



FISCAL AFFAIRS

Government Cash Management under Fiscal Stress

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Time of challenge for finance ministries

Immediate response

- Enabling health and social welfare services
- Enabling effective functioning of government

Taking policy measures to support the economy

- Policies to support individuals, businesses, market liquidity

Protecting medium-term fiscal sustainability

- Managing policy responses, fiscal risks (new and old)

Meeting extended cash needs

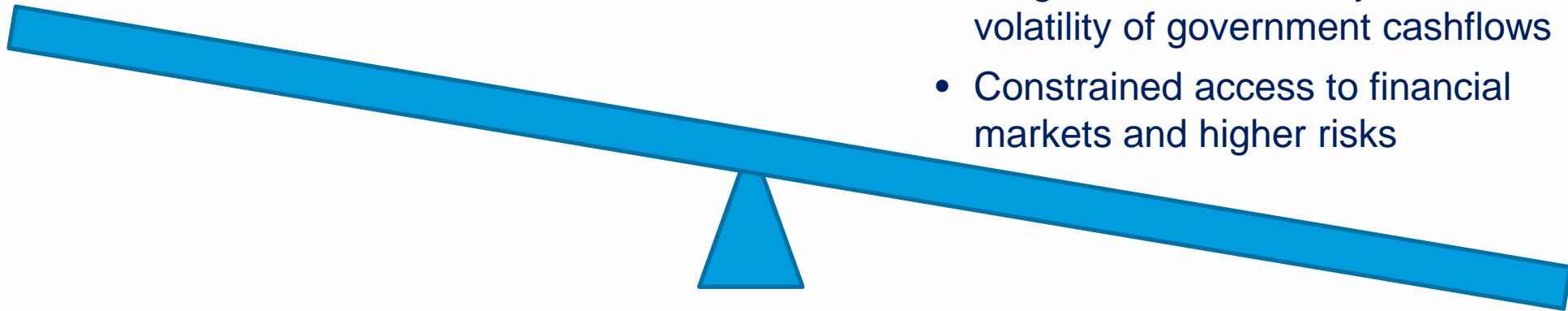
Crisis presents both opportunities and challenges for cash management

Cash management assumes greater relevance

- Essential to support crisis-related spending
- Ensuring timely payment of government obligations

Challenges and risks have multiplied many fold

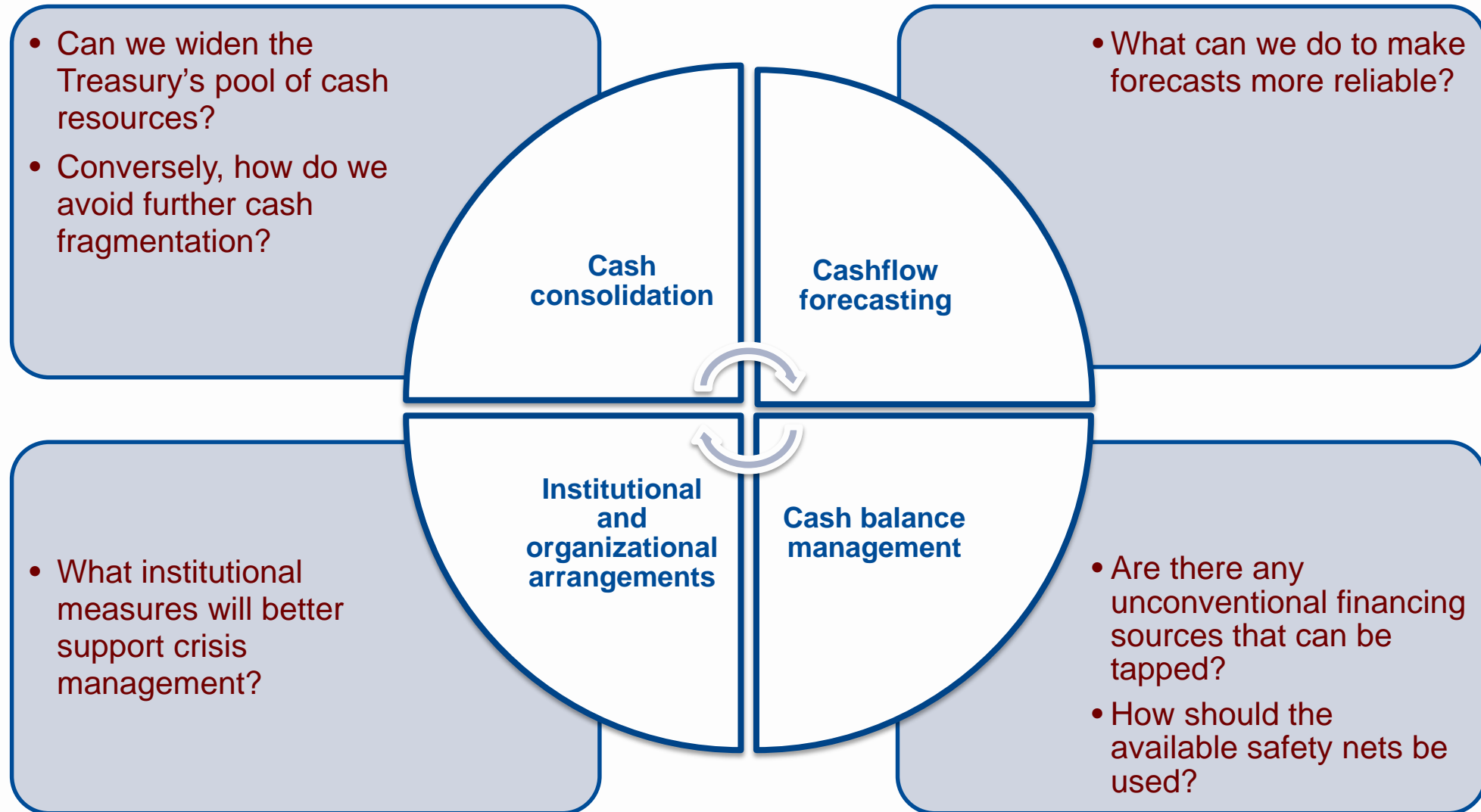
- Higher financing needs due to declining revenues and (higher) crisis-related spending
- Heightened uncertainty and increased volatility of government cashflows
- Constrained access to financial markets and higher risks



Challenges for cash managers

- How to identify and estimate the impact of the crisis and the various emergency policy responses on the government's cash operations?
- How to forecast the government's daily cash balance position and its cash flow requirements?
- How to find enough cash resources to meet increased liquidity needs while financial markets are highly stressed?

What can cash managers do to utilize all available sources of liquidity in the best way?



Elements of a broader strategy

Cash Consolidation

- Look for any significant cash balances that can be realistically integrated with the treasury single account (TSA)
- Identify opportunities for speeding up the movement of money through the TSA system
- Avoid opening bank accounts for crisis related transactions outside the TSA
- Check if there is any large cash balances in SOEs, pension funds to borrow

Cashflow Forecasting

- Analyze short-term impact of the macroeconomic conditions and the government's policy response
- Strengthen the bottom-up information base from major spending and revenue departments
- If necessary, shorten the forecasting horizon (4-6 weeks)
- Closely monitor outturn and analyze forecast errors.
- Update forecasts frequently (ideally daily).

Cash Balance Management

- Explore short-term borrowing options:
 - Credit lines with commercial banks
 - Overdraft facility with the central bank (must be regulated)
 - On call borrowing from public enterprises, extra budgetary funds
- Recalibrate the cash buffer level.
 - Analyze the feasibility of using reserves (e.g., cash reserve fund, forex reserves, sinking fund).
 - How much and over what period?

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Issues to be considered:

Countries with a TSA vs. Countries without a TSA

- Any bank accounts for central gov't MDAs and EBEs are outside the treasury's control?
- Any room for improvement in sweeping arrangements from commercial banks to the main treasury account in central bank?
- Any room for establishing credit lines with the banks for the countries relying on cash distribution to ensure uninterrupted delivery of critical public services?
- Any separate bank accounts for COVID related revenue collections and expenditures?
- Any idle cash held in PCs, EBEs, pensions funds etc.?
- Real time/Online access to the bank accounts?

Cash forecasting

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Issues to be considered :

Top-down vs. bottom-up information gathering for cash forecasts

- Any identified key points of contacts to get timely updates on any emergency funding (development partners, IFIs)?
- Any direct communication channels with major spending agencies managing crisis related spending and revenue collection agencies? If so, how frequently?
- Any scenario analysis to inform decision making?
- Any consideration to contingent liabilities in the scenarios?
- Any regular daily discussion on the cash forecasts with the budget office, debt management and central bank?

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Issues to be considered:

Tapping all available resources with due regard to costs and risks

- Any possibility to establish or expand the credit lines with banks and overdraft facility with central bank?
- Any changes in cash buffer levels?
- Any other ring fenced funds i.e. sinking funds?
- Any room for investment of temporary liquidity surplus?

Strengthening Institutional Arrangements



Crisis
Management
Group (Fiscal)

Cash
Coordination
Group

Cash
Management
Unit

Senior MoF leadership for strategic decision-making.

High-level interdepartmental group for tactical and operational decision-making

- reviews forecasts
- identifies potential resource gaps and financing options
- analyzes options for potentially adverse scenarios
- informs CMG of a need for strategic change/adjustment is needed.

Small technical team

- monitors cash balance, prepares cashflow forecasts
- advises CCG on cash balance management needs.

Coordinated Cash and Debt Management

- More integrated framework is necessary

Revise borrowing program in line with cashflow forecasts, update issuance calendar and inform markets for lenders to adjust their portfolio

Typical coordination issues: Maturity dates chosen to avoid weeks, and especially days, of heavy cash outflow (e.g. salary payments): instead target days of cash inflow

- Explore possibility of IFI lending

Options for debt relief and concessional financing?

- Liability management operations from cash management perspective

Bond exchanges ideally avoid cash buybacks

- Coordinate issuance with other public entities (e.g., subnational governments) to avoid competition
- For the medium-term, keep track of risks

Further information



Summary of IMF emergency lending

<https://www.imf.org/en/Topics/imf-and-covid19/COVID-Lending-Tracker>

Policy notes on how to prepare and respond to the crisis

<https://www.imf.org/en/Publications/SPROLLs/covid19-special-notes>

Policy tracker of response measures

<https://www.imf.org/en/Topics/imf-and-covid19/Policy-Responses-to-COVID-19>

Summary of lending instruments

<https://www.imf.org/en/About/Factsheets/Sheets/2020/02/28/how-the-imf-can-help-countries-address-the-economic-impact-of-coronavirus>

IMF Fiscal Monitor

<https://www.imf.org/en/Publications/FM/Issues/2020/04/06/fiscal-monitor-april-2020>