Cash in East Asia

Abstracts

Masaaki Shirakawa

The use of cash in Europe and East Asia

Cash is grabbing public attention as well as academic interest recently. The birth of digital currencies such as Bitcoin is now stimulating the debate on future role of cash. In the face of zero lower bound of interest rate, some economists are now arguing for the abolition of currency on the ground that the existence of cash prevents interest rate from declining below zero and thus constrain the effectiveness of monetary policy. In Europe, there is a political call for the abolition of high denomination banknote which is allegedly used for tax avoidance or illegal activities.

Bearing these arguments in my mind, I will start my remarks by making factual review of how cash is used in Europe and East Asia with special emphasis on Japan. Specifically, I will examine factors affecting cash/GDP ratio across time and countries. Then, I will take up negative interest rate policy and argue that the case for abolition of cash is quite facile. By doing so, I will ponder fundamental role of cash.

Friedrich Schneider

Shadow Economy and Corruption in Europe and Asia –

What did we learn over the last 20 years?

In my presentation I will introduce the latest developments and make some theoretical considerations about the shadow economy and corruption. Moreover, I will discuss the estimation method and size of shadow economies in Indonesia and in some other countries. The effects of corruption on the official economy will be analyzed as well. Finally, some policy measures to reduce the shadow economy and corruption will be discussed.

Rüdiger Frank

Remonetization and its effects. The case of North Korea

North Korea has been, and arguable still is, an extreme case of a state socialist system. Due to ideological and economic reasons, by the late 1980s the country had been largely demonetized in the sense that money existed but was unable to fulfill its basic functions. A massive economic shock resulting from the collapse of the global socialist system after 1990 contributed to a re-monetization including a reform of the domestic currency since the mid-1990s. Individuals have reacted in a predictable way, thus weakening the power of the state. Currently, North Korea is in some aspects more monetized than for example East Germany in 1989 thanks to the de facto existence of parallel currencies. This paper covers the process of re-monetization, the impact on society, and the state’s half-hearted efforts at curbing these effects which we only begin to fully comprehend.

Hwee Kwan Chow

Domestic Liquidity Conditions and Monetary Policy in Singapore

Singapore has a unique exchange rate-centered monetary policy framework that has served the economy well over the past decades. Monetary policy operations are carried out by the central bank through the management of the Singapore dollar against a currency basket. As is well recognized, such foreign exchange interventions do have an impact on domestic liquidity conditions. However, in the case of Singapore, this tends to be counteracted by the liquidity impact of public sector operations related to the fiscal position and the national pension scheme. The central bank takes into account the net liquidity impact these and other autonomous money market factors as well as banks' demand for funds when performing money market operations to regulate the level of domestic liquidity in the banking system. Finally, we explain the negligible liquidity impact of currency in circulation as reflecting Singapore's gradual transformation towards a cashless society.

Franz Waldenberger

Changes in the investment-savings nexus and the future of credit money in Japan

Modern monetary systems rely on two money creation channels. Money can be created through an increase in the circulation of central bank money and through an increase in loans made by commercial banks. The later is possible, because deposits at commercial banks that are used as means of exchange and also as a source of financing these loans, are not fully backed by central bank money.

Since the burst of the real estate and stock market bubble in Japan beginning of the 1990s, Japan's private corporate sector has been generating financial surpluses, which means that the sum of private corporate investments exceeded the sector's total internal sources of finance (free cash-flow). Therefore, despite the strong decline in private household savings caused by the aging of the population, the private sector as a whole has been able to continuously generate savings surpluses large enough to finance the built-up of a record high government debt and the world's largest net foreign asset position.

With the rapid and extreme expansion of the monetary base as a result of quantitative easing, Japan's commercial banks have been selling more and more of their holdings of government bonds to the Bank of Japan. Given the lack of credit expansion opportunities they in return increased their excess reserves deposited with the BoJ. This has de facto raised the reserve ratio of private bank deposits. As the operations continue, Japan will move towards a fully backed reserve money system, drying out the credit channel of money creation.

The presentation will argue that this is unavoidable given the combination of changes in the investment-savings nexus on the one hand and the monetary policy measures on the other hand. Given the viability of a fully backed reserve system, this de facto shift in the monetary regime seems to cause no fundamental problem. However, the implementation of negative interest rates on commercial bank reserves bears the risk of reversing this shift with most likely negative consequences.

Woosik Moon

Coinless society as a way to cashless society: the case of Korea

Bank of Korea (BOK) is planning a coinless society by 2020. This plan was initially motivated by the need to save the cost of minting coins and to help the change-over in case of possible redenomination of Korean won. But as Korea is well equipped with cashless payments such as credit cards and fin-tech payments, this plan is expanded further to test the possibility of cashless society before shifting ultimately to it. Eliminating coins out of circulation means that BOK develop an alternative payment instrument to coins for receiving and returning small change. That is, if an individual buys a 9,500 won item and pays with a 10,000 won banknote, he should own credit cards or other electronic payments to be credited 500 won instead of getting a 500 won coin in change. Many alternative instruments such as credit cards, public transportation cards, e-wallets and electronic cash receipt can be considered in terms of information protection risks, economic transaction costs and technical conveniences. If coins can be successfully removed by these instruments, cashes can be more easily replaced. This study tries to explore the best way toward coinless society in Korea.

Patrick Hess

The Ongoing Evolution of Payment Instruments in China

Payment methods and habits are evolving over time, as a result of technological innovation and commercial development. China, where state-issued paper money was invented 900 years ago, is no exception to this. This presentation looks into the evolution of payment instruments in mainland China. In particular it explores the growth of non-cash payments in recent years, their main drivers and their coexistence with traditional means of payment such as cash transactions and cheques.

Helmut Siekmann

Restricting the Use of Cash in the European Monetary Union – legal aspects

Clear signs are visible that the use of cash is being increasingly restricted inside the European Monetary Union (EMU). Already for quite some time financial institutions but also government-entities have exerted pressure on businesses and consumers to refrain from using cash. This has been successful to a varying degree in the Member States of the EU that have introduced the euro. In some countries this drive or the preference of consumers and businesses has widely replaced cash as a means of payment or storage of value. In others, like Austria and Germany consumers have been defiant.

The main argument for the drive was cost-effectiveness. The handling of cash was declared expensive and risky; mainly by economists. Empirical evidence is, however, scarce and in fact tends to show the opposite; at least for small amounts of money to be paid. More recently, the pressure has been augmented considerably. Not only statutory rules have been enacted that government cashiers are closed and payments with government-entities have to be performed by using bank accounts only but also by introducing differing but rather low limits for using cash in business transactions. In addition, talks by politicians are up-scaled to eliminate the 500 euro bill entirely. This time the argument is fighting criminal activities and in specific terrorism. It is an open question whether the true reason is the enforcement of the recent measures of the European System of Central Banks (ESCB): negative nominal interest rates and inflation targeting. Consumers and financial institutions are beginning to protect themselves against these measures by hoarding cash.

Several legal concerns rise in this context both from European Union law and national constitutional law; specifically in Germany. The total abortion of cash would neither be compatible with EU-law nor with German constitutional law. Although Article 128 TFEU only allows ("may") the European Central Bank (ECB) to issue euro-banknotes the clause has to be interpreted in a way that it presumes the existence of cash. The ECB does not have the power to abolish it. The same result may be derived from Article 20 paragraph 1 federal constitution of Germany ("social state"). Restricting the use of issued banknotes and coins denominated in euro would be incompatible with their property of being legal tender following Article 128 TFEU. It is highly questionable whether such measures would be in conformity with the principle of proportionality enshrined in Article 1 paragraph 1 and 4 TEU and protocol no 2 of the primary law of the EU. Additional doubt are derived from the constitutional law of the Member States.

The obligation to accept cash denominated in euro follows already from its virtue as legal tender; also for government entities. In addition, this result follows also from the EU-Commission decision 2010/191/EU of 22 March 2010; notwithstanding recital 19 of regulation (EC) 975/98 that is legally not part of the norm.

Erwin Gladisch

Does cash have a future in Germany?

Cash is by far the most common means of payment in Germany – it was used for around 53% of the total value and 79% of the total volume of point-of-sale transactions in 2014. Nevertheless, sometimes people argue that cash seems to be expensive and will disappear in the near future.

Comparing the different cash studies doubts about the level of cash costs are appropriate. The results of studies concerning the cost of cash differ in a wide range and are influenced mainly by specific characteristics of the country's payments system and the scale at which a payment method is used in the country.

Also the hypothesis about an end of cash payments is questionable. It seems that consumers will keep cash as a means of payment for the future, at least as long regulative or administrative measures will not influence the use of cash in a negative way.