

New Publication



CASH REDUCTION: TRENDS, STILIZED FACTS IN LATIN AMERICA AND INTERNATIONAL EXPERIENCES

Abstract

The General Secretariat of FELABAN presents today an investigation in which it picks up some aspects on "Reduction of Cash", for considering it as a subject of crucial importance for a modern economy involving aspects of monetary policy, the activity of financial intermediation, the degree of formality of the economy and the habits of the public, amongst others.

Firstly, this working paper discusses and collects information on the position documented by several specialized authors on why the public uses the cash in such a copious way. In this regard, the document analyses the work of Harvard economist Kenneth Rogoff, who has been promoting less use of cash in favor of more modern, formal and traceable means of payment especially for high value operations since 1998.

Likewise, the document examines figures from Latin America and United States based on official sources from central banks. It is observed that, in spite of the greater disposition of digital and formal means, the use of the cash has a growing tendency in United States - almost 6% annual growth. According to FELABAN's calculations, cash in circulation grows at an average annual rate of 10% per annum in Latin America.

In accordance with what the international academic

literature consulted recommends, the use of the indicator (cash/M1) is advised for the analysis, a simple yet powerful indicator able to isolate the amount of cash as a proportion of the monetary base of a country. This, by definition, captures in large part the notes and coins that circulate in a given economy. For this reason, this indicator was calculated for several Latin American countries and the results suggest it averages 46.1% in the region - Showing that in matters of use of cash Latin America still has a long way to go.

The document reviews the importance of what is termed the digital ecosystem. It is part of a comprehensive strategy in which access to the internet, mobile phone usage, digital infrastructure, security, physical stations, degree of government commitment, adequate laws, and use of electronic commerce (among several variables) are discussed to assess whether a country is prepared for the use of mass payments under formats of digital nature.

Lastly, the document reviews three experiences of great interest in this matter: Sweden as the paradigm country in cash reduction; Uruguay, a country who has shown significant progress in recent times; and India, where there was a failed process of demonetization by late 2016

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