

CASH MANAGEMENT IN CENTRAL GOVERNMENT

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MAY 14, 2007

BACKGROUND

- Cash management started receiving importance gradually after 1997-98
 - MOU between GOI and RBI;
 - With discontinuation of Ad hoc treasury bills (automatic funding of budgetary deficit discontinued); and
 - Introduction of Ways & Means Advance system.
- Government Securities market was gradually developing;
- There was no control or effective monitoring of the spending pattern of the departments/ministries.
- Department/ministry could spend the entire budgetary allocation immediately after enactment of Appropriation Act.

BACKGROUND

- From 2002-03, as part of debt market development, Government started announcing half-yearly market borrowing calendar
 - Creating demand for effective cash management.
- Pilot Scheme of Cash Management was announced in Budget 2003-04 and introduced in respect of 9 Demands with effect from 2003-04.

OBJECTIVES

- Monitor – Who is spending? How much? And when?
- Avoid rush of expenditure in the last quarter of financial year.
- Tackle the tendency of parking of funds.
- Assist in planning the market borrowings of the Central Government.
- Reduce mismatch between receipts and expenditure?

EXTENT OF MISMATCH

- In Q-1 2002-03, total expenditure was 18.5% and net revenue receipts was 12.2% of BE.
- In Q-1 2003-04, total expenditure was 17.5% and net revenue receipts was 9.9% of BE.
- In Q-1 2005-06, total expenditure was 18.2% and net revenue receipts was 11.6% of BE.
- In Q-1 2006-07, Total expenditure was 23.3% and net revenue receipts was 13.6% of BE.

MISMATCH BETWEEN RECEIPTS AND EXPENDITURE

- The gap between receipts and expenditure has, therefore, gone up.
- Essentially both expenditure and revenue receipts are back-loaded – receipts more than expenditure.
- Emphasis of cash management is on more even pace of expenditure, even as composition of receipts is resulting in more back-loaded receipts.

REASONS

- Declining share of capital receipts – repayment of loans and disinvestment receipts;
- Declining share of interest receipts in non-tax revenues.
- Tax receipts outpacing the Non-tax receipts.
- Composition of tax revenues changing in favour of direct taxes.
- Declining share of Customs duties.
- Change in the mode of Excise duties from daily to monthly.

MARKET BORROWINGS

- Till 2001-02, no planned calendar for market borrowings.
- It was just in time.
- From 2002-03, half-yearly indicative calendar for market borrowings.
- Calendar was initially based on core borrowing requirement taking into account expenditure on
 - (a) repayment of loans
 - (b) interest payments and
 - (c) salary & wages, etc.

WAYS AND MEANS

- Temporary mismatches are met through WMA & Overdraft (OD).
- Subject to mutually agreed ceiling of WMA.
- The applicable interest rate is Repo Rate on WMA and 200 basis points penal rate on OD.
- Surplus in excess of Rs.20,000 crore is held as idle cash with RBI.

PILOT SCHEME of 2003-04

- Pilot Scheme.
- Cash Management introduced in respect of nine Demands for Grants (Departments).
- Quarterly projections.
- **Departments were asked for projections**
- Discussed, if need be, and revised accordingly
- Final allocations communicated
- Financial advisors to monitor cash flow on weekly basis
- **Unutilized funds not to lapse**
- **Eligible for carry forward to next quarter**
- Similar projections in respect of receipts

ASSESSMENT OF PILOT SCHEME OF 2003-04

- Review undertaken by a Sub-Group headed by CGM-In-Charge of RBI.
- Limitations in respect of –
 - Coverage
 - Timely projections
 - Quarterly duration
 - Option of Carry forward

MODIFIED CASH MANAGEMENT SYSTEM

- Introduced in 2006-07 benefiting from the experience of Pilot scheme and its review by a Sub-Group.
- Introduced in the first phase in 14 Demands for Grants.
- Concept of MEP and QEA.
- Inclusion in Detailed Demands for Grants.
- Quarterly exchequer control.

MODIFIED CASH MANAGEMENT SYSTEM

- Being extended to 9 more Demands for Grants.
- Expenditure ceiling of 33% in last quarter and 15% in last month.
- Department of Expenditure guidelines to be factored while drawing up MEP.

INITIAL ASSESSMENT

- It resulted in front loading of expenditure and early spike in deficit indicators.
- Premature to assess impact at demand for grants level.
- Quality of projections to improve with experience and capacity building.

OTHER ISSUES

- Problem arising from common cash balance account comprising Consolidated Fund and Public Account.
- Problems arising from effectively common cash balance account of GOI and States.

MANAGEMENT OF SURPLUS CASH

- Presently managed passively by RBI – invested in government securities held in its portfolio for the purpose.
- Ceiling of Rs.20,000 crore [about USD 4 billion].
- Under present interest rate regime, interest earning is less than cost of borrowing.
- Government quite often holds surplus in excess of Rs.20,000 crore.
- Avenues for alternative investment options are being explored.

CASH MANAGEMENT INSTRUMENTS

- Given the gap between receipts and expenditure inherent in the fiscal arrangement, there may be a merit in considering introduction of separate short term cash management instrument.
- It would fragment the short end of debt market.

THANK YOU