

Box 4

New estimates of foreign demand for euro banknotes

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A recent study on foreign demand for euro banknotes suggests that between 30% and 50% of the value of euro banknotes were held outside the euro area in 2019.⁵¹ These estimates are obtained through a variety of methods that supplement the Eurosystem data on euro banknote net shipments abroad, which only take into account banking channels and exclude important informal flows, such as tourism and remittances.

Despite the difficulty of accounting for these unobserved channels, the new estimates are deemed robust and improve on previous estimates which showed that only around 30% of the value of banknote circulation was thought to be held abroad in 2017.⁵²

⁵¹ Lalouette, L., Zamora-Pérez, A., Rusu, C., Bartzsch, N., Poltronacci, E., Delmas, M., Rua, A., Brandi, M. and Naksi, M., “[Foreign demand for euro banknotes](#)”, *Occasional Paper Series*, No 253, ECB, Frankfurt am Main, 2021.

⁵² See the article entitled “[Trends and developments in the use of euro cash over the past ten years](#)”, *Economic Bulletin*, Issue 6, ECB, Frankfurt am Main, 2018.

One of the approaches used to produce the upper bound of 50% is the “seasonal method”. This compares the seasonality of euro cash issuance with that of a reference currency. In this case, the Canadian dollar, a typical benchmark currency in related studies, is used, as it exhibits certain characteristics that are similar to the euro in terms of cash usage, but lacks a strong international role.⁵³ This identification strategy relies on differences in seasonal patterns of both currencies, allowing estimates of the share of cash held abroad to be obtained. This method was used in 2017 to estimate the share of US dollars circulating outside the United States and suggested that around 70% of their total value was held abroad.⁵⁴ However, a direct comparison between these estimates is complicated and should thus be taken with a degree of caution.

As noted in past editions of this report, a number of factors explain foreign demand for euro banknotes, which are used for both transactional and store-of-value purposes. Among others, these include local economic conditions in countries demanding euro banknotes, trust in the local financial systems and local currency and, lastly, expectations about the future adoption of the euro.

⁵³ Several factors lead to the selection of the Canadian dollar as a reference currency, such as a similar use of banknotes for store-of-value purposes and seasonal patterns of banknote issuance that are comparable to those observed for the euro. Other potential candidates for reference currencies (e.g. the Danish krone, the Swedish krona or the Norwegian krone) fail to meet the relevant conditions required for this approach.

⁵⁴ See Judson, R., “[The death of cash? Not so fast: Demand for U.S. currency at home and abroad, 1990-2016](#)”, International Cash Conference 2017 with the theme “War on cash: Is there a future for cash?”, conference volume, Deutsche Bundesbank, 2017, pp. 200-248.