Growing use of non-cash payments in the light of the euro changeover

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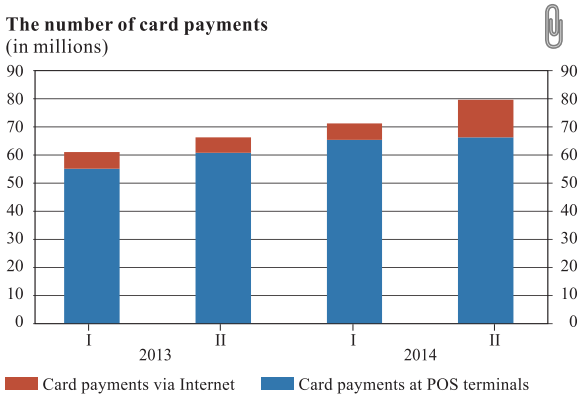
According to statistical data compiled by Latvijas Banka, in 2013 **the total volume and value of non-cash payments used in Latvia expanded by 12.8% (to 297.7 million) and 17.8% (to 579.2 billion euro) respectively**. The value increase exceeded the growth of GDP several times. In the second half of the year, this increase was even higher and was inter alia attributable to the growing household deposits before the introduction of euro.

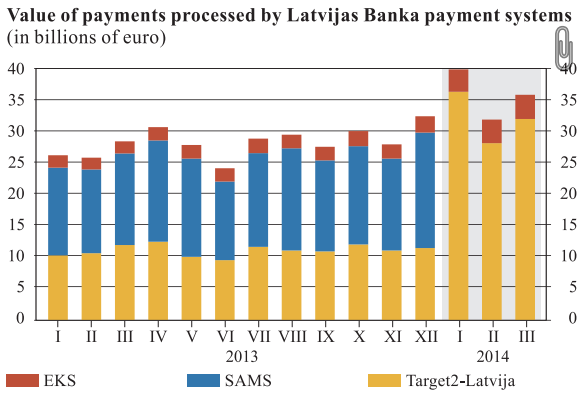
The highest year-on-year growth in volume, at 18.5%, was recorded for card payments. As a result, card payments became the most frequently used non-cash payment instrument in Latvia for the first time ever. Card payments were mostly used as an alternative for cash when shopping; however, the expansion in card payments was mainly attributable to a rise in the card payments initiated via Internet, since online shopping in euro became easier as currency conversion became unnecessary.



Credit transfers, e.g. payments initiated in internet-banking applications, were the second most popular non-cash payment instrument in 2013. Credit transfers are predominately used by businesses as well as in transfers between private individuals. The volume of those particular payments grew by 7.3% year-on-year. With the euro changeover, national credit transfers were substituted by SEPA credit transfers and similar terms for all SEPA credit transfers in Latvia were provided. This means that the fees for cross-border payments with Europe were aligned with the fees for domestic payments in Latvia. As a result, the fees for cross-border payments dropped about ten times.

The main precondition for providing non-cash payment services to the public is a safe and reliable functioning of the payment systems. In Latvia, the card processing infrastructure is provided by the private company First Data Latvia as well as by the international card companies VISA and MasterCard, whereas the payment systems for the processing of credit transfers and large-value interbank transfers are operated by Latvijas Banka.

In 2013, Latvijas Banka ensured the operation of the payment systems for settlements in lats and euro. Following the euro changeover, the operation of the payment systems in lats was discontinued. In 2014, Latvijas Banka operates two systems: TARGET2-Latvija and the Electronic Clearing System (EKS). The daily average of payments processed by Latvijas Banka continued to grow and in the first quarter of 2014 totalling 143.3 thousand payments with a daily value of 1.7 billion euro, representing an increase of 2.4% in terms of volume and 30.8 % in terms of value over 2013. For comparison, the amount equal to Latvia's GDP is processed via Latvijas Banka's payment systems in less than 20 days.



TARGET2-Latvija is the national component of TARGET2, the Trans-European Automated Real-time Gross settlement Express Transfer system operated by the Eurosystem's central banks. TARGET2 is one of the largest payment systems in the world. TARGET2 settles the Eurosystem monetary policy operations, large value financial market transactions as well as final positions coming from other payment and financial instrument settlement systems.

The EKS, Latvijas Banka's retail payment system, is used for the processing of credit transfers initiated by bank customers. The EKS is a SEPA compliant system interlinked with other European retail payment systems and thus providing cheap and reliable means for making payments from Latvia to all over Europe. The EKS provides the possibility for banks to execute their customer payments on the same day or at least next day following payment initiation.

Therefore, by ensuring a smooth functioning of the two payment systems, Latvijas Banka provides the financial sector with a safe and reliable infrastructure for financial market transactions, thus contributing to the overall economic growth and financial stability. Moreover, Latvijas Banka provides the general public with reliable means to make retail payments safely, in a timely manner and at low risks, promoting quick money circulation in the economy.