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Press Release

Digital payments after capital controls:

Support measures and tax revenues

The big rise of electronic payments following the imposition of capital controls had a particularly positive contribution to the increase in tax revenues from VAT. According to a study by the Foundation for Economic and Industrial Research under the title **“Digital payments after capital controls: Support measures and tax revenues”**, which was presented today, the penetration of e-payments had a significant positive impact on tax compliance, contributing to at least 50 percent of the annual increase of VAT revenues recorded in 2017. This was achieved despite the fact that the average level of card use in Greece remains lower than the European average. The study concludes that more targeted measures are warranted to further enhance the penetration of electronic payments, a prospect that will generate significantly larger fiscal benefits.

According to IOBE’s study, the annual revenues from VAT would be significantly higher if Greece reached the EU average card use level. It should be noted that, following the imposition of restrictions in cash withdrawals in 2015, there was an impressive proliferation of the use of electronic payments, one of the most rapid ones internationally. However, despite this expansion, Greece remains on the 7th lower position among EU member states in terms of the value of card transactions as a percentage of private consumption (Greece in 2017: 20.1% - EU average in 2016: 34.9%).

In more detail, as for the increase in VAT revenues, according to IOBE’s study, between 2015 and 2017, every 1% rise in the use of payment cards in number or value of transactions resulted on average to an increase in VAT revenues by 0.14 and 0.11 percentage points respectively. Alternatively, every 1% increase in payment cards’ share in private consumption leads to a 1.4% rise in VAT revenues. With regards to the impact of the law 4446/2016 on VAT revenues, through the expansion of payment cards that is not attributed to other factors (e.g. changes in consumption, impact of capital controls), the findings generated by the use of statistical methods and tools show that the law contributed to approximately 1/3 of the total annual increase (by €780 million) of VAT revenues in 2017. The direct annual fiscal benefit from the measures is estimated between €210 and €323 million. It should be noted that the total fiscal benefit is higher, as the above calculation does not encompass the benefit generated from the additional revenues from income taxes and insurance contributions relating to economic activity that would have remained undeclared without the expansion of payment cards.

Given that the level of card use in Greece remains lower than international practices, there is margin for larger fiscal benefit from the continuation of electronic payments’ expansion. Based on international practices relating to the share of card use in private consumption, annual VAT revenues would be 21% higher (€3.3 billion) if Greece reached the average EU level. Based on a more uniform penetration of card use across sectors and regions, annual revenues from VAT would be higher by:

- 25% (€3.9 billion) if the share of card use in catering/restaurant services reached the sector's share in private consumption
- 12% (€2.0 billion) if the share of card use in transactions conducted with self-employed professionals reached the share of services delivered by the self-employed in private consumption
- 8% (€1.3 billion) or 5.9% (€930 million) if card use in continental Greece, excluding Attica and Thessaloniki, and on the islands approached the share of the respective regions in GDP.

The distance from the EU remains

The level of payment cards' use converged with the EU average at a higher speed in 2017, but remains comparatively lower and heterogeneous across sectors and regions. The total use of cards as a percentage of private consumption remains 14.8 percentage points below the EU average. The increase in the share of card use was mainly observable in low tax evasion risk sectors, e.g. in super markets, gas stations, drugstores, as well as in some high tax evasion transactions, as these are identified on the basis of incentives and assumptions. However, the total level of card use in "high risk" transactions is found to be significantly lower than the respective sectors' share in private consumption.

The geographical expansion of card use is similarly heterogeneous. Although the increase in the use of card payments during 2015-2017 was considerably higher in non-urban areas than in the urban areas of Athens and Thessaloniki, the level of payments cards' use in areas outside Attica remains low compared to the respective areas' share in GDP.

With regards to the demographic characteristics of the use of payment cards, the study found that the use of cards among the unemployed and the economically inactive is reduced, while employees of the private sector, the banking industry and the uniformed services seem to have adopted cards for their transactions to a higher extent. With regards to age, the highest frequency of cards' use is recorded in the age group of 35-54 y.o.a., however the average monthly spending is higher in the age group of 55-64 y.o.a., due to the higher average value of transactions.

The study conducted by IOBE concludes with a series of proposals – policy measures aiming to target the penetration of electronic means of payment in medium and high tax evasion risk sectors, as well as in regions with low use. Measures are distinguished into three categories, the ones concerning consumers, the ones concerning businesses and administrative measures re. the role of the State and of regulatory authorities. Indicative complementary measures under discussion include the refund to consumers of a certain percentage of the value of specific medium and high risk transactions in case these are conducted through electronic means of payment, the introduction of lotteries or tax deductions for self-employed who meet EMP penetration targets and the prompt establishment of the professional accounts' register.

The study is available on IOBE's website (www.iobe.gr).

Figure 1: Use of payment cards in Greece following the imposition of capital controls

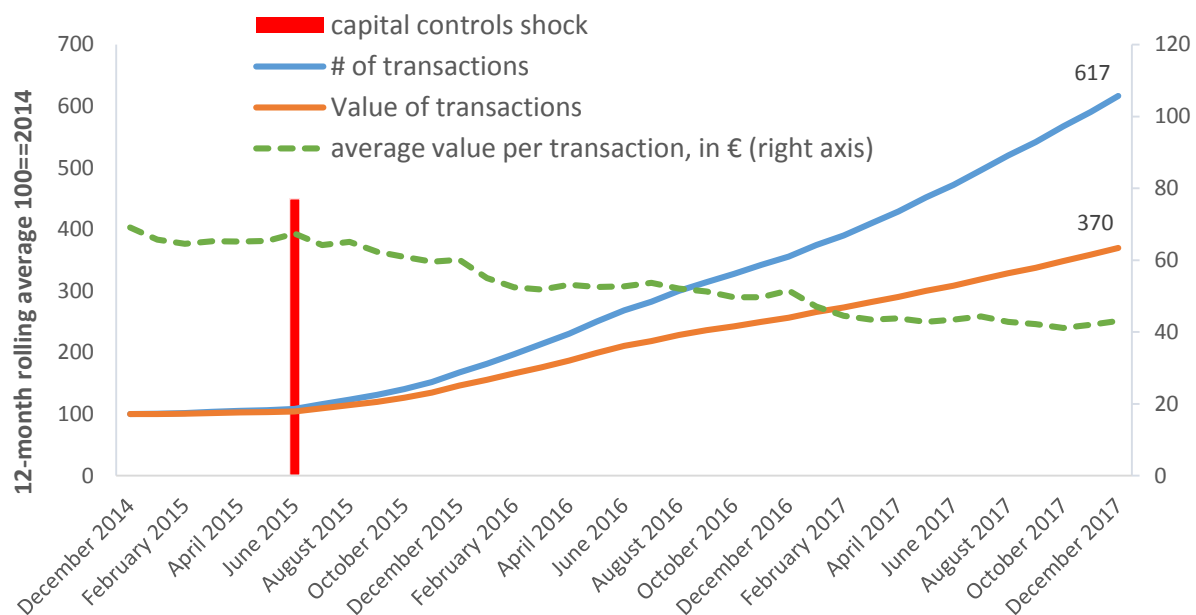
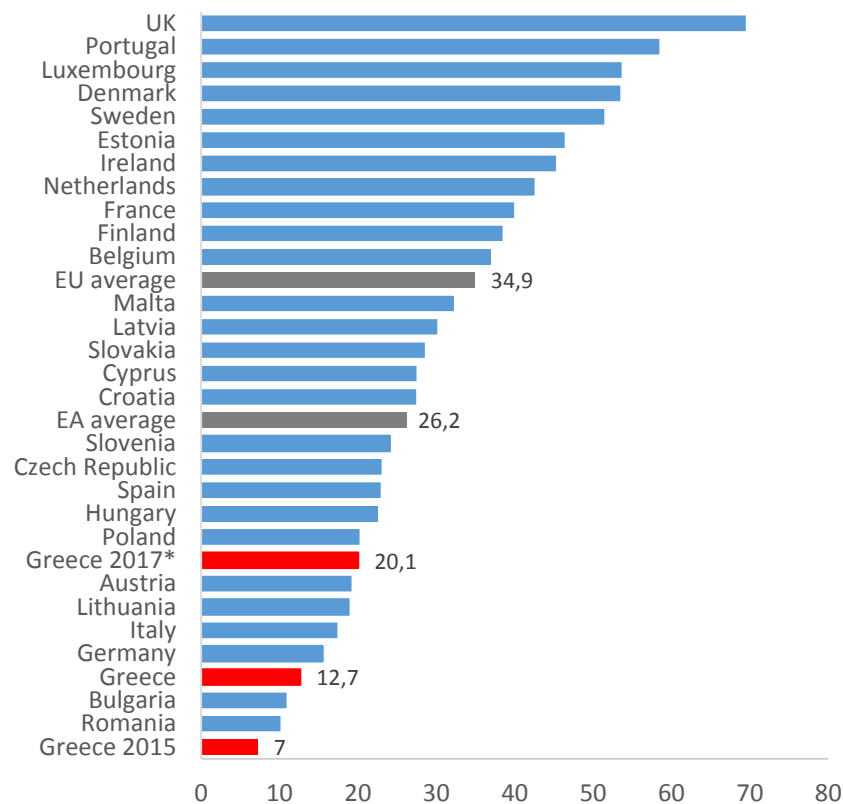


Figure 2: Value of card transactions in the EU-28 countries, as a percentage of private consumption in 2016



Source: ECB (data for 2016 and Greece 2015); Member banks of the Hellenic Bank Association (data for Greece 2017), Eurostat. Data analysis: IOBE, estimation for Greece 2017