

KEY MESSAGES

Despite the increased costs engendered by the introduction of the transaction tax, there was no large-scale, rapid adjustment in the payment habits of economic agents in 2013.

The use of electronic payment instruments increased in line with previous trends. The slow increase in the use of electronic payment methods and the decline in the use of cash continued; however, the rate of change is still below the desired level. The previous trends may have changed following the introduction of the transaction tax even in the short term; however, the analysis of payment statistics for 2013 revealed that a rapid and pronounced adjustment to increased payment costs failed to materialise both in the case of household and corporate customers. Households' supply of payment instruments did not change considerably; thus it is unlikely that the number of unbanked increased significantly.

Despite the slow convergence observed in the use of electronic payment instruments, the efficiency of payments still lags behind in European comparison.

In Hungary, a considerable portion of the adult population has a bank account and the ratio of regular income transferred to the accounts is sufficiently high for an increased use of electronic payment instruments. The value of credit transfers, the payment method generating the largest turnover, is 15 times larger than GDP, a ratio only slightly lower than the European Union average. As regards the use of electronic payment in retail and other purchase circumstances, and the electronic payment of utilities and other services, there is still ample room for improvement.

The regulatory developments of recent periods, in particular, the introduction of the financial transaction tax, have changed the pricing practice of payment service providers significantly, and further regulations may have additional effects this year.

As a result of the financial transaction tax introduced in 2013, the pricing of payment services changed significantly. Banks passed on the tax gradually and following the rate raise, adjustment was complete by October 2013. Most providers passed on the tax directly and completely; however, in case of card payments they priced in the tax indirectly in annual card fees. The pricing of payments is expected to change further as a result of the introduction of free cash withdrawals in 2014 and the reduction of interchange fees.

In 2013 the costs of payment services increased substantially for households, compensated partially by the option of free cash withdrawals from February 2014 and stronger measures on consumer protection.

The level of the price increases was different across payment services; in some cases the costs of cash withdrawal more than tripled in 2013. Previously, between April 2011 and the beginning of 2013, the general costs of payment transactions for households remained largely the same, despite the increased use of electronic payment methods. Fix items, the dominating elements of payment charges, increased significantly last year, despite the direct pass-through of the transaction tax to transactions fees. The fee burdens borne by customers may be eased as a result of MNB's recent investigation series on consumer protection. Related to this, in March 2014 MNB already obligated numerous payment service providers to repay the extra revenues from payment charges increased in an illegitimate way and eliminate violations.

In 2013 real economy and financial transactions were executed safely and efficiently by the overseen systems.

Risks to overseen systems have not increased compared to the previous year. The operation of the overseen systems was highly reliable. The improvement in transaction execution time between participants and between customers exceeded expectations. Turnover of the payment systems and securities clearing and settlement systems increased slightly in value relative to the previous year. There was ample liquidity to cover these transactions both at the system level and at individual bank level.

Credit transfers through the Interbank Clearing System's intraday clearing are credited to the beneficiary's account within two hours on average instead of the legally required four hours.

The average duration of clearing and settlement is 10 minutes per intraday clearing cycle; processing time also depends on the number of transactions to be cleared in the given cycle. In 2013 this duration did not exceed 15 minutes even during the cycle with the highest volume. According to the analysis of the turnover of direct ICS participants, customers can expect to have a two-hour execution time during the five intraday clearing cycles of the ICS.

Following the introduction of ICS intraday clearing, by the middle of 2013 adjustment to the new system was complete. As a result of Banks' adjustment the launch of the Funding for Growth Scheme did not increase the clearing and settlement risks in VIBER.

Since the introduction of the multi-cycle ICS intraday clearing, as opposed to their previous practice, customers execute numerous payment orders through the ICS rather than VIBER. Another effect of the adjustment process was the timing of transactions by VIBER participants, which had shifted noticeably later during the day in the second half of 2012 and this practice became permanent in 2013. As a result of the Funding for Growth Scheme (FGS) launched in 2013, the ratio of securities pledged in favour of the MNB and available as an intraday credit line for payments has declined within the security portfolio. In order to retain the liquidity required previously for their payment transactions, from August 2013 banks continuously increased their stock of securities pledged in favour of the MNB.

Owing to the transformation of the MNB bill into central bank deposit, banks must ensure sufficient liquidity for the execution of their transactions in the payment system.

As of 1 August 2014, the MNB bill will be eliminated and transformed into a central bank deposit. As opposed to the MNB bill, however, the new instrument will not be eligible as collateral accepted by the Bank. Since the two-week MNB bill constituted the bulk (nearly 40 per cent) of the securities pledged by banks as collateral, the new regulation requires adjustments both at the level of the payment system and at individual bank level. According to the MNB's calculations, in order to ensure the execution of payments on an individual bank basis, the banking sector must provide additional collateral worth HUF 500 billion to replace the MNB bill.

If a smaller bank or a new market participant takes over the functions of a larger bank withdrawing from the Hungarian market, the risks arising in the payment and settlement systems will change only marginally.

Changes in the market structure of the banking sector exert an impact on the operation of payment systems and the market of payment services as well. The impact of a larger bank's exit on the payment systems depends on numerous factors; nevertheless, neither possible scenario is expected to generate a substantial increase in risks. Likewise, the transformation of the cooperative bank sector in 2013 had no negative impact on the operation of the payment systems.

The Magyar Nemzeti Bank has purchased the entire block of shares of GIRO Zrt, the operator of the Interbank Clearing System, whereby the third basic financial infrastructure has been taken into majority national ownership after the MNB-operated VIBER and KELER Group, the operator of the securities clearing and settlement system.

Essentially, the acquisition by the Bank intended to serve three goals. First, the MNB is determined to ensure that bank customers have access to payment services as inexpensively as possible compared to the expensive services offered by the previous, profit-oriented operational model of the Interbank Clearing System. Secondly, as an institution responsible for the operation and development of Hungary's financial infrastructure, by purchasing GIRO the MNB can facilitate more efficiently the required payment system developments that serve customers' interests. Thirdly, the MNB considers it important to have companies forming the background infrastructure of payment services in national ownership, similarly to other public utility companies in monopolistic positions.

Pursuant to the requirements of the EU regulation on central counterparties (EMIR), KELER CCP must renew the licences allowing it to perform central counterparty functions.

In line with the requirements of EMIR, on 13 September 2013 KELER CCP submitted its application for the renewal of its licence to the supervisory authority. The re-licensing process will be concluded in the third quarter of 2014 at the latest. In order to meet KELER CCP the requirements of EMIR and the Regulatory Technical Standards defining secondary regulation, in 2013 the KELER Group underwent an organisational and structural transformation. In the context of the transformation, KELER transferred the clearing function of guaranteed markets to KELER CCP; moreover a capital increase of KELER CCP was implemented. In addition, the risk management model of KELER CCP was revised and new services were included among those offered by KELER CCP.

Owing to the increased payment audit spectrum resulting from the integration of supervisory functions into the MNB, as well as its more pronounced policy measures, the efficiency of the payment audits is expected to improve further from 2014.

The integration of supervisory functions into the MNB allows the unified and high-quality audit of payments legislation. All this may help enforce payment service providers' compliance with regulations more efficiently, which should improve customers' confidence in the financial sector. According to the audits performed in 2013, payment transactions were basically executed in compliance with regulations; however, the MNB explored non-compliance cases and imposed fines in the case of six credit institutions.

The MNB declared in a Letter of Intent its commitment to including the forint in a CLS¹ model, and according to expectations, the foreign exchange settlement risk of foreign exchange transactions against the forint may be eliminated from the second half of 2015.

With a view to eliminating the substantial foreign exchange settlement risk borne by the Hungarian credit institution sector and strengthening the stability of the financial system, the MNB decided to include the forint, in cooperation with CLS, in a CLS clearing and settlement model operated by the CLS Bank. After the issue of the Letter of Intent by the Financial Stability Board in January 2014, the diligence phase of the accession could begin. The stakeholders of the project will carry out the tasks identified and coordinate the operative processes in the framework of the implementation phase to be concluded in mid-2015. In order to facilitate a successful accession, the MNB is cooperating with the Hungarian Banking Association, the Hungarian Forex Association and the banking sector as a whole.

The elimination of ICS overnight clearing may improve the efficiency of the system, and the further acceleration of credit transfers may promote the widespread use of electronic payment methods.

The elimination of overnight clearing may improve the efficiency of the Interbank Clearing System and reduce the operating costs of the ICS which, in turn, may reduce service fees. The further acceleration of the processing of customers' credit transfers may also improve the conditions associated with the use of electronic payment instruments. This could also be facilitated by increasing the frequency of clearing cycles or, by the introduction of real-time credit transfer services, which could offer an alternative to cash usage in several new payment situations and mitigate the motivation for cash usage stemming from the lack of confidence among economic agents.

The fast technical progress of mobile devices seen in recent years may also foster the development of electronic payment services.

In several new payment situations mobile payment methods may open up the possibility for electronic payments besides cash; in addition, they may reduce the costs of implementing and operating the infrastructure required for the execution of transactions. Developments should ensure equal access for all participants concerned. Extensive cooperation of all market participants is required to ensure that domestic developments adequately support the improvement of the efficiency of payments.

¹ Continuous Linked Settlement