

The European Central Bank Changes Sides and Starts to Defend Cash

[For many years, the European Central Bank \(ECB\) agreed to cash ceilings or simply ignored the fact that it was not asked for its opinion. That has changed radically. This change of mind might come in handy for my court-case on the right to use cash that is pending at the European Court of Justice \(EJC\). ...](#)

For Europeans who prefer cash over digital money, it is becoming increasingly difficult and expensive to live out their preference. Many countries have introduced ceilings for cash payments, which are being lowered more and more over time. The lowest is the Greek one, where you are not allowed to pay or collect more than 500 euros in cash, in France it is 1000 euros. Merchants in Europe have been banned from passing on the cost of card payments to card users. In Greece, households must pay a tax penalty if they use too much of their income for cash purchases. All over Europe, some shops and many authorities no longer accept cash.

The guardian of the euro, the European Central Bank (ECB), has long turned a blind eye to this development, or even encouraged it. But this seems to be over now. In a rather strongly worded [letter of 16 December](#), the responsible member of the ECB's Executive Board, Yves Mersch, complained to the Italian parliament and finance minister that the ECB had not yet been consulted, as required, on legislative plans to lower the ceiling for cash payments. This is to be reduced first from 3000 euros to 2000 euros and then further to 1000 euros. Mersch leaves little doubt in the letter that the central bank's position would be rather critical.

He lists six reasons why the planned restrictions and penalties could be disproportionate and thus contradict the status of euro cash as legal tender in the monetary union. These include the advantages of cash over digital payment methods for citizens and for financial stability. Nor, he says, is there any evidence of the effectiveness of cash restrictions in combating tax evasion. He insists that exceptions for people and regions without good access to digital payment methods, which are as cheap and convenient as cash, would be necessary.

This hard line contrasts with how the ECB used to deal with such plans in the past. Earlier formal opinions on this issue were mostly very short and neutral to positive. In some cases, the ECB was even indirectly involved in the introduction of cash restrictions.

How the ECB Acted in the Past

When former ECB Commissioner Mario Monti, as head of a technocratic transitional government in Italy in 2011, introduced a cash payment ceiling of 1000 euros, the ECB did not comment on this. The measure now planned by Rome is intended to restore this situation after the Renzi government raised the ceiling to 3000 euros in 2016.

In 2016, when a discussion spilled over to Europe from the US, on whether the 500 euro bill should not be abolished to make the black economy and the financing of terrorism more difficult, the Governing Council of the ECB very quickly decided not to print any more of these bills.

When Greece introduced a cash ceiling of only 500 euros in 2016 and other drastic measures against cash use, the ECB did not comment, although it is unlikely that the measures have escaped its notice. At that time, the Greek government, which was dependent on financial aid, had to have all financially relevant projects approved by a troika of the ECB, the EU Commission and the International Monetary Fund.

When Lithuania introduced an upper limit of around EUR 2900 in 2014, the ECB even indicated in its opinion that it considered the exceptions to this limit were too extensive. It had no problem with a limit of around 1000

euros in Romania in the same year, nor with the 5000 euro and 2500 euro limits introduced in Slovakia and Spain in 2012. The lowering of the cash ceiling in France to 1000 euros in 2015, widely reported in the media, went without the ECB insisting on being heard or giving an opinion.

[Link to the ECB's opinions](#)

How the ECB Has Acted Since 2017

However, when the Greek government intended to tighten some of these anti-cash measures in 2019, it received a sharp reprimand from the ECB. The already existing cash ceiling of 500 euros was clearly too low and the tax penalties for excessive cash use were contrary to the legal tender status of cash, the ECB wrote in its opinion. Also last year, the ECB was very critical of plans by the Spanish ruling parties to lower the cash ceiling to 1000 euros.

The turnaround in the ECB's position can be dated to 2017. Until 2016, it waved every cash ceiling through, or it simply ignored the fact that no one even asked. It is not only with regard to Greece that measures that were previously approved or ignored are now criticized.

When the former ECB research director Vitor Gaspar, as Portuguese finance minister, had introduced a cash ceiling of 1000 euros in 2012 without consulting the ECB, the central bank let this pass without comment. But when the Portuguese government wanted to introduce penalties for high cash payments in 2017, the ECB did not spare critical words.

The ECB even commented very kindly at the time on the ceiling of EUR 2500 introduced in Bulgaria in 2010. But when the ceiling was to fall to 500 euros in 2017, the central bank chose harsh words in its statement. It criticized it as being too low and unjustified for payments between private individuals.

The Significance of the ECB's Protests

The ECB must only be asked for an opinion if planned laws affect their turf. This opinion is non-binding, unless the EU Commission, as guardian of the treaties, adopts the view of the central bank. However, the EU Commission seems to continue to listen and follow the anti-cash whisperers from the US very closely. Nevertheless, some of the countries criticized have made some concessions to the ECB's demands in implementing their anti-cash plans.

The ECB's new attitude is important for another reason. In my proceedings concerning the right to cash payment of the public broadcasting fee, which are [pending before the European Court of Justice](#) (ECJ), the ECB, like the EU Commission, the German Federal Government and other EU governments, is invited and entitled to submit comments. For the judges in Luxembourg the ECB's opinion on what legal tender means is likely to carry significant weight. Yves Mersch, who wrote the letter to Italy, is responsible for the ECB's legal service.

Why has the ECB Changed Its Position?

One can only speculate about the reasons for the ECB's abrupt change of mind. It may just mean that the pro-cash faction around Mersch and the President of the Bundesbank, Jens Weidmann, has been able to assert themselves more.

Or perhaps it was the discussion in Italy about the introduction of a parallel currency to the euro that has made the guardians of the euro realize that it is not a good idea to interpret the status of euro cash as the only legal tender in the euro area too loosely. During the 2017 election campaign in Italy, three major parties have spoken

Money and more

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out in favour of the introduction of such a parallel currency to the euro. If the coalition of Five Stars and Lega had not broken up, it would probably have come.

If governments in the euro area are allowed to ban tax payments with legal tender, for example, and thus force citizens to pay with something that is not legal tender, such as bank deposits, then it becomes difficult to argue that governments would be forbidden to allow tax payments with mini bonds, small denomination government bonds, that can circulate like money. Either the status of euro cash as legal tender prohibits both or neither. Perhaps this insight has spread through the ranks of the ECB in 2017. [19.2.2020]