Archives of Business Review – Vol. 8, No.9
Publication Date: September 25, 2020
DOI: 10.14738/abr.89.9007.
Hua, S. (2020). Problems and Countermeasures of China's Treasury Cash Management. *Archives of Business Research, 8(9). 112-114.*

Problems and Countermeasures of China's Treasury Cash Management

Shi Hua
School of Public Finance and Tax, Central University,
Finance and Economics, Beijing, China

ABSTRACT

This paper reviews the development process and present situation of China's treasury cash management, points out the existing problems of China's treasury cash management, analyzes the causes of these problems and puts forward corresponding solutions.

Keywords: treasury cash management; Treasury cash flow forecast; Optimal treasury cash balance

INTRODUCTION

In recent years, with the deepening of China's treasury centralized collection and payment reform, the treasury inventory scale has been continuously expanded, and the treasury cash management business has developed rapidly.However, with the rapid development of treasury cash management business, there are still a series of problems in treasury cash management in China, such as low operation scale and frequency, poor mechanism operation, etc., which are extremely unsuitable for the expansion of treasury cash management scale in China, resulting in the precipitation of funds and the loss of considerable potential benefits.This paper sorts out various problems in China's treasury cash management, hoping to provide reference for the further development of treasury cash management reform.

CHINA'S TREASURY CASH MANAGEMENT STATUS

Before 2006, China implemented the mode that all treasury cash was deposited in the central bank, that is, the single central bank deposit mode.Before 2006, China's treasury funds were all deposited in the central bank, charging extremely low current interest. However, this behavior will increase the central bank's cost and expenditure, and lead to a reduction in the national fiscal revenue turned over by the central bank, which will not really bring interest income to the country.In June 2006, the Interim Measures for Cash Management of the Central Treasury was promulgated and implemented, and the cash management of the Central Treasury was officially started. After years of development, the cash management of the Central Treasury has gradually matured, mainly by time deposits of commercial banks.By the end of 2015, the central treasury had implemented 87 periods of cash management of time deposits in commercial banks, with an operation scale of more than 3.6 trillion yuan and a total interest income of 66.7 billion yuan.In recent years, the cash management operation scale of the central treasury is about 500 billion yuan.

In December 2014, the Ministry of Finance and the People's Bank of China selected six provinces and cities to carry out pilot projects of local treasury cash management. In 2015, a total of 32 periods of treasury cash management commercial bank time deposit operations were

implemented, with a scale of more than 660 billion yuan and a total interest income of 9.9 billion yuan.In 2016, another 15 provinces and cities were added, and 21 provinces (autonomous regions and municipalities) were piloted nationwide to complete 78 bidding operations for local treasury cash time deposits, with a cumulative investment amount of 1.72 trillion yuan and an increase of 1 trillion yuan compared with 2015.

On February 9, 2017, the Ministry of Finance and the central bank issued the Notice on Carrying out the Cash Management of Provincial Local Treasury in an All-round Way, which marked the end of the pilot work, and the cash management of provincial treasury was officially rolled out across the country, which meant that the cash management mode of our national treasury completely changed to the market-oriented cash management mode of "depositing in commercial banks for interest after keeping the funds".

CHINA'S TREASURY CASH MANAGEMENT PROBLEMS

The frequency of cash management is low

In order to reduce the scale and fluctuation of treasury account balance, developed countries have basically implemented the target balance management of treasury funds.In an observation of 22 OECD countries, more than 70% countries have set their own national treasury target funds.Treasury funds exceeding the target balance will gain income through investment.China has not yet established this system, and the central treasury does not regularly carry out treasury cash management operations, so the utilization rate of treasury funds is low.

Single cash management tool

Cash management tools commonly used in the world include fixed demand deposits of commercial banks and money market tools, such as bonds with various maturities.The term is flexible, and short-term and long-term tools are combined to strike a balance between liquidity and yield.According to the regulations of the system, China's treasury cash management can adopt the form of commercial bank time deposits and national debt repurchase, among which the form of national debt repurchase is seldom adopted.The mode of time deposit is the main one.The term is usually less than one year and more than three months.

Cash flow forecast is relatively extensive

Treasury cash flow forecasting is the basis of treasury cash management. Countries all over the world pay attention to cash flow monitoring and forecasting, and strive to accurately predict daily cash flow.China's treasury cash flow forecasting has not established a normalized daily forecasting mechanism, with monthly forecasting as the main one.

ANALYSIS OF THE CAUSES

Treasury cash management responsibilities are not clear

In China, the financial department and the People's Bank of China are jointly responsible for the implementation of treasury cash management. The new Budget Law stipulates that the People's Bank of China manages the treasury without giving a detailed definition of "manage treasury", which leads to unclear responsibilities of the financial department and the People's Bank of China in treasury cash management affairs.At the same time, in the treasury cash management operation, the central bank has a veto power, which affects the initiative of the financial department.

Extensive management of fiscal expenditure

In terms of fiscal expenditure, at present, it is only required to prepare annual and monthly payment plans, and the planning is too extensive, which cannot accurately reflect the real fiscal expenditure and support the daily cash flow forecast.No corresponding measures have been designed to contain the behaviors that are not implemented as planned.There is also no mechanism for filing large-value payment in advance.

The development of financial market is immature

The use of commercial bank deposits in treasury cash management will have an impact on the liquidity of the money market, hedge the open market operation of the central bank and interfere with monetary policy. The use of financial market investment can effectively reduce the interference.However, due to the immature development of China's financial market, there is a lack of mature financial market investment tools.At the same time, if the target balance system is adopted, it is necessary to have short-term financing tools to prevent the situation that the bottom balance is not enough to pay under accidental conditions. At present, the domestic financial market lacks similar tools.

SUGGESTIONS

In view of the above-mentioned problems and their root causes, this paper puts forward the following solutions: 1. It is necessary to clarify the division of treasury cash management responsibilities as soon as possible, the department leading treasury cash management, the development goal of treasury cash management, and the development plan to ensure the steady progress step by step.2. Accordingly, under the organization of the lead department, the responsibilities of each department should be clarified, and the existing system data should be used to strengthen the forecast of fiscal revenue. Each fund-using department should prepare a monthly fund-using plan in a more refined way, and carry out assessment incentives to increase the proportion of implementation according to the plan.

Establish a large payment filing mechanism in advance, so as to start the daily cash flow forecast.3. Explore the establishment of the target balance system of treasury funds. For the sake of safety, a larger balance target can be set at the initial stage. Explore the establishment of more flexible cash management tools and the introduction of short-term financing replenishment channels.Gradually approach the estimated balance.

References

Li Chunyang, Literature Review of Target Balance System of Financial Treasury Base. Budget Management and Accounting, 2019(10): pp. 15-26.

Li Chunyang, Achievements, Problems and Policy Suggestions of China's Treasury Cash Management Reform. Finance and Accounting, 2020(05): pp.67-69.

Li Junsheng, Yao Dong-min and Li Hao-yang, Monetary Effect of Fiscal Department：The Money Regulation Mechanisms with a“Dual-subject”Fiscal Department and Central Bank Framework

Based on the Neo-public Finance Theory. Management World, 2020. 36(06): pp. 1-25+241.

Zhang Xinglong, Research on Innovation and Development of Treasury Cash Management in China, 2019, Central University of Finance and Economics, p.152.