



The evolution of the Hungarian cash cycle: Increasing efficiency at the central bank and its impact on the commercial sector

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A decade of change

Compared to the early 1990s ...

- MNB: extensive involvement in cash cycle
 - 19 cash centres, 300+ staff;
 - Variety of deposit units and sizes,
 - Strap level reconciliation, paper-based administration;
- Banks: directly involved in cash op's
 - own cash transport, vaults and manual sorting,
- CITs: fragmented market
 - Many firms, mixed standards and equipment

... a complete change by 2009

- MNB: limited involvement
 - One automated cash center, 74 staff;
 - Container-based logistics,
 - Deposit level reconciliation, electronic feedback
- Banks: outsourced cash op's to CITs
 - Transport, vault mgmt, sorting, ATMs, etc.
- CITs: highly concentrated sector
 - Mostly mechanized sorting,
 - Cash centers = hubs for cash recycling,

Dimensions of change

- Creating a market:
 - How to promote commercial banknote recycling?
- Ensuring banknote quality:
 - How to influence commercial sorting from 'outside'?
- Automation at the central bank:
 - What are the cash cycle implications?

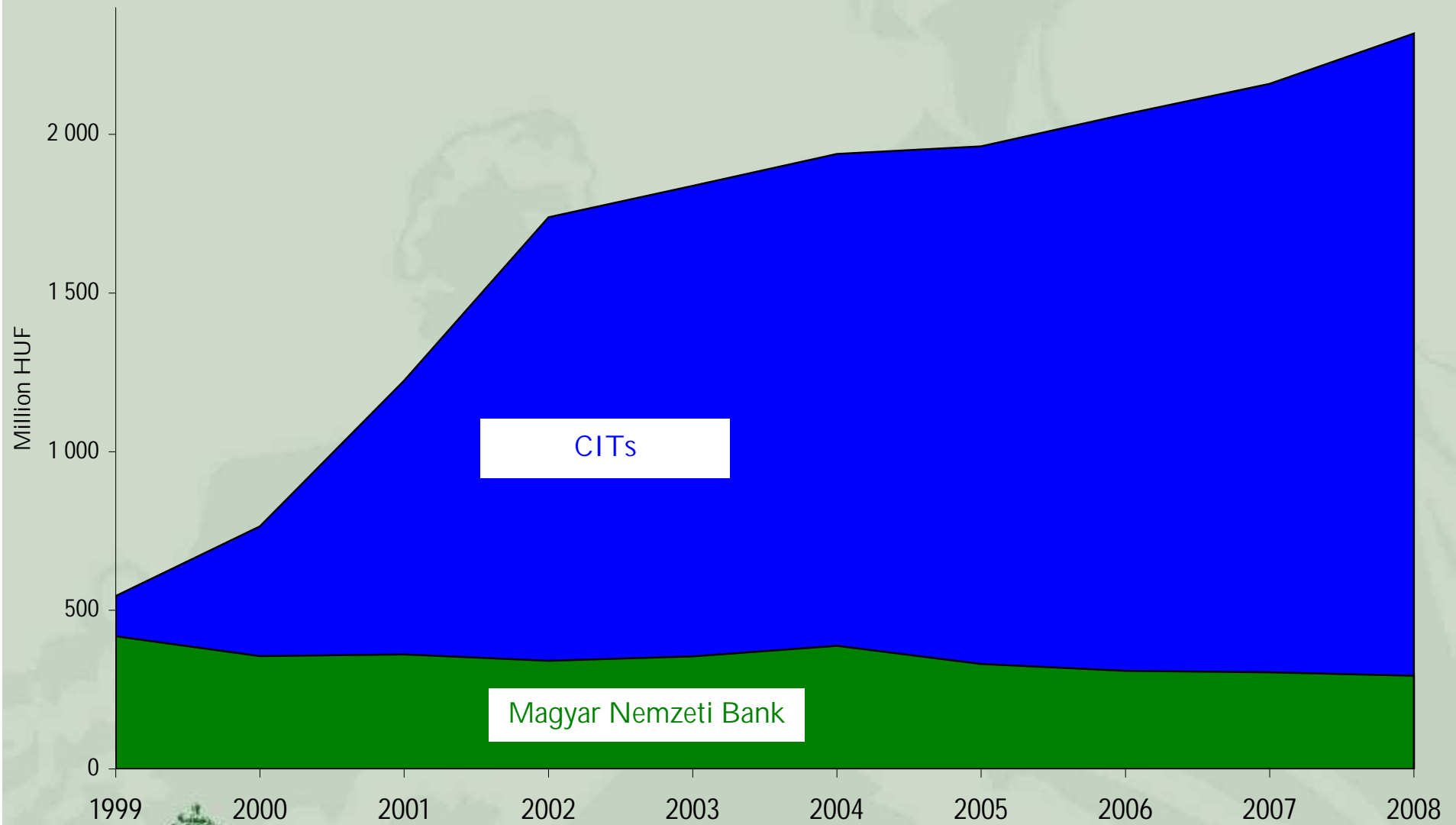
Central bank: Creating a market

- Transaction fees
- Commercial cash recycling 'legalised'
- Logistic unit = mono-deno. bundle
 - reconciliation level increased from straps to bundles
- Regional cash centers gradually closed

Commercial sector: outsourcing and banknote recycling

- Banks improved their efficiency via
 - reducing their cash holdings
 - outsourcing their cash operations to CITs
- CIT market: waves of consolidation
 - CIT cash centers as
 - hubs for cash transport,
 - banknote sorting centers,
 - a 'spot market' for surplus fit banknotes,
 - all unfit and extra fit returned to the central bank

CITs' share in recycling increased



Banknote return frequency dropped



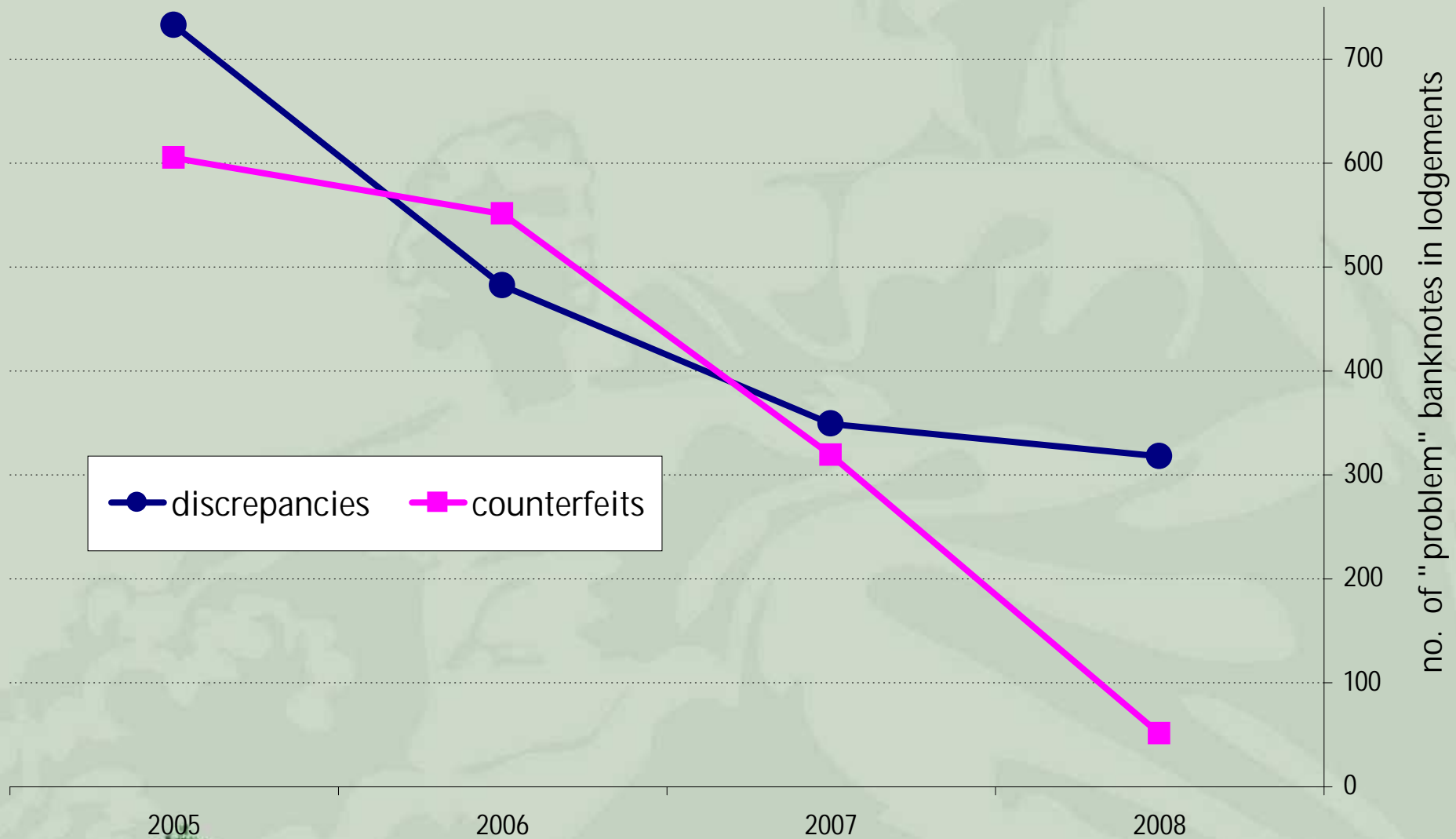
Central bank: Banknote quality management

- Special fees for
 - counterfeits and discrepancies found in lodgements
- Decrees on authentication and fitness sorting
 - testing of commercial sorting machines

Commercial sector: Increased use of machinery

- Desktop sorting machines in CIT cash centers
- Better detection of counterfeits and less discrepancies
- Cooperation with central bank during releases of new banknotes

Fewer problems in lodgements



Central bank: New cash centre - More automation



- Eliminate 1st check of deposits
- More efficient reconciliation
 - deposit level, via electronic interface
- Encourage container-based shipments in/out
 - IN: mixed denom., 50-250 bundles, pooled accross accounts
 - OUT: standard 200-bundle mono-deno., pooled accross accounts

Commercial sector: more internal controls and cooperation

- Less feedback from the central bank
 - a riskier environment for CITs
- Reconciliation: directly with CITs
 - an upgraded status
- More cooperation needed between banks to combine transactions at container level
- Notes-Held-to-Order scheme is 'under constr.'
 - banks-based vs. a CIT-based regime?

More efficient central bank: less staff needed



