



EUROPEAN CENTRAL BANK

EUROSYSTEM

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Frankfurt, 5 September 2013

L/MD/13/548

**Re: Your letter dated 3 June 2013 on the withdrawal of the €500 banknote**

Dear Members of the European Parliament,

Thank you for your letter dated 3 June 2013, which reached me on 17 July 2013.

Let me first highlight that the European Central Bank (ECB) is fully supportive of the heightened efforts to fight tax evasion and other criminal activities. As stressed by the European Council in May 2013, these policies are indeed of the utmost importance in the current crisis context, especially in those countries with large fiscal consolidation needs. However, withdrawing the €500 banknote would not be an effective instrument for this purpose. While it is acknowledged that high (but also medium and low) denomination banknotes can be used for criminal activities or tax evasion, withdrawing the €500 banknote from circulation would not be likely to reduce such activities and would be accompanied by significant economic costs.

Let me elaborate on the rationale for and benefits of the €500 banknote.

The reasons that originally led to the decision to have €500 banknotes in circulation are still valid today. Before the changeover to euro cash in January 2002, six of the euro area countries – Austria, Belgium, Germany, Italy, Luxembourg and the Netherlands – had national banknotes worth between €200 and €500. At the end of June 2013 the share of €200 and €500 banknotes in the total circulation value was 36%, and their share in the total number of banknotes in circulation was 5%. The share in the total circulation value of the

share in the total number of banknotes in circulation was 5%. The share in the total circulation value of the high-denomination euro banknotes has been quite stable since 2009, and is not much different from the recorded shares of some of the highest denominations of the former currencies of the countries mentioned above. At the end of 2000 the DEM 1,000 and DEM 500 banknotes (= EUR 511 and EUR 256) had a share of 44% in the circulation value, and the NLG 1,000 (= EUR 454) and ATS 5,000 (= EUR 363) had a share of 35% and 36%, respectively. In this respect it may also be worth noting that the share of the €500, €200 and €100 banknotes in the circulation value as at end-December 2012 was 55%. This is considerably lower than the share of the \$100 banknotes in the total value of the US dollar circulation, which amounted to 77% as at end-2012.

The availability of high-denomination (i.e. €500 and €200) banknotes in all euro area countries since 2002, together with the low level of interest rates, low and stable inflation expectations and turbulent economic times, have contributed to an increase in the use of banknotes for store-of-value purposes. As you rightly point out in your letter<sup>1</sup>, only around one-third of the total circulation value is used for transaction purposes and the remainder is used as a store of value in the euro area or held abroad; a considerable part thereof is in high denominations. This is also confirmed by the very low frequency with which these banknotes return to the central banks.

Our studies indicate that only a small percentage of high-denomination banknotes (around 15%) is used for transaction purposes, of which a part is used for entirely legitimate transactions. Consequently, it is not likely that a large share of the €500 (and €200) banknotes in circulation is being used for criminal transactions. Neither does it seem likely that withdrawing the €500 banknote from circulation would contribute to reducing such activities. Whilst it is impossible to know precisely to what extent and for what reasons people are hoarding banknotes, there is clear evidence that the €500 banknotes fulfil an important role in the provision of cash to the public in times of high uncertainty. As an example, following the collapse of Lehman Brothers, in the period between end-September and end-October 2008 there was an additional demand for euro banknotes, amounting to a value of EUR 35 billion. Issuance data for this period show that two-thirds of this demand – a large part of which came from abroad – was for €500 banknotes. Following subsequent periods of high financial and economic uncertainty the €500 banknotes were again considered and used as a last resort store of value.

In conclusion, high-denomination euro banknotes fulfil a role for the public, mainly as a store of value, but also as a payment instrument and as a last resort for storing assets, both within the euro area and abroad.

With kind regards,



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<sup>1</sup> See the ECB's Monthly Bulletin of April 2011 (<http://www.ecb.int/pub/pdf/mobu/mb201104en.pdf>, p.79).