УДК 330.322

I. Krasnova
PhD, docent, professor
"KNEU after named V.Hetman»
I. Hromnytska
6-year student, Faculty of Finance
"KNEU after named V.Hetman»

Readiness to the transition to the cashless economy

In the modern world, the share of cash settlements accounts for 85% of all consumer payments. This percentage applies also to some countries where most of the population has access to cashless payments, as for instance in Germany. However, there is a tendency to refuse cash systems.

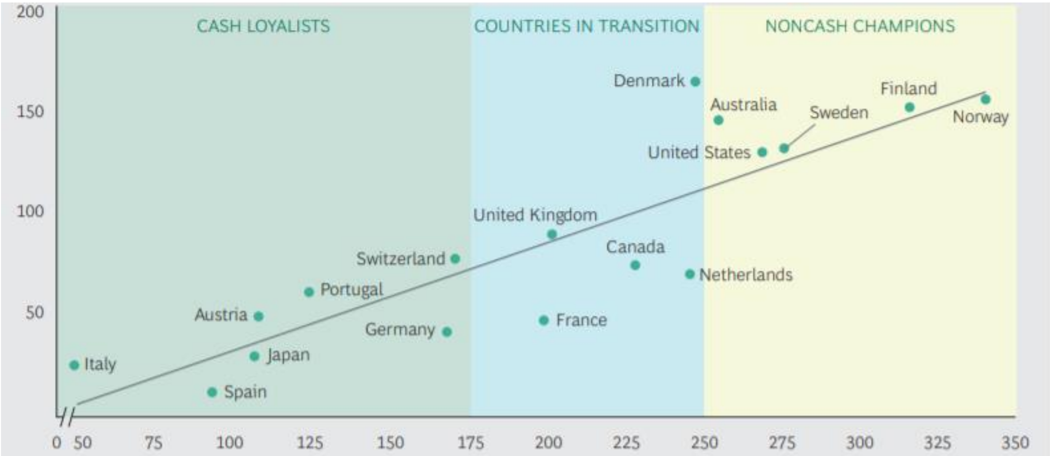

Figure 1: The divide between noncash champions and cash loyalists is growing [1].

The countries in the European Union are implementing large-scale support campaigns for cashless payments. For instance, Denmark and Sweden developed for the purpose an infrastructure of POS terminals increased the security of electronic payments and supported new payment mechanisms. It is worth mentioning that some European regions opposed further cash expansion. The key to the successful implementation of a cashless economy is the qualitative regulation of the mentioned issues at the legislative level. In January this year, the European Commission issued the Proposal for an EU initiative on restrictions on payments in cash, which is a roadmap to restrict cash. It describes the negative aspects of cash usage and refers tocash as the main source of terrorism financing. This document sets the maximum amount of transactions up to €10,000[2].

Despite the global transition trend towards cashless payment systems, the money supply increases annually in Ukraine. Over a period of 10 years, it has increased 3.89 times [3].On average the M0 aggregate increases by 16% annually. As of January 2018, cash in circulation was 98 billion banknotes worth 359.4 billion UAH (11.4 billion EUR) and 97 billion coins in the amount for 2.07 billion UAH (65.7 million EUR).

Cash is still the most widely spread form of payment at a POS, even if its share of sales is less than 50% in Germany. It seems that Germans do not want to change their habits in this regard. Surveys show that 88% of Germans do not want to refrain from cash usage in the future. Only 2% support the complete abolition of cash [4]. The reasons for this behavior have roots in the concern for privacy and the disadvantages for the elderly in a cashless economy.

Prof. Volker Wieland, Ph.D quoted ECB Council Member Yves Mersch in 2016 saying: “Only a small part of the cash flow is used to process payment transactions. By far the largest part of the 500 Euro bills serves to store value”. Furthermore, Prof. Wieland pointed out at the Cash Symposium in Frankfurt in 2016: “According to Mersch, more than a quarter of all Euro notes were used abroad in 2014. If I lived in Ukraine instead of Frankfurt, perhaps near the war zone - and had to think about how to keep my assets, I would not be willing to trust the local banking system” [4]. This statement clarifies that not only criminals have a great demand for cash, but ordinary people as well whose currency is in an unstable state. On the other hand, many monetary policies support the total abolition of cash. If the central bank introduces negative interest rates, the population could avoid those by withdrawing their money from the bank. However, this will no longer be possible in a cashless economy. Meaning that the population cannot avoid the negative interest rates and will need to look for other (riskier) investments.

With the transition to a cashless economy, there are number of hidden threats. The cashless system will chain the public to the technology, making everyone fully dependent on the “free will” of machines and networks. In a scenario where computer networks fail, the economy will be cut off from money access. Even in Sweden, which moves towards becoming the world's first completely cashless economy, concerns are growing because elderly and other vulnerable groups are marginalized in the transition period. At the present stage, most cash payments to individuals are directly transferred to their bank accounts in Ukraine. However, most pensioners for instance, almost immediately remove these funds from their bank account out of a leak of confidence in Ukrainian banks. Thus, the only use for payment cards these citizens have is the direct withdrawal from their bank account. Even this is done in most cases at the bank counter with the help of the bank employees. There is also a psychological aspect to cash, since individuals are emotionally stronger influenced by the lack of physical funds. Therefore, people will start spending money faster, since they don't have physical control over the money.

This work has shown that there are clearly structural and behavioral differences between Germany and Ukraine. The Germans got the ideal infrastructure, but do not trust the cashless economy and do not want to give up on cash, while the infrastructure in the Ukraine in an early development stage, but the citizens demand a switch to a cashless economy. Thou, both countries experience an increase in cashless transactions a final quote by Klaus Müller can possibly summarize the future: "Cash or cashless - a decision of the consumer" [4].

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