

Public Cash Management and Single Treasury Account

1. Single Treasury Account and illustration of some practical cases

SUMMARY

- What is a STA?
- Framework and Prerequisite
- Conditions of implementation
- Accounting and information system
- Some cases
- Constraints and difficulties

What is a STA?

- **Unified structure of government bank accounts: flows of all receipts and expenditures;**
- **Based on the principal of Fungibility of all cash resources and payments.**
- **Enables consolidation and optimisation of government cash resources**

Framework and Prerequisite

- **Existence of legal and regulatory framework**
 - Accreditation of users to operate the STA
 - STA management
- **Transaction arrangements :**
 - Which Budget process execution ?
 - Which accounting and budget control ?
 - How are taxes and revenues collected ?

Framework and Prerequisite

- **Structure of Central Bank:**
 - Centralised or decentralised system ?
- **Developed Commercial Banking System:**
 - The banking network intervenes in the payment of expenditures
 - Revenue and tax collection
 - Is there an electronic network ?

Conditions of implementation

- **Specifying the roles of:**
 - Ministry of Finance(Treasury)
 - central bank
 - commercial banks;
- **Identifying & Involving all entities:**
 - Ministries
 - Public bodies
 - Commercial banks

Conditions of implementation

- **Defining the central bank account structure**
 - Accounts managed by public accountants ?
 - By Ministries ?
 - By public bodies ?
 - Is there one or several accounts ?

Accounting and information system

- **Implementation of accounting system as a key of:**
 - recording transactions;
 - Having full information;
- **Redistribution of the roles and responsibilities in the field of accounting between :**
 - Treasury
 - Ministries
 - Public bodies
 - collectivities

Some cases

Mongolia Case

- **Only the Central Treasury has bank account at the central bank**
- **All the government revenues and expenditures are collected and paid by central bank**
- **Allotment of the budget (regional entities) ;**

Some cases

Mongolia Case

- **Implementation of financial management system**
- **Organisational structure :**
 - Central Treasury
 - Central bank
 - Ministries
 - Commercial banks
- **Payment process of expenditures :**

Budget entity => regional treasury adm. => central treasury
=> Central bank => commercial bank

Some cases

Latino America Case/Survey-12 countries

- **Is there a STA ?**
 - 11 countries answered yes / 1 no
- **What is the structure of STA ?**
 - 1 principal account and multiple bank accounts : 10 countries
 - 2 countries have a principal account.
- **Is there a daily STA balance**
 - The majority answered yes
 - The account (STA) management is handled by the central bank
 - Electronic access

Some cases

Latino America Case/Survey-12 countries

- **Tax and revenue collection**
 - 75% by commercial banks
 - 17% by central treasury
 - 8% by regional treasuries
- **Timing of transfer of taxes and revenues by commercial banks ranges from 1 to 5 days (3days average)**
- **Payment of expenditures :**
 - 62% by central Treasury
 - 38% by gouvernement agencies

Constraints and difficulties

- **Weak coordination between entities;**
 - Treasury
 - Ministries
 - Other Directions of ministry of finance
- **Lack of integrated information system in the field of:**
 - Revenue collection
 - Expenditure payments
 - Accounting management
- **Expensive technical solution**
- **Need for skills;**
- **None developed banking system**
 - Weakness in the geographical coverage
 - Lack of electronic network

Conclusion

- The STA is an essential tool for government cash management. It enables to enhance the effectiveness of public financial management



Public cash management and Single Treasury Service

2. Public cash management

Public Cash Management

- **Definition**
- **Importance, objectives**
- **Debt management as part of cash management**
- **Benefits**
- **The phases of development and implementation**
- **Institutional and regulatory framework**
- **Modern means of payment**

Public cash management - Definitions

- “The strategy and associated processes for managing cost effectively the government’s short term cash flow and cash balances, both within government, and between government and other sectors.”
- Revenue – Income of a government from taxation, excise duties, customs, or other sources, appropriated to the payment of the public expenses.
- Expenditure – Payment of cash or cash-equivalent for goods or services, or a charge against available funds in settlement of an obligation as evidenced by an invoice, receipt, voucher, or other such documents.

Objectives of efficient public cash management

- Minimizing the volume of the idle balances held in the banking system, and the extra costs associated with that.
- Reducing operational, credit and market risk.
- Adding flexibility for matching inflows and outflows.
- Supporting other financial policies.

Debt management as part of cash management

- **Integration of debt and cash management ensures that:**
 - Debt issuance decisions are taken in the context of the seasonal nature of government's cash flows;
 - Allows bond sales to be announced in advance, since timing of bond sales needs to be linked with the mismatch between receipts and payment obligations;
 - MOF has overview of whole market - important when making decisions about the future balance of short- and long-term debt, including Treasury bills.

Debt management as part of cash management

- **Other potential benefits of close cooperation concerning cash management:**
 - Administrative savings and the reduction of operational risk;
 - An integrated credit policy applying across the full range of counterparties, with benefits in terms of transparency and predictability;
 - Some countries (UK, France) use repo government bonds as well (a cash market transaction) to deal with distortions in the debt market.

Benefits of efficient public cash management

- Increased certainty and reduced operational risk;
- Direct saving due to minimizing the volume of idle cash;
- TSA improves visibility of flow and reduces risk;
- Greater flexibility when need for financing arises;
- It makes monetary policy interventions less problematic;
- It contributes to the development of an efficient short-term securities market.

Financial Market Development

- The development of a government securities market is both the effect of financial reform and contributes to it;
- It serves as a benchmark in pricing other financial assets;
- The rate of discount on treasury bills establishes the benchmark rate for short term debt;
- Treasury bills provide a suitable security for non-bank investors who have a demand for short-term risk-free assets.

The phases of development for emerging countries

- Phase 1: Treasury single account
- Phase 2: Forecasting capability
- Phase 3: Rough tuning
- Phase 4: Fine tuning

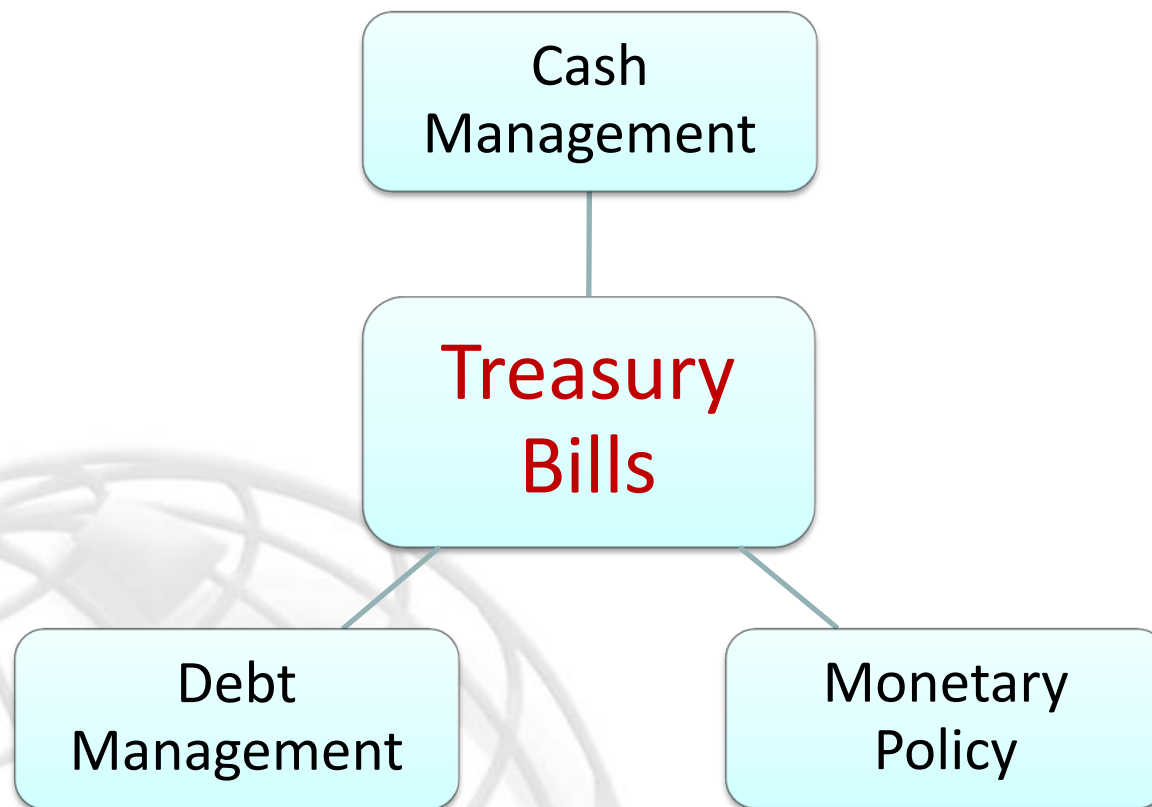
Phase 1: Introducing TSA

- **Three particular issues should be addressed:**
 - Identifying all relevant accounts (extra-budgetary funds outside MoF's control may have been developed)
 - Identifying balances held by non-central government bodies (require them to be held at the central bank)
 - Creating an incentive structure for government departments that encourages them to economise on the use of cash (example: Australia)

Phase 2: Forecasting capability – objective is to develop daily forecasts

- **Historical patterns – In Serbia we monitor historical data and we have developed time series.**
- **Experience of the forecasters - supporting historical data with more informal data (info. about dividends, transfers..)**
- **Cash managers should develop good information network focusing on bigger departments at first.**
 - Setting up legal framework concerning state revenues and expenditures helps (budget law, tax calendar..etc.)

Phase 3: Rough tuning – coordination between institutions and use of their instruments



Phase 4: Fine tuning

- **More active cash management – smoothing more fully short-term changes in the MoF’s balance at the central bank and it requires:**
 - A flexible and developed money market
 - Necessary transaction processing and other IT systems
 - Much more highly developed credit and operational risk management systems than are needed for debt management
 - Staff who are capable of trading in the financial markets

Information system

- Technically challenging
- It needs strong commercial sector infrastructure as well as within government.
- Requires integration of budget execution, debt management and budget accounting functions.

Information system

- **Systems required for cash management:**
 - Database for all Government cash flows including expenditure monitoring and control (depending on development it can include direct and indirect budget users)
 - Financial account database
 - Debt management system – More sophisticated ones will have the analytical tools need for portfolio modeling and scenario testing.
 - Securities issuance and settlement systems

Laws and regulations – Institutional framework

- Important to look for good practices and international regulations (EU, UEOMA, CEMAC)
- Starting point – Budget system law
- Legal framework of cooperation between Central Bank and Ministry of Finance
- Obligatory exchange of data among the public entities and within MoF
- Laws regulating financial markets

What is the best institutional framework for improving cash management?

- Treasury and Public Debt Administration as part of Ministry of Finance as in Serbia.
- Forming somewhat independent agencies for Public Debt as it is case with, for example, Hungary.
- Central Bank as financial agent?
- Other experiences?

Administrative improvements - Serbia

- With the purpose of more efficient liquidity management, the Treasury Administration participates actively on the financial market (in cooperation with the Public Debt Administration)
- Forming a special part within the Department for financial planning, liquidity management and business processes, with the established system for reporting and analyzing data from financial markets on a daily, weekly, monthly and quarterly basis
- For the market information's and trends Treasury Administration has introduced platforms such as Reuters and Bloomberg in order to improve reporting and analyzing data

Modern means of payment as a tool for improving cash management

- Development of banking system and financial instruments
- Establishing RTGS system
- Human capacity building – cash managers
- Taking advantage of repo market

What are financial instrument used in cash management?

- A repurchase agreement (repo) is an instrument by which the MoF obtains cash by selling a security, usually a Treasury bills or government bonds.
- A reverse repo is used by the MoF for placing temporary cash in exchange for the purchase of a security (e.g., treasury bill or bond), with an agreement for the transaction to be reversed at a future date.
- Hedging - A risk management strategy used in limiting or offsetting probability of loss from fluctuations in the prices of commodities, currencies, or securities.

Financial Instruments

- For example, Serbia is working on introducing FX hedging instrument which would offset fluctuations in FX rates of RSD and EURO.
- In 2011, Serbia introduced first EUROBOND which was significant at the time for diversifying portfolio and since has been reissued, while issuing new once as well.

Placement of funds - Serbia

- **The remaining funds, after execution of liabilities, can be invested by the Treasury in following ways:**
 - The Securities of the Republic of Serbia
 - The Securities of the National Bank of Serbia
 - Placement of funds with banks that provide as pledge the securities issued by the Republic of Serbia
 - Placement of funds with banks that provide other type of pledge
 - The securities issued by foreign states with credit rating A, or better
 - The securities issued by foreign financial institutions with credit rating AA, or better

Public cash management and Single Treasury Account

3. Perspectives, prospects

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- **Development of Integrated information system;**
 - **Harmonisation of accounting rules;**
 - **Modernisation of budget management;**
 - **Establishment of financial planning of forecasting system**
 - **Implementation of active cash management**

Thank you for your attention