

Korea's Experience on Cash Management

March 27, 2015.



MINISTRY OF STRATEGY
AND FINANCE

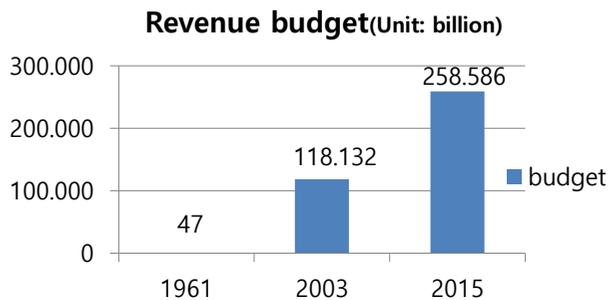
Treasury Bureau
Ministry of Strategy and Finance

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- I. How to project & allocate treasury funds?
- II. How to operate Consolidated Account(TSA)?
- III. What actions can be taken for cash shortage?
- IV. How to integrate functions of cash management and debt management?

Overview

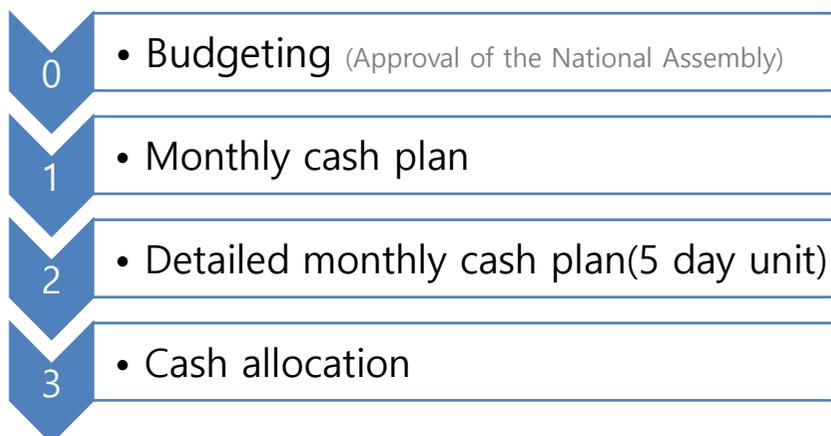
- Definition :Tax and non-tax revenues from property use or penalty
- Objective: Minimizing gap between revenues and expenditures
- Applicable law: Budget and Accounts Act(1961) → Treasury fund Management Act (2002)



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I . How to project & allocate treasury funds?

Procedure of cash planning and its execution



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I . How to project & allocate treasury funds?

Procedure of cash planning and its execution

1. Monthly cash plan

- Once a year (unit: month)
- Each ministry makes a plan on its own.
- MOSF (Ministry of Strategy and Finance) puts together the plans and sets up the final monthly cash plan.

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I . How to project & allocate treasury funds?

Procedure of cash planning and its execution

2. Detailed plan by month

- Once a month (unit: 5 days)
- Each ministry makes a plan on its own.
- MOSF collects the plans and sets up the detailed cash plan by month.

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I . How to estimate cash requirement?

Procedure of cash planning and its execution

3. Cash allocation

- Every month
- Each ministry demands in accordance with the monthly plan.
- Cash allocated by five days

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I . How to project & allocate treasury funds?

- **Penalty can be imposed**

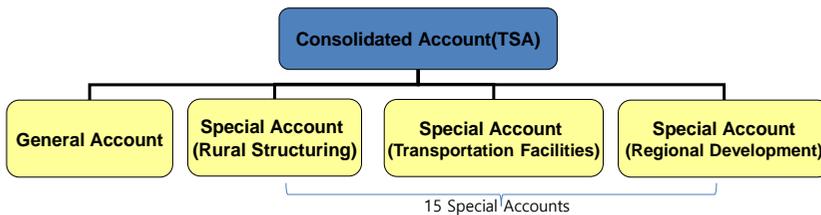
in case of unexecuted cash in lime ministries.

- Full withdrawal of unexecuted cash
- Next cash allocation to be cut

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II. How to operate TSA (Treasury Single Account)?

- All the government cash is converged Consolidated Account(=TSA)
- TSA introduced in 2005 to manage efficiently all government cash by minimizing idle money
- Consisting of general account and 15 special accounts(excluding 3 accounts*)
 - * Postal Insurance/Postal Saving/Grain Management special accounts



- The unified structure of government bank accounts composed of 7,200 sub-accounts under General Account & each Special Accounts.

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II. How to operate TSA (Treasury Single Account)?

Before 2010

- TSA in BOK
- Average balance : KRW 5 trillion
- **No interest**

Active Government Cash Management

After 2010

1. Expansion of the TSA scope

General Account
 Special Accounts 12 → GA SA 15
2. Target balance
3. Active management of idle cash
(by multiple financial agencies)

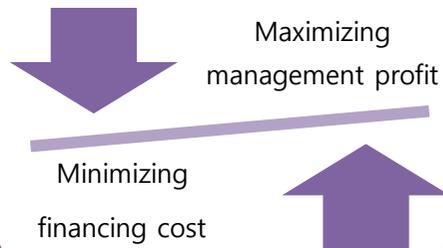
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II. How to operate TSA (Treasury Single Account)?

Stability

Considering the average expenditure amount per day

Efficiency



⇒ Target balance : KRW 1 trillion

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II. How to operate TSA (Treasury Single Account)?

- Average expenditure amount per day increases every year.



- But, Predictability of cash demand enhanced

➡ No need to increase current target balance

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II. How to operate TSA (Treasury Single Account)?

Target balance

	2010	2011	2012	2013	2014
Average balance of TSA (trillion won)	2.8	1.0	0.9	0.9	0.9
Average balance of idle cash managed accounts (trillion won)	2.8	6.4	3.6	1.3	2.1
Management profit (billion won)	68	200	112	33	48

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III. What actions can be taken for cash shortage?

- Rough-smoothing : Annual financing
 - **Government bond issuance**
- Fine-tuning : Temporary financing
 - **'Short-term' borrowing from BOK**
 - **Treasury bill issuance**

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III. What actions can be taken for cash shortage?

- Government Bond (=KTB, Korean Treasury Bond) Issuance
 - through a competitive auction
 - Maturity diversification: 3-, 5-, 10-, 20-, 30-year KTBs & 10-year Inflation-linked KTB (KTBis)

(unit : trillion won, %)

	End-2011	End-2012	End-2013	End-2014
Bond Outstanding	1,200.1 (100)	1292.4 (100)	1395.3 (100)	1454.7 (100)
KTB Outstanding	340.0 (28.3)	362.9 (28.1)	400.7 (28.7)	438.3 (30.1)

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III. What actions can be taken for cash shortage?

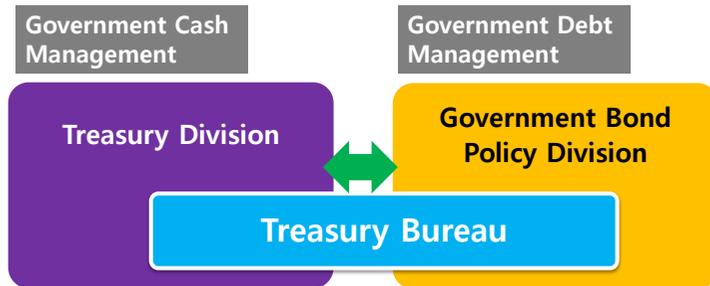
- 'Short-term' borrowing from BOK & Treasury bill issuance

	'Short-term' borrowing from BOK	Treasury Bill issuance
Redemption Due	By the end of the fiscal year	Publicly noticed redemption date
Maturity	More than one day	More than one month(63days)
Management	Flexible capital management (e.g. early redemption, etc.)	Difficult to modify borrowing amount or its period
Impact on Inflation	Considerable effect	Less effect
2014 Records (average value)	KRW 1.0 trillion	KRW 6.4 trillion
Ceiling for Approval from National Assembly	2014 : KRW 30 trillion 2015 : KRW 30 trillion (as of certain points)	

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IV. How to integrate functions of cash management and debt management

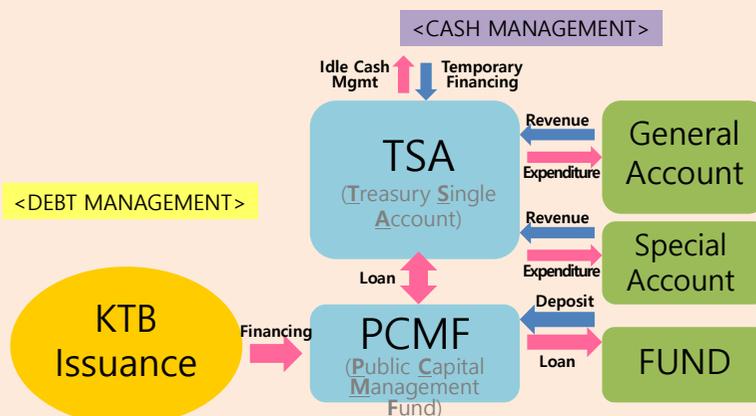
- Operating Division of Cash and Debt Management



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IV. How to integrate functions of cash management and debt management

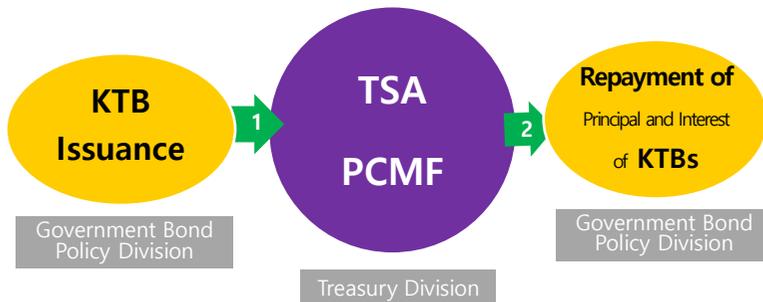
Flow Chart of Cash & Debt Management



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IV. How to integrate functions of cash management and debt management

- Communication between two divisions is important.
- the amount and the time of bond issuance etc.



- ① Financing of TSA and PCMF by KTB Issuance
- ② Repayment of KTBs by idle cash of TSA and PCMF

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V. Outcome of policy improvement and Plan

Improvement of tax revenue prediction	Outcome	<ul style="list-style-type: none"> ▪ T/F for dBrain and tax revenue ▪ Improvement of input error
<ul style="list-style-type: none"> ▪ Enhancement of Accuracy 	Plan	<ul style="list-style-type: none"> ▪ Preliminary reporting system ▪ Strengthening links with dBrain (Electronic payment via virtual account)
Enhancement of non-tax revenue management	Outcome	<ul style="list-style-type: none"> ▪ Management plan for non-tax revenues in 2014
<ul style="list-style-type: none"> ▪ Promotion of Responsibility 	Plan	<ul style="list-style-type: none"> ▪ Non-tax revenue management system ▪ Overhaul of monthly outcome and providing incentives

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V. Outcome of policy Improvement and Plan

<p>Efficiency improvement of cash allocation</p>	<p>Outcome</p>	<ul style="list-style-type: none"> Established cash allocation plans by projects
<ul style="list-style-type: none"> Direct management of major projects by providing full cash 	<p>Plan</p>	<ul style="list-style-type: none"> Interdepartmental consultation and related system improvement Cash allocation by major projects
<p>Advancement of management system</p>	<p>Outcome</p>	<ul style="list-style-type: none"> Implemented 'Studies on advancement treasury policy of management' since Apr.2014 'Advanced treasury management policy forum' held in Dec.2014
<ul style="list-style-type: none"> Overall improvement of current system 	<p>Plan</p>	<ul style="list-style-type: none"> Development of plan through concerted research between OECD and tax experts

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Thank You!