

# The future of cash

## Opening speech at the cash symposium

10.11.2021 | Berlin | Jens Weidmann DE

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## 1 Welcome

Ladies and gentleman,

Welcome to our fifth cash symposium. I am delighted that you have accepted the Bundesbank's invitation to join us today to talk about cash and its future.

Talking about the future, science fiction sometimes has some fascinating insights to offer. Take Jules Verne, whose novels predicted the invention of electric submarines or even mankind's journey to the Moon.

But the future of payments hasn't always whetted writers' creative appetites in quite the same way. In the worlds they conjure up, we encounter bars made of "gold-pressed latinum" or coins with names like "cubits" – or even just "credits". Perhaps this is partly because paying with coins and banknotes is such a normal part of everyday life today.

## 2 Payment behaviour

At least, it's part of most people's everyday lives in Germany. According to a survey we carried out last year, cash was the most frequently used option for day-to-day payments, even during the coronavirus pandemic. Consumers paid in cash 60% of the time at the point of sale, for recreation activities, and in other situations.> [1] Even the generation of digital natives regularly uses banknotes and coins. Of those in the 18 to 24-year-old age bracket, just over half used cash.

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That's not the full picture, though. On the whole, consumers are paying more and more often using cashless methods. Cash still accounted for 74% of their transactions in 2017.> [2] It has been clear for a number of years now that cashless payments are on the increase, but the pandemic has probably reinforced this shift.

This is partly due to the fact that people were unable to consume as they normally do during the pandemic because the measures taken to prevent the spread of infection limited typical opportunities for spending cash, such as going to restaurants and fairs, or strolling around the town centre.

Internet shopping, on the other hand, has become more popular. For instance, German retailers' online sales went up by almost one-quarter in 2020.> [3] And contactless payments by card or smartphone have picked up as well. Just over one-fifth of respondents to our survey said that, since the outbreak of the pandemic, they had paid using a contactless method for the first time.

Whether people go back to their old consumption and payment habits after the pandemic remains to be seen. The Bundesbank is currently working on a new study on payment behaviour which we hope will shed more light on the extent to which the declining trend in cash payments in Germany will continue.

Some people fear that, sooner or later, cash could cease to play such a prominent role. To get a glimpse of the problems this might cause, we should look not to science fiction, but to Sweden instead.

Many Swedish shops, restaurants or forms of local public transport have stopped accepting cash altogether. According to a survey by Sweden's central bank, the Riksbank, less than one-tenth of respondents paid in cash for their last purchase in a shop.> [4] Sweden's more elderly citizens take a predominantly critical view of the decline in the use of cash. And one-third of people in rural areas complain that that they would not be able to cope without cash.

The Swedish central bank also points out that, without cash, payment systems become more vulnerable to technical problems such as powercuts or internet outages.

Against this backdrop, many people see cash as an important back-up alternative, but not essential to everyday life. Yet Stefan Ingves, Governor of the Riksbank, warns that "if cash is needed as a means of payment in a crisis, it must also be possible to use it in normal circumstances".> [5]

### **3 Cash and its characteristics**

But how things have developed in Sweden is the exception rather than the rule. The fact that cash can generally be used independently of a digital infrastructure is just one of its benefits. First and foremost, paying with cash is quick, easy and secure. But there are three additional aspects that I would like to highlight, too.

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First: inclusion. Because cash is easy to use, it is also a hugely important means of payment for many people who aren't very tech-savvy, or those with visual impairments. In addition to this, an estimated 13½ million adults in the euro area are unbanked and mostly rely on cash.> [6] Cash doesn't exclude anyone. It's a payment medium that everybody can use – whether they are digital natives or digital outsiders, whether they are young or old.

Second: control. Because you physically have to handle cash while paying, many people find it easier to keep track of their spending this way. And most people in Germany think it has an educational function – cash is one way of familiarising children with money.

Third: anonymity. If you pay in cash, you don't normally need to reveal your identity. Many law-abiding citizens hold cash in high regard for this reason. But anonymity can also be used for illegal purposes. This makes it all the more important to tackle money laundering, corruption and other criminal activities.

Above and beyond that, anonymity is sometimes seen as one aspect of a wider concept – privacy. I dare say most people have a deep-seated need to keep parts of their life private from others. Cash helps protect privacy – not only by ensuring anonymity, but also because cash flows cannot be traced.> [7]

Altogether, cash boasts a unique combination of characteristics. In many respects, it meets the criteria that consumers consider important or even essential in a payment medium.> [8]

But payments aren't the only thing cash is good for. In fact, in Germany, just 5% of the banknotes issued in net terms by the Bundesbank are used for this purpose. Around 40% of them are used by people in Germany as a store of value, however. The rest end up abroad.

In 2018, German households kept on average more than €1,300 in cash at home or in a safe deposit box,> [9] with some individuals hoarding very large sums in cash. By contrast, half of households only kept amounts up to €200 as a cash reserve, besides the cash in their wallets.

It is especially in times of heightened uncertainty that people turn to cash. When the coronavirus pandemic broke out, for instance, demand for cash rose sharply in Germany for a time.> [10]

Some economists stress how important it is for central banks to cover the increased demand for cash during spells of uncertainty. They believe that by doing so, central banks can help to calm the situation and reduce uncertainty.> [11]

Even in pandemic conditions, the Bundesbank reliably fulfilled its statutory mandate. In 2020, our branches issued banknotes amounting to a total net value of €70 billion. Just to put that into perspective, if you were to line these banknotes up end to end, you could wrap them almost three and a half times around the Earth's equator.

While net issuance looks set to be lower this year than last, it will probably still be somewhat higher than the figure for 2019. So demand for cash is continuing to grow, even though it has become less important as a means of payment. Its role as a store of value explains this paradox.>

## 4 Cash and the digital euro

One reason why consumers probably like banknotes as a store of value is that they are issued by central banks. Central bank money cannot default and is the very embodiment of liquidity. Moreover, cash is, as yet, the only option people have of holding and paying with central bank money.

This would change with a digital euro – in the form currently being examined in the Eurosystem. Individuals and enterprises in the euro area could use it to pay with central bank money – simply, securely, cheaply and fast, in both a physical and a digital environment. The digital euro could thereby help lower transaction costs, make payments more efficient and spur the development of innovative services.> [13]

In addition, the digital euro would allow people to use government-issued money to pay even if cash should, one day, no longer play such a large role in our society.

However, one thing is clear from the outset: a digital euro is intended to complement cash, not replace it. As long as the citizens of Germany want banknotes, the Bundesbank will provide them.

Our latest Monthly Report shows how public opinion on the digital euro has evolved over time in Germany.> [14] In the spring, the Bundesbank included questions on the digital euro in its monthly, representative household survey.> [15] Back then, the digital euro was still largely unknown in Germany: only just over one-fifth of respondents had heard of it. By September, a third were familiar with it.

And an impressive 40% reported in the spring survey that they could generally imagine using the digital euro. Those surveyed said it was important to them that the digital euro should be free of charge and easy to use. Moreover, their privacy and data should be protected.

The Bundesbank also conducted more in-depth interviews to ascertain the main factors driving public opinion on the digital euro. People who are open to digital transformation or already acquainted with digital means of payment are also more likely to be open to the digital euro. Some people view it as a necessary or even overdue step towards a digital future.

For others, meanwhile, the risks of digitalisation loom larger. Some even fear losing control or that their life will become too transparent. Maybe the opportunities afforded by digital technology are eerily reminiscent to them of the UK rock band “The Police”. In one of their most famous hits, their frontman, Sting, sings: “Every breath you take. And every move you make [...] I’ll be watching you.”

One thing is clear: the digital euro won’t offer the same degree of anonymity as cash. After all, digital payments always leave a digital footprint.> [16] Moreover, the authorities must be able to trace transactions within the scope of the law, so that they can combat illegal activities such as money laundering and punish the perpetrators.

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But, of course, data protection rules would have to be strictly adhered to with the digital euro. Additionally, the Eurosystem has no commercial interest in the use of data – unlike private providers of digital payment instruments. In this regard, the digital euro could help strengthen people’s confidence in digital payments.> [17]

Overall, what shape the digital euro will take is still fairly vague: many aspects are yet to be specified. To this end, the Eurosystem launched a two-year investigation phase in October.

One of the questions to be examined is whether the digital euro should be held on an account or as a digital token. Another issue is to what extent it should be possible to use the digital euro without an internet connection – like cash.

I believe it is important that the digital euro should, like cash, be easy for people to access. This is where private service providers such as banks come into play. They should continue to represent the interface with clients. What we do not want is for the central banks to expand at the expense of the commercial banks.

And we must ensure that we are able to keep the potential risks of a digital euro under control. The digital euro would, at least to a degree, be an alternative to bank deposits. It could consequently change the structures within the financial system or create new risks to financial stability.

There is therefore a debate on limiting holdings of the digital euro, say through a cap or a less favourable interest rate on higher amounts. That would make it less attractive as a store of value for consumers – in relation to bank deposits, but also to cash.

Despite all these open questions surrounding the digital euro, one thing is already clear to me: the digital euro would probably not constitute digital cash. It would share some important features with cash, but would differ in other respects. Overall, it would therefore open up new possibilities.

Particularly given the risks, it could make sense to take an incremental approach to the digital euro. In other words, the digital euro could initially come equipped with a particular bundle of characteristics, allowing important uses as a means of payment. Additional functions could be added at a later stage.

## 5 Conclusion

Ladies and gentlemen,

“Science fiction can be exciting and very gripping, but it doesn’t tell us anything about the universe in which we live,” the author Lucy Hawking, daughter of the famous physicist, once said.

I am convinced that cash will continue to play an important role in the foreseeable future. Many people hold cash dear, and rightly so. And no other means of payment will be able to replicate all its characteristics. And that includes the digital euro.

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The objective of the digital euro would be to give consumers more choice in terms of the means of payment they use. The range of available payment instruments would then probably be broader than some writers could have imagined.

However, something that I can very well imagine is that you will hear some fascinating presentations and debates today and have the opportunity for interesting conversations.

I wish you a thought-provoking symposium.

#### Footnotes:

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