

Our article is intended to shed light on the extent to which the use of cash is typical in Hungarian payment transactions¹. We examine the Hungarian population's propensity to use cash to cover day-to-day shopping and household expenditures and its preference for cash or cashless payment methods. In other words, we would like to provide a brief assessment of whether the Hungarian population prefers to pay with cash or tends to choose cashless payment options. Moreover, in the article we outline the factors that influence people's choices between specific payment methods.

In this context, for ease of interpretation we compared the features of Hungarian payment habits to the international data available – in particular, the conclusions of the European Central Bank's 2017 study on payment habits. In this article – which is intended to be a preliminary writing for a study soon to be published on the same subject – we would like to present, in consideration of the findings of a recent survey, the current status of the use of individual payment instruments by households.

1. WHAT DO WE USE CASH FOR? DO WE REALLY PAY WITH IT (AS WELL)?

The increase in payment transactions (both in terms of number and value) is a natural consequence of an economic upswing and growing consumption. The effect of this surge in transactions on – transactional – cash demand is not independent of the progress and prominence of cashless payment instruments and solutions as well as the development of infrastructure and the attitude of market participants (primarily, the population) to these instruments and to the use of cash.

It is commonly thought that nowadays a significant part of the society much rather prefer various electronic and innovative payment instruments to the use of cash, as card or mobile payments represent a fast, convenient and secure alternative to the use of banknotes and coins. However, the statistics available to the MNB and the results of household surveys indicate that the attitude of Hungarian households is far more complex than this.

Although the level of development of Hungarian payment transactions is consistently gravitating toward the average values of the European Union, based on the three indicators examined by the Magyar Nemzeti Bank – credit transfers and the payment of purchases and bills via electronic means –, a significant lag persists, especially in bill payments where postal inpayment money orders – the “yellow cheques” – retain their popularity to this day. As regards retail purchases, it gives reason to be optimistic that **the annual value of card transactions increased both in nominal terms and relative to annual household consumption.**

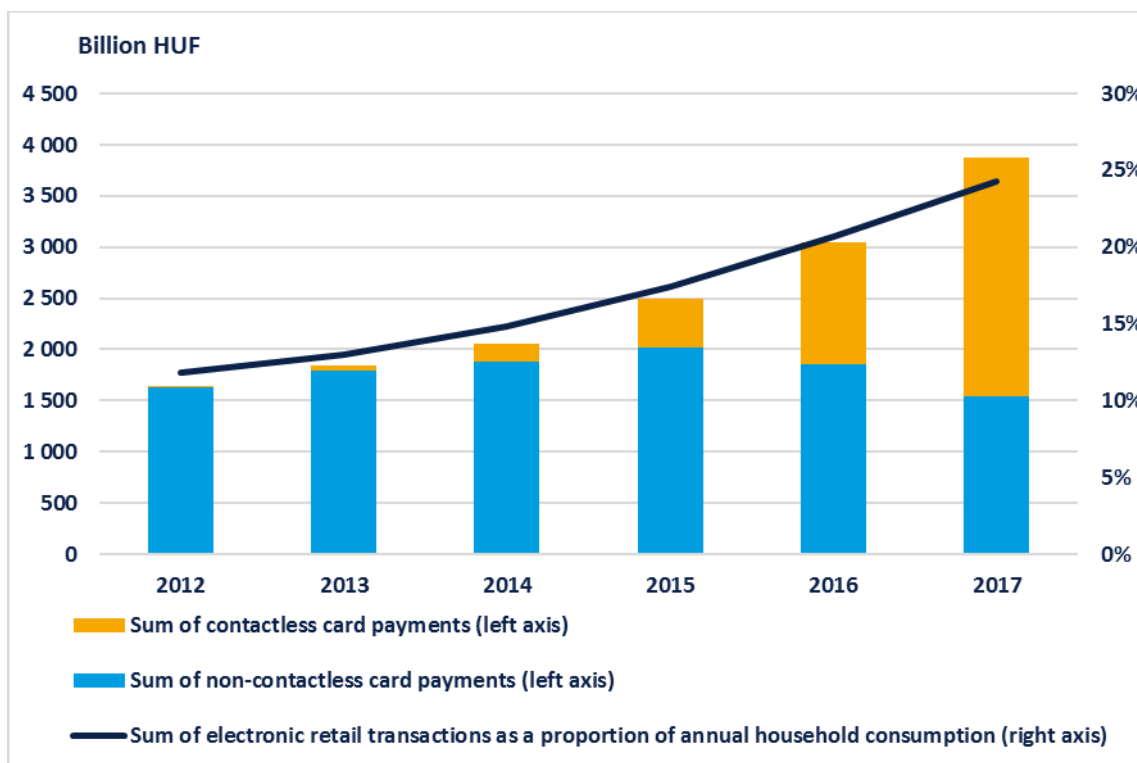
It should not be overlooked, however, that despite this positive trend, **cash remains the most popular payment instrument in retail purchases both in terms of transaction number and transaction value.** This is aptly illustrated by the fact that, based on the data of online cash registers directly connected to the tax authority, **cash payments**

¹ A country's demand for cash is determined by three main factors:

- (I) cash demand for transaction purposes; i.e. payment transactions between economic participants that are carried out in cash;
- (II) cash demand for saving purposes, which arises from the population's – or, in some cases, corporations' – propensity to accumulate savings in cash;
- (III) cash demand of the shadow economy, which relies primarily on the anonymity of cash.

accounted for 71.2% of the total value of purchases and 87.7% of the number of transactions in 2016. Accordingly, it is clear that Hungarian households routinely pay with cash in their day-to-day transactions.

Figure 1: Annual value and growth rate of card payments



Source: MNB

In the autumn of 2017, the Magyar Nemzeti Bank conducted a questionnaire-based survey gauging the cash payment habits and the attitude to cash usage of Hungarian households on a sample of 1,500 persons representative of age (adult population), sex and geographic location. Based on the survey results, **we compared the most important conclusions – and, wherever possible, data – regarding Hungarian payment habits to the findings of the survey² conducted in 2016 by the European Central Bank (ECB) with a similar focus. Our main conclusions:**

1. One quarter of Hungarian consumers still receive all or a part of their monthly income in cash

21% of the respondents receive their regular income primarily in cash, while another 5% receive their income in a combination of cash and credit transfer. Consequently, at least one-fifth of households pay monthly bills and consumption expenditures in cash as they cannot collect any income via cashless forms of payment. According to the ECB's study, the share of consumers receiving all of their income via credit transfer is somewhat higher in the euro area than in Hungary on average (84% versus 74% in Hungary). Hungarian data are more in line with the figures recorded in Slovakia and Lithuania.

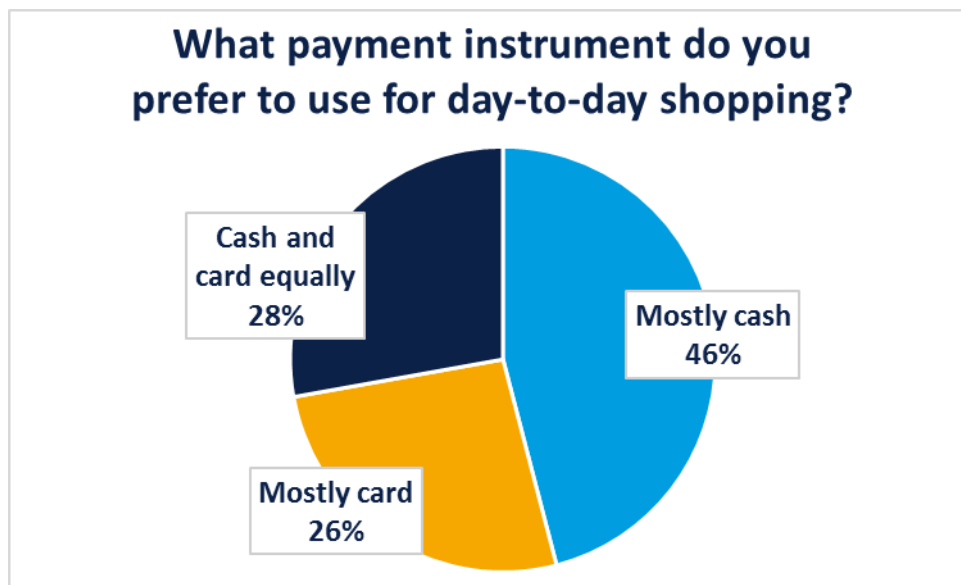
2. Cash is the dominating source of payment in daily shopping

By the respondents' own account, nearly half of the consumers prefer to pay for their daily shopping in cash. **The share of those using predominantly bank cards for this purpose is only 26%.** At first glance, it might be surprising that cash usage is fairly strong in the 18–25 age group as well. However, this can be easily explained by the fact that a significant part of the youth concerned have no independent income; consequently, they receive their "monthly allowance" from

² Henk Esselink – Lola Hernández: The use of cash by households in the Euro area. ECB Occasional Paper Series No. 201, November 2017

their parents or relatives in cash, and obviously pay for their expenses in the same form. Compared to euro area countries, the share of consumers using bank cards in day-to-day purchase transactions is somewhat higher than average. It should be borne in mind, however, that the Hungarian figures are based on self-assessment, whereas the European data rely on payment diaries kept by the respondents on a regular basis; therefore, any comparison should be performed with due caution.

Figure 2: Summary of the answers regarding the payment instruments used in daily shopping transactions (n=1,492)



3. The use of cash is a general practice in utility bill payments as well

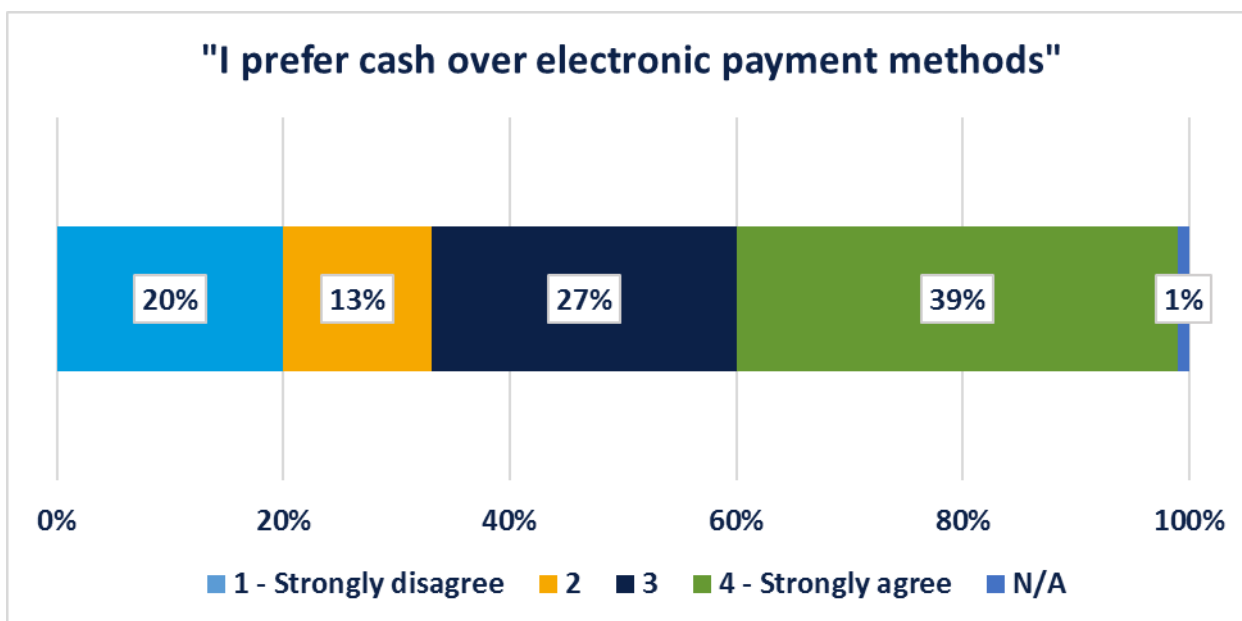
The results of our survey indicated that the use of cash is still a typical practice in utility bill payments. **67% of the respondents reported to pay at least one utility bill of its household in cash**, and only 29% reported to settle their utility bills exclusively via cashless means of payment. The latter percentage lags behind the Western European average.

4. Cash reliance among the Hungarian population is strong

The analysis of payment attitudes indicates that **two-thirds of the Hungarian population prefer paying in cash to electronic means of payment**, while 39% of the respondents have a clear preference for cash. Having said that, the responses given to other questions reveal that **some of the cash users rely on cash mainly out of habit and besides cash, they also take recourse to other payment instruments**. Some of those with a preference for cash would be willing to make all of their payments via electronic means if they had the choice, but 28% of the respondents categorically rejected a cashless way of life. On average in euro area countries, 32% of the respondents would choose to pay in cash, 43% would prefer to pay by electronic methods and 25% reported having no preferred method of payment. Data comparability is limited owing to the slightly different wording of the questionnaires, but it appears

evident that the Hungarian population's preference for cash payments is somewhat stronger than the European average.

Figure 3: Respondents' answers regarding their preferred payment method (n=1,464)



5. Cash is commonly thought to help consumers have a clear overview of their expenses and its popularity can be also attributed to the fact that at present, this is the only solution that allows for instant payment at any time, anywhere.

When asked about the advantages of cash for payments, respondents in the Hungarian survey cited fast execution, instant settlement and the possibility of anonymity. In addition, frequent responses included, for example, simplicity and the ability to control the respondent's monthly spending. The latter is viewed by respondents as the main advantage of cash in euro area countries, whereas in their case, the fact that cash is always accepted (i.e. that cash can be used for payments practically any time and anywhere) ranks only second. Fast payments were cited third and the importance of anonymity was also underscored by a large number of respondents.

3. WHAT TO EXPECT OF THE FUTURE?

The data suggest that cash usage is markedly present in daily payment transactions in Hungary. As regards the motives of holding cash, there are many similarities with the practice of euro area countries, while cash holding trends also exhibit differences owing to the different levels of economic development and the diverging cultural attitudes. Despite the progress observed in Hungary in recent years, there is still room for improvement in the infrastructure for cashless payments and in the gaining ground of non-cash payment methods. Transaction purpose cash usage may decline in future in the wake of the expected introduction of the instant payment system on 1 July 2019, which ensures the execution of domestic forint credit transfers within 5 seconds every day of the year. As regards cash holdings for saving purposes – which account for a substantial portion of the banknotes in circulation –, the impact of the development of cashless payment infrastructures is still unclear as in this case, low deposit rates and quick and unlimited access to one's savings are essentially the main motives for using cash.