



**REPUBLIC OF CROATIA – Ministry of Finance**

***PEMPAL Treasury Community of Practice - Plenary Meeting***  
***- Selected Aspects of Liquidity Management and Treasury Control-***


***(Is the best approach is to focus on the efficiency of cash operations or on control over budget entity spending?)***

***Tirana, Albania***

***May 20-22, 2015***

## **Cash Flow Management and Forecasting Tools**

- ✓ **TSA – Treasury Single Account** (state budget) – operational since 2006 and 2007; What is in: first level budgetary users (Parliament, Government, Ministries...) and second level budgetary users (agencies, institutions and others), extra-budgetary users: Pension Fund and Employment Fund.
- ✓ **What is excluded:** local governments with their budgetary and extra-budgetary users, third level users (justice-courts; health care-state hospitals; culture-museums, galleries, archives; science-universities, institutes...) Since 1.1.2015, Health Insurance Fund is excluded (after 8 years of being in TSA).
- ✓ All revenues and receipts collected by budgetary/extra-budgetary users are deposited in the TSA (own revenues, transfers, international assistance, grants, donations and some loans); all state budget expenditures and expenses are paid directly from the TSA, in national and foreign currencies.
- ✓ Cash flow forecasts are produced are made on a monthly or quarterly basis (days); monthly forecasts are updated every day.



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## The sources of data and use:

- ✓ Information on cash is obtained for the purpose of developing liquidity plans:

**Expenditures and expenses** - from the State Treasury Integrated Information System (FMIS) through documents on **reservation** (there are three types of reservation: pre-commitment, contract, purchase order) and recorded **invoices**). In addition, updated public debt commitments are also collected (TB's change every week because of auctions) by all borrowing instruments and interest rates.

**Revenues and receipts**: revenue forecasts prepared by the Institute for Macroeconomic Analysis and Planning; Tax tax-refund information from the Tax Authority; information on drawn lawns from the Sector for International Financial Institutions; payments and refunds from the EU budget from the Sector for the Tasks of the National Fund. All revenues received (amount, type) are recorded in the State Treasury FMIS with one day delay. Information on the cash balance in the STA and all changes in the main account in national and foreign currencies are available in real time, through ON-LINE connection with FINA and HNB. Forecasts are updated every **day** according to the actual receipts and expenses.



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## The sources of data and use:

*What are some of the strengths and issues with this data?*

- ✓ Issues: Coordination of data collection because of different sources of information.
- ✓ Strengths: Moving away from forecasts based on monthly financial plans of budgetary users toward forecasts based on reservation and invoices, proved to be more accurate. **There are no monthly limits for recording reservations and invoices. From 2015, commitments can be recorded above the plan.** The precondition is that budgetary users' information systems are connected to the information system of the State Treasury – budgetary user's general ledger is connected to the State Treasury's general ledger.
- ✓ **The main role of the reservation system** is to ensure that budgetary users involve only in those procurement procedures that are covered by the annual plan (the current budget), i.e. for which there is the government approval for multi-year budget liabilities (projections for the next two years). A reservation becomes a tool for **commitment management**.



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## Tools for managing a cash deficit:

- ✓ Mechanisms for addressing problems with short-term non-liquidity (on a monthly basis):

**Short-term loans** taken from national commercial banks. The loan is repaid by the end of the month. (\*pensions payday is 10<sup>th</sup> of a month / pensions take almost 30% of the total monthly expenditure plan (without public debt) / paid in one day).

**Weekly auctions of treasury bills** (auctions on Tuesdays: subscription and redemption on Thursdays); Intraday loans are used due to substantial redemption and subscription amounts.

- ✓ From 2013, we do not withhold payments from the TSA for account payables with maturity on that day, and do not withhold tax refunds. **All invoices entered in the State Treasury System are paid with the due date.**



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## Tools for efficient cash management:

- ✓ Under the Budget Law, available surplus cash may be deposited with the Croatian National Bank, a commercial bank and invested in government securities, with due observance of the principles of safety, liquidity and cost-effectiveness of investment.

- ✓ Contracts signed with commercial banks on time deposit of surplus cash. **National currency:** The biggest portion of revenues is paid on the last day of the month (VAT) – payback of short-term liquidity loans. It is the time when surplus cash is often time deposited (collecting offers, ranking prices, making decisions). It is a short-term deposit up to two (2) weeks, targeting due date on the day when pensions are paid on pensioners' bank accounts.

- ✓ **Foreign currencies:** Decision of the European Central Bank – in the middle of 2014, negative interest rates were introduced first on a *vista* deposits and after that on short-term time deposits.

- ✓ **Commission for Liquidity.**

- ✓ **Targeted cash balance?** Cash balance is optimized in a way **not** to jeopardize daily liquidity. Accurate and regularly updated cash forecasts are the precondition for that.



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