

The limited use of non-cash payments in Moldova

Consumers in Moldova use non-cash payments much less than consumers elsewhere in Eastern Europe. The corresponding infrastructure is also less developed – but this is only part of the reason.

For consumers in Moldova, non-cash payments are often costlier and less convenient. Merchants have to pay much higher interchange fees for transactions through Point-of-Sales (POS) terminals than in EU countries such as Romania and Bulgaria. In some sectors, moving to non-cash payments would require regularizing “informal” operations and paying much higher taxes.

We suggest that financial education for consumers and better software to make online banking and card payments more customer friendly will go a long way towards facilitating further growth of non-cash payments. There is room for streamlining the processing of transactions through POS terminals to realize economies of scale, combined with the competition authorities working to limit interchange fees - similar to the EU. If non-cash payments are to be used as a lever to regularize transactions in the shadow economy, this will require a combination of effective enforcement and fiscal incentives.

Moldova lags behind its neighbours

In recent years, non-cash payments in Moldova have grown much faster than cash payments. Between 2010 and 2015, card payments increased by 379% (admittedly, from a low base), whereas cash withdrawals from ATMs grew only by 112%. This shift towards non-cash payments is welcome because non-cash payments potentially offer greater convenience to consumers, lower transaction costs for merchants and commercial banks, enhance control over the payments system by the central bank, and increase transparency for the benefit of fiscal authorities.

At the same time, Moldova lags behind comparable transition economies in the use of non-cash payment methods (see table below). Interestingly, the gap in actual usage of non-cash payments is larger than the relative lack of infrastructure (such as POS terminals) would suggest. As we set out to understand why, it is helpful to recall that the shift towards non-cash payments is a major systemic change that depends on the cooperation of all key players: consumers, merchants, commercial banks, payment processors, and regulators. For the most part, the benefits can be realized only when all stakeholders are on board and synergies are created. Therefore, it is important to ask how the government may support this process.

Number of non-cash transactions per capita

Operation	LTU	ROU	UKR	MDA
Credit transfers	60.3	10.1	-	4.6
Direct debits	4.8	0.5	-	0.02
Card payments	58.6	11.5	19.7	1.8
Memorandum: POS terminals (1,000 per 1 m residents)	13.4	6.5	4.6	3.4
Cash withdrawals at ATMs	22.8	11.0	15.6	5.6
Memorandum: ATMs per 1 m residents	438	577	744	273
Memorandum: cash in circulation (% of GDP)	3.7	5.6	17.7	15.6

Source: National Bank of Moldova, European Central Bank, National Bank of Ukraine; own compilation

Note: 2014, for Moldova 2015

Stakeholders' perspectives

Consumers need to overcome well-established payment habits focussed on cash as they shift towards card payments – inevitably a lengthy process. Furthermore, non-cash payment methods are often more expensive to consumers than using cash (see table below). While the necessary infrastructure is available in urban areas, it is not always organized in a user-friendly manner.

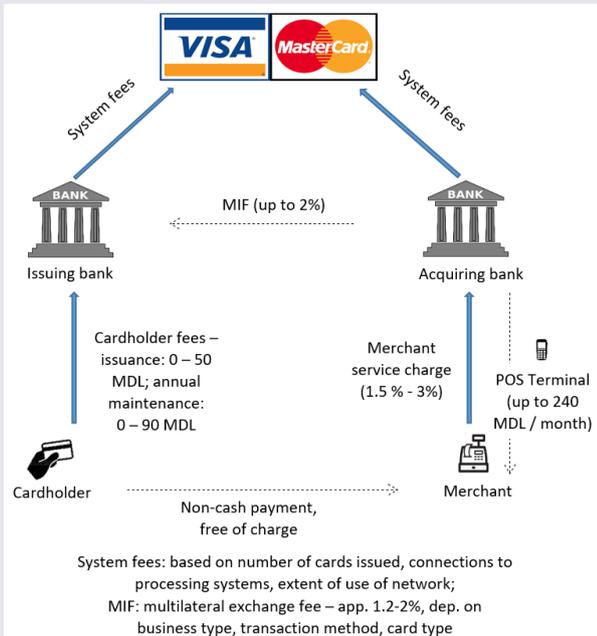
Fees for non-cash payments charged to the consumer

Operation	Minimum	Maximum
Account opening/ closing	0 MDL	50 MDL
Account handling	0 MDL	7 MDL / month
Payment transaction - same bank	1 MDL / transaction	4 MDL / transac- tion
Payment transaction - different bank	2 MDL	10 MDL
Card issuance	0 MDL	40 MDL
Annual debit card maintenance	36 MDL	90 MDL
Internet banking	0 MDL	100 MDL / month
ATM withdrawal – same bank	0 MDL	1 MDL / transac- tion
ATM withdrawal – other banks	1 MDL	1.5% min. 1 EUR
Payment by POS	0 MDL	

Source: commercial bank websites; own compilation

Merchants face relatively high costs as they offer their customers card payments through POS terminals, as shown in the figure below.

Processing of payments through POS terminals



Source: own compilation based on commercial bank websites

Merchant service charges (and the interchange fees that they pay for) are high by international standards – to the point where card payments become unattractive to merchants on the basis of the transaction cost only. As a result, reportedly, consumers are often told by merchants that “the POS terminal does not work”. The use of cash transactions is especially prevalent in some sectors where a large share of transactions is in the shadow economy, such as construction, agriculture and restaurants. While non-cash transaction would often be feasible here, it must be noted that there are instances such as payments to small farmers where there is no practical alternative to cash.

Policy interventions

More financial education to familiarize consumers with card payments and other non-cash transactions would be useful – given that consumers often still use cash although they could use non-cash methods at no extra cost, such as when they pay utility bills. Beyond such low-hanging fruits, competition authorities in Moldova may take a cue from the EU Competition Commissioner that brought down high interchange fees for card payments through sustained monitoring that culminated in capping fees through Regulation (EU) 2015/751. In Moldova, in parallel, the cost of processing card transactions should be reduced by streamlining procedures and realizing the associat-

ed economies of scale. This can be done by setting up a unique service company, controlled by all interested stakeholders, to provide POS terminals to merchants and provide processing services under transparent conditions.

From the point of view of tax authorities, if consumers insisted on using card payments, this might create pressure on businesses to regularize informal economic activities. Tax collections might increase – which might justify fiscal incentives for card payments such as a reduced VAT rate for card transactions. While there are encouraging examples from countries such as Uruguay, such incentives would have to be carefully targeted to minimize fiscal losses.

Author

Matthias Lücke, luecke@berlin-economics.com

Note: A more comprehensive analysis of the topic is provided by Policy Paper PP/02/2016 "The limited use of non-cash payments in Moldova: Diagnosis and policy options"

Available at: www.get-moldau.de

German Economic Team Moldova (GET Moldova)

GET Moldova maintains a dialogue on economic policy with decision-makers of the Moldovan government since 2010. It is funded by the Federal Ministry of Economic Affairs and Energy.

Editors

Dr Ricardo Giucci, Jörg Radeke

Contact

German Economic Team Moldova
 c/o Berlin Economics
 Schillerstraße 59
 D-10627 Berlin
 Tel: +49 30 / 20 61 34 64 0
 Fax: +49 30 / 20 61 34 64 9
 info@get-moldau.de
 www.get-moldau.de