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**Where have we been and where do we go from here? How has
COVID affected Central Bank policies, Banknote Production and
Banknote technology?**

The Banknote and Currency Conference

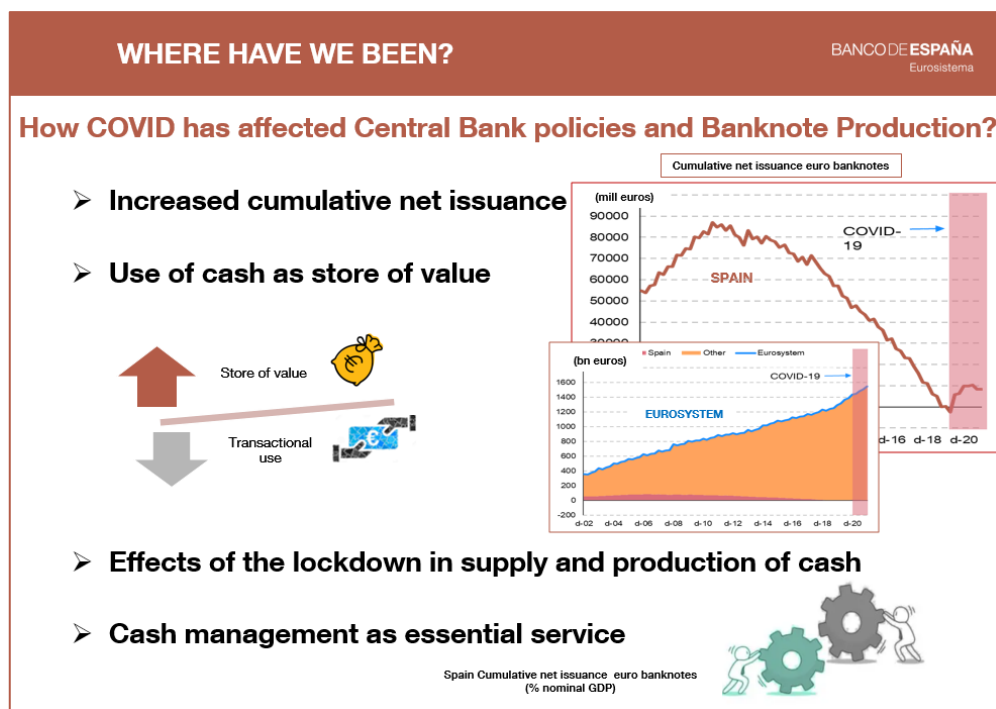
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Good morning ladies and gentlemen.

It's a pleasure to be here, in this first worldwide in-person banknote conference, and I would like to thank the organisers for the honour of participating in this panel today, dealing with the issue of COVID and Central Bank policies.

With the worst of the crisis now behind us, the time has come to reflect on its impact on cash and on what the future might hold.



Let me start by saying that the world of retail payments has changed profoundly in all countries over the last 24 months and much uncertainty about the future remains even today.

Demand for cash has increased sharply during COVID pandemic in almost all countries, despite an early suspicion that cash spreads the virus, which was completely untrue. Spain is no exception to this current of change. I would like to begin by looking back at how cash circulation has changed in Spain during this time.

Indeed, net issuance has turned positive, in contrast with the pre-pandemic situation, when it tended to be negative. (see graph). The cumulative net issuance grew to almost €10 billion in 2020, compared with €0.4 billion in 2019. In other words, the amount increased 25-fold from one year to the next.

There are several factors behind this.

First, on the supply side, the restrictions on international travel put the brakes on tourism and its associated inflows of banknotes, which are traditionally very high in Spain.

Second, talking about demand, the pandemic prompted an increase in the demand for banknotes to be used as a store of value for precautionary reasons.

Last but not least, the COVID-19 crisis exacerbated the declining trend in the use of cash as a means of payment that had been observed for some years.

In other words, we observed an increase of demand for cash as store of value and a decrease demand for transactional purposes.

The net effect of these three factors explains the significant increase in net banknote issuance in Spain during 2020 and the uneven behaviour of the different denominations, resulting in a decline or very moderate growth in low-denomination euro banknotes, while medium-high denominations showed greater momentum.

At present, cumulative net banknote issuance has started to move slowly back towards pre-crisis figures, but is still well above its 2019 levels, standing at around €8.4 billion in 2021.

How did the Banco de España respond?

This was undoubtedly a formidable operational challenge for the Bank to deal with the increase in demand for cash, while complying with the strong health protocols and the restrictions imposed by the authorities on the population to combat COVID-19.

Therefore, at the beginning of the health crisis a strategy had to be developed to prioritise essential physical tasks, while protecting our workers from contagion and benefiting from the teleworking, when possible.

In addition, being part of the Eurosystem, we needed to coordinate with other countries, to guarantee the supply of banknotes not only to Spaniards but to the European public from all the Eurosystem's central banks.

We then continued providing and receiving banknotes and coins to/from credit institutions, but other tasks such as banknote sorting or production were stopped.

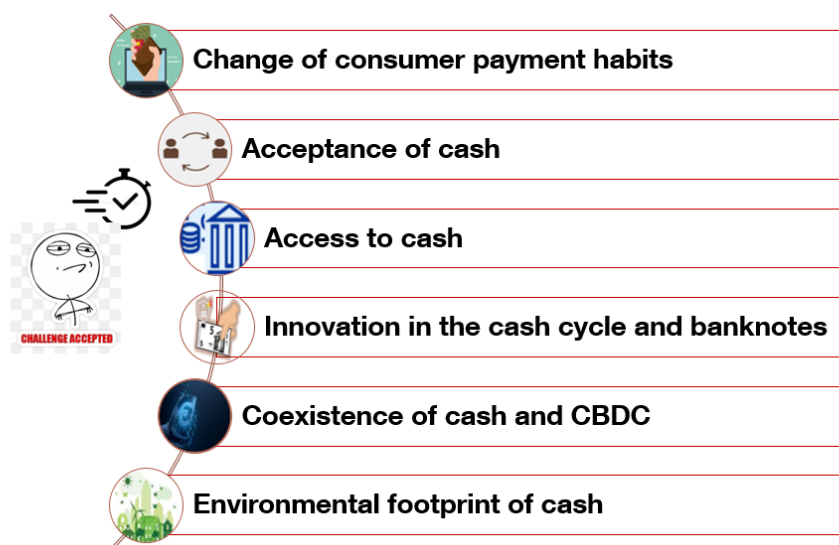
Furthermore, internal and cross-border transport had to be changed and rescheduled, (and it was even necessary to resort to the ECB's strategic banknote stock).

Once the situation had improved, banknote sorting was rearranged and banknote destruction standards were lowered to ensure a sufficient supply. We also resumed banknote production at our printing works, although it had to be re-planned.

All these measures were taken against a background of huge mobility-related difficulties and restrictions, but we succeeded to maintain the necessary conditions to ensure an appropriate supply of cash to economic agents.

Taking stock of how the crisis was managed, it is safe to say that both the Banco de España and the Eurosystem as a whole have demonstrated a high operational resilience to address supply and demand shocks such as the one brought about by the health crisis.

Some challenges



What about the future of cash?

As I began by saying, consumer payment habits were already shifting towards a lower relative use of cash and the pandemic has acted as a disruptive element, accelerating that process.

For the first time in Spain, cash is no longer the most popular payment method, falling behind the debit cards. Nonetheless, it remains a key means of payment for much of the general public.

It is therefore essential to ensure that cash remains an accessible, universally accepted, means of payment. Accessibility and acceptance are two of the major challenges that lie ahead.

As in many other counties, in Spain access to cash is deteriorating.

Credit institutions continue to adjust their branch and ATM networks, thereby, limiting access to cash services- including withdrawals and lodgements. Fortunately, as shown in a recent Banco de España study things stand, cash is still for the most part of the population easy to access in Spain.

But there is evidence that the range of cash services offered is diminishing and that the cost associated with acquiring and depositing cash by businesses and the general public seem to be rising.

On a positive note, public attention in Spain turned recently to the issue of access to financial services as a whole, especially in rural areas and for the elderly. Under that pressure Spanish banks have agreed to extend cashier services and provide better customer care, the Spanish government said on Monday 21 February. Among the measures, banks will provide cash services 8am to 14pm and dedicate trained staff to engage with the elderly and make ATMS and digital applications more user-friendly. The Government added that if

these steps proved to be insufficient, or could be improved “we will have to promote and deploy other measures that guarantee access to banking services for all citizens”.

Also positive is the emergence of alternative solutions in Spain such as cashback or cash distribution via post offices. While such channels may complement traditional access, they cannot replace it entirely.

In terms of the acceptance of cash as a means of payment, during the pandemic we saw shops and even public services in Spain recommending the use of electronic methods, either for their own convenience or to avoid COVID contagion.

It is thus important to legislate to ensure that those who wish to use cash can continue to do so in the coming years.

To this end, an amendment has been made to Spanish legislation, set to enter into force in the near future, whereby a consumer cannot be denied the right to pay in cash, within the limits established under tax legislation, (meaning that businesses cannot in practice demand payment exclusively by other means, such as bank cards).

Let me refer to central bank digital currencies as another challenge for the future of physical cash. Will CBDCs substitute or complement cash in light of their features?

In the words of ECB President Christine Lagarde “a digital euro, in any event, would be a complement to, not a substitute for cash.”

However, the mere announcement of the investigations carried out by different NCBs has made many people and policy makers question the future of cash.

Finally, I must mention the sustainability of cash as an additional important element. People should use cash with confidence, knowing that it is being created and managed responsibly and carefully so that its environmental footprint is minimised whilst its social benefits are maintained.

To this end, all the stakeholders involved in the cash cycle must contribute to reducing the environmental impact of their part in this cycle, in order to be competitive.

At the Banco de España we are working on climate change and sustainability such as waste disposal of banknotes in order that no banknote will be sent to landfill or combustion. Other initiatives in the context of Eurosystem include R+D studies on banknote substrate, like gradually replacing conventional cotton used in banknote paper with sustainable cotton to reach 100% in 2023, or others to increase banknote lifetime or improve recycling process.

I would like to end by highlighting the Eurosystem-wide commitment to cash and to euro banknotes as a part of our region’s idiosyncrasy.

The Eurosystem’s Cash 2030 Strategy takes into account the challenges identified in my presentation.

Thanks for your attention.