



EUROPEAN CENTRAL BANK

EUROSYSTEM

ECB-PUBLIC

Mario DRAGHI

President

Mr Werner Langen

Member of the European Parliament

European Parliament

60, rue Wiertz

B-1047 Brussels

Frankfurt, 17 July 2017

L/MD/17/283

Re: Your question

Honourable Member of the European Parliament, dear Mr Langen,

Thank you for the question relating to the use of cash in the euro area and the gap in value added tax (VAT) collection, which you raised during the last regular hearing of the Committee on Economic and Monetary Affairs.

As I already argued during the hearing, it is indisputable that cash is also used in the shadow economy and may be associated with tax evasion in some instances. While there seems to be a relationship between the use of cash and VAT gap levels, it is important to caution against univocally interpreting this as a causal relationship. As also evidenced by the relevant research on the subject, there are other important factors affecting tax evasion and tax morale in general, such as tax and income levels, trust between the public and the government, as well as the perceived use of tax revenues. Moreover, other means of payments may also be used in the shadow economy.

In any case, the ECB fully supports efforts to fight tax evasion and, within its remit and taking due account of the legal tender status of euro banknotes, is cooperating – and will continue to do so – with the competent authorities in this regard.

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On the issue of €500 banknotes raised by you during the hearing, let me reiterate what I already argued before the European Parliament in November 2016: the ECB is strongly determined not to make seigniorage a comfort for criminals. This is why, taking into account concerns that €500 banknotes could facilitate illicit activities, the ECB decided in May 2016 to stop producing this banknote and to exclude it from the Europa series.¹ You also raised the issue of 1 and 2 cent coins. It is difficult to see a link between abolishing 1 and 2 cent coins and tax evasion in general. It should also be noted that the issuance of euro coins falls under the competence of the Member States, with the European Commission playing a coordinating role.

Yours sincerely,

[signed]

Mario Draghi

¹ See <https://www.ecb.europa.eu/press/pr/date/2016/html/pr160504.en.html>

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