



EUROPEAN CENTRAL BANK

EUROSYSTEM

**ECB-PUBLIC**

*COURTESY TRANSLATION*

Mario DRAGHI

President

Mr Fabio De Masi

Member of the European Parliament

European Parliament

60, rue Wiertz

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L/MD/17/350

**Re: Your letter (QZ-071)**

Honourable Member of the European Parliament, dear Mr De Masi,

Thank you for your letter, which was passed on to me by Mr Roberto Gualtieri, Chairman of the Committee on Economic and Monetary Affairs, accompanied by a cover letter dated 24 July 2017.

Since the introduction of euro banknotes in 2002, the euro area has been one currency area with free movement of banknotes across borders. A salient feature of the euro banknote circulation is the migration between the euro area countries, i.e. agents can use euro banknotes on a cross-border basis within the euro area. Banknote migration is the result of tourism and commuters from neighbouring countries, among other things. Owing to banknote migration, there is only a weak link between the amount of banknotes a national central bank (NCB) issues and its country's gross domestic product (GDP), or the average number of banknotes per capita. This means that some Eurosystem NCBs issue more banknotes than they take out of circulation, while for other NCBs the opposite is the case. Several NCBs even have a negative net issuance due to banknote inflows from abroad. Comparing the issuance of banknotes with GDP or population in a certain country does not, therefore, lead to any meaningful conclusions. Moreover, comparing countries based on the gross number of banknotes issued and taken out of circulation does not help to explain differences in cash usage in the various countries, because the cash cycle is organised differently in each

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country.<sup>1</sup>For the euro area aggregate, historical data on outstanding amounts of euro banknotes in circulation are available on the ECB's website and are updated regularly around the 14th working day of each month.<sup>2</sup> The data are also broken down into the seven denominations: €5, €10, €20, €50, €100, €200 and €500. There is also information for the reporting period on transactions data (banknote flows), the number of banknotes returned from circulation, the number of banknotes sorted to check their authenticity and fitness, and the number of banknotes sorted and declared unfit for use. For the reasons described above, it would not be useful for the ECB to provide country-specific data. This being said, euro area NCBs are free to provide country-specific information on banknote production and circulation. In order to obtain such data, please refer directly to the relevant NCB.

Since the cash changeover in 2002, some 100 billion euro banknotes have been produced according to a decentralised production scenario with pooling. Under this arrangement, each NCB is responsible for procuring a share of the Eurosystem's overall banknote requirements (in terms of production costs) in accordance with its share in the ECB's capital, which is based on GDP and population. As each NCB only produces a few denominations, the decentralised pooling scenario allows the Eurosystem to benefit from economies of scale. It also helps to ensure a consistent supply of high-quality banknotes by reducing the number of production sites for each denomination. Once produced, the banknotes are transported to the different NCBs according to the demand in the individual countries. The annual production allocation of euro banknotes to NCBs is published on the ECB's website.<sup>3</sup> The production of banknotes and the allocation of banknote denominations to the NCBs are thus decoupled from the actual banknote demand in each country. Therefore, there is no relationship between the face value of the banknotes produced and the GDP of the country where they are produced. However, there is a relationship between the share of each NCB in the production costs of the euro banknotes and GDP, since the former depends, as discussed above, on each NCB's share in the ECB's capital key. Like all other euro area NCBs, the Banque centrale du Luxembourg participates in the production arrangements discussed above: in 2017, for instance, it is responsible for commissioning the production of €50 banknotes. Like all other euro area countries, Luxembourg and its NCB are exposed to the phenomenon of banknote migration described above.<sup>4</sup>

Yours sincerely,

[signed]

Mario Draghi

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<sup>1</sup> For further information on this topic, see the article entitled "The use of euro banknotes – results of two surveys among households and firms", *Monthly Bulletin*, ECB, April 2011, available at [https://www.ecb.europa.eu/pub/pdf/other/art2\\_mb201104en\\_pp79-90en.pdf](https://www.ecb.europa.eu/pub/pdf/other/art2_mb201104en_pp79-90en.pdf)

<sup>2</sup> See [https://www.ecb.europa.eu/stats/policy\\_and\\_exchange\\_rates/banknotes+coins/circulation/html/index.en.html](https://www.ecb.europa.eu/stats/policy_and_exchange_rates/banknotes+coins/circulation/html/index.en.html)

<sup>3</sup> See [https://www.ecb.europa.eu/stats/policy\\_and\\_exchange\\_rates/banknotes+coins/production/html/index.en.html](https://www.ecb.europa.eu/stats/policy_and_exchange_rates/banknotes+coins/production/html/index.en.html)

<sup>4</sup> It should also be noted that, for smaller countries, the impact of banknote migration is generally stronger due to the high ratio of non-residents (e.g. tourists and commuters) to residents.