

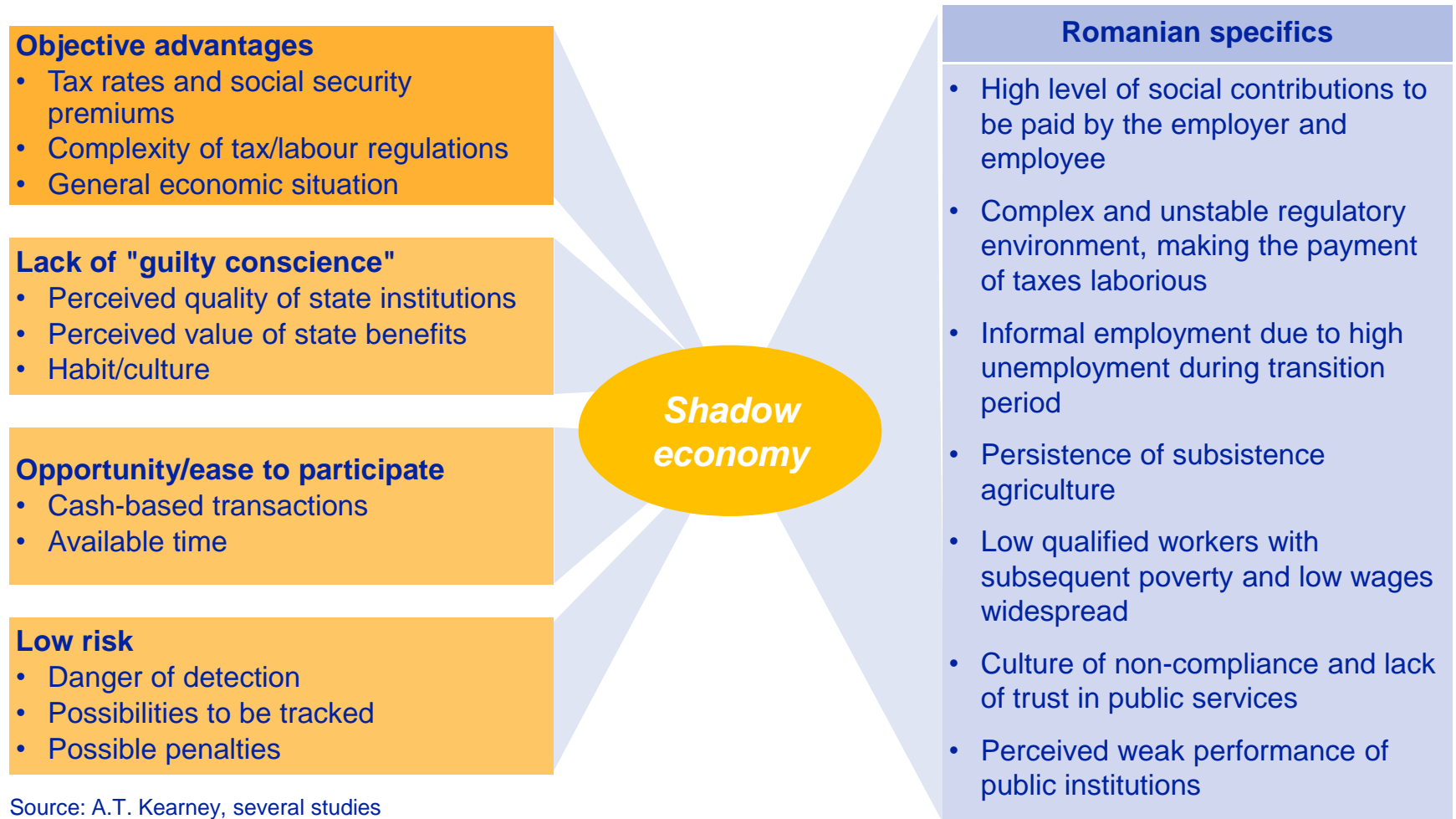


How Payment Systems Help Limit The Shadow Economy in Romania

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Drivers for the shadow economy



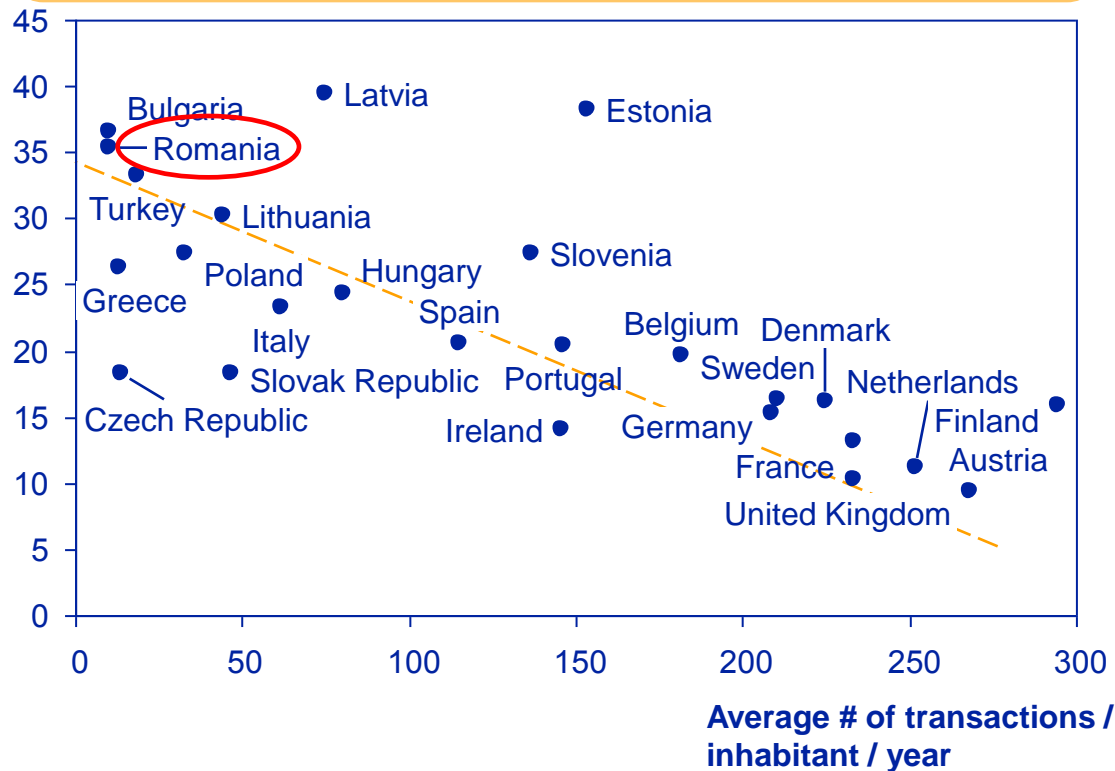
Source: A.T. Kearney, several studies

Shadow economy: 33% of GDP, 46 bln € Losses in the budget of max. 7 bln €



Correlation of shadow economy and the number of electronic payments

The more electronic payments , the smaller the shadow economy



- Shadow economy = cash economy
- Cash is untraceable, anonymous
- Cash facilitates underreporting
- 50% of Romanians unbanked
- 23% receive cash salaries – highest in the EU
- Lost tax / social security contribution realistically total max. € 7 bln.

Note: EU-27 (no data available for Cyprus, Luxemburg, Malta) plus Turkey

Source: ECB, Prof. Schneider, A.T. Kearney analysis

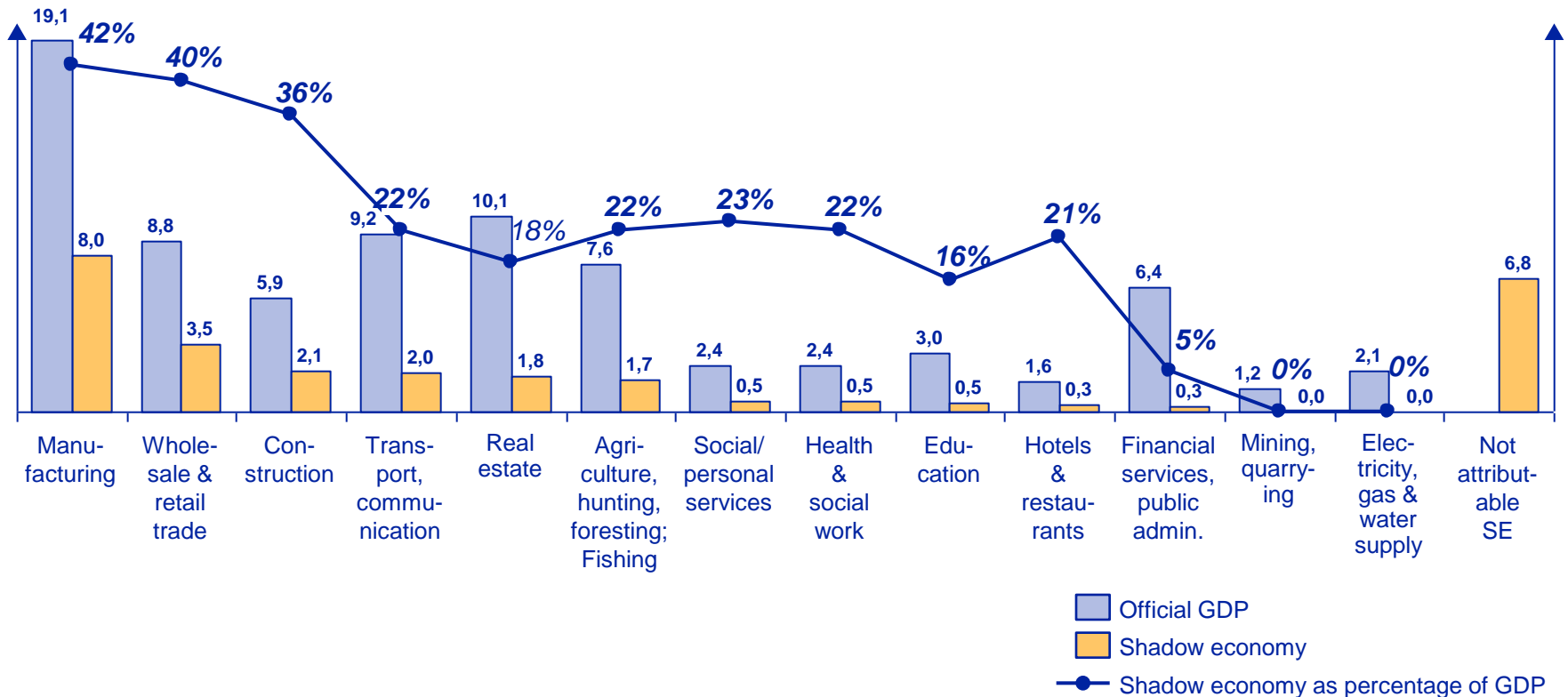
Romania has high amounts of shadow economy across most of the industries



Share of shadow economy by sector (in € bn. and %, 2005)

GDP and shadow economy in € bn.

Shadow economy in %



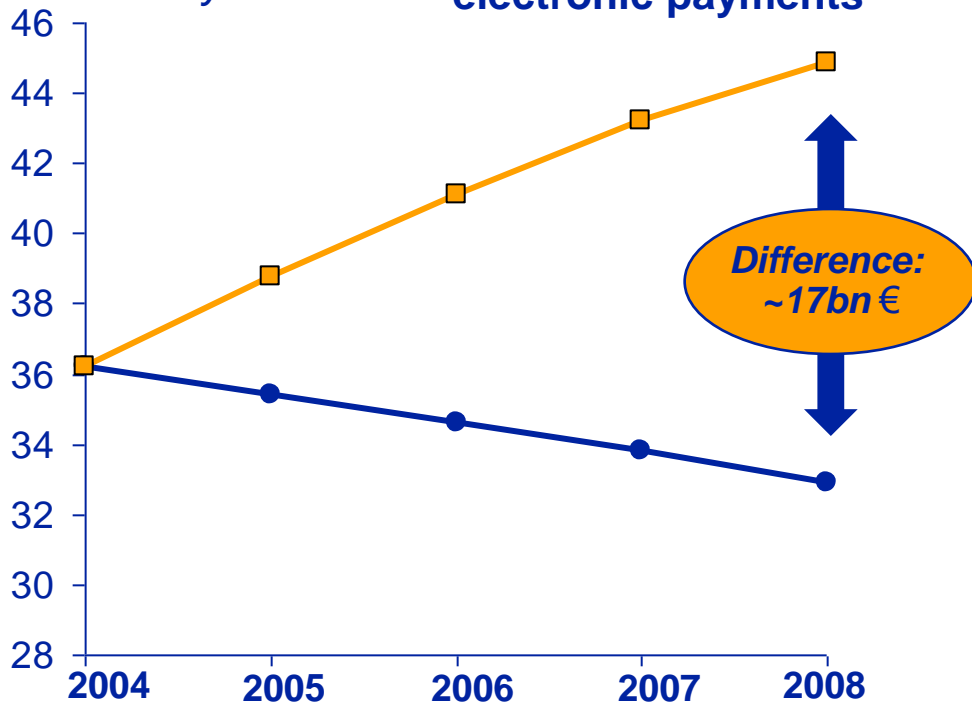
Note: The not attributable SE includes: Entertainment, Massage, Prostitution, Household services, and Other.

Source: Prof Schneider, Eurostat, OECD (2008), A.T. Kearney Analysis

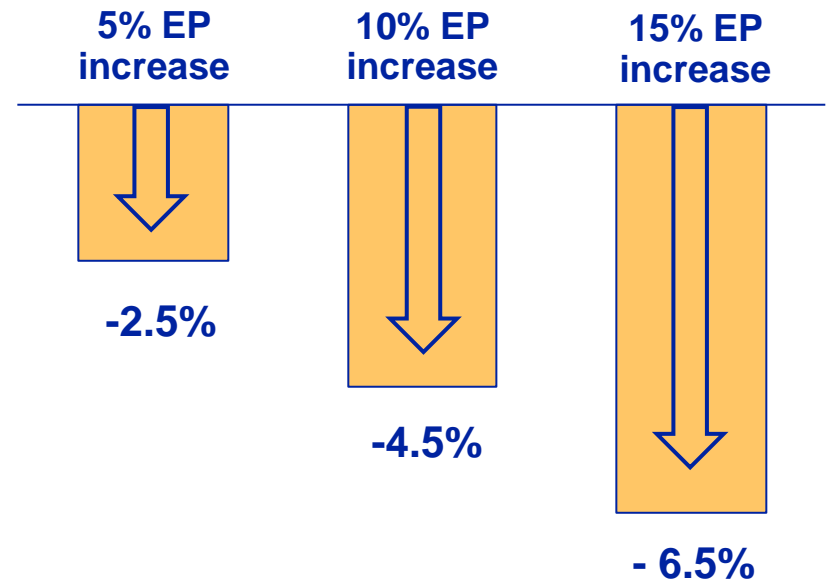
How electronic payments help limit the shadow economy



Share of the shadow economy



Average annual impact of an uptake of electronic payments (EP) per capita¹⁾ on the size of the shadow economy



Without the uptake of electronic payments, shadow economy in Romania would be at >40%, ~17bn€ larger as it was in 2008

Recommendations and proposals to extend electronic payments



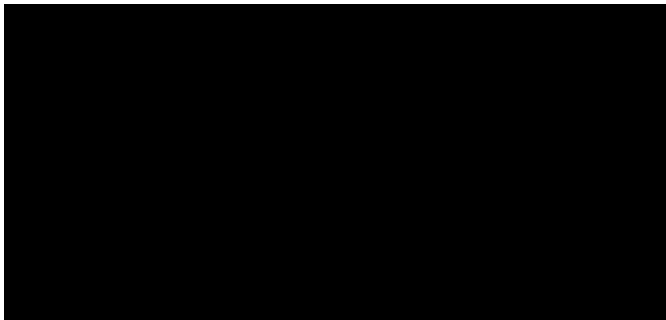
- 1 **Proposal that payments to professionals above a certain threshold to be made via electronic payments (Italy).** *Discuss/determine thresholds with Ministry of Finance.*
- 2 **Proposal to improve/enforce Law 250/10.06.2003, which requires that all retailers with a turnover of over €100,000 accept card payments.** *Adjust threshold to RON 300,000.*
- 3 **VAT reduction for card payments for certain products/services. for a specific period of time (1-2 years),** if implemented selectively, for areas with a comparably low percentage of reported transactions, can increase consumption and economic growth (Columbia, Argentina, South Korea).
- 4 **Proposal to modify existing regulations in order to allow the payment of luncheon, bonus, gift, vacation vouchers on prepaid cards** in order to eradicate black market for tickets and improve payment efficiency.
- 5 **Proposal that payment of local and central taxes online via cards to be developed in major cities of Romania** (see the model in Baia Mare (<http://www.baiamarecity.ro/simpotaxd.php>)).

Increasing banking inclusion and reducing cash payments are important actions that help limit the shadow economy

Unlocking Card Acceptance for Local Tax Payments



- **Decision to expand card acceptance for local taxes to 40 county residences + 6 sectors in Bucharest by 31 December 2009**
 - 13 acquiring banks to approach municipalities with card acceptance offers
- **Communicate the acceptance of card payments to citizens inside municipalities that already accept cards (19 county residences + 7 other municipalities)**
 - Posters, flyers, internet banner, message to be included in Tax Letter
 - Baia Mare card acceptance video case study and brochure ([movie](#))



- **Visa National Campaign to promote tax payment via cards – Q1 2010**
 - National print media, radio, internet sites
 - Bank communication channels
 - Municipality communication channels



Thank you

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