MANAGING THE CASH AND LIQUIDITY OF THE CROATIAN BUDGET

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Abstract

The principal proposition this paper will endeavour to maintain is that the liquidity of the budget is not fully managed by the Ministry of Finance, which is why it is unable, in collaboration with the Croatian National Bank, to rein in and slow down the growth in short-term public debt. Only since 2001, thanks to institutional improvements, have the conditions been created in the Ministry of Finance for cash and liquidity management. Thus payments operations, previously in the hands of a government institution, were taken over by the banks; the financial operations of budgetary spending agencies were channelled via the Single Account of the Treasury; and government deposits were gradually transferred from numerous commercial banks to the Single Account of the Treasury in the Croatian National Bank and the state-owned Croatian Postal Bank. Unfortunately, however, the Ministry of Finance, in collaboration with the Croatian National Bank, still carries out no operation of cash and liquidity management within the government Treasury system, nor does it operate on the money market with its surplus budgetary resources. Because of this state of affairs, management of the cash and liquidity of the central government budget is within the purview of the commercial banks.

Keywords: Single Account of the Treasury, payments operations, management of cash and liquidity, commercial banks

1 Introduction

The chief objective of this paper is to determine if the Croatian Finance Ministry, in collaboration with the Croatian National Bank (CNB) can really manage the cash and liquidity

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of the government budget, carry out financial operations within the system of the Treasury, that is, become a banker of its spending agencies and actively take part in the money market, supplying liquidity. The main proposition is that the Finance Ministry does not manage the cash and liquidity of the government budget, for which reason it cannot, even in cooperation with the CNB, rein in or slow down the rise in the short-term public debt.

In most countries the management of cash is a function of the state treasury through which the Finance Ministry ensures control of cash flows via the system of the Single Account of the Treasury (in domestic and foreign currency) and the centralization of the deposits of the state budget and the extra-budgetary funds in a single account in the central bank. Managing liquidity, the Finance Ministry carries out in-house operations in the treasury system relating to ensuring the most favourable conditions for short-term borrowing, laying out surplus budgetary resources on the money market, granting loans to spending agencies and maintaining deposits in commercial banks at the most favourable rates of interest.

Management of cash is the function of the treasury according to which the Finance Ministry carries out control of the flow of money to and from the government's account, and control of resources collected and disbursements made. This control does not cover only budgetary revenue and expenditure but also the payments in and out made via the extra-budgetary funds. The cash management system for the whole of the state must provide certain information, e.g., about the dynamics with which revenue arrives, the maturity of liabilities, the timetable for debt servicing or receipts expected from the sale of assets.

The main objectives of cash and liquidity management are control of government spending, effective implementation of the budget and the minimisation of the costs of borrowing. For this reason for successful implementation of the budget the Finance Ministry must make sure that liabilities are met in line with the terms of contracts and the collection of revenue in time. The Finance Ministry must minimise transactional costs, borrow money at the lowest rates of interests and create additional cash by investing in yield-bearing securities. It should avoid making payments in advance and also ensure precise records of the dates when liabilities become payable (Allen and Tommasi, 2001:243).

For the management of cash and liquidity it is crucial to ensure operations of state or government institutions through the Single Account of the Treasury, good payments operations to be carried out by the banks, and the orderly meeting of government liabilities.

This paper is divided into four parts. In the next chapter the role of the Croatian Finance Ministry in the establishment of cash and liquidity management is explained. In Part 3 the main constraints affecting the ability of the Finance Ministry (FM) to take part in the money market are outlined, within the context of a financial analysis. A detailed analysis is made of the size of transactions via the government budget for the 1994 to 2005 period, as well as of outstanding liabilities, the balances and structure of government deposits, the terms on which the government borrowed on the money market and (directly) via the commercial banks, the size and structure of short-term government borrowing, and the state of liquidity in the accounts of the government. Special emphasise is made of the reasons why the FM, in collaboration with the CNB, was unable to rein in or slow down the growth in short-term public debt. In Part 4, conclusions are worked out and recommendations made for institutional changes in the system of managing the cash and liquidity of the Croatian budget.

2 The practice of cash and liquidity management in the Croatian Finance Ministry during the 1994-2005

From 1994 to 2001 there was no cash and liquidity management function in the FM (see annexe). The Cash Flow Management Department in the Public Debt Management Sector did not supervise all the money flows relating to the payment of revenue into and the payments made from the state or national budget. Apart from that, a considerable part of the financial transactions were carried out via the extra-budgetary funds, which the FM neither supervised nor controlled. The FM on the whole financed short-term budgetary deficits via direct borrowing from the CNB and other government institutions, notwithstanding the existence of liquid budgetary resources in deposit accounts in the CNB and in commercial banks. From 2000 the problem of cash and liquidity management has become exacerbated because the FM is no longer allowed to borrow money directly from the CNB.

From 2001 to 2005 the Government, in collaboration with the FM and the CNB took several key steps that ensured the institutional premises for cash and liquidity management (Table 1) and made it possible for the FM to lay out surplus budgetary cash on the money market overnight.

Table 1 Institutional changes in Croatia as preconditions for cash and liquidity management since 2001

The change	Year	Objective
reform of domestic currency payments operations	2001	payments operations take place in banks
ban on government borrowing at the CNB	2001	stopping monetization of budget deficit
improvement of foreign currency payments operations in government accounts	2003	carrying out foreign currency payments operations in the CNB
control of liabilities of government budget	2001	ensuring financial discipline and orderly execution of the budget
single Account of the Treasury – kuna	2001	centralisation of cash flows and deposits of the budget in the SAT in the CNB
single Account of the Treasury – foreign currency	2003	centralisation of foreign currency deposits of the government at the SFCAT.

Thanks to these changes, from 2001 on the FM was for the first time in control of the financial operations of institutions that it financed out of the central government budget, for in-payments and out-payments were carried out by the Single Account of the Treasury held at the CNB (both domestic and foreign currency accounts). From 2001, payments operations were taken over by the commercial banks, and from 2003 the CNB additionally took over from the commercial banks foreign currency payments operations for the accounts of the government.

In the proposals of the Government for a change in the payments operations system, which was to move from the Payments Clearing Institute (ZAP) to the banks, it was necessary to define the relationship between the CNB and the FM. Thus in 2001 in the new CNB Bill it was stated that it would keep government accounts within its liabilities (which it had done to date) and that it would carry out payments operations on these accounts. The CNB would carry out payments from the accounts at the order of the FM up to the amount of resources deposited in the account, with the proviso that it should credit and pay out interest on resources deposited in the account. The amount of the interest and the charges would be worked out together by the CNB and the FM according to conditions on the market. Of course, the CNB was to charge and collect a fee for its payments operations services. Nevertheless, the CNB, with the consent of the FM, could authorise another institution actually to carry out payments operations for the government accounts. The issue to be settled here was which institution should be – the banks or the Payments Clearing Institute?

In February 2001, the National Clearing System started working; in this, the CNB's authority for carrying out payments operations was transferred to the commercial banks. However, the commercial banks (on the whole privately owned) were not willing to carry out control of the collection of taxes and contributions that had hitherto on behalf of the government been carried out by the Payments Clearing Institute, for which service it had charged a fee. For this reason the question cropped up as to whether the banks would be able to take over the role of the PCI (ZAP) and whether payments operations would be able to unfold via the commercial banking system, necessarily involving the payment of taxes and contributions.

In 2001, the PCI changed its name and became the Financial Agency (FINA) and continued carrying out payments operations for the government, but subcontracting to the Croatian Postal Bank, the only state-owned bank, in which the spending agencies kept their accounts. Thus the Croatian Postal Bank and FINA became the fiscal agents of the government or state and went on carrying out payments operations on behalf of and at the expense of the state[1]. From 2001, all government institutions (which had accounts in several commercial banks) opened transaction accounts for regular business in the Croatian Postal Bank[2]. Unlike the central government budget and its spending agencies, the FM allowed all local government units to have accounts in a commercial bank of their own choice[3].

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1 Payments Operations Law, NN 117/01.

2 The Payments Operations Law of 2001 requires all legal entities to set up transaction accounts in banks to replace the giro accounts they had in ZAP. ZAP, later FINA, in line with the special law passed in 2001, stopped operating with giros and yet on April 1 2002 FINA went on working with the full number of employees, retaining all the existing installations of ZAP. The responsibilities of FINA are prescribed in the Financial Agency Law (NN 117/01).

3 An Ordinance was passed ordering banks to prepare daily summaries of the accounts of local government for FINA. However, no similar ordinance was passed for indirect spending agencies, who were also allowed to open their own accounts in commercial banks.

2.1 Domestic payments operations via government accounts

At the beginning of 2001, the FM laid it down that spending agencies must have only one account in a commercial bank[4]. The accounts of spending agencies became a part of the system of the SAT in the CNB. In February 2002, the FM called upon national budget spending agencies to open deposit accounts for the payment of other current expenditures in the Croatian Postal Bank (CPB), the only state owned or sponsored bank. The basic motivation behind this instruction was the desire of the FM to improve the liquidity of the Treasury in such a way that it carried out payments directly to spending agencies, not via their accounts, spread out in several banks, according to their own choices, and to make sure of complete surveillance and control of available cash resources.

Since 2002, the FM has not kept deposit accounts at the CNB, and all spending agencies have closed such accounts and opened accounts in the CPB, which serves exclusively for the payment of cash[5]. Since that period, all payments have been carried out via special sub-accounts of the SAT in the CNB directly into accounts in commercial banks and into the accounts of spending agencies kept in the CPB. It should be said that any account in the CPB is a deposit account and is a component part of the SAT. From June 1 2002 all giro accounts of spending agencies were turned into deposit accounts in the Croatian Postal Bank. The money from these accounts was switched into the SAT. Since then ministries and spending agencies (regional treasuries and agencies) have not had direct access to cash resources. Their own revenue is automatically allocated by the Budget Preparation Department of the central Treasury in the FM pursuant to reports on revenue that it obtains from the Accounting Department of the State Treasury.

For the sake of maintaining current liquidity of the budget, the FM can recall available resources from the accounts of spending agencies[6]. Because of the transition to payments being made from the SAT several changes has necessarily occurred. All payments out, including those below 200,000 kuna (or expenditure for labour, operations, procurement of non-financial assets, own expenditure) are carried out from the Single Account of the Treasury. The treasury in the FM meets all demands for payment directly to the accounts of beneficiaries, irrespective of the amount. Since 2001, the FM has paid from the SAT capital expenditures and wages of employees directly from the Treasury (via the competent ministry) into private accounts in a bank of the choice of the employee. Since 2003 the FM has paid all liabilities to suppliers (capital expenditures and material costs) from the SAT. The FM transfers funds depending on the due date for payment, and makes use of potential surpluses in the SAT at the end of the working day for payment the next day. Surpluses that are manifested at the end of the working day in the accounts of the spending agencies in the CPB remain government deposits for the sake of payments to be made in the forthcoming days or months.

[4] Instruction concerning the Execution of the Budget from the Single Account of the Treasury, NN 4/01.

[5] Payments Operations Law, Official Gazette 117/01 and Execution of the Budget Law, NN 116/01.

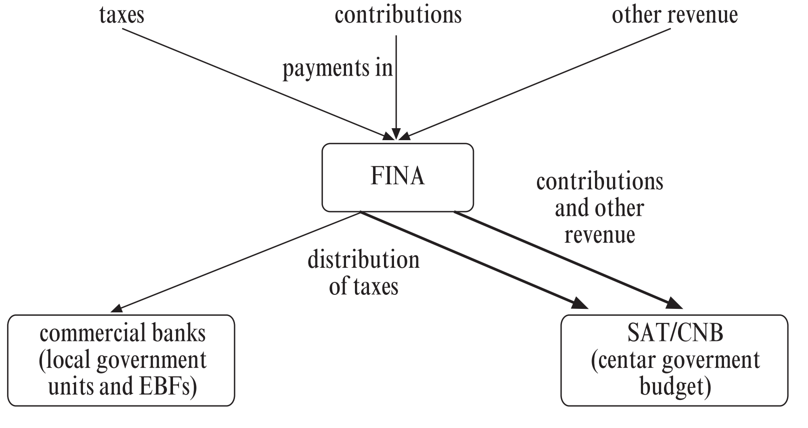
[6] Execution of the National Budget for 2002 Law, NN 116/01.

Payments into the SAT. Since 2002 the payments system has moved to the banks, and the Finance Minister then prescribed which government accounts were to be opened and kept at the CNB, determined the content of given elements of orders for the payment of taxes and other public revenue, and the periods and manner of executing these orders. At the beginning of 2003 the FM opened 7,000 new accounts in the CNB for the collection of revenue. Through these accounts the FM still went on operating via the Financial Agency, subcontracting to the CPB. FINA went on processing and distributing revenue on behalf of the Government and the FM. Public revenue could now be paid in via the Financial Agency as well as via the commercial banks. Public revenue was on the whole paid in via FINA to the SAT in the CNB. In 2001 and 2002 the biggest extra-budgetary funds (for pensions, health care and employment) became part of the central government budget, and all monetary flows were managed via the SAT in the CNB. In this manner the FM ensured the centralisation of information about most of the financial transactions of general government.

Since 2002 all own revenues that spending agencies make by carrying out their basic and other activities are also paid into the SAT. However, there are also exceptions here. The provisions do not refer to institutions of science, of tertiary, secondary and elementary education, pupil hostels, welfare institutions and diplomatic and consular missions. All other agencies most report to the competent ministry any revenue generated or spent. The ministries supervise the generation and spending of revenue. Spending agencies can assume liabilities and pay for them according to expenditure items for the financing of which their own revenue is dedicated, exclusively up to the amount of own revenue that is corrected (NN 116/02).

The system for paying in public revenue has not changed in essence as compared with previous years (Fig. 1).

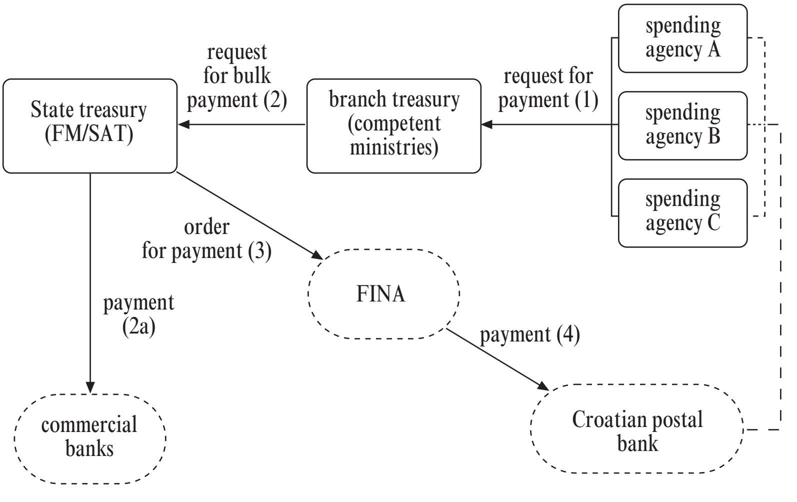
Figure 1 Flow of public revenue payments from 2001



The major part of public revenue is paid via the paying-in accounts of the Financial Agency into the SAT. Now all contributions too and most of the *own revenue* of the spending agencies are also paid into the Single Account of the Treasury. Since 2003, the FM has daily monitored the dynamics of the influx of most of the revenue into the SAT.

Payments out of the Single Account of the Treasury. For the sake of centralisation of payments out of the SAT, the FM (the central state treasury) can effectively restrict cash flow from the main budgetary account up to the day on which it is necessary (Fig. 2).

Figure 2 Payments from the Single Account of the Treasury since 2001



In the new system, spending agencies remit requests for payment to their ministry (branch treasury). The ministries prepare series of payments and request the Treasury in the FM for bulk payment. The FM transfers funds from the SAT to the relevant accounts in the CPB or (most often) from the SAT directly to the commercial banks, pursuant to received and authorised invoices. Giro accounts in the CPB are transaction accounts, and the balance in them is zero, for potential surpluses are transferred to deposit accounts, also in the CPB. The balances in the SAT (or its sub-accounts) remain as deposits in this account at the CNB.

Although the size of transactions via the SAT is increasing, some monetary transactions are still carried out from accounts that are controlled by the spending agencies in their commercial banks. According to Article 35 of the Execution of the Budget for 2005 Law (NN 141/04), some agencies have remained outside the Treasury system: establishments or institutes in the domain of science, tertiary education, health care, justice, welfare, culture, diplomatic and consular missions, commodity reserves, the sanctions execution system, and the Ministry of Justice, although payments for material costs and salaries are still performed from the SAT. These institutions are involved in operations via the SAT only with respect to that part of revenue and expenditure that is financed from the national budget. These spending agencies use their own revenue to cover expenditure, and their deposits are kept in accounts in commercial banks. (Of course, the balances of deposits arising from own revenues are in commercial banks and are not in the SAT disbursements and receipts system).

2.2 Foreign currency payments system through government accounts

In 2002 the Government and the FM adopted a decision that the CNB should also carry out foreign currency payments operations for central government and that foreign currency resources from the commercial banks should be moved to the deposits of the government in the SAT in the CNB. Since then foreign currency payments have been supposed to be carried out via the single foreign currency account of the Treasury (SFCAT) to which transactions are directed and to which the balances in foreign currencies in accounts that are kept for government by the commercial banks are gradually being transferred. With the transfer of the payments system, direct records of foreign currency payments are kept for the government by the CNB. Although the obligation existed, it was only in April 2003 that the FM opened the SFCAT in the CNB, to which the foreign currency deposits that were held in three commercial banks (Zagrebačka banka, Raiffeisen banka and Privredna banka Zagreb) were gradually switched. The CNB is obliged to provide the FM accounting evidence concerning foreign currency payments.

In parallel with the transfer of foreign currency accounts from the commercial banks to the SAT in the CNB, in 2002 the FM set up its foreign currency accounting, and recorded business events on the accrual basis. In 2003 the records were brought up to date and it is possible to inspect the balances of all foreign currency accounts; statements are received daily and entered into the books in the FM. Via the Treasury System, the FM records the purchase and sale of foreign currency and the conversion of foreign currency as well as conversion costs. Foreign currency purchases are carried out in the Financial Flows Management Department that was set up in the Finance Ministry. Since then commercial banks authorised to deal with other countries are obliged to convert foreign currency budgetary revenue (taxes, duties, contributions and other revenue) into kuna at once and to pay them into the SAT. Thanks to coordinated activity, since 2003 it has been possible in the FM via the Treasury to determine the balance of available monetary funds in the foreign currency accounts of the budget. Foreign currency deposits of the national budget are kept at the CNB, and those of the extra-budgetary funds are still however in the commercial banks.

We can say that the basic premises for being able to manage cash and liquidity have been created by these institutional changes in the payments system and by directing the financial operations of the government institutions via the SAT. But the FM still is faced with the task of starting to manage the cash and liquidity of the budget.

2.3 Unsettled problems

When the payments system went over to the Treasury system in 2001, the preconditions were created for the daily centralisation of budgetary resources in the SAT. In parallel with this in the FM, in the Execution of the Budget Sector (but not the Management of the Public Debt Sector), a Financial Flows Department was set up.

The basic assignment of the Department is to identify cash flows and their differentiation so that within the year (daily, weekly and monthly) revenue and receipts, expenditures and outgoings can be monitored, that is, the positive and negative flows of them. However, unfortunately, in spite of improvements of records of cash flows, up to 2005 this Department did not control the available short-term liquid resources nor did it ensure quality financing of the budgetary deficit. However, the FM did advance in the records of cash flows, and since 2002 has been able to work out plans of revenue and expenditure as well as of liquidity.

Revenue plan. All changes in kuna-denominated budgetary accounts that go directly through the payments system are recorded by the Financial Agency, which informs the Financial Flows Management Department. For the FM, the Financial Agency separately keeps records of receipts and outgoings of short-term borrowings. Since September 2003 the FM has recorded short-term loans for the sake of liquidity and pensions via the Treasury system (known as SAP). In 2003 the FM put all revenue collected into the Treasury system, and a database was set up outside the system concerning revenue covering data for a four-year period. They are used to forecast revenue within the year (monthly, weekly and daily). On the basis of the revenue records of the Financial Agency the Financial Flows Management Department distinguishes between pure revenue money flows and receipts from short-term borrowing, long-term borrowing, treasury bills and foreign currency revenue and receipts. By separating the cash flows of its revenue, the FM is able to determine what the expectations are from so-called pure revenue (not including receipts from borrowing), and the amount of borrowing necessary, or, in the case of a positive money flow (of surpluses) the possibility of investing.

In drawing up its expenditure plan, the FM starts out from the annual plan for the execution of the budget, or more accurately, from the monthly financial plans. Although the monthly plans of spending agencies are at an aggregate level, more detailed planning is made possible by demands of spending agencies entered into the payments system, which makes it possible to determine, for example, outflows according to expenditure category, date of maturity or end user. The FM coordinates the timetable and dynamics of payment with the dynamics of inflows of revenue during the month, and includes all payments due into detailed expenditure plans according to date of maturity.

Since September 2004, in parallel with the production of plans of revenue and expenditure, the FM has also drawn up liquidity plans, or monthly and weekly forecasts of liquidity according to liabilities assumed by spending agencies and expected inflows of money. Since 2003 the FM's Treasury System has enabled advance warning of the generation of liabilities, the basic criterion for meeting a liability being the date payment is due. Thus the FM draws up liquidity plans based on a complete picture of liabilities that have fallen due. But the FM, in its elaboration of liquidity plans, still has to take into consideration the category of large expenditures (for capital expenditures for example), which are analysed individually and which are known in advance and are not subject to any essential monthly changes. Thus the FM, in an operational sense, up to 2005, in spite of technical improvements in the recording of money flows, did not manage cash and liquidity.

3 Opportunities for and constraints on the participation of the Finance Ministry in the money market

This chapter draws points up the necessity for a better-quality management of cash and liquidity in the FM and deals with the crucial problem of who is managing the cash and liquidity of the national budget.

3.1 Payments operations from and into governmental accounts

The Financial Agency (the former Institute for Payments Clearing) even after 2001 went on carrying out domestic currency payments operations on the behalf and account of the government, and still, pursuant to annual contracts with the FM, charges a fee for the operations it carries out. The contract and the amount of the fee laid down in the contract are not information that is accessible to the public. Unfortunately, the Government and the FM still have not settled the status of the Financial Agency in the system of government finances and have defined the agency as a government institution (a spending agency) that supplies information support to the Treasury system, carries out payments operations for the government, records revenue and expenditure, and keeps a register of spending agencies. FINA performs all these matters for the government with commercial conditions that are unknown.

In 2001 the main change in government finances was the payment of contributions for pensions and health insurance and most of the own revenues that spending agencies were able to dispose of independently into the SAT. Since 2003 the FM has been able to keep a daily check on the influx of most of the revenue into the Single Account of the Treasury.

In parallel with the centralisation of payments into the Treasury, the FM has also centralised most of the disbursements from the SAT. Thanks to improvements and the increased scope of financial transactions via the Single Account of the Treasury, the Finance Ministry has an insight into and can directly control most of the financial transactions of the budget of general government. Thus the first premise for the management of cash and liquidity has been provided for in the FM[7] – financial operations of spending agencies within the system of the domestic and foreign currency SATs in the CNB.

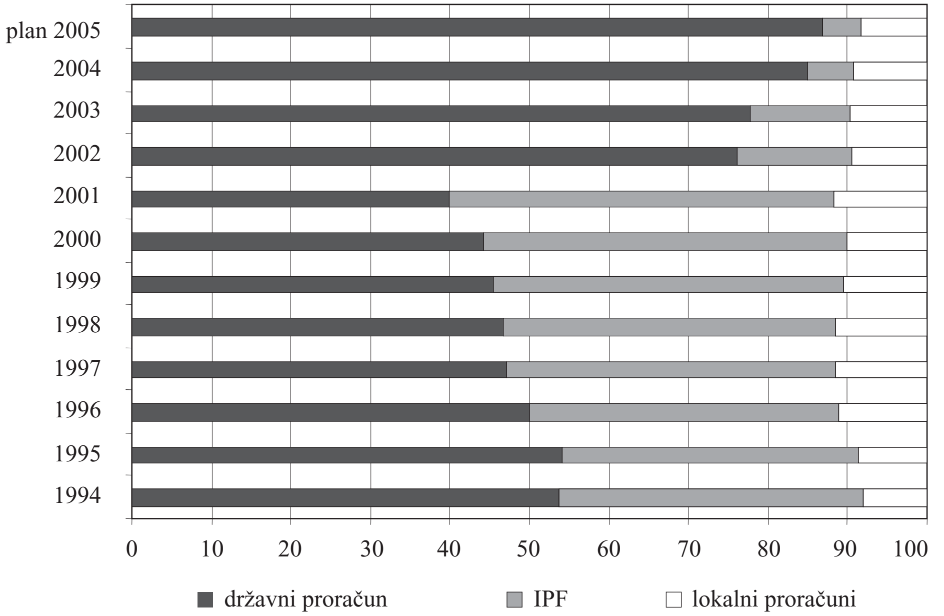
3.2 Consolidation of the budget

Thanks to the consolidation of the budget, in which the largest extra-budgetary funds (retirement and healthcare) were incorporated into the central government budget,

[7] General government consists of the central government, the extra-budgetary funds and local government units.

since 2002 the FM has been able to keep a central check on revenue and expenditure of the national budget and to manage them (Graph 1).

Graph 1 Expenditure of the central government budget as % of total expenditure of the general government budget between 1994 and 2004



Source: Finance Ministry (2005)

Up to 2001 the FM directly controlled about 40% of the expenditure of general government, but from 2002 the Government and the FM have increased the scope of financial transactions within the budget to about 80% of the expenditures of general government. Thus the FM has achieved the second premise for the management of cash flow and liquidity – the centralization of the financial operations of most of the institutions of government within the central government budget.

3.3 Outstanding liabilities

Only since 2000 has the FM supervised and controlled outstanding liabilities of budgetary spending agencies (Table 2). Not, it is true, completely, for institutions from the healthcare system do not meet their liabilities in the anticipated periods and the FM is obliged to provide collateral by the issue of short-term bonds, which thus increases the public debt.

Table 2 Outstanding liabilities of the central government budget, situation as of the end of the period (in million kuna)

	1999	2000	2001	2002	2003	2004	2005[a]
1. Brought forward from previous year	—	1.236	147	123	101	---	18
2. New liabilities in the current year:	—	2.043	359	442	313	1.290	698
a) HZZO [Medical Fund] liabilities				316	500	1.062	455
b) HZMO [Pension Fund] liabilities				126	42	1	12
c) other spending agencies' liabilities						227	231
3. Total outstanding liabilities (1+2)	9.586	3.279	506	565	956	1.290	716

[a] *NB: data for 2005, as of July 31*

Source: IMF and Finance Ministry (2005)

It can be seen that of the 9.5 billion of outstanding liabilities at the end of 1999, 506 million kuna remained in 2001. However, when the EBFs, for healthcare and pensions, were included in the budgetary system, outstanding liabilities of the central government budget increased to 956 million kuna in 2003 and 1.3 billion kuna in 2004. Thanks to the new government borrowing, in 2005 outstanding liabilities decreased on 716 mil kn**.** It should be pointed out that since 2001 the FM, at first quarterly and then monthly, has controlled the outstanding liabilities of all spending agencies and has thus attained the third precondition for cash flow and liquidity management – supervision and control of liabilities. Of course, the issue of the orderly settlement of outstanding liabilities of spending agencies, mainly the institutions from the healthcare system, still remains.

3.4 Playing with government deposits

Is the FM capable of managing the short-term liquid funds of the budget? We could look at the balance of deposits of consolidated central government (the central government budget and the EBFs) in the CNB and the amount of short-term loans of the CNB to government (Graph 2).

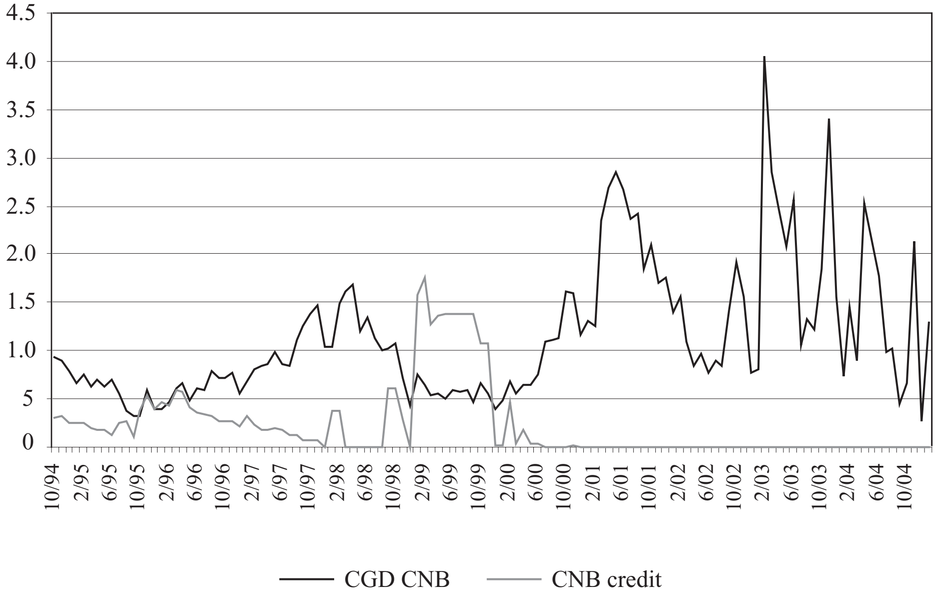
Deposits of the central government budget in the CNB have increased from 930 million kuna in 1995 to 1.2 billion kuna in 2005. The state has occasionally borrowed from the CNB, mainly in 1999. Interestingly enough, in spite of the existence of available short-term liquid funds and deposits, because it was unable to manage cash and liquidity, up to 2001 the FM on the whole took loans for the purposes of liquidity from the CNB, and from government institutions as well. The prohibition of borrowing at the CNB from 2001[8] gave the FM the opportunity independently to manage deposits and liquidity and to participate in the money market with budgetary surpluses or to borrow by direct loans from commercial banks.

Thanks to the operations in and consolidation of funds in the SAT, from 2001 the available deposits of the government budget in the CNB have increased. Since April

[8] CNB Law, NN 36/01.

2003 the balance of deposits has increased thanks to the switching of foreign currency payments and deposits to the SAT at the CNB. However, still, most of the financial assets of central government (mainly deposits) are in commercial banks. This is shown by the figures in the following graph.

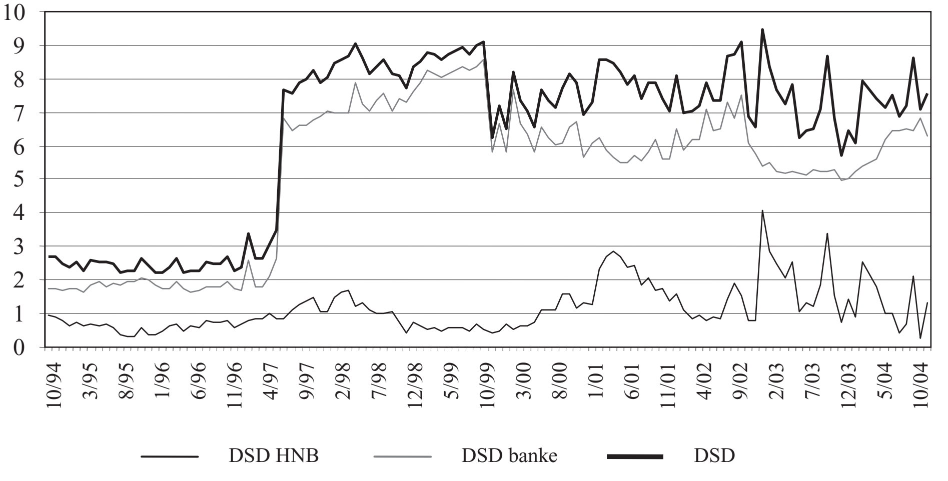
Graph 2 Deposits and short-term loans of the central government budget in the CNB, 1994-2005 (in billion kuna)



NB: CGD – Central government deposits in the CNB
Source: HNB (2005)

Total deposits of central government increased from 2.9 billion kuna in 1995 to 8.3 billion kuna in 2005. Thus the FM, in collaboration with the CNB, centralised as well as increased the amount of deposits of the central government budget in the SAT from 396 million kuna in 1995 to 1.5 billion kuna in 2005. However, the largest part of central government deposits are located in the commercial banks, increasing from 1.8 billion in 1995 to as much as 6.8 billion kuna in 2005. This refers primarily to EBF deposits, which when the two largest EBFs were moved into the budget did not reduce but were actually increased. Still, for a more detailed insight into the inability of the FM to control deposits of the government in the commercial banks and to manage them, Table 3 gives figures of amount and structure of general government deposits.

Graph 3 Central government deposits (of the central government budget and the EBFs) in the CNB and in commercial banks from 1993 to 2005 (in billion kuna)



CGD CNB – deposits of central government in the CNB CGDB – deposits of central government in the commercial banks, Total CGD – total deposits of central government

Source: HNB (2005)

Table 3 Amount and structure of general government deposits from 2000 to 2005 (in million kuna)

	2000	2001	2002	2003	2004	2005[a]
1. Central budget deposits	5.033	4.136	3.143	2.007	1.564	2.505
short term	2.380	1.970	1.312	992	795	1.823
time deposits	2.654	2.166	1.831	1.015	769	682
2. EBF	2.706	3.251	3.560	3.716	5.592	5.231
short term	185	436	706	413	531	526
time deposits	2.521	2.815	2.854	3.303	5.060	4.704
3. Local units	967	1.381	2.430	2.591	2.592	2.587
short term	728	1.039	1.937	2.035	2.041	1.963
time deposits	239	342	492	555	551	625
4. General government (1+2+3)	8.706	8.768	9.133	8.313	9.748	10.322
short term	3.293	3.444	3.956	3.440	3.367	4.312
time deposits	5.413	5.324	5.177	4.873	6.380	6.011
Deposits in financial institutions (a + b)	8.706	8.768	9.133	8.313	9.748	10.322
a) CNB	1.009	1.752	608	440	334	1.456
b) Banks	7.697	7.016	8.525	7.874	9.414	8.867

[a]NB: data for 2005, as of January 31

Source: HNB (2005)

General government deposits thus increased from 8.7 billion in 2000 to 10.3 billion kuna in 2005. Most of these government deposits, which increased from 2.7 billion in 2000 to as much as 5.2 billion in 2005, are placed in commercial banks, mainly the time deposits of the EBFs.

The deposits of local government units increased from 967 million in 2000 to about 2.6 billion kuna in 2005. These deposits are also mainly kept in commercial banks, i.e., outside the system of the SAT and the government financial information system. Since the FM cannot impact the deposits of local government units, it cannot objectively make decisions about the amount of grants (aid) to give to local government units from the central government budget. For according to currency practice, local government units supply financial reports to the FM quarterly, half-yearly and annually. With a direct view into and control of the balances in the accounts of local government units in the CNB the FM would be able to use at least a part of those 2 billion kuna in the accounts of local units kept in commercial banks for the financing of short-term budgetary deficits (Bajo, 2004). This would obviate the absurdity of the FM financing the short-term budgetary deficits with loans from the commercial banks, at the same time allocating local units grants, although they already have at their disposal surpluses in accounts in commercial banks[9]. In other words, although there is a financial potential available, which the FM, in collaboration with the CNB, might use primarily through laying out surpluses in the money market, but also to cover short-term deficits of spending agencies in and outside the budget, this potential is not being employed. Instead of that, the budget and the taxpayer are unnecessarily burdened with the costs of servicing short-term loans.

3.4.1 The Croatian Postal Bank – from fiscal agent of the government to a genuine commercial bank

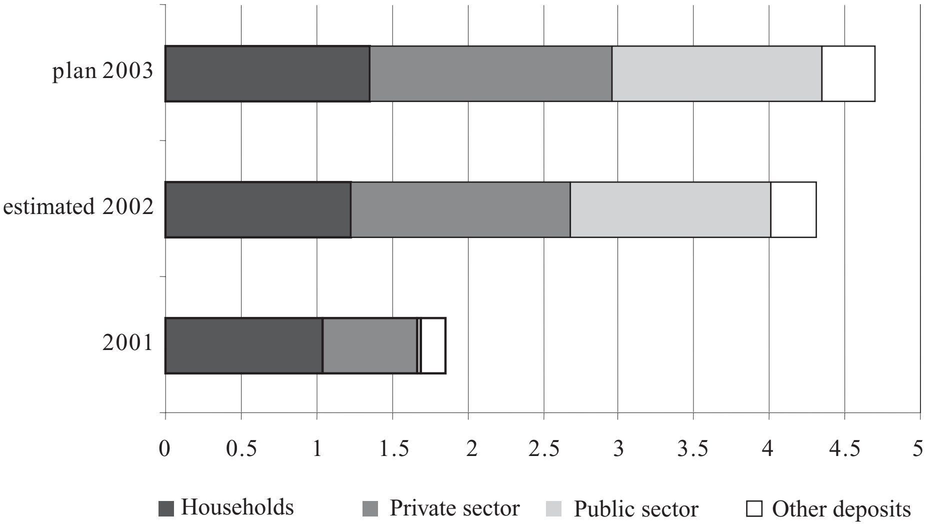
Since 2001 the CPB has become a fiscal agent of the government, via which outgoing payments are made from the transaction accounts of government institutions to end users. Deposits are also to be found in the government accounts in the CPB. Although we do not have up-to-date information about the balance of government deposits in the CPB, the figures from the following graph are indicative enough.

Government deposits in the CPB increased from 26 million in 2001 to about 1.3 billion in 2002. The CPB planned for government deposits in 2003 of approximately 1.2 billion kuna. It should be pointed out that deposits in the CPB are an integral part of the government deposits in the SAT at the CNB, but only on paper, and not in reality. Because cash flow and liquidity are not managed, the FM uses CPB deposits as a loan potential for the short-term financing of the government, at market conditions and market rates of interest.

Thus another absurd situation in the public finances of Croatia has been created. In a normal market system the government should privatise the CPB and invite tenders so as to be able to choose the banks in which the state institutions would open transaction accounts as part of the SAT system, and transparently, in agreement with the banks, lay

[9] The criteria according to which the Government and the FM allocate grants to lgu s are not the subject of this article (On the Criteria for the Allocation of Grants, see: Bajo, 1999).

Graph 4 Structure of deposits in the CPB from 2001 to 2003 (in billion kuna)



Source: Croatian Postal Bank (2003)

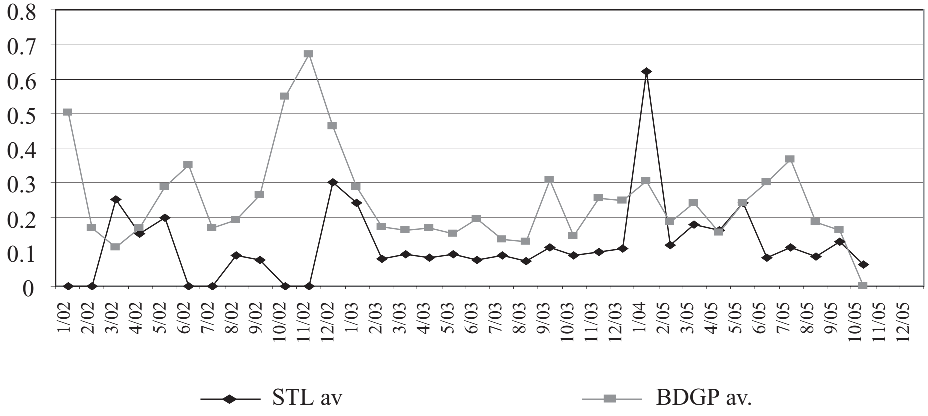
down the conditions and amount of the rates of interest for the kuna deposits (sight and time) in these banks. Instead of this, the privileged position of the Croatian Postal Bank, which uses state deposits for the short-time financing of the same state, but at market terms and conditions, has become institutionalised. This is clearly a classic form of rent, which lobby groups around the CPB have managed to win. Judging from debates in the media, it will not be easy to put an end to this absurd situation by the privatisation of the CPB, and it will perhaps be even deepened by the transformation of this bank into a "strong" state bank that, allegedly, would be supposed to finance development.

3.5 Short term borrowing of the central government budget

For a more complete insight into the situation of the liquidity of the central budget, it is necessary to determine the average balance of liquid resources, and of short-term loans for the sake of liquidity that the FM takes directly from the commercial banks and to a smaller degree on the money market (Graph 5)

The FM (central budget) in 2002 had at the monthly level about 324 million kuna daily at its disposal, which it could have used as a surplus of liquid funds and could have employed them to advantage on the money market. However, in spite of the liquid funds, the FM directly borrowed from the commercial banks, by an average of 89 million kuna. In 2003 the FM had 196 million kuna at its disposal and yet at the same time took on loans at commercial banks of 103 million kuna. In 2004 the average daily balance on the government account was 214 million kuna, and yet the FM took on loans to the tune of 173 million kuna. This means that the short term loans that the state takes on from the banks are smaller than the available monetary resources of the government. In such conditions it can be expected that the FM, apart from borrowing on the Zagreb money market, will borrow greater amounts at the commercial banks as well, mainly from the largest. Graph 6 shows the amounts of interest on short-term loans of the budget on the money market and directly (for larger amounts) at the commercial banks.

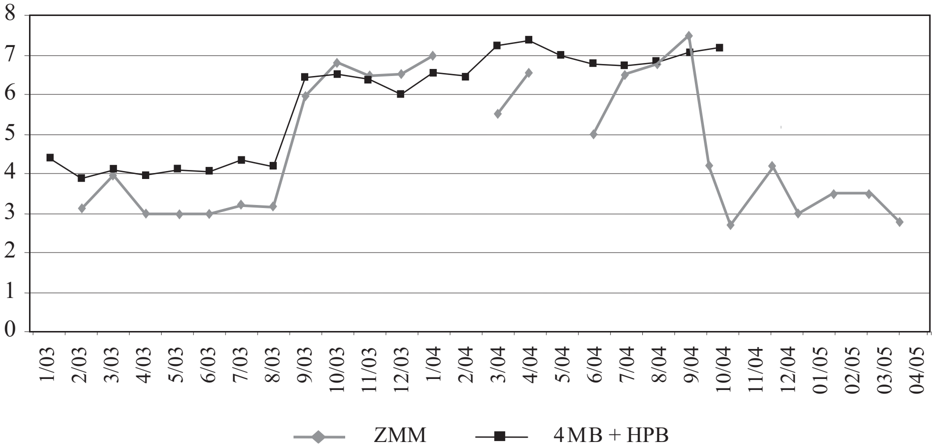
Graph 5 Short term government borrowing versus the balance of the central government budget (daily average at the monthly level) from January 1 2002 to November 1 2004 (in million kuna)



NB: STL – the average amount of short-term loans of commercial banks; BCGB – balance of the central government budget.

Source: Finance Ministry (2005)

Graph 6 Parallel interest rates on direct bank loans and interest rates on the Zagreb Money Market (in %)

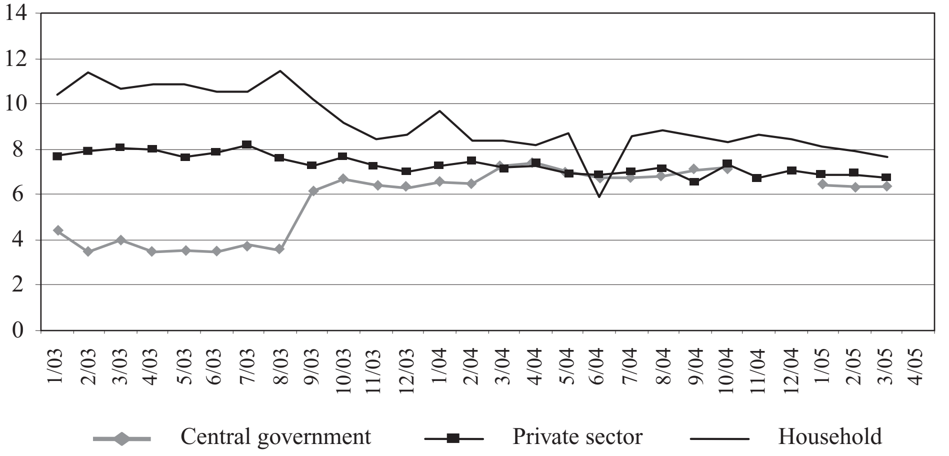


NB: ZMM – interest rates at the Zagreb Money Market; 4MB+HPB – interest rates at the four major banks and the Croatian Postal Bank

Source: Finance Ministry (2005)

It can be seen that the interest rates on the short-term loans that the FM takes directly from the four major banks and the state-owned CPB are larger than those on the Zagreb Money Market. The difference in these interests in 2003 came to about 1%, in favour of direct loans from the commercial banks, with the proviso that in 2004 the government on the whole took out short-term loans only from commercial banks at an average interest rate of 7%. However, this perhaps would not be a problem if the interest rates on the short term loans of government and of other institutional sectors, primarily the households and private sectors, were not practically identical (Graph 7).

Graph 7 Rates of interest on short-term loans per institutional sector – foreign currency clause (in %)



NB: Interest rates on short-term loans of commercial banks to the government do not contain the foreign currency clause

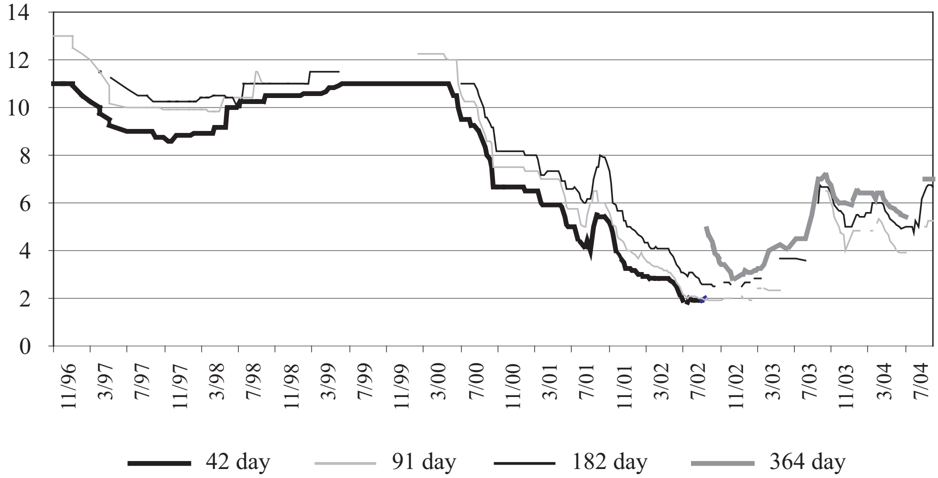
Source: HNB and Finance Ministry, (2005)

Up to June 2003 there were some differences, but from that date the interest rates in conjunction with the foreign currency clause on short-term loans and the interest rates on government short-term loans with no currency clause are almost identical. And yet naturally, our initial if perhaps na?ve assumption is that a short term loan to the government is attended with the lowest risk. In 2004 and 2005 interest rates came on average to about 7%. This shows that the financial market perceives the financial good standing of the public sector as being not a whit better than the financial good standing of the retail and corporate sectors, and classifies them practically identically, assigning an equal degree of risk. The fact that the state cannot manage to secure lower rates of interest for itself is another confirmation that the financing of the short-term debt is a problem indeed for the government.

3.5.1 The nature of the short-term public debt

Particularly since 2001, the government has taken on short-term debt in two ways: by the issue of treasury bills and by direct loans from commercial banks[10]. It is a fact that the largest part of the short-term debt has been created by the issue of treasury bills. Thus we should look at graph 8 the amount of interest on treasury bills according to maturity.

Graph 8 Interest rates on Finance Ministry treasury bills from 1996 to 2005 (in %)



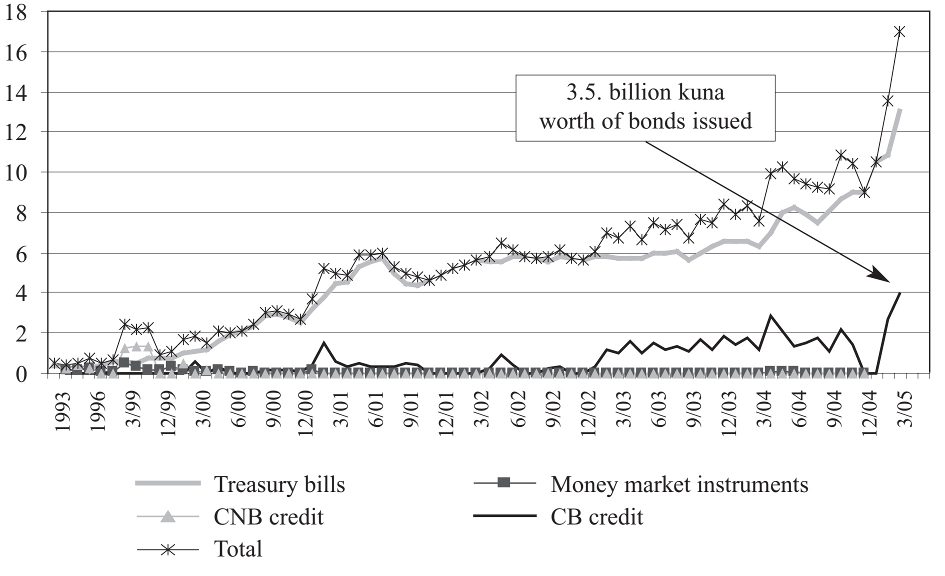
Source: Finance Ministry (2005)

The FM is extending the periods for the redemption of treasury bills. From 1996, when it first issued treasury bills, the FM borrowed at 42, 91 and 182 day periods and in 2002 went over to a period of 364 days. In parallel with this, the average rate of interest on treasury bills was reduced from a high 11% in 1996 to about 5% in 2005. The reduction of interest rates led to more favourable terms of short-term borrowing, as well as a large increase in the short-term debt created by the issue of treasury bills. The overall short-term debt of the government has markedly increased since 1993, as shown by the figures in Graph 9.

Total government short-term debt increased from 517 million kuna in 1993 to 16 billion kuna in 2005, and this can realistically be called long-term. The government creates the major part of its short-term debt by the issue of treasury bills, which increased from 272 million in 1996 to as much as 13 billion kuna in 2005. However, the growth in the overall short-term debt is partially the consequence of the increased amounts of loans for liquidity (mainly for pensions) that the FM takes on from the commercial

[10] A third category could be due and still outstanding liabilities of spending agencies.

Graph 9 Short-term central budget debt from 1993 to 2005 (in billion kuna)



Source: HNB (2005)

banks. Liquidity loans increased from 620 million kuna in 2000 to 3.9 billion kuna in 2005. The explosion in short-term borrowing because the FM does not manage its liquidity and cash flow brought the FM to the point at which it ultimately had to turn double short-term debts into one long-term debt, because of which it sells bonds on the domestic and foreign market. Thus in April 2005, in order to settle its short-term debts to the banks, the government issued bonds in the amount of 3.5 billion kuna, which is about 90% of the direct short-term debt (loans) of the state to domestic commercial banks. The Government and the FM adduced as reasons for these new borrowings "financing of the orderly execution of the budget", which is in essence just borrowing to finance current budgetary expenditures, mostly the pensions. In such conditions the question not only arises as to who in the FM is managing cash flow and liquidity but also as to who is managing the public debt. This issue, however, is not the topic of the current paper.

4 Conclusion

The preceding analysis leads to the conclusion that the FM only partially manages cash flows through the government accounts and the daily, weekly and monthly monetary potential of the government. A large part of the deposits of the government, particularly of the extra-budgetary funds and local government units, are to be found in commercial banks, the result being that the FM and the CNB cannot have any impact on this part of the liquid resources of the central government budget. In such conditions the FM still is taking on debt directly at the commercial banks, even at its own (state-owned) Croatian Postal Bank, at market conditions and rates, instead of using the surpluses of budgetary resources to cover short-term deficits of budgetary and extra-budgetary spending agents and figuring on the money market.

Since 2001, when short term borrowing at the CNB was stopped, it should have become clear to the Government and the FM that the functions of executing the budget and the management of cash and liquidity are the basic functions of the budgetary system, and that they could have an effect on slowing down the growth of the public debt and public spending. However, awareness of the nature and value of public money is in Croatia as yet developed neither among the powerful nor in the public, so that there is no discussion at all of the absurd situations delineated in this paper.

For the FM to be able to control cash flow and liquidity of the central budget, it is necessary for:

- the FM and the CNB to collaborate in the management of the monetary potential of the budget
- the FM to set up and improve its cash flow and liquidity management and, as well as recording, actually to start managing the available financial potential. This means above all investing budgetary surpluses on the money market, the financing of the short-term deficits of spending agencies and extra-budgetary funds (internal operations of the Treasury) with available liquid funds and, in agreement with the banks, the selection of the most favourable financial services provider, by for example the opening of transaction accounts
- the Government to privatise the CPB
- the Government and the FM to centralise foreign currency deposits in the SAT in the CNB, and for the FM to consolidate EBF deposits and start managing them
- local government units to start operating via their own SATs, which they should open at the CNB.

Potential constraints on the achievement of these proposals are the questionable existing technical capacity of the FM to manage cash and liquidity and to collaborate with the CNB; resistance of spending agencies and extra-budgetary funds to operating via the SAT and to the centralised management of deposits of the state in the FM, the resistance of local government units to operating via single treasury accounts opened in the CNB and the lack of political will to privatise the CPB.

We should mention that the key reasons for the resistance of budgetary spending agencies and extra-budgetary spending agencies are related to their loss of autonomy in the use of their own revenues for the financing of expenditure not recorded in the budget. Apart from this, resistance of local government units might be related to activities of the Finance Ministry that, if it had an immediate insight into the balances of accounts of the local government units in the CNB, would surely prevent the accumulation of deposits in these accounts, and would encourage the better employment of grants allocated for the financing of specified (decentralised) obligations.

Key lessons to be learned

- If the government participates on the Zagreb Money Market and if there is coordinated action of the FM and the CNB, direct short-term borrowing at banks might be done away with, and more transparent short-term financing of the central budget with treasury bills alone could be ensured, more cheaply, at that.
- Privatisation of the banks does not mean a loss of sovereignty in the management of fiscal and monetary policy.
- With good cash flow and liquidity management the FM can help the CNB to run monetary policy, particularly in making sure of effective control of the credit potential of commercial banks and in management of the exchange rate. The participation of the FM with surplus funds on the Zagreb Money Market would not (with good management) undermine monetary stability.
- Opening SATs of local government units in the CNB would give the FM the capacity to define better criteria for the allocation of grants from the budget.

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Annex

The Institutional Organisation of Payments Operations and the Account of the Treasury from 1994 to 2001

In 1994 the FM opened the Single Account of the Treasury at the Croatian National Bank. This account was supposed to be a *system of accounts* serving for the reception, keeping, payment and transfer of all revenue, receipts and expenditures and other payments of the budget. Public money collected and charged that belongs to the budget was supposed to be paid into the SAT in the CNB. Not a single expenditure or any other payment was not be performed from the SAT without the prior authorisation of the central State Treasury of the FM. The Finance Minister himself was supposed to prescribe the manner of and procedure for operating via the SAT. Only the minister had the right to dispose of money in the SAT, with the proviso that he could transfer this authority to one or more responsible persons (comptrollers) of the State Treasury[11]. From January 1 1977 the FM was supposed to carry out payment operations via the SAT. However, operations with the accounts of the state were crucially determined by the position and role of the Institute for Payments Clearing, or ZAP, a state institution via which the FM carried out payments operations connected with the accounts of the state and the many accounts that the spending agents had in commercial banks, according to their own choice. Hence for the performance of all payments into and out of the SAT to become a reality the FM and the Government had to reform payments operations and to make sure that they were performed by the commercial banks, to define the role of the Institute for Payments Clearing within the system of government finances and to select the banks in which spending agencies should have their transaction accounts and to provide for the operations of all institutions via the system of the foreign currency and domestic currency SAT.

Kuna or domestic currency payments operations

From 1994 to 2001, Institute for Payments Clearing on behalf of and at the account of the government kept the accounts for the execution of the budget of all the institutes of the government, of local government units and of the extra-budgetary funds and daily informed the FM of taxes collected and every ten days of revenue collected. The Institute transferred, for the FM, resources to the accounts of spending agencies, carried out the distribution of shared taxes among the different levels of government, and collected all local taxes and each month informed the local government units about the revenue collected. For the operations it performed, the Institute entered into annual contracts with the FM and charged fees for these services. As early as 1994 the Government and the FM had planned that payments operations should be carried out by the banks and that the role of the Institute should be determined, as well as the purview of the Institute in the operations that it carried out on the behalf and account of the state. For this reason it was necessary to introduce new procedures into the CNB and into the commercial banks in which the spending agencies had their accounts for the elaboration of the precise dynamics and steps for the closing of the existing accounts of ministries and spending agencies kept in these banks and to ensure the move to payments into and from the SAT in the CNB. Hence the establishment of the State

[11] Ordinance on the Composition of the Main Book of the Treasury and the Manner of Running the SAT, NN 97/95.

Treasury and payment from the SAT are linked with the "reform of payments operations and hence with the transfer to (giro) accounts of the central government budget to the CNB and also with payments operations connected with these accounts" (Cota, 1998:80).

However, the Government and the Finance Ministry decided in 1994 that the Institute for Payments Clearing, because of its good information infrastructure, should carrying on working as a fiscal agent of the state and should carry out for the state domestic currency payments via the SAT in the CNB. Thus from 1994 to 2001 the payments system was dominated by the Institute with services that the FM and the Government, pursuant to contractual government outsourcing, used to control all cash flows into and out of the government's accounts.

Unlike other services, which state institutions and firms obtained on the basis of public competition, up to 2001 the choice of bank in which accounts would be opened was left up to the spending agencies. Unfortunately, in the FM there was no knowledge about the criteria for the choice of banks in which the spending agencies opened their accounts, nor was there any information about the number of accounts and the equivalence of conditions in the banks. In such conditions the FM was supposed, in parallel with making sure that the state treasury function, to select the most favourable financial services providers for services such as the opening of giro accounts for the government and to ensure the transfer of kuna and foreign currency accounts and deposits from the commercial banks to SAT system at the CNB. Nevertheless, Table 4 shows the number of accounts held by spending agencies in 2001.

Table 4 Number of accounts of public sector institutions in 2001

	2001
Accounts in the CNB	
domestic currency	1
foreign currency	1
Accounts of budgets, bodies of government administration and local government units	
Central government budget and local government units	2
accounts of spending agents for payments out of the SAT	68
accounts of bodies of the government administration and of local government units	499
Accounts of institutes and funds	
Croatian Institute for Retirement Insurance	1
Solidarity Fund	1
Accounts for the collection of public revenue in the CNB	
accounts of revenue of the central government budget and of local government units	7.700
accounts of revenues of public enterprises, associations and so on	932
accounts of revenues of institutes	158
evidentiary accounts of revenues of bodies of the central government administration and of local government units	111
Accounts of central government budget spending agencies and of local government units in the banks	
in commercial banks	1.698
in CNB	456
Total	11.631

Source: Finance Ministry (2001)

Although the Government and the Finance Ministry did open single kuna and foreign currency accounts of the Treasury in the CNB, most of the accounts in the CNB were not incorporated into the SAT system. In addition, ministries and government agencies had another 60 accounts in the CNBN, and the end spending agencies had 474. To these accounts we need to add the accounts of local government units (544 municipalities and cities and 21 counties) and the spending agencies of *their* budgets. Although the spending agencies did have accounts in the CNB, they were not incorporated into the Treasury system that comprised the SAT as a system of sub-accounts of budgetary spending agencies. Hence the FM could not possibly centralise the management of monetary resources via the SAT. However, an additional constraint consisted of the 1,698 accounts of the spending agencies in the many commercial banks[12]. Although these accounts were opened in commercial banks, payments operations to do with the accounts of the government still went on via the Payments Clearing Institute, and not via the commercial banks.

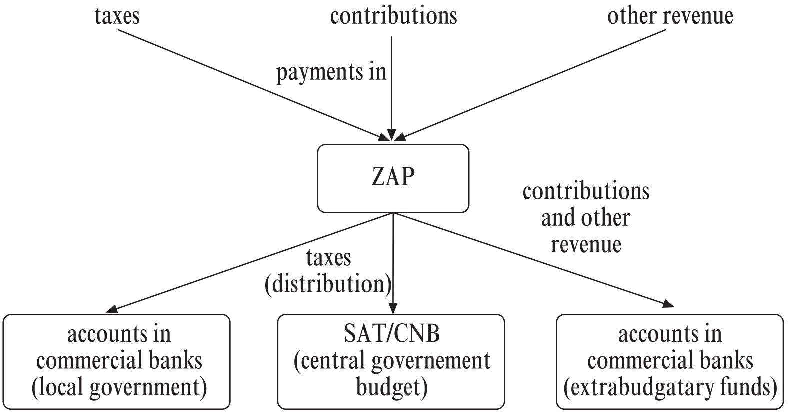
Up to 2001 the problem of managing cash and liquidity inhered in this fragmentation of the monetary resources of the central government budget and the extra-budgetary funds into numerous accounts in various banks, instead of their being centralised in a single foreign currency and a single domestic currency account of the central government budget by way of a system of sub-accounts in the CNB. All this created a confusion concerning the real state of affairs to do with the cash of the government in commercial banks because there was no transparent selection of the banks in which the spending agencies would open their transaction accounts.

In 1995 the FM and the Government stipulated that the payments of all revenue and receipts that belonged to the budget must go to the SAT in the CNB[13]. The main agent for the payment of public revenue was the Institute for Payments Clearing that, thanks to its ramified network of local offices, was able to perform payments operations connected with the accounts used for paying in government revenue. The Institute kept accounts for spending agencies of the budget, the extra-budgetary funds and local government units, while the FM used the data of the Institute in order to determine the dynamics of payments into and out of the government's accounts. Revenue from the Institute's account (on behalf of the FM), in statutorily defined percentages, were allocated to budgetary and extra-budgetary spending agencies and to local government units. The key for the distribution was decided by the FM. The problem here was that the kuna accounts for the collection of revenue of the central government budget were in CNB deposits, while the accounts of the extra-budgetary funds were in the commercial banks. Figure 3 shows the inflow of payments of public revenue.

[12] There were most accounts in the Zagrebačka (449), Privredna (201), Splitska (175), Riječka (154) and Slavonska (131) banks. The other agencies' accounts were parcelled out among the other commercial banks, in a range of from 65 in one to one account in a bank.

[13] Ordinance on the Composition of the Main Book of the Treasury and the Manner of Running the SAT, NN 97/95.

Figure 3 Public revenue payment flows

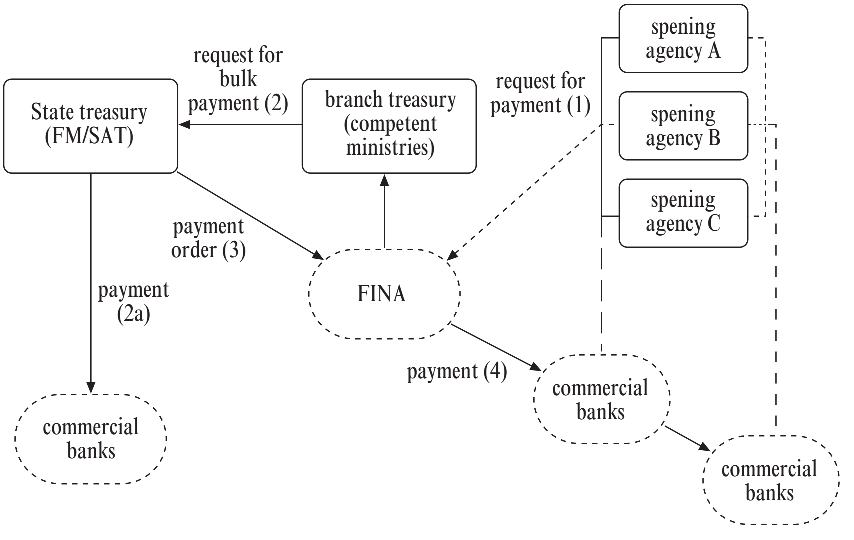


In spite of the considerable portion of revenues from tax and non-tax revenues paid into the accounts in the CNB, the contributions of the extra-budgetary funds (for health care, retirement insurance and employment) remained outside the system of payments into the SAT, and were paid into accounts in commercial banks. An additional constraint on the determination of the real size of revenue necessary for the estimate of the resources available for the financing of the monthly expenditures of spending agencies were the "own revenues" of spending agencies. The spending agencies, that is, died not pay heir own revenues into the budget or the SAT, rather, these revenues remained in their own accounts. Only from 1998 did the FM state that the spending agencies of the budget had to use their own revenues for the improvement of their activity and that they should be shared in accordance with a set percentage for the coverage of given operating expenditures. Still, own revenues (in spite of the annual obligation to report to the FM) continued to remain outside the budgetary system and were not incorporated into the system of payments into and out of the SAT in the CNB. Thus in spite of the needs for the financing of the short-term deficit of the budget, some of the resources that should have been in the national budget were actually on deposit in the commercial banks.

Up to 2001, payments from the budget were performed in two ways: via the transaction accounts of the ministries in commercial banks from which end payments to the giro accounts of budgetary beneficiaries were made in some other commercial bank, and through the SAT or the sub-account of the ministries and spending agencies in the CNB to accounts in commercial banks. The FM transferred money above all from the SAT to the competent ministries (agencies). The ministries (agencies) further directed money to the individual bank accounts of spending agencies who then met their liabilities with this money (Vašićek, 1998:46). This kind of practice could have been avoided if the function of executing budgetary expenditures from the SAT had been established (Linzbauer, 2000:253).

In parallel with this, from 1996, the FM started out making payments for capital expenditures greater than 200,000 kuna from the SAT. These payments were made for spending agencies that had certain capital expenditures provided for in the national budget[14]. In June 1997, 11 spending agencies were included into the system for the payment of wages, material costs and liabilities to suppliers via the SAT[15]. Up to 2001 another 17 ministries and agencies or 28 competent institutions of a total of 41 were additionally incorporated into the system. Figure 4 shows how the payments process was organised.

Figure 4 the payment of public expenditures



The Payments Institute collected payment orders of spending agencies, according to which payment orders were sent to the end beneficiaries. The Payments Institute aggregated all the applications for the ministries, and the ministries sent an application for payment to the FM. The FM then transferred resources to the accounts of the competent ministries in the commercial banks. After that the ministries transferred funds to the accounts of their own spending agencies, opened in several banks at their own choice. The Payments Institute carried out a detailed breakdown of payments and informed the FM of the job that had been done.

The FM executed some of the payments directly from the SAT, into the accounts of suppliers, and for capital expenditures as well as, partially, for operational expenditure (wages and material costs). However, the FM carried out most of the payments to the

[14] Instruction on the payment of capital expenditures from the SAT, NN 13/96 and 60/97.

[15] Office of the President, Parliament, Government, Constitutional Court, Social Protection Fund, Central Statistics Office, and the ministries of: internal affairs, foreign affairs, finance, maritime affairs, transport and communications and tourism, and the ministry of health , Decision on the Transition of Some of the Agencies of the Government Budget to Direct Payments from the SAT in 1997, NN 56/97.

accounts of spending agencies in commercial banks that were not within the State Treasury system.

There are however many accounts of spending agencies in banking accounts that are not involved in the State Treasury system. This particularly refers to the accounts of the extra-budgetary funds in commercial banks. These are transaction accounts and payments from the accounts of the extra-budgetary funds are made to the accounts of their beneficiaries and suppliers in the commercial banks. Thanks to the disunited and decentralised system of payment, the FM was unable to establish the dynamics with which funds entered and exited the accounts of the extra-budgetary funds inside a month. Unfortunately, the FM made use of the infrastructure of the Payments Clearing Institute for payments operations, but not also for the management of cash and deposits in accounts in commercial banks.

Foreign currency payments operations

Foreign currency payments operations had a similar fate. Up to 2003 the FM did not carry out foreign currency payments from or into the SAT in the CNB. Government foreign currency payments operations were carried out by the commercial banks. The FM enabled spending agencies to have foreign currency accounts in the commercial banks to cover their needs for foreign currency funds. From 1994 to 2001 in the execution of the budget laws the FM required all spending agencies to pay any foreign currency funds acquired to a special state account in Privredna banka Zagreb. However, foreign currency receipts and revenues were not centralised in the Single Foreign Currency Account of the Treasury in the CNB. This single foreign currency account would have enabled the FN constant insight into and control of the flows of foreign currency and the balances of foreign currency deposits. Although the FM did open the Single Foreign Currency Account of the Treasury at the CNB, it was not used for the performance of foreign currency payments. The FM largely made use of the commercial banks for the performance of the foreign currency operations of foreign debt servicing.