Gníomhaireacht Bainistíochta an Chisteáin Náisiúnta
National Treasury Management Agency

Exchequer Cash Forecasting

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Presentation Outline

1. Background
2. Stakeholders
3. Role of Government Departments
4. Role of NTMA FDM
5. Liquidity Policy
6. Role of NTMA Risk
7. Process

Exchequer Assets

Background

- Presentation focuses on Exchequer – by far the largest part of Central Government
- Build up cash buffers with onset of crisis in 2008 through STP issuance

> The NTMA also used the short-term debt markets to build up Exchequer cash balances towards the end of 2008. This has assisted in the timing of borrowing in 2009, ensuring that the NTMA can raise funds as opportunities arise without having to enter the market at particularly turbulent times.

- STP o/s grew from €3bn at end-2007 to €22bn at end-2008
- Cash balances have remained elevated since
- NTMA has a low appetite for liquidity risk in respect of Exchequer – conservative approach
- Liquidity Risk policy the guiding principle

Stakeholder Engagement

Banc Ceannais na hÉireann
Central Bank of Ireland
Eurosystem

NTMA FDM

NTMA Risk

Revenue

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Role of Government Departments

- Departments of Finance (D/FIN) & Public Expenditure & Reform (D/PER)

An Roinn Caiteachais
Phoiblí agus Athchóirithe
Department of Public
Expenditure and Reform

- Budget balance (EBR) estimated by D/FIN
  - With input from NTMA – debt service expenditure

- D/FIN prepares monthly profile of budget balance
  - Disaggregated spending and revenue estimates
  - Seasonality issues

Role of Government Departments – Discretionary (Voted) Spending

- Annual spending estimates reflected in Budget/Spending Estimates Volume
  - Detailed sub-head/programme spending
- Individual Departments prepare monthly profiles
  - Based on annual allocation
  - For daily estimates NTMA look at daily historical trends – can track payments as year progresses
- Agreed with corresponding Vote section in D/PER
- Monitored and reported on by Central Section D/PER
- Movement of expenditure between sub-heads is allowed
  - Between Departments requires political approval

Role of Government Departments

- Non-discretionary spending
  - Primarily debt service: NTMA FDM supplies monthly debt service profile
  - Specific coupon payment dates for bonds/Programme loans
  - Also EU Budget contribution/Exchequer loans

- Tax revenue and non-tax revenue
  - Specific tax revenue payment dates
  - Mostly late month for on-line payers
  - November is the crucial month – CT and self employed IT

Role of NTMA FDM

- Projects EOD cash balance for internal liquidity monitoring purposes

- Reconciled by RISK – will flag discrepancies/seek explanations

- Provides Central Bank of Ireland (CBI) with regular cash balance estimates covering the next two weeks
  - More informal process
  - High-level explanations provided to CBI on movements

Role of NTMA FDM

- Stress testing
  - Independent of NTMA Risk
  - Survival metric – when would cash be exhausted, for example if:
    - ✓ Reduced/no market access
    - ✓ Revenue x% lower than estimated

- Prepares cash balance estimates for *Budget/SPU*

- High-level website publication showing projected year-end balance
  - Updated three times a year – current year only

Exchequer Funding Needs and Sources 2018

Exchequer Funding Needs and Sources

EXCHEQUER FUNDING REQUIREMENTS & SOURCES 2018	
	€bn
Opening (End-2017) Exchequer Cash & Other Liquid Assets Balance[1] (A)	10.5
2018 Funding Requirements	
Exchequer Borrowing Requirement (EBR)[2]	-0.6
Bond Maturities[3]	-8.9
Other bond flows[4]	-5.3
Other [5]	-1.7
TOTAL (B)	-16.5
2018 Funding Sources	
Government Bonds	17.5
Other[6]	1.8
TOTAL (C)	19.3
Projected Closing (End-2018) Exchequer Cash & Other Liquid Assets Balance[1] (A+B+C)	13.3

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FDM – Recent developments

- Better understanding of various Revenue daily notifications
  - online and paper based payments
- Resource in D/FIN to query large non-voted spending/ revenue flows/transactions
  - Fiscal Policy and Exchequer Accounting divisions
  - Notification of timing/confirmation of payments
- Knowledge and education of counterparties
  - Understand consequence of actions for NTMA liquidity/cash management
- Communication with external counterparties has improved
  - Revenue Commissioners particularly
  - But can get better

Exchequer Liquidity Risk Policy

- Strategic Liquidity Target requires 6 months advance funding in place
- Daily/monthly reporting and monitoring
- Quantitative Targets/Limits and KRIs
- Subject to annual review

Role of NTMA RISK

- Second line of defence – challenge and support
- Prepare reports of record – daily cash estimates/monthly dashboards/KRIs
- 12-month Liquidity Projections to ESM as part of its EWS

- Estimates to EC for bi-annual PPS
- Close working relationship with FDM
  - Regular discussion on issuance plans/debt management, annual funding plan & Budget estimates
  - Together, FDM and Risk meet at least once a quarter with D/FIN

Process

- FDM prepares daily cash-flow estimates
  - Uses a combination of Excel and Treasury Reporting System
  - Issuance plans/maturities/coupons/debt management transactions – updated regularly
  - Reliance on D/FIN & D/PER for revenue/spending profiles

- Risk reconciles and circulates daily Exchequer liquidity risk report
  - Confirms (or not) adherence to EOD balance estimate rule
  - Conservative – reflects full spending but discounted tax revenue flows; non-tax only included on a confirmed basis

Process

- Daily notifications from Revenue/CBI & D/FIN
  - Actual daily spending/revenue/budget balance
  - Allow for rebasing
  - Useful for daily estimates, voted spending in particular

- Risk prepares monthly Exchequer liquidity risk report
  - Reports on seven quantitative metrics
  - Stress Tests

Summary

Key Issues

- Relationships – internal and external
- Communication
- Base case funding plan to work from
- Cash balance definition

Difficulties

- D/FIN publishes monthly profiles just once a year
- Conservatism: can lead to sub-optimal outcomes
  - Higher cash = higher Gross debt
- Repeated overspending by some Government Departments
  - Usefulness of profiles?

Useful Links

http://www.ntma.ie/

http://www.ntma.ie/business-areas/funding-and-debt-management

http://www.ntma.ie/annualreport2017/index.html

http://www.finance.gov.ie/

http://www.per.gov.ie/