investment, amongst other factors. Private consumption was also on the weak side in both countries.

On the other hand, the euro area got off to a good start in 2016. Gross domestic product grew by a healthy 0.6 % on the quarter. Lively domestic demand, which benefited from low oil prices and the accommodative monetary policy, was a pillar of the upturn. However, another decisive factor was the surprisingly mild weather at the start of the year, which boosted, above all, the construction sector. The strong first-quarter growth should therefore not be extrapolated to the year as a whole.

On aggregate, the euro-area economy's growth path is still only tepid at present. The latest Eurosystem staff projection has the euro-area economy growing by 1.6 % this year, with 1.7 % growth assumed for each of the coming two years.

Economic growth in Germany is looking relatively similar, even though the situation – seen, for instance, in terms of capacity utilisation and labour market indicators – is significantly better than in the rest of the euro area. Our country did, after all, post respectable first-quarter growth of 0.7 %. However, even in Germany, aggregate economic growth will peter out somewhat as the year progresses. Bundesbank economists are expecting growth of 1.7 % this year. Owing to the difficult external environment, growth is projected to decelerate temporarily to 1.4 % for 2017 before then climbing back up to 1.6 % in 2018.

3.2 Monetary policy

For us as central bankers, macroeconomic analysis is, of course, not an end in itself. After all, our mandate is not to steer the economy but instead to maintain price stability. Economic growth, however, is one determinant of enterprises' capacity utilisation and their scope for raising prices. It also indicates how much leeway wage bargainers have in wage negotiations.

Inflation rates have been very low for some time now in many currency areas, and the euro area is no exception. Here, inflation is even in negative territory; in May, prices were down by 0.1 % on the year. In the past two years, it was mainly the sharp fall in commodity prices, particularly oil prices, which pushed inflation down. However, the impact of a change in oil prices will automatically be washed out of the inflation rate over time. And the recent rise in oil prices is helping to speed up this process somewhat.

However, the low inflation rates in the euro area are not just an outcome of the fall in oil prices. Core inflation, i.e. the price index adjusted to exclude energy and food prices, is likewise relatively low. The muted domestic price pressures measured in this manner also show that some euro-area economies are recovering only gradually and that unemployment levels in those countries are still very high.

Seeing as the euro-area economic recovery is only tepid, the Eurosystem projections foresee no more than a gradual increase in inflation to 1.3 % next year and 1.6 % in 2018.

In view of this muted price outlook, an accommodative monetary policy is appropriate at present, though reasonable people can disagree about the specific design of the non-standard measures. There is one thing I would like to stress, though: Our definition of price stability requires the target inflation rate to be achieved over the medium term. This will give us enough time to see how the adopted monetary policy measures will impact on price movements, especially since, as I have been pointing out time and again, the Eurosystem is still something of a novice when it comes to applying non-standard monetary policy, and the risks and side-effects of the ultra-accommodative monetary policy are growing over time.

4. Conclusion

Ladies and gentlemen, I have covered a wide range of themes: from cash to confidence in currency to monetary policy. However, I do not wish to unduly tax your attention span, for, as the saying goes, a good speaker can talk about anything – as long as it's about 20 minutes or less. You still have an exciting programme ahead of you today. I hope you enjoy the interesting talks we've lined up for you and have a stimulating exchange of views. Thank you very much!