TREASURY COMMUNITY OF PRACTICE (TCOP)

Thematic Group on Cash Management and Forecasting

October 20, 2021 Videoconference

Members of the PEMPAL Treasury COP (TCOP) met through videoconference (VC) on October 20, 2021 (i) to learn about establishment of the Treasury Single Account (TSA) in Georgia, its structure and the management of TSA balances by the State Treasury; and (ii) to become familiarized with the draft report on the results of the survey on TSA and cash management in PEMPAL countries. 31 officials from 14 PEMPAL countries (Albania, Belarus, Croatia, Georgia, Kazakhstan, Kosovo, Kyrgyzstan, North Macedonia, Moldova, Romania, Russian Federation, Tajikistan, Turkey and Uzbekistan), as well as representatives of the Hungarian Debt Management Agency and the International Monetary Fund, participated in the VC. The meeting was facilitated by the World Bank resource team, including Ms. Elena Nikulina (TCOP Resource Team Leader), Ms. Yelena Slizhevskaya (TCOP Advisor), Ms. Galina Kuznetsova (TCOP Resource Team member), Ms. Ekaterina Zaleeva (PEMPAL Secretariat), Mr. Mike Williams and Mr. Mark Silins (TCOP thematic advisors).

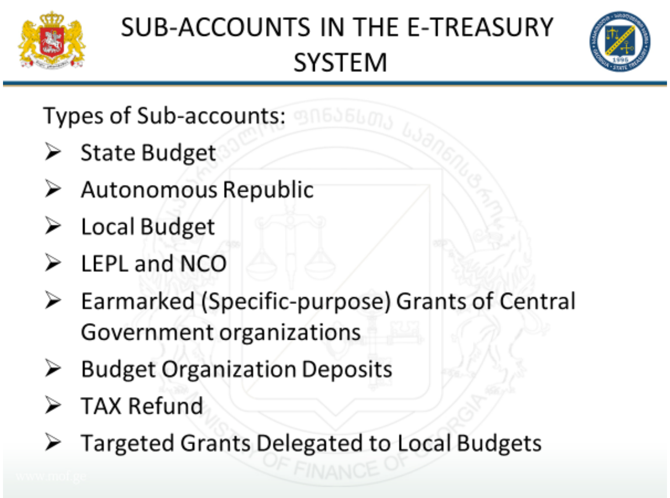
Summary of discussion

Opening remarks

Mr. Ilyas Tufan, Deputy Director General of the Debt Office under the Ministry of Treasury and Finance of Turkey, TCOP Deputy Chair and the Leader of the Cash Management and Forecasting Thematic Group, welcomed the participants on behalf of the TCOP leadership and thanked the resource team for developing and maintaining an active program of virtual meetings. **Ms. Elena Nikulina, the TCOP Resource Team Leader,** also extended a welcome to participants. She noted that the State Treasury of Georgia was ready to invite the TCOP members for a face-to-face meeting in Georgia to present their TSA and cash management arrangements, but sadly that was still not possible due to the pandemic, and the resource team commended the readiness of the State Treasury of Georgia to share their experience in this virtual mode. In relation to the second item of the agenda Elena noted that, since the time when brief results of the survey were presented to the TCOP members during the 2021 Annual Plenary Meeting, a more detailed draft report had been prepared and the resource team would greatly welcome participants' comments both on the report, and on the suggestions arising from it.

Presentation by the State Treasury of Georgia

The presentation from the Georgia State Treasury was introduced by Mr. Levan Todua, Head of State Loans and Deposit Operations Department. He explained that the State Treasury had been established in 1995, the TSA was launched in 2006. The State Treasury has no regional offices, and 80 staff of the treasury serves all the levels of the budget and some 1500 budget units (BUs). The revenues and expenditures of the State Budget, two autonomous republic budgets and 69 local budgets all pass through the TSA. The BUs are not allowed to have other revenue/expenditure accounts in commercial banks. The TSA represents a single bank account; revenues and expenditures are recorded using respective sub-accounts (see the slide) of the e-Treasury system, this allows to control the funds and eliminates the need for separate bank accounts.



The TSA is opened in the National Bank of Georgia (NBG); the NBG does not charge fees for this service. Payments are managed directly by the State Treasury which is a participant in the Real Time Gross Settlements (RTGS) system with its own BIC/SWIFT codes and following IBAN standards.

Mr. Todua explained that some 1200 of the 1500 BUs were entitled to earn additional revenues[1] which were also part of the TSA having dedicated sub-accounts in the e-Treasury system. Before the TSA was consolidated such BUs had been able to earn interest from holding their cash balances in the commercial banks. The loss of interest as a result of having to move their balances to the TSA raised a lot of discussion with these BUs, as well as subnational government and autonomous republics. The Treasury offered a compromise that allowed the reform to make progress - these entities were allowed to open ordinary current accounts in commercial banks to which they could transfer temporarily free funds without auction or competition. However, they can not make payments from these commercial bank accounts; any deposits first have to be returned to the TSA, from which all payments are made. Such deposits are placed through a dedicated module of e-Treasury system. As a result, although only the State Treasury could manage the balance in the TSA as a whole, some entities could themselves manage their sub-account balances.[2]

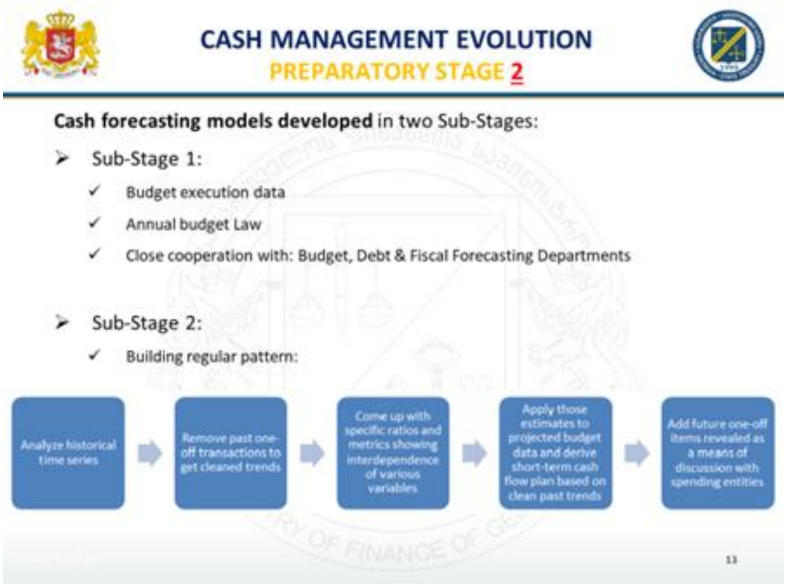
Mr. Davit Gamkrelidze, Head of Cash Management and Forecasting Department, continued the presentation. He noted that cash management was a key component of public financial management. In particular, by identifying excess resources and efficiently investing

[1] These are Legal Entities under the Public Law and Non-Commercial Organizations, they have their own revenues (e.g. proceeds from issuing driver licenses, paid services by public museums, etc.) in addition to budget financing they may receive.

2 The outstanding deposit portfolio was now some GEL 1 billion.

them, the Treasury was able to support both smooth execution of the budget and the cost-effective management of cash. He identified four major objectives for cash management in Georgia: ensuring cash adequacy; borrowing only when needed; maximizing returns on idle cash; and managing risks. Cash management had evolved over time in Georgia; related reforms were important contributors, including the introduction of the TSA and the greater use of electronic systems, not least in bringing more payments under control of the State Treasury and greatly increasing its access to data.

The Cash Forecasting and Management Department had been established in 2015 and was followed by a new government decree regulating deposit auctions. Forecasting had developed in two stages: to identify data sources and analyze patterns (see slide). Technical tools included the use of the Bloomberg to conduct auctions, the Central Securities Depository (CSD) to manage collateral, and a cash transfer module built into the e-Treasury system. In July 2017, the Treasury successfully launched its first deposit auction. In relation to the deposit auctions, Mr. Gamkrelidze explained that almost all were collateralized. Announcements were usually on a Monday, with the auction on Tuesday and settlement on Wednesday after the pledged collateral had been identified.



Concluding, Mr. Gamkrelidze stressed that the cash management reform had been a “monumental undertaking” and one of its outcomes was significant institutional and staff development. He suggested that one of the lessons from the pandemic was the importance of modern treasury and cash management systems, and the resilience they offered. The opportunity should be taken to build support for further reform.

The presentation was followed by a rich question and answer session. Ms. Ludmila Guryanova (Belarus) asked about acceptable collateral and how local governments and BUs choose where to deposit funds. Mr. Gamkrelidze explained that currently some 95-97 percent of deposits were backed by collateral. All government securities, NBG certificates of deposit, and Georgian Lari denominated securities issued by the international financial institutions are accepted as collateral. The pledges are all dematerialized and handled through the CSD in a paper-less way. All banks (some 15) are able to bid. The Treasury is also able to break deposits before the maturity date at times of liquidity pressure, although tries to avoid doing so. -Contrary to the auctions conducted by the State Treasury, the local governments and BUs are free to choose their own bank for making deposits and do not use auctions. -Responding to a follow-up question, Mr. Todua noted that auctions were managed in full cooperation with the NBG. The Treasury informs the NBG of the amounts to be auctioned, which the NBG could then take into account in its own monetary policy operations. –There is a Memorandum of Understanding between the Treasury and the NBG.

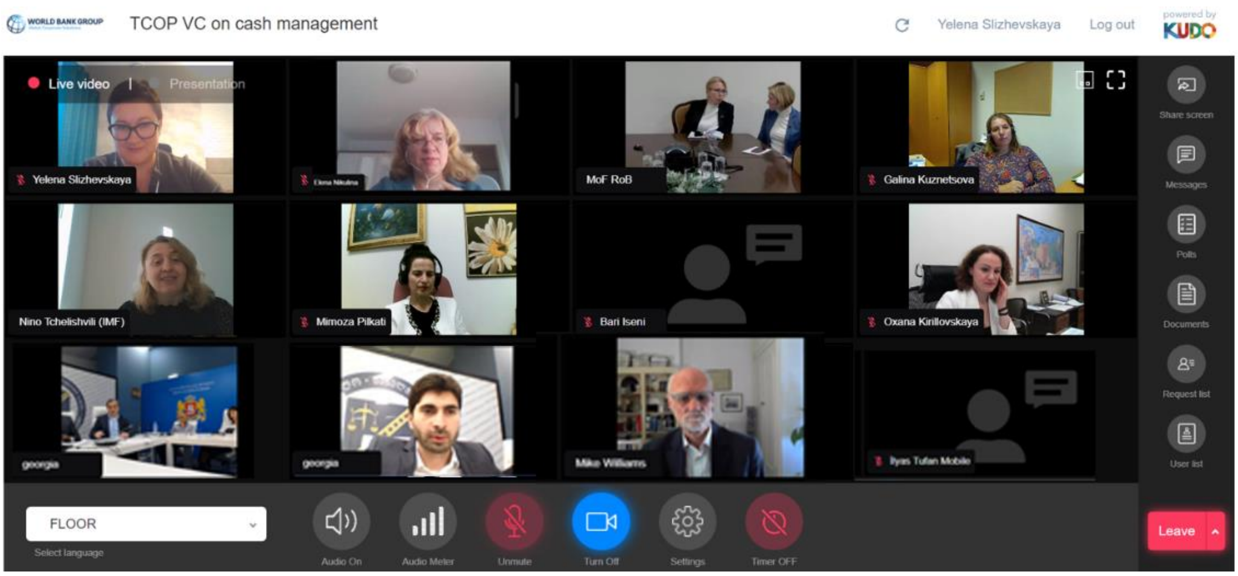
Ms. Mimoza Pilkati (Albania) asked about coordination with debt management activities. Mr. Gamkrelidze explained that the debt management and cash management departments were separate units, but they actively coordinated their activities.

Responding to a question from **Ms. Nikulina**, Mr Gamkrelidze said that there was no formal target cash buffer, although in practice the State Treasury tried to maintain an adequate buffer. The team is working further on identifying a target buffer. This is one of a number of future reforms under consideration, the introduction of repo being another.

Mr. Bari Iseni (North Macedonia) asked about the revenue forecasting models in use. Mr. Gamkrelidze explained that there was no single model. The department did do some work to identify correlation between variables, explored the use that could be made of the available data, as well as established coordination arrangements with e.g. the revenue service and budget department to receive the latest intelligence. It was noted that some series could be forecasted precisely from past patterns, although others were more variable.

Following a question from **Ms. Oksana Kirillovskaya (Russian Federation)**, Mr. Gamkrelidze elaborated on the importance of collaboration with entities outside the Ministry of Finance. Information is exchanged daily, although once there is a good understanding of patterns this does not have to cover all entities. However, the larger units are requested to keep in touch with the State Treasury, particularly in respect of lumpy transactions and any deviations from plans. Mr. Todua noted that, in the past, the State Treasury had not always been able to rely on real-time reporting from the BUs and this is no longer an issue now – when all of them are within the TSA; the State Treasury is able to access data from all BUs in real time and has full visibility of their cash balances.

Wrapping up the first part of the VC **Mr. Mike Williams (Resource Team)** added his thanks to the colleagues from Georgia for the interesting presentation and his congratulations for the significant reforms made. -Although there had been some setbacks, and no doubt some further reforms were still needed, the process had benefited from clear objectives which were always kept in sight.



The 2021 Survey on the TSA and Cash Management

Mr. Williams reminded the participants of the VC that the summary of the main results of the survey had already been presented at the 2021 TCOP Annual Plenary Meeting in June. It was noted that in relation to the TSA there was a solid core of sound practice: all countries had a TSA in the central bank; subsidiary bank or ledger accounts separate the cash from the claim on resources; receipts flow directly and quickly to the TSA; and payments were mostly made directly from the TSA. There is, however, still some room for improvement, in particular in relation to coverage of extrabudgetary funds' (EBFs') balances and trust deposit monies, and very few cases where countries received interest on their balances at the central bank. He also noted different approaches to sub-national government balances.

In relation to cash management, the survey suggested that cash management was underpinned in all countries by a strong treasury function; and all countries also had some forecasting capability in place. There is widespread use of short-term borrowing instruments, although safety nets could be further developed. At the same time some weaknesses are apparent: cash management objectives are often ill-defined; there is a lack of formal cash buffer targets; and the capability to manage cash actively is still underdeveloped.

Mr. Williams identified five possible areas for further work by the TCOP and the cash management thematic group:

- TSA structures: the pros and cons of different TSA and payment models, and mechanisms to improve accounting and control.
- Extending the TSA: which categories of balances to include and their phasing, protecting the claim on resources where that was legally required, and managing the process. A related issue is inclusion or exclusion of the balances of sub-national governments and what inclusion might mean in practice.
- Cash management objectives: further discussion of what "should" the cash management objective be; the implications for Treasuries; and how interaction with debt management is best structured.
- Cash buffer targets: taking account of more recent international work, and in particular the importance of scenarios as a technique.
- Investing surplus cash: its importance as part of cash management; risks and instruments; processes and practice.

In a discussion, Ms. Pavlyukova shared her appreciation for the interesting analysis prepared based on results of the survey. She also noted the differences in terminology used by the countries which could potentially cause some confusion. Ms. Nikulina agreed on the need to carefully review the draft to ensure common understanding of the results and asked the participants to review the circulated report and share with the TCOP resource team any possible comments, amendments or requests for clarification by November 5, 2021.

Conclusions and wrap up

In his summing up of the VC **Mr. Mark Silins** (Resource Team) emphasized the comparison between the results of the recent survey and the previous one conducted in 2016 - there were clear improvements in most areas. As Georgia had demonstrated, information technology is an important enabler in modernizing processes and practices. The Georgian experience also drew attention to how sub-accounts and individual BUs' claims on resources might best be structured, and whether they should be controlled through the ledger or banking sub-accounts. In Georgia's case the controls and separation of funds occurs entirely in the general ledger, eliminating the

need for keeping separate bank accounts (this issue was not fully teased out in the survey, and it was a clear area for future discussion). Although Georgia had not been able to fully consolidate the general government cash by allowing their subnational governments, autonomous republics, and the majority of BUs to manage their sub-account balances, it was important that their operations were brought into the TSA and that the State Treasury manages all the payments – this was a useful and pragmatic compromise (albeit falling short of optimal consolidation in the TSA). Ideally each country should certainly have only one cash manager as is generally the case for debt management. But the Georgian experience shows that there are different mechanisms which might also be explored in future TCOP discussions.