

Should the use of cash be limited?

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Payment habits have changed over the last twenty years. In Austria, cash is still the most popular means of payment at the point of sale (POS). But card payments have become more important, which is largely due to technological progress. The COVID-19 pandemic has likewise amplified the trend toward cashless payments. Additional pressure on cash also results from an initiative of the European Union (EU): The EU plans to introduce an EU-wide upper limit for cash transactions, namely EUR 10,000. The respective regulation is currently being discussed as part of a package of measures to combat money laundering and terrorist financing. Cash ensures anonymity and protects privacy. Cash works even when technology fails. In terms of inclusion, cash is important for people whose self-reported income is in the lower income brackets as well as less technically versed people. During the pandemic, cash enabled them to satisfy their basic needs. Given its tangible nature, cash moreover allows people to keep track of their financial resources. The flip side of anonymous cash are illegal activities. This is why the EU proposed to put a uniform ceiling on cash transactions. To this effect, the European Central Bank (ECB) had already in 2016 decided to stop producing the 500 euro banknote and to exclude it from the second euro banknote series. Austria has not imposed any legally standardized ceilings for cash payments – in contrast to 10 of the 19 euro area countries. The restrictions range from EUR 500 in Greece to EUR 15,000 in Slovakia. Worldwide, upper limits for cash payments are rare, existing only in 9 non-European countries to our knowledge. Such ceilings are just one way of combating crime and money laundering. As a matter of fact, national cash ceilings have had little effect so far. What speaks against restricting cash payments? An EU-wide limit on cash payments might distort competition and redistribute illegal activities within the euro area. Stricter national limits would be likely to continue to apply. Illicit activities have already started to shift to alternative, i.e. digital, means of payment, so-called crypto assets. Limiting cash payments without introducing accompanying measures could thus prove ineffective – as could restricting a single means of payment. Last but not least, an absolute, uniform measure does not do justice to the EU's subsidiarity principle, given that wage and price levels differ substantially across EU countries.

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For Austrians “cash is king,” and their love of cash is well known. Not surprisingly, cash payments are still very common in Austria, accounting for 66% of all physical point-of-sale (POS) transactions (Höpperger and Rusu, 2022).

However, as technological progress has over the past two decades pervaded many areas of our daily lives, we have seen notable changes in payments as well: means of payment have evolved, and people's payment habits have changed accordingly. In other words, people increasingly use cards for everyday payments: by end-2020, already 83% (2019: 73%) of debit card payments were contactless (PSA, 2020, 2021). In addition to this trend, recent measures to combat the COVID-19 pandemic have

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led to a decline in cash use. At the beginning of the pandemic, this development was especially due to partly false information about the risks of virus transmission through banknotes (ECB, 2021; Höpperger and Rusu, 2022). In addition, the European Commission (2021a) published a proposal for a regulation in July 2021 that provides for the introduction of a uniform upper limit for cash payments of EUR 10,000. In light of this, the pressure on cash is mounting.

According to the European Commission (2021b), limiting cash payments is meant to make a significant contribution to the fight against money laundering and terrorist financing. Large-value cash payments leave hardly any trace, which is why, according to EU political leaders, criminals prefer using such payments for money laundering (Engel, 2021). In this article, we aim to critically analyze and assess the arguments put forward for introducing a uniform EU-wide ceiling on cash payments. For this purpose, we first explain the functions of cash before we take a look at the current legal situation and national cash payment ceilings that exist already. Next, we present the arguments the European Commission has given for introducing a cash payment ceiling and examine them from a critical perspective. We conclude by summarizing our key findings and provide reasons why a cash ceiling does not lend itself to combating money laundering and terrorist financing.

1 The importance of cash

Almost three decades ago, the signing of the Maastricht Treaty laid the legal basis for the euro. In 1999, the euro was introduced as a common currency in the form of book money and in 2002 in the form of cash. 20 years later, euro cash continues to be a central, indispensable component of payment transactions, thus representing one of the most “tangible” symbols of European integration. After all, cash fulfills critical functions not only for the economic cycle, but also for private individuals. It is the only *means of payment* that allows citizens to make a transaction in central bank money that is settled immediately and thus definitively (Krueger and Seitz, 2018). With cash payments, neither the seller nor the buyer of a good has to pay in advance. Both are thus protected against the other party’s insolvency.

Especially in a time in which digital networks and data collection for commercial purposes are becoming ever more important, cash guarantees a high level of data protection (Krueger and Seitz, 2018). In contrast to noncash means of payment, cash leaves no (digital) traces in transactions and thus supports a person’s economic freedom of disposition. At the same time, cash plays an important role in providing payment options for people whose self-reported income is in the lower income brackets. People who pay a larger share of their expenses in cash include older or unemployed people, immigrants, minors, people with lower levels of education as well as people with limited or no access to digital payment services (Krueger and Seitz, 2018). Cash is thus an important means of promoting financial inclusion. Especially in a crisis situation such as the COVID-19 pandemic, nonacceptance of cash at the POS would probably make it very difficult for the abovementioned people to meet their basic needs. Moreover, paying with cash helps people keep better track of their spending, something many households take advantage of, especially those who have less money at their disposal. If people have a certain budget, e.g. for household expenses, in cash, looking into their wallets lets them know how much money they have left.

Cash can also be kept, lent, stored and saved for larger purchases. Cash thus also has a *store-of-value function*. Recent studies show that the demand for euro banknotes continues to rise, even though the share of cash transactions has declined in the euro area. As has been shown by the ECB (Zamora-Pérez, 2021), this seemingly counterintuitive paradox is due to the demand for banknotes as a store of value both in and beyond the euro area (euro area countries: 28% to 50% of total circulation value in 2019; foreign demand for euro banknotes: 30% to 50% in 2019). This is also confirmed by extensive research on foreign demand for banknotes (Lalouette et al., 2021).

Furthermore, cash lends itself to comparing the value of different goods and services, serving as a unit of account. It is also crisis-proof given that it functions independently of electricity and also in the event of payment system failures. At the beginning of the COVID-19 pandemic, the sharp increase in cash withdrawals in Austria has driven home that, in times of crisis, the Austrian population relies on cash.

Finally, it is worth mentioning that the euro banknotes have for years been among the most counterfeit-proof banknotes in the world, as confirmed by the counterfeit money statistics of the ECB (2022) published at the beginning of 2022.²

2 Status quo of cash payment restrictions

Despite its many positive features and functions, cash is often associated with illegal activities. Who does not know at least one movie scene in which someone hands over “dirty” money from criminal activities in a suitcase? In everyday life, people usually use a mix of means of payment ranging from cash to cards to alternative means of payment such as crypto assets. The ability to switch between different means of payment has also proven beneficial in criminal activities such as tax evasion, terrorist financing and money laundering. Government authorities, law enforcement agencies and other institutions have in recent years started to target cash as the (main) cause of such activities.

As a result, measures have been taken to restrict the use of cash, or at least make it increasingly unattractive. The ECB, for example, has stopped issuing the 500 euro banknote.

2.1 Applicable legal regulations

The 4th Anti-Money Laundering Directive (Directive (EU) 2015/849),³ which was published in the Official Journal of the European Union on June 5, 2015, obliges companies that receive cash payments of more than EUR 10,000 when trading goods to apply this EU directive. The aim is to prevent the infiltration of illegal sums of money into the financial and economic cycle. The directive is a minimum harmonization directive, which means that EU member states have been able to adopt stricter measures.⁴

² In the course of 2021, the number of counterfeits seized from circulation in Austria fell by almost one-third to 4,456 (2020: 6,321 counterfeits). Note, however, that the pandemic did not yet play a major role in the first quarter of 2020. Even if we narrow down the comparison period to Q2 to Q4 2020, counterfeits also fell by 27%.

³ Implemented in Austria by the Financial Market Money Laundering Act.

⁴ See in particular recital 6 und Article 2 paragraph 1 lit e.

The provisions place great emphasis on the “know your customer” principle, which is intended to deprive money launderers of the advantage of anonymity. Another piece of legislation worth mentioning in this context is the Cash Regulation⁵, which stipulates that travelers entering or leaving the EU and carrying a cash amount of EUR 10,000 or more must declare the amount to the customs authorities.

Judicial case law also points in a certain direction. In a recent decision⁶, the Court of Justice of the European Union (CJEU) considered a limit on cash payments to be permissible in principle in light of the free movement of capital (Article 63 of the Treaty on the Functioning of the European Union – TFEU), provided that such a limit is appropriate and necessary to achieve the objective pursued (combating tax evasion and tax avoidance). Furthermore, the CJEU has confirmed in another decision that certain reasons may justify a restriction on cash payments.⁷ Accordingly, although legal or other generally applicable regulations do not allow member states to impose cash restrictions of any, i.e. unlimited, size, they are not completely ruled out either.

In Austria, no legally standardized upper limits apply to cash payments. However, Austria provides for an identification obligation for transactions with a value of EUR 10,000 or higher, unless the transactions fall within the scope of a permanent business relationship. An identification obligation also applies to deposits or withdrawals of savings deposits if the amount to be deposited or withdrawn amounts to EUR 10,000 or more. In addition, it is prohibited to pay or receive wages for the provision of construction services in cash. Beyond that, restrictions on cash payments are subject to private autonomous disposition under Austrian law.⁸ Theoretically, private individuals can therefore exclude the acceptance of cash in general and for all monetary debts denominated in euro without violating legal provisions.

2.2 Cash limits in euro area countries

As mentioned above, the European Commission is planning to implement an EU-wide cash limit. In recent years, more and more EU member states have introduced national restrictions on cash payments with the aim of combating illegal activities (especially terrorist financing and money laundering) as well as tax evasion and the shadow economy in general (see table 1 in the annex).

Currently, ten euro area countries (Belgium, Greece, Spain, France, Italy, Latvia, Malta, Portugal, Slovenia, Slovakia) have national limits on cash transactions. They range from EUR 500 in Greece to just over EUR 15,000 in Slovakia. In addition, special restrictions may apply to specific payments, such as tax payments (see table 1 in the annex). The national cash payment ceilings differ not only with regard to the threshold values, but also with regard to the group of persons and sectors covered.

Nine euro area countries (accounting for 31% of the total euro area population) currently do not apply, or intend to apply, cash ceilings at the national level. These

⁵ Regulation (EC) No 1889/2005 of the European Parliament and of the Council of 26 October 2005 on controls of cash entering or leaving the Community.

⁶ See the judgment of the CJEU of October 6, 2021, *Ecotex Bulgaria*, C-544/19.

⁷ See the judgment of the CJEU of January 26, 2021, *Hessischer Rundfunk*, joint cases C-422/19 and C-423/19, ECLI:EU:C:2021:63, paragraphs 69–70.

⁸ On the fundamental obligation to accept euro banknotes and coins, see Article 61 paragraph 2 of the Federal Act on the Oesterreichische Nationalbank and Article 8 paragraph 3 of the Austrian Coinage Act.

countries are Germany, Estonia, Ireland, Cyprus, Lithuania, Luxembourg, Austria, the Netherlands⁹ and Finland.

As far as we know, outside Europe, few countries have introduced limits on cash payments. Three countries, namely Mexico, Uruguay and Indonesia, have a cash ceiling above EUR 10,000. Another three countries (Chile, Argentina, India) have limits for cash transactions of up to EUR 10,000. Israel, Russia and Vietnam are considering introducing limits on cash payments.

3 The EU's anti-money laundering package

The cash payment ceilings introduced so far in EU member states are only one of many measures to combat money laundering, terrorist financing and tax evasion. The countries that have not implemented such a cash ceiling to date may likewise choose from various legal measures to combat illegal activities.

At the EU level, however, there is agreement that most EU member states have a massive backlog in their fight against crime and money laundering. The European Commission now intends to make this fight more effective with the help of the anti-money laundering and countering of the financing of terrorism (AML/CFT) package that consists of four legislative proposals. The goal is to close gaps in the law, standardize rules and monitor them better. According to the European Commission, national measures have so far had little effect in the fight against money laundering and terrorist financing for lack of understanding and applying the AML/CFT requirements, lack of supervision and the limited number of suspicious transactions reported to the central reporting agencies.

In addition to introducing a European anti-money laundering authority, the proposed regulation (COM(2021) 420 final) therefore now provides in Article 59 for a cash ceiling of EUR 10,000 (or the equivalent amount in other currencies) for commercial transactions (i.e. for persons trading in goods and providing services). The only exceptions to this cash ceiling are (1) payments between natural persons not acting in their professional capacity and (2) payments or deposits at the premises of credit institutions.

The proposed regulation also allows member states to retain lower limits. Thus, existing national cash ceilings retain their validity. In addition, the member states are authorized to adopt lower cash ceilings than those provided for in the regulation after having consulted the ECB. Finally, the proposed regulation (Article 63) requires the European Commission to submit a new assessment of the necessity and proportionality of a lower cash ceiling after three years from the date of application of the regulation.

4 Advantages and disadvantages of cash limits

Discussions about the introduction of an EU-wide cash ceiling are not a new phenomenon. Already in 2015, efforts were taken at the European level to enact corresponding regulations. For lack of an empirically verifiable connection between a cash ceiling and a restriction of money laundering, these efforts stalled. The new

⁹ Currently no upper limit for cash payments is in place for private individuals. However, a legislative proposal provides for the prohibition of cash payments above an amount of EUR 3,000. In addition, a reporting obligation applies to suspicious payments over EUR 2,000. This obligation applies, for example, to professionals in the banking sector, freelancers, insurance companies and casinos.

proposed regulation (COM(2021) 420 final) again refers to the fight against money laundering and terrorist financing as a priority goal.

In his book *The Curse of Cash*, the former chief economist of the International Monetary Fund (IMF), Kenneth Rogoff (2016), also assumes that a large part of the world's cash circulates in the shadow economy. He believes that abolishing larger banknotes would help significantly curb criminal activities such as tax evasion, drug trafficking, illegal immigration, money laundering, human trafficking, bribery of government officials and possibly even terrorist activities. Moreover, curbing such activities would have the added benefit of increasing government tax revenues (Rogoff, 2016).

In the proposed AML/CFT regulation, the European Commission (2021a) also cites the existence of different national restrictions as an argument for introducing a uniform cash payment ceiling. Differing approaches weaken the effectiveness of national measures, as they can be exploited to shift illegal activities from one member state with cash payment restrictions to another where restrictions on cash payments are less strict or absent altogether (recital 94). A harmonized limit on cash payments would thus eliminate distortions of competition in the internal market (recital 95) that have arisen from the different national rules for cash payments. The different rules can have a negative impact on certain economic sectors in countries with cash payment restrictions, while benefiting competitors in neighboring countries without such restrictions. Furthermore, the cash limit is also justified by citing the claim that criminals then find it more difficult to carry out illegal transactions because it is easier to trace electronic transactions than cash payments.

At the same time, several arguments imply that cash limits will not have the desired AML/CFT effect. First, it would be shortsighted to look at cash in an isolated manner as the root cause of all illegal activities. In fact, new payment methods are becoming increasingly popular in criminal activities (FATF, 2010). Foremost among them are crypto assets, such as bitcoin, where complex transaction chains enable anonymous payments abroad (Krueger and Seitz, 2018). According to a recent report by CipherTrace¹⁰ (2020), a total of USD 3.5 billion worth of transactions was sent from criminal bitcoin addresses in 2020 on the bitcoin platform alone. These payments from bitcoin addresses were controlled by shadow market participants, hackers or other criminals.

Moreover, credit cards and what is called transaction laundering – a new form of money laundering via online transactions and payment services – are also gaining in importance (Dalinghaus, 2017). In addition, opaque company constructions and offshore destinations allow to move funds on a large scale and across several jurisdictions, thus disguising the funds' dubious origin (Schäfer, 2018). Finally, domestic law enforcement agencies find it hard or impossible to investigate money laundering given the lack of or sluggish administrative assistance from offshore destinations.¹¹ In view of such possibilities, the use of cash for the purpose of money laundering (“money suitcases”) appears to be a relic of the past, when the cashless transfer of money and assets was not or not fully possible. The introduction of a cash payment restriction would not be a major hurdle for criminals using cash as

¹⁰ CipherTrace (US crypto currency intelligence organization); <https://ciphertrace.com/>.

¹¹ The Panama Papers, for example, have clearly shown how money laundering or tax evasion can be carried out with letterbox companies.

they may switch to alternative (digital) means of payment. Restricting only one means of payment has the effect of shifting illegal activities to other means of payment, but would not prevent them (Dalinghaus, 2017).

Furthermore, for money launderers, the cost factor plays a significant role in which methods to choose for money laundering. Dealing with very high volumes of cash increases costs compared with digital means of payment and also involves the risk of personal contact. This is another reason why many new payment methods and electronic forms of money laundering are becoming more attractive.

Finally, the EU's AML/CFT package does not distinguish between terrorist financing and money laundering but caps cash payments to combat both. Hamed Tofangfaz, a specialist in criminal law and terrorist financing, criticizes such an approach for assuming that terrorist groups by default commit criminal acts before committing a terrorist act, which is not the case in reality (Tofangfaz, 2015). More often than not, terrorists procure and distribute funds in a legal manner, so that they commit no incriminating acts until the time of the attack, which is in contrast to money laundering. Therefore, the question arises whether two offenses that differ not only in their methods but also in their intentions (De Goede, 2012) can be effectively combated with one and the same measure.¹²

Moreover, as long as stricter national rules are permitted, a uniform cash ceiling would probably not prevent the problem of distorting competition. For their activities, criminals could continue to opt for member states where at least no stricter provision than the EUR 10,000 limit is in place. Furthermore, in the face of a cap for cash payments in euro, criminals may switch to other currencies in transactions outside the EU where no cap exists. In other words, only setting an upper limit for cash payments in the euro area is not expedient. For cash limits to be effective, a global solution would be called for (Krueger and Seitz, 2018). However, this is currently not feasible for the simple reason that many people still do not have access to noncash means of payment. Furthermore, from today's perspective, it seems very unlikely that the world's dominant countries in the monetary field would agree on a joint initiative to restrict or abolish cash simultaneously (Schäfer, 2018).

In light of the above arguments, it is more than doubtful whether the planned cash limit measure is suitable for combating money laundering and terrorist financing. This is, however, a mandatory prerequisite for an encroachment on fundamental rights and freedoms protected under European law, such as the right to property and privacy. First of all, it is difficult to establish a clear connection between the amount of cash held in a country and the shadow economy or criminal activities, because no clear pattern can be drawn from the available data (Schäfer, 2018). Austria and Switzerland, for example, are highly cash-reliant countries with a relatively small shadow economy sector, which contradicts the hypothesis that substantial cash holdings are associated with a sizable shadow economy. Sweden, on the other hand, with the lowest cash ratio, has a significantly larger shadow economy. The same applies to Canada and Australia, which are among the pioneers in cashless payments and nevertheless have a larger shadow economy than the more cash-friendly countries (Schäfer, 2018). Based on econometric studies, Schneider (2017)

¹² From a legal standpoint, Tofangfaz (2015) notes that the "nature and definition of terrorism" remain fraught. In contrast to organized crime, about which there is more agreement on certain characteristics, a similar consensus does not hold for terrorism or terrorist groups. For differences between terrorist financing and money laundering in relation to accounting methods and techniques, see Frédéric Compin (2008).

also concludes that cash can at best only empirically explain a small part of a shadow economy or other illegal activity. Questions of causality or the actual effects of abolishing cash, however, remain largely unanswered (Schneider, 2017). In a study commissioned by the European Commission, De Groen et al. (2017) concluded that cash restrictions do not have the desired result on terrorist financing and money laundering. As a result, a cash ceiling appears neither necessary nor proportionate.

Furthermore, we should also consider the proposed introduction of a cash payment ceiling from the perspective of the subsidiarity principle under EU law. The EU has 27 member states, and not all of them have adopted the euro. There are differences in wage and price levels both within and outside the euro area. Additionally, customs in business and economic life, including the use of cash, differ and so does the availability of cashless payment methods. An undifferentiated approach with a rigid cash payment ceiling of EUR 10,000 does not do justice to this reality. It does not account for national characteristics – especially the purchasing power in the individual economies. In view of this heterogeneity, setting an upper limit at the member state level appears more appropriate.

In this context, we want to refer to the recent ruling of the CJEU (C 544/19 of October 6, 2021) on a cash payment limit applicable in the Republic of Bulgaria. The CJEU considers such a limit permissible with regard to Article 63 TFEU (freedom of capital movements and payments), provided that such a limit is appropriate and necessary to achieve the objective pursued (combating tax evasion and avoidance). The decision is based on the Bulgarian law on the restriction of cash payments, which provides for a widely applicable upper limit for cash payments of BGN 10,000 (approx. EUR 5,110). As to the level of that ceiling, the CJEU stated in its reasoning that “the threshold of BGN 10,000, above which the obligation to transfer or deposit money into a payment account applies, does not appear excessively low, since it does not result in private individuals being denied a cash payment in their daily purchases or transactions.” This statement does, however, not apply to the cash payment limit proposed by the European Commission: according to Eurostat, the average annual income (average equivalent total net income) in Bulgaria in 2020 was EUR 5,927, while in Austria it was almost five times as high in the same year (EUR 29,503). On the other hand, the upper limit for cash payments proposed by the Commission is only twice (!) as high as in Bulgaria. In our opinion, this illustrates that a uniform ceiling on cash payments of EUR 10,000 violates the subsidiarity principle, as it reflects a lack of proportionality. Finally, from a fundamental rights perspective, there seems to be a problem with the CJEU’s reasoning that daily purchases are still possible when a cash payment restriction is in place.

What might also be problematic is that the cash limit will not be adjusted for inflation, which could lead to an ever-lower limit over time and might thus be interpreted as a step toward abolishing cash in transactions. A possible indexation over a certain period of time, for instance every five years, would be recommendable.

Finally, it should not go unmentioned that the timing increases pressure on cash, especially after the pandemic. This may raise people’s concerns about a creeping abolition of cash.

5 Summary and conclusions

In this paper, we have analyzed arguments that speak for and against introducing an EU-wide uniform ceiling for cash payments, examined the current legal situation as well as existing cash ceilings and highlighted the importance of cash.

According to our analysis, a uniform EU cash ceiling will not be effective in combating money laundering and illegal activities, including terrorist financing. Instead, it is set to merely cause criminals to shift illegal activities to other means of payment. Current national restrictions confirm that cash ceilings have had little effect so far. Moreover, according to the regulation recently proposed by the European Commission, different national cash ceilings are likely to remain in place. As a consequence, the internal market will continue to suffer from distortions of competition. Finally, a uniform cash ceiling does not do justice to the EU's principle of subsidiarity: in particular, it does not account for the differences in the purchasing power of the individual economies, and would disproportionately encroach on legal positions protected by fundamental rights.

As the only legal physical means of payment, cash fulfills indispensable, critical economic functions in both payments and investments, and it also stands for financial inclusion. The COVID-19 pandemic has driven home that, in times of crisis, people trust cash. Any loss of these important functions that are guaranteed by cash would not be justifiable by cash payment restrictions whose effects remain questionable. Economic policymakers should therefore give equal weight to developing the cash sector and to advancing digital payment transactions. Despite some competition, cash and digital means of payment complement each other and both are of great importance to the national economy. Last but not least, consumers should always be free to choose the means of payment.

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Annex

Table A1

Cash ceilings in euro area countries

	Peer-to-business (P2B) / business-to-business (B2B)	Peer-to-peer (P2P)
Belgium	EUR 3,000	No limits
Germany	No limits	No limits
Estonia	No limits	No limits
Ireland	No limits	No limits
Greece	Law 4446/December 22, 2016: EUR 500 for P2B	No limits
Spain	Art. 18 Law 11/2021: EUR 1,000 for residents EUR 10,000 for nonresidents	No limits
France	EUR 1,000 for residents EUR 15,000 for nonresident private individuals	No limits
Italy	EUR 2,000 from July 1, 2020 to December 31, 2021; EUR 1,000 as of January 1, 2022 EUR 15,000 for nonresident (only for tourists)	Same limits as for P2B/B2B
Cyprus	No limits	No limits
Latvia	EUR 7,200	No limits
Lithuania	No limits	No limits
Luxembourg	No limits	No limits
Malta	EUR 10,000 for (a) antiques (b) immovable property (c) jewelry, precious metals, precious stones and pearls, (d) motor vehicles (e) seacraft and (f) works of art	Same limits as for P2B/B2B
Netherlands	Planned: EUR 3,000	No limits
Austria	No limits	No limits
Portugal	Law No 92/2017 of August 22, 2017: EUR 3,000 for residents EUR 10,000 for nonresident natural persons (P2B) EUR 1,000 for B2B	EUR 3,000
Slovenia	EUR 5,000 for P2B EUR 420 for B2B	No limits
Slovakia	EUR 15,000 for P2B (since 2013) EUR 5,000 for B2B	EUR 15,000
Finland	No limits	No limits

Source: Authors' compilation.