

Boundary of the TSA

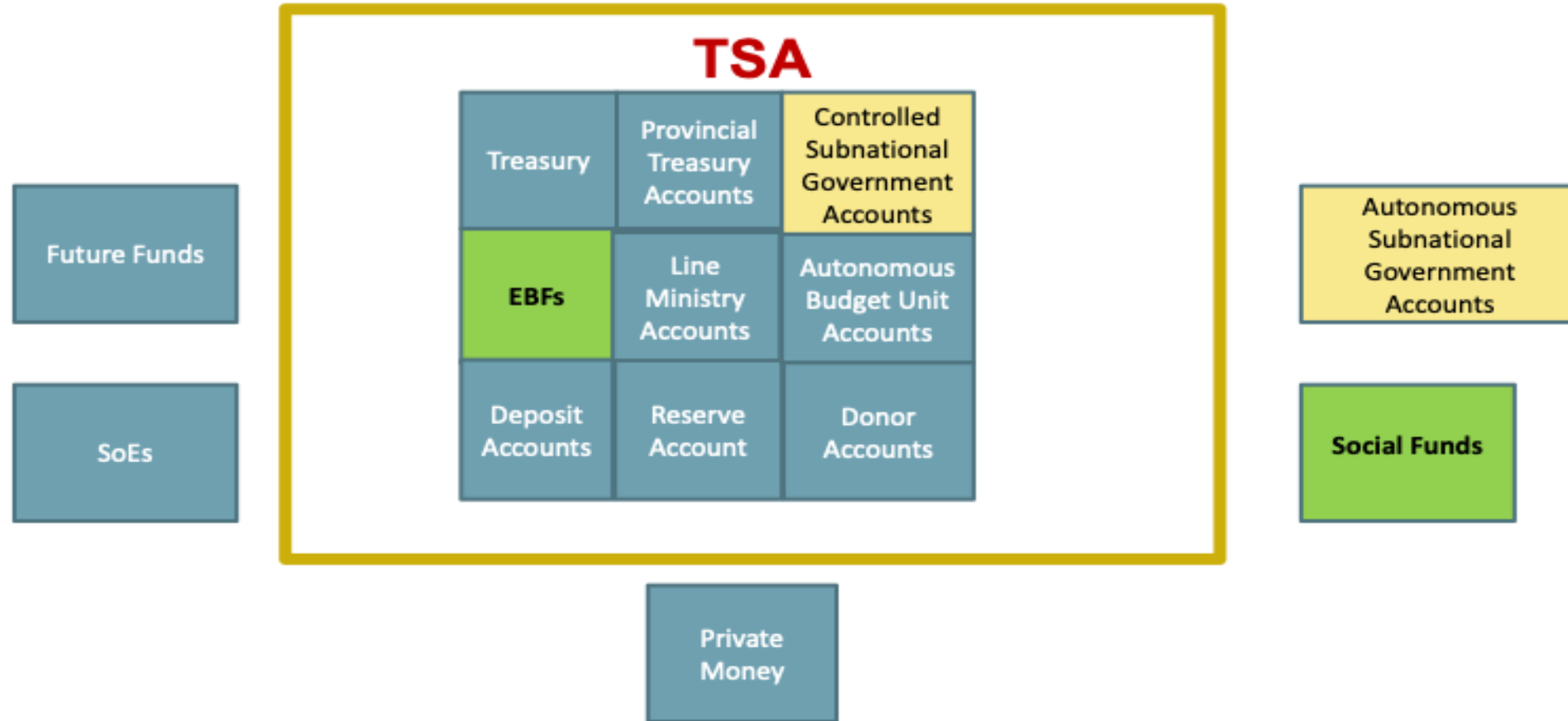
(Revisiting Key Findings from the Knowledge Project)

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Summary - What is Usually in the TSA and what should be outside the TSA?



Boundary of the TSA

State Owned Enterprises- These operate as independent government owned businesses, are outside of general government in the public sector. Most SOEs will have their own assets and liability management expertise and strategies and in general it is best they remain at arms length from government BUT in PEMPAL: some statutory entities which are not commercial are defined as SoEs. In addition, some SoEs are not commercially viable and largely operate as an extension of government. In both cases it may be reasonable to consolidate these entities in the TSA

Future Funds - Not every country has a future fund, but they are particularly common where finite resources exist which provide large revenue streams today. Countries set some of the revenues aside to offset the fact that in the future the revenue streams will not be available. As these are long term investments, separate from the general operations of government it is sensible that they are quarantined outside the TSA.

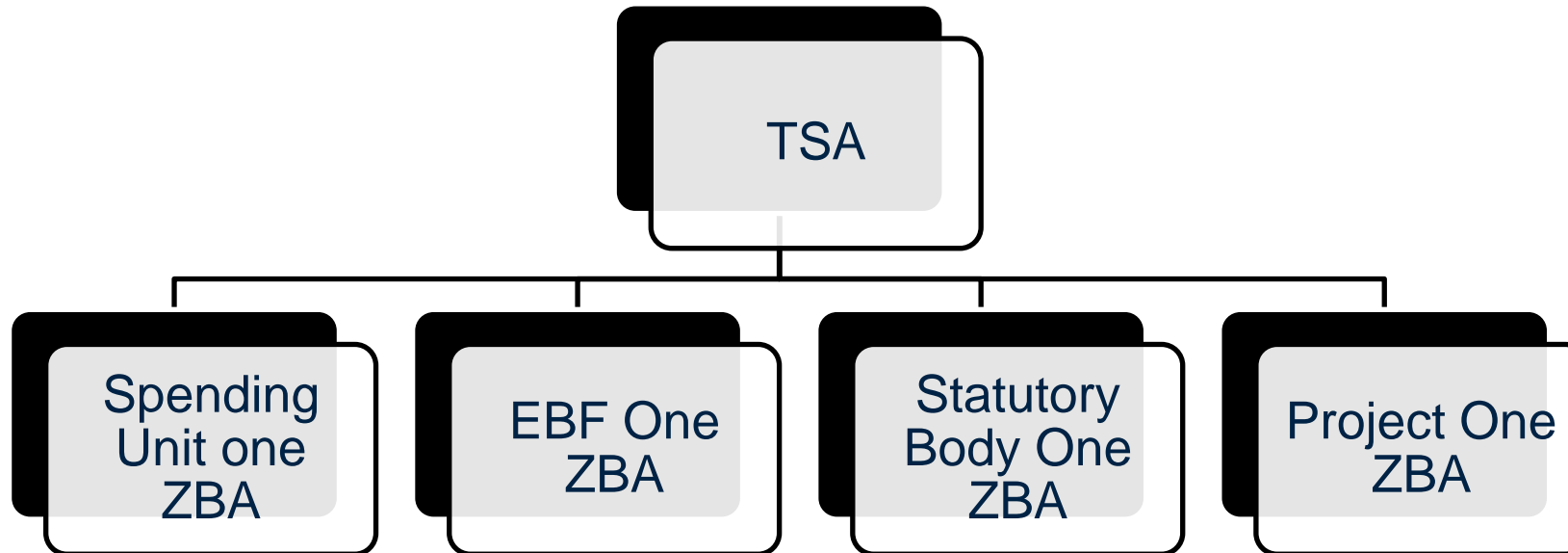
Private Money - Should the Treasury offer its services to invest private money in the TSA (trust money and funds from private sources e.g. parental contributions to schools are considered public money)? What is the purpose of the TSA? It has not been designed as an attractive investment instrument for all, but as a tool to allow government to best manage and forecast its cash. Would this broader investment role detract from the core focus of TSA - it would. Should government be in competition with banks? If yes is it operating on the same commercial basis as banks - not using its position in government to offset operating costs or discount rates? One concerning trend is commercial banks are no longer offering services to our socially disadvantaged citizens - in such cases there may be a case for government to provide banking services! But care should be taken to ensure this role is not diluting the purpose and focus of the Treasury!

Can we control cash without operations Consolidated Continually in the TSA?

In the Past the only option for control was for an Entity's cash and accounting to be executed by the Treasury – There are two game changers for cash management

Zero Balanced Accounts

Balances in ZBA can also operate as a cash appropriation control (*)



Spending Executed During the Day as required - Unspent balances returned to TSA at day end and sent back to ZBA first thing the next day - credit or debit balances!

* Ultimately controls must be accrual and commitment based not just cash

FX TSAs – Is this a Recommended Role for Treasury?

- ❑ In general the Treasury/MoF should be responsible for managing cash denoted in the domestic currency only – A true Treasury Single Account!
- ❑ The Central Bank is generally better placed to manage foreign currency reserves given it is responsible for monetary policy
- ❑ As FX is received by government it should be converted by the Central Bank and consolidated in the TSA – Having two entities managing FX reserves may create coordination issues and directly impact the CBs role and independence
- ❑ It is however, acknowledged that recently, a significant proportion of government expenditures and income in some countries involve FX - this has placed additional pressure on treasury. However, this can be addressed through careful planning and coordination with the CB. This can also include sharing of FX costs and benefits too!
- ❑ This is an area which may warrant further detailed discussion by PEMPAL given its increased focus in recent years.

THANK YOU!

