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New rules for electronic money market: the end or new milestone

Electronic money is defined in the E-Money Directive (2000/46/EU) as monetary value stored on a chip card (pre-paid card or 'electronic purse') or on a computer memory (network or software money) and accepted as a means of payment by institutions other than the issuer. E-money system usually include issuers, distributors, traders and exchange agents. Issuer issues e-money. Distributors act as agents of the issuer selling and/or buying e-money in exchange for cash. Trader accepts e-money as means of payment, while exchange agent is responsible for exchanging e-money of one system to e-money other system. E-money system can be used for fast and non-negotiable payments for goods and services as well as money transfers, while preserving anonymous character of cash.

E-money are growing in popularity in Ukraine but electronic money market is still in the grassroots and until recently was relatively unregulated. Most popular e-money systems in Ukraine are WebMoney and UkrMoney. As the electronic money market became more developed in Ukraine, the NBU decided to control electronic payments market more closely. In August new NBU regulation on e-money issuance became effective. E-money and other definitions were borrowed directly from EU's E-money Directive.

According to the new rules, electronic money will be issued exclusively by banks. In particular, the NBU will have to approve e-money payment system rules conforming to the new regulation within six months after the rules entered into force. Non-banking institutions issuing electronic money will have to cease e-money issuance within a year. These institutions will be able to continue working in the electronic money market but as agents of the issuing banks. E-money users shall buy and sell e-money only from distributors authorized by the issuing bank.

Electronic money will be nominated in UAH while the maximum amount of money on one electronic device or computer account as well as maximum transaction amount will be limited to UAH 5000. However, the regulation does not limit number of accounts belonging to one person. Issuing banks will be required to exchange e-money into regular cash on demand and take adequate precautions to prevent fraud.

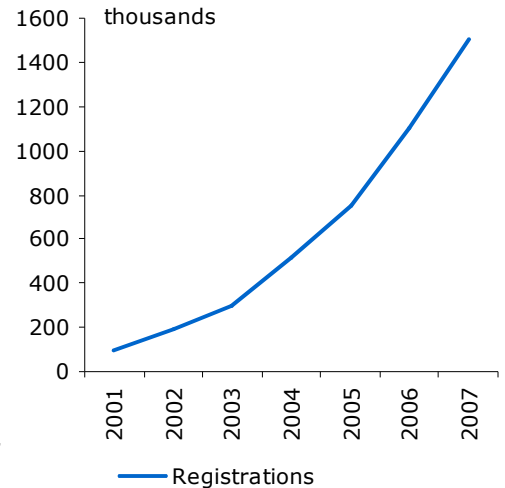
New rules don't cover debit/credit card systems (e.g. Visa, Mastercard etc) including prepaid cards and systems of electronic payments through credit cards/bank accounts (e.g. Portmone, PayPal etc) as well as client-bank/intrabank payment systems.

This decision can be regarded as the first step towards regulation of the electronic commerce market. The rules were drafted in 2004 but the NBU did not adopt them during four years. The regulation can help to limit shadow economy activities as under new reporting requirements e-money issuers will increase transparency of e-money operations. Indeed UAH 5000 limit was adopted in accordance with FATF Special recommendation VII (SR7). According to SR7 electronic payments above *de minimis* threshold(not higher than EUR or USD 1000) must include originator information.

Non-bank electronic money issuers may face some problems as some of them may not want to cooperate with banks due to number of issues including taxation and profit-sharing. In fact it is hard to predict what market participants and e-money users should expect. As a year is given to comply with new rules, transition to the new regime is likely to be glitch-free. Even now banks are actively cooperating with all e-money issuers, therefore new form of interaction should be easy to work out.

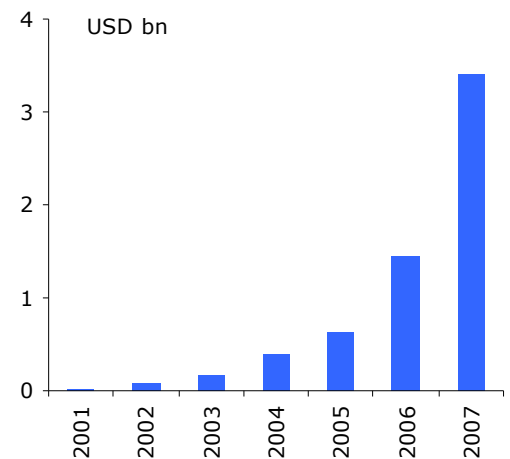
Overall the new regulation should be regarded as positive step. The new regulations will create level and clear playing field, customers will be able to use the e-money in more safe and predictable manner, and non-bank operators will be able to adjust to new rules as bank agents. Limitations on e-money amounts and transactions may turn out to be burdensome, but they may be easily adjusted following discussions with market participants.

Registrations in Webmoney



Source: Webmoney

Transaction volume in Webmoney



Source: Webmoney

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Quarterly trends

National accounts		Q1 05	Q2 05	Q3 05	Q4 05	Q1 06	Q2 06	Q3 06	Q4 06	Q1 07	Q2 07	Q3 07	Q4 07	Q1 08
GDP	UAH bn	84.3	97.5	119.4	123.6	105.4	124.1	150.4	157.7	137.6	165.1	197.4	212.8	186.6
GDP (real)	% yoy	4.9	3.4	1.4	1.7	4.1	6.8	6.9	9.5	8.9	8.6	6.2	7.4	6.5
Households consumption (real)	% yoy	14.3	17.7	17.0	17.1	20.2	18.2	11.8	9.9	14.7	15.5	15.2	19.0	22.0
State consumption (real)	% yoy	6.1	0.0	1.0	4.0	9.6	5.8	5.8	1.0	0.8	6.2	4.4	2.4	1.0
Gross fixed capital formation (real)	% yoy	-2.3	-0.5	0.2	0.3	19.9	19.3	17.9	18.3	24.4	23.5	18.9	23.8	14.7
Exports of goods and services (real)	% yoy	-0.6	-14.0	-12.7	-15.5	-14.9	-9.6	3.2	1.0	4.9	5.2	0.1	5.6	0.9
Imports of goods and services (real)	% yoy	2.8	3.2	3.9	-0.9	10.7	0.9	8.3	6.4	12.9	19.6	13.7	27.2	20.2
Agriculture, hunting, forestry (real)*	% yoy	5.8	8.3	2.6	-7.2	3.8	2.8	-5.6	8.1	4.8	6.8	-9.3	7.1	0.4
Manufacturing industry (real)*	% yoy	7.0	1.8	-1.1	2.0	-1.5	6.1	7.3	7.2	15.0	13.2	13.1	4.4	8.7
Construction (real)*	% yoy	-8.4	-11.3	-8.5	-7.5	0.1	0.8	1.4	4.2	13.3	8.2	12.7	5.8	-1.5
Trade, repair services (real)*	% yoy	-2.1	-10.7	-11.7	-11.9	6.2	16.4	20.0	21.9	14.3	17.5	25.3	15.0	15.7
Transport (real)*	% yoy	6.6	5.7	2.8	7.8	4.9	7.7	9.4	5.3	7.0	5.6	8.0	10.2	10.1
Balance of payments														
Current account balance	USD bn	1.6	0.6	0.4	-0.1	-0.8	0.0	0.5	-1.4	1.2	-0.8	-0.5	-3.5	-3.6
Current account balance	% of GDP	10.1	3.2	1.7	-0.4	-3.7	0.0	1.7	-4.3	4.4	-2.4	-1.2	-8.1	-9.6
Trade balance in goods	USD m	1020	-236	-1131	-788	-1353	-935	-884	-2022	-1735	-1701	-2684	-4452	-4321
Trade balance in services	USD m	188	392	1035	191	219	506	1054	347	103	512	1689	392	261
Current transfers	USD m	626	694	745	780	622	790	851	910	825	968	1099	1183	966
Direct investment (FDI)	USD m	247	365	477	6474	1053	1389	1636	1258	1709	1934	3927	1648	2387
Portfolio investments	USD m	397	923	90	1347	4	-141	370	3350	1816	1477	517	1844	225
Gross international reserves	USD bn	12.0	13.1	14.3	19.4	17.3	17.6	19.1	22.3	23.5	25.6	30.6	32.5	33.2
Exchange rate, UAH/USD	aop	5.30	5.10	5.05	5.05	5.05	5.05	5.05	5.05	5.05	5.05	5.05	5.05	5.05
Fiscal indicators														
Consolidated fiscal revenues	% of GDP	32.1	35.1	31.5	31.0	31.2	31.7	31.9	32.8	33.3	32.8	30.8	31.1	32.5
Personal income tax	% of GDP	4.3	4.4	3.9	4.2	4.4	4.6	4.1	4.1	5.1	5.3	4.9	4.8	5.1
Enterprise profits tax	% of GDP	4.8	5.9	5.3	6.3	3.4	4.6	4.3	6.7	3.8	4.1	4.1	6.4	4.1
Value-added tax	% of GDP	8.6	9.2	7.9	7.3	9.2	9.2	9.7	9.3	10.4	9.8	8.7	7.6	10.5
Excise tax	% of GDP	2.0	2.0	2.0	1.7	1.8	1.7	1.5	1.5	1.8	1.7	1.6	1.3	1.5
Consolidated fiscal expenditures	% of GDP	28.3	36.4	28.1	41.7	30.9	32.8	29.4	36.6	28.4	31.0	29.6	36.7	29.5
Current expenditures	% of GDP	26.5	33.6	24.0	34.2	28.9	29.7	24.9	29.2	26.9	28.4	25.9	27.3	28.6
Capital expenditures	% of GDP	1.8	2.7	4.1	7.5	1.9	3.2	4.5	7.4	1.6	2.6	3.7	9.4	0.9
Consolidated fiscal balance	% of GDP	3.7	1.0	-5.0	6.2	-0.4	1.1	-2.4	4.0	4.7	1.7	1.2	-6.2	3.0
Privatisation receipts	% of GDP	0.2	0.6	0.6	16.0	0.1	0.1	0.1	0.1	0.5	0.5	0.3	0.4	0.1
Labour market														
Average wage (real)	% yoy	15.0	19.0	19.6	26.4	23.8	22.6	18.8	11.3	14.7	13.9	14.9	15.7	13.8
Household income (real)	% yoy	24.0	28.0	19.4	18.9	22.1	18.6	20.3	16.3	17.5	17.4	14.9	16.4	19.0
Unemployment rate (ILO methodology)	% cum	8.7	7.1	5.2	7.8	7.9	6.8	6.4	6.8	7.4	6.6	6.2	6.4	7.1
Banking system														
Monetary aggregate M0	% yoy cum	28.2	39.1	31.1	42.2	36.2	25.3	23.7	24.5	22.9	30.4	36.4	48.2	48.4
Monetary aggregate M2	% yoy cum	38.9	37.4	31.3	53.9	39.2	36.6	36.7	34.3	38.6	40.7	47.8	50.8	52.7
Household deposits in national currency	% yoy cum	28.3	31.6	30.4	90.8	54.6	41.1	39.7	37.3	50.7	56.3	64.8	71.9	68.8
Household deposits in foreign currency	% yoy cum	51.8	45.4	46.4	59.1	54.5	66.2	64.3	57.5	52.3	43.8	38.4	32.5	35.2
Com. bank credits in national currency	% yoy cum	28.3	32.6	43.4	58.7	59.8	53.7	49.0	52.3	52.4	57.2	60.7	72.7	81.2
Com. bank credits in foreign currency	% yoy cum	33.1	36.8	47.1	66.3	72.0	82.1	90.4	95.4	98.9	97.4	91.0	75.4	71.3
Long-term com. bank credits	% yoy cum	49.5	53.0	70.1	84.6	87.6	86.7	76.6	79.5	84.1	86.5	87.9	85.7	84.8
Long-term com. bank credits	% of total	54.4	56.1	59.7	61.8	63.1	63.4	63.5	64.9	65.8	67.3	68.2	69.2	69.1
Average lending rate on national cur. credits	% p.a.	17.0	15.4	15.4	16.4	15.8	15.5	14.6	15.1	14.0	13.9	13.7	14.0	14.6
Average lending rate on foreign cur. credits	% p.a.	12.1	11.0	11.3	11.7	11.5	11.3	11.3	11.5	11.5	11.4	11.3	11.1	10.8

SOURCES: National Bank of Ukraine, State Committee of Statistics, State Treasury, Ministry of Finance, IER estimates

* change in value added

Notes:

yoy year on year change

p.a. per annum