

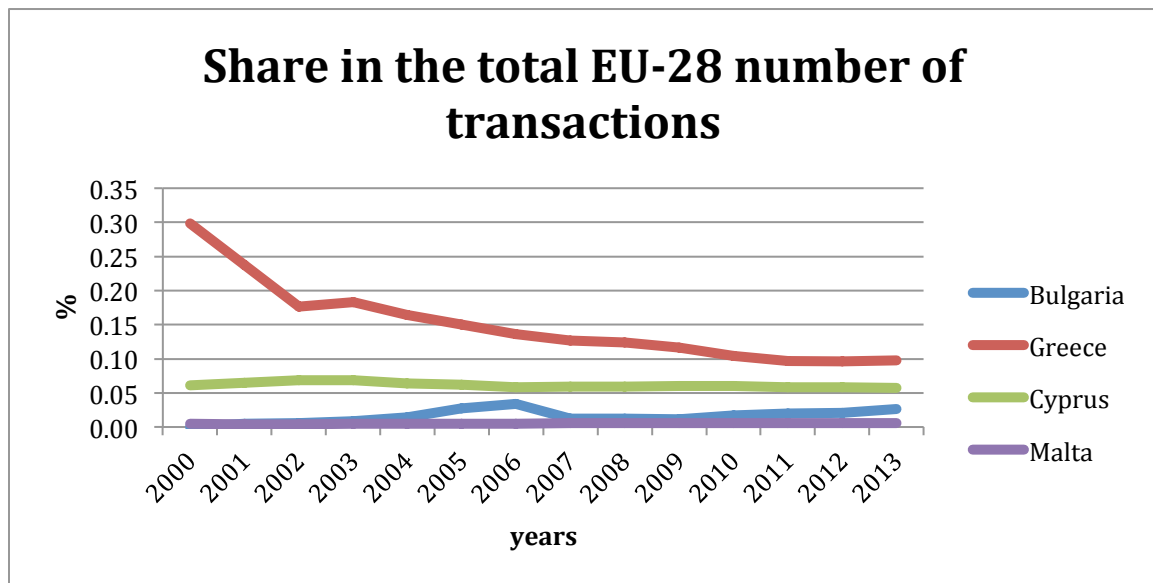
Capital controls and transactional culture

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In recently published articles in Bloomberg (04.08.15) and Kathimerini (05.08.15), there is discussion on a positive aspect of capital controls imposed in Greece at the end of June. The number of debit cards issued after the imposition of capital controls exceeded 1,000,000, while the increase in the number of electronic transactions surpassed 135%. The installation of POS terminals exploded and more than 150,000 new e-banking passwords were released. The desirable outcome would be the increased use of electronic payments, since they facilitate payment of taxes and reduction of the shadow economy.

Motivated by this, I compare the payments statistics in the EU-28 and Greece in the period 2000-2013. The picture that emerges from the data, though, is less optimistic.² Chart 1 shows Greece's share in the total EU-28 number of transactions (debit and credit cards) along with Bulgaria, Cyprus and Malta shares. Greece ranks in the last places during the whole period, while the UK comes first in electronic transactions (15% in 2013). Greece's rate has declined steadily since 2000, while Bulgaria, Cyprus and Malta show a steady or increasing trend.

Chart 1



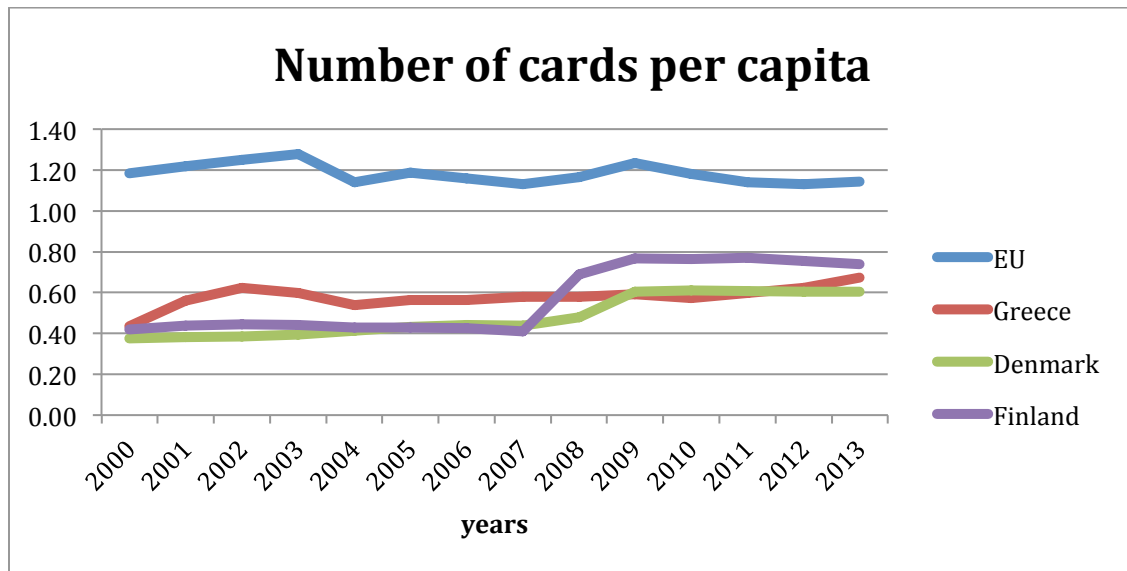
Source: Statistical Data Warehouse, ECB

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² Based on Eurostat data, I remove the cyclical effects of GDP on the number of transactions.

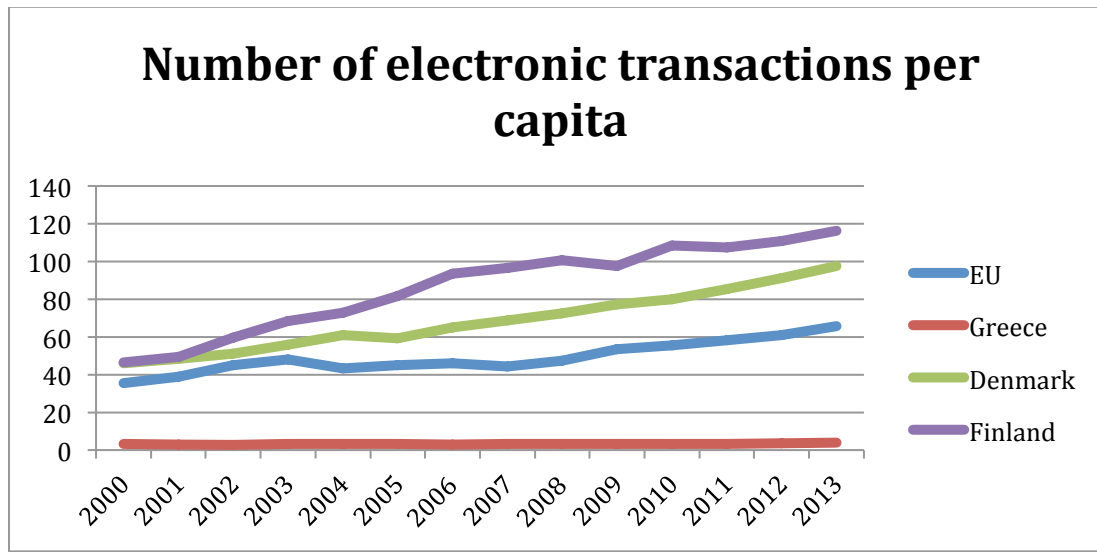
Chart 2 shows the number of cards per capita (debit and credit cards issued in the country) in Greece, Denmark, Finland and EU-28. Compared to the others, Greece is well ranked and she has higher number of cards per capita than Denmark and Finland by 2007. The statistic itself is encouraging regarding the spread of cards in the Greek society. But when seen along with the number of electronic transactions per capita (chart 3), the state changes. The statistics in chart 3 are indicative of the transactional culture in Greece. From 2000 to 2008, she is third from bottom ahead of Romania and Bulgaria, while since 2009 she ends up having more electronic transactions per capita only than Bulgaria. In 2013, for example, Bulgaria made 1.56 and Greece 3.78 electronic transactions per capita, while Romania, Denmark and Finland made 6.6, 97.63 and 116.2 respectively. In other words, there is a contradiction in the relationship of Greeks with plastic money. While the number of debit and credit cards per capita is in a satisfactory level compared to other European economies, the number of transactions with these cards is almost zero.

Chart 2



Source: Statistical Data Warehouse, ECB

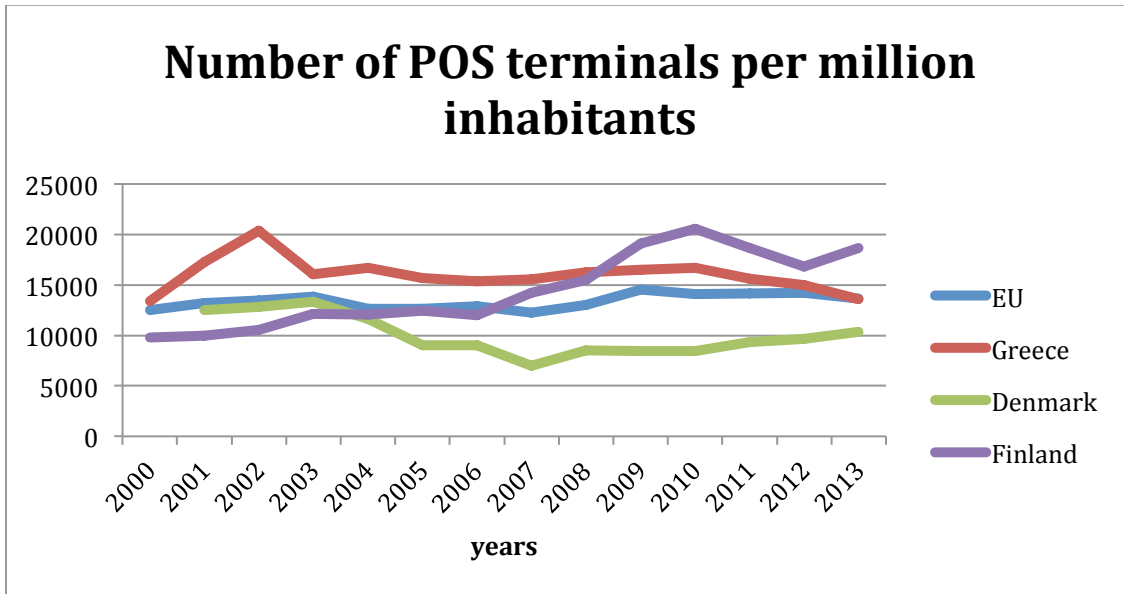
Chart 3



Source: Statistical Data Warehouse, ECB

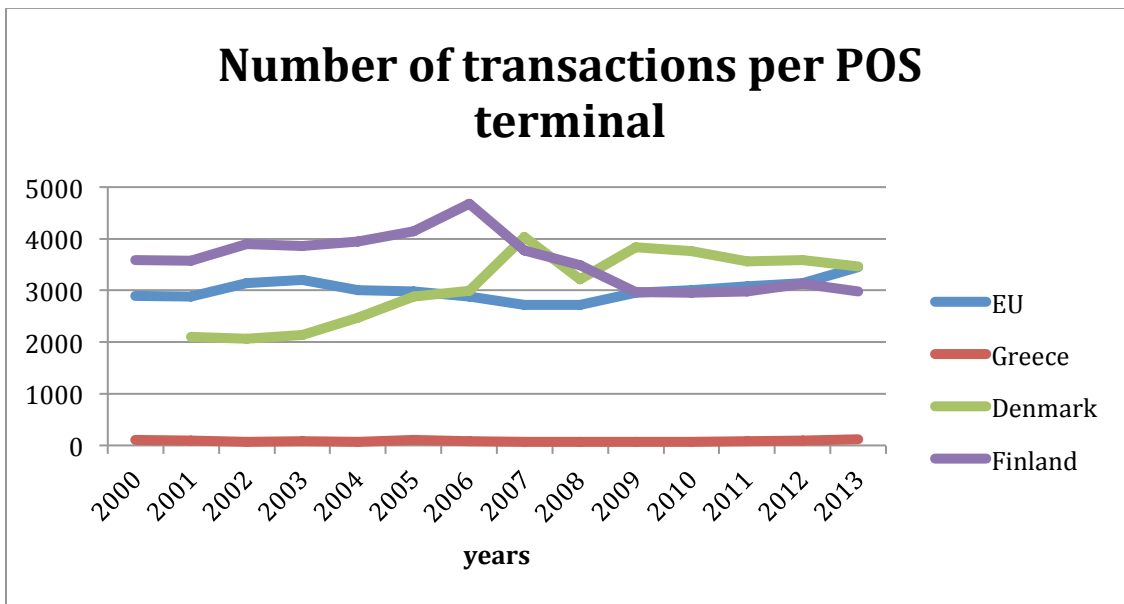
A similar state emerges from charts 4 and 5 that show the number of POS terminals (located in the country and for cards issued in the country) per million inhabitants and the number of payment transactions per POS terminal. During the whole period, Greece installed more terminals per million inhabitants than the EU-28 average, ahead of Sweden and Denmark for example, but has made the least number of transactions per terminal in the EU. In 2013, for example, only 114.76 transactions have been made per POS terminal in Greece, while Bulgaria, Romania and Cyprus made 134.46, 886.11 and 887.75 respectively. The EU-28 average was 3453.98 transactions per POS terminal.

Chart 4



Source: Statistical Data Warehouse, ECB

Chart 5



Source: Statistical Data Warehouse, ECB

The permanent impact of capital controls (ratchet effect)

Despite the adverse effects of capital controls, such as further imports reduction in a recessionary environment, a new reality has been formed. The increase in the number of debit cards issued can significantly reduce transactions in banks branches and their operating costs and thus create economies of scale. A carefully

designed incentives program is necessary so to spread the use of debit and credit cards. Such measures could significantly reduce tax evasion and increase government revenues. More specifically, the size of the shadow economy in Greece was 23.6% of GDP in 2013, which was estimated at 182 billion euros. This means that the shadow economy costs 42.9 billion euros. If the size of the shadow economy were reduced to the European average of around 18.8% of GDP and were taxed by 34%, the revenues would increase by almost 3 billion euros (0.34 x 8.75 billion) (Delis, 2015). Recalling that the public deficit that led to Troika supervision was 23 billion euros, it should be a first-priority reform.

Conclusion

The purpose of this article is to highlight the contradiction in the relationship of Greeks with plastic money. It is by no means an exhaustive study. However, the state that emerges from the data is informative about the nature of reforms required to increase the number of electronic transactions. In turn, this will reduce the size of the shadow economy, as research has documented the negative relationship between the number of electronic payments and tax evasion (Schneider, 2013). The role of the government is crucial in providing the right incentives, such as lower VAT on electronic payments, the imposition of a small fee when using ATM to make a withdrawal etc (Delis, 2015). Given the above, the recent increase in the number of debit cards and in POS terminals installation followed the capital controls suggests modest optimism. The provision of right incentives for the spread of electronic transactions is an important reform to cultivate a new transactional culture in Greece.

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