

14th Annual Government
Financial Management
Conference
Managing the Nation's Money

Presenters

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Department of the Treasury

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Federal Reserve Bank of New York

Overview of Managing the Nation's Money

- The Importance to Treasury, the Federal Reserve, and to the economy
 - Roles and Responsibilities
 - Overview of the Process

Importance to Treasury

- Assure adequate funds are available to make payments
- Minimize interest on borrowings; maximize earnings on excess cash

Treasury Roles and Responsibilities

Office of Fiscal Projections, Office of the Fiscal Assistant Secretary

- Projects daily collections and disbursements up to nine months in advance
- Recommends the amount and timing of borrowing from the public based on securities and funds needed to make payments

Cash Forecasting Division, Financial Management Services

- Provides program support to the Office of the Fiscal Assistant Secretary (OFAS) in monitoring, forecasting and managing Treasury's cash and debt position.
- Publishes the Daily Treasury Statement (DTS)
- Maintains and enhances the CashTrack System.

Where's the Money ?

Treasury General Account

- Deposits held at the FRB – NY
- Serves as the U.S. Government’s “checking” account.
- All Federal Government deposits and payments flow through the TGA.
- Treasury targets a daily balance of \$5 billion.

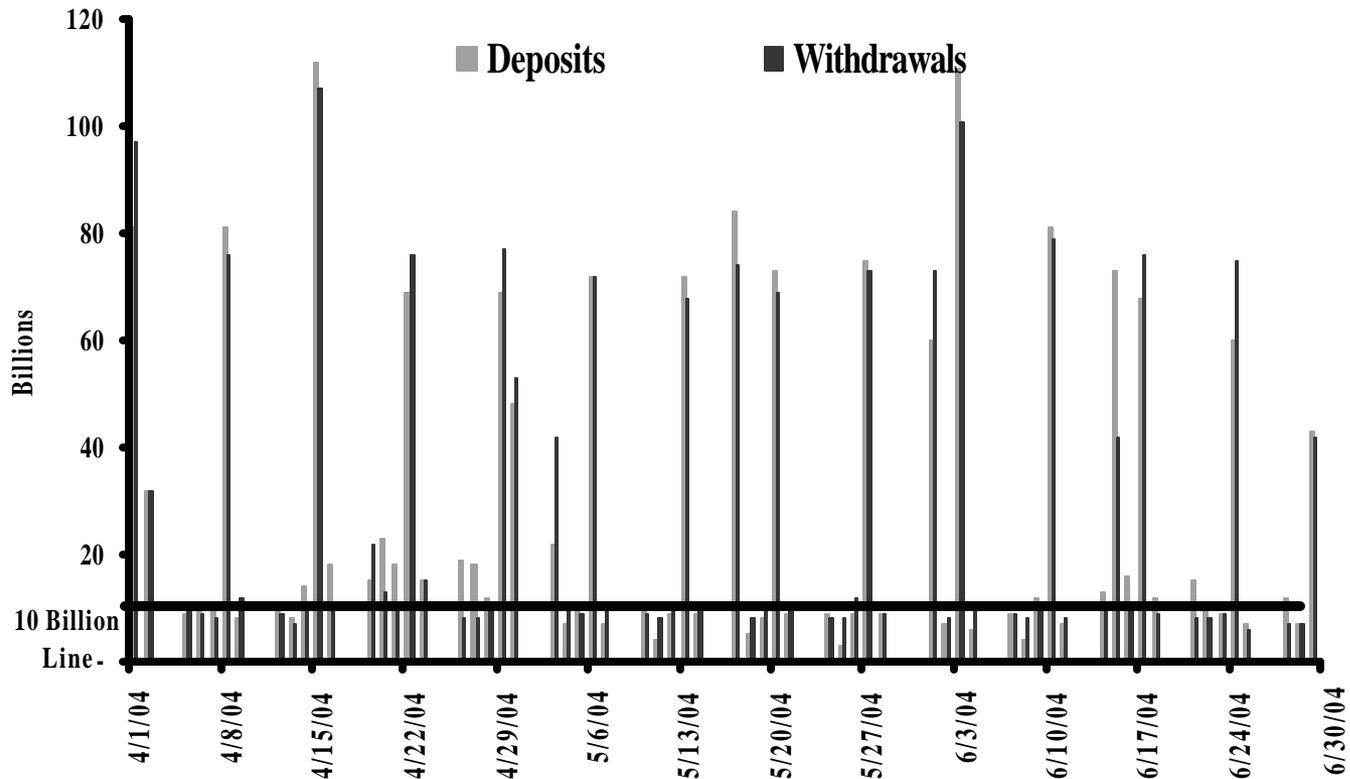
Treasury Tax and Loan Accounts (TT&L)

- Deposits held at 993 Financial Institution
- Serves as the U.S. Government's interest bearing "savings" account.
- Holds tax receipts and excess cash until needed.
- Allows Treasury to conduct scheduled borrowing operations.

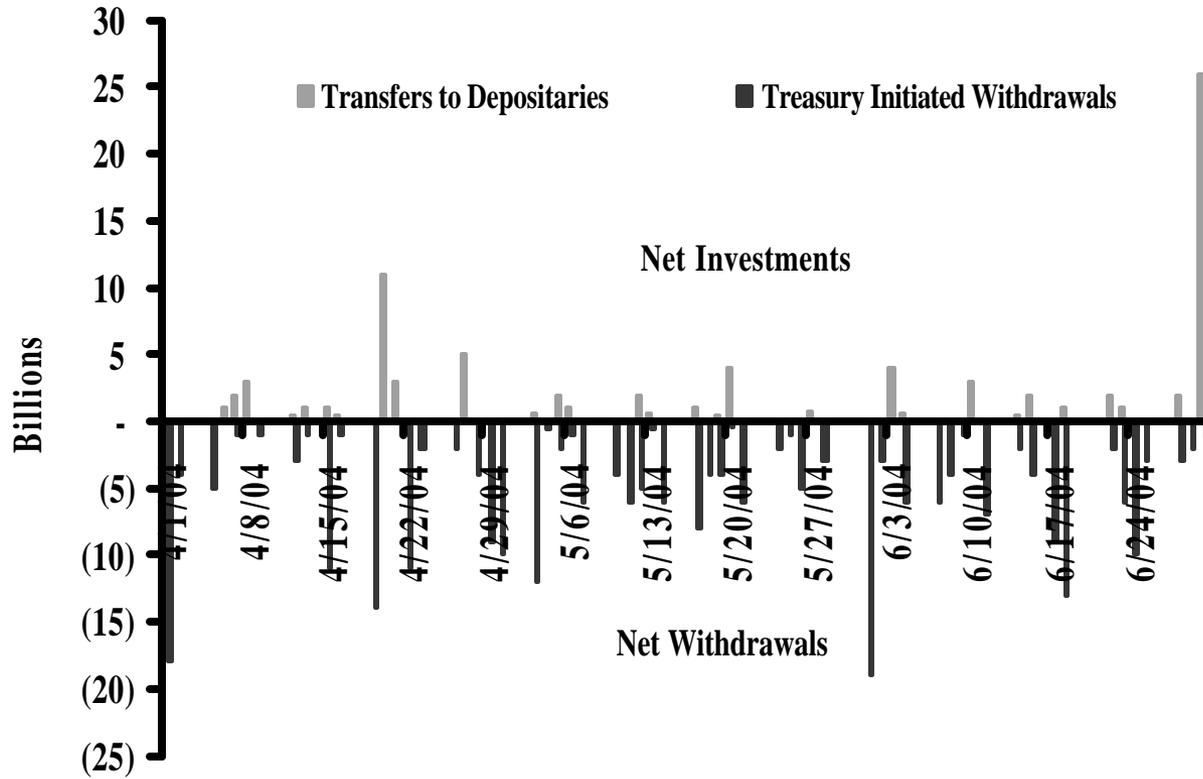
Cashflow and Balances

DTS - Summary of Deposits & Withdrawals

April - June 2004



Treasury Daily Call Actions
April - June 2004



The Process

Roles and Responsibilities

- Congress enacts spending, taxing and borrowing authority
- Agencies submit spending plans
- Treasury estimates daily receipts and payments; schedules borrowing operations up to 9 months in advance

Congress

- The budget process
- Appropriations
- Revenue bills
- Debt ceiling

Federal Program Agencies

- Obtain Appropriations
- Submit Spending Plans
 - Quarterly SF133s
 - Weekly updates
- Make payments when due
- Provide Large Dollar Notifications

Large Dollar Notifications

What/When to report:

Disbursements and collections

If \$500 million or greater – 5 business days prior.

If \$50 million or greater – 2 business days prior.

By 8:30 a.m. day of settlement

Needed from:

Agency certifying/financial officers

Treasury Regional Financial Centers

Non-Treasury disbursing officers

Agencies with delegation of disbursing authority

Where to report:

Cash Forecasting Division

By email, fax, or telephone

Volume I, Treasury Financial Manual, Chapter 2-8500

Daily Conference Call

- Held every banking day at 9:00 a.m.

Includes:

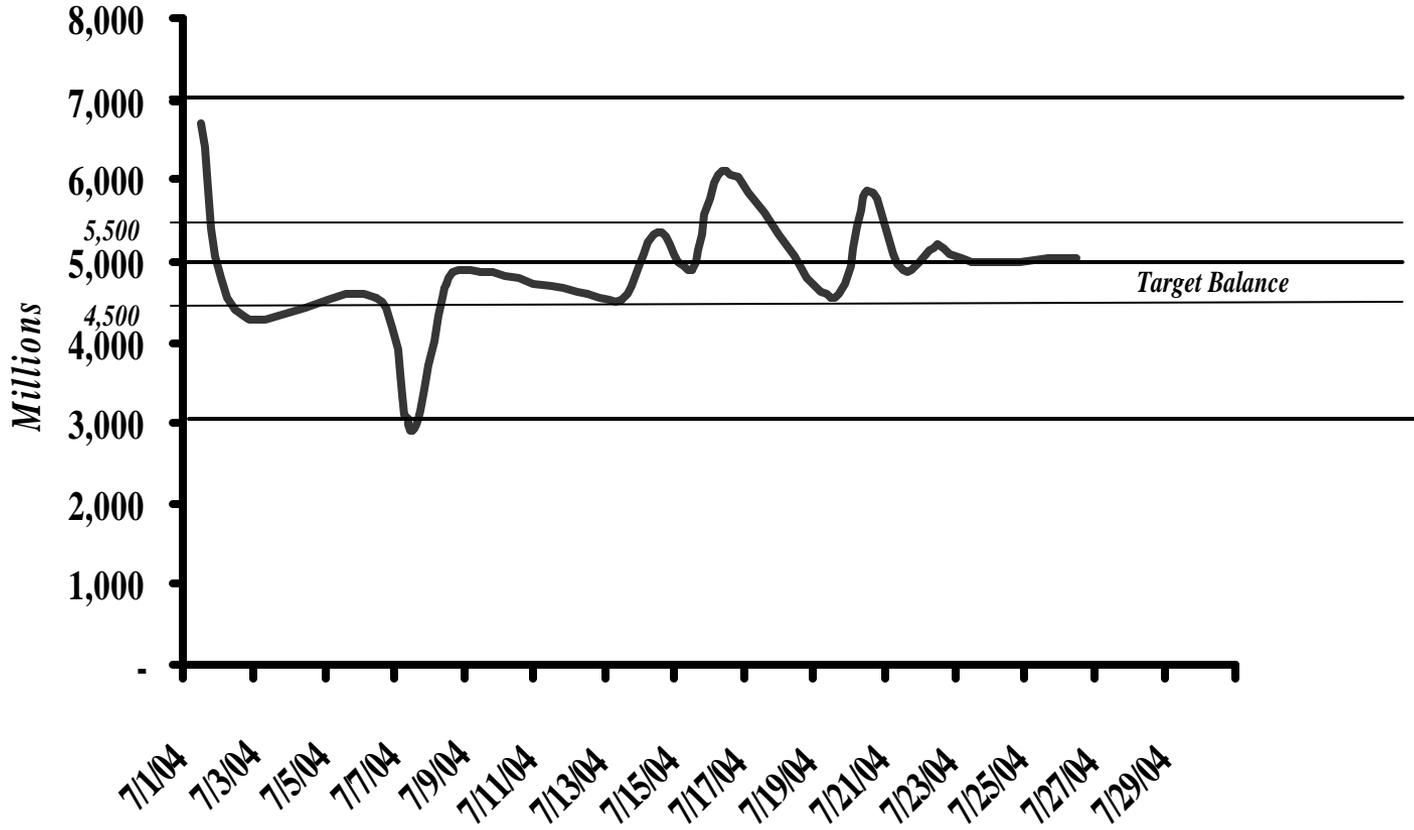
- Treasury - Office of Fiscal Projections
 - Treasury – Cash Forecasting Division
 - FRB NY – Markets Operations Group
-
- Decides to invest or withdraw funds from savings to achieve the \$5 billion target balance for the day
 - Takes preliminary action to invest or withdraw funds from savings to achieve a \$5 billion target balance for the next business day

Critical Events for the Conference Call

- FRB NY – reports the TGA closing balance by 9:00 p.m.
- FRB’s report yesterday’s actual transactions by 6:30 a.m.
- Lockbox Banks report collections to be deposited today by 8:15 a.m.
- Treasury RFC’s report ACH payments files sent to FRB by 6:30 a.m.
- Large Dollar Notification for future payments/collections are posted by 8:30 a.m.
- Yesterday’s results are analyzed and forecast updated as needed by 8:45 a.m.
- Cash Forecasting Division makes daily proposal by 8:50 a.m.
- Conference call takes place at 9:00 a.m.

Federal Reserve Account
July 2004

— Federal Reserve Account



Managing the Nation's Money

Part II

What is the “Nation’s Money”?

- Treasury General Account (TGA) - deposits of the US Government held at the Federal Reserve Bank of NY
- FED Balances - deposits of commercial banks and other depository institutions held at Federal Reserve Banks
- Money Supply (M1, M2,...) - currency plus deposits of individuals and businesses held at banks and money market mutual funds

Why are FED balances important?

- Used to satisfy reserve requirements.
- Used to process and clear financial transactions.
- Affect the level of interest rates in the federal funds market.

1. FED balances and reserve requirements

- Reserve requirements set by the Federal Reserve to help implement monetary policy.
- Equal to about 10% of checking deposits.
- 2002-2003 = about \$40 billion
- Satisfied by bank holdings of FED balances and vault cash.
- Operational: to process and clear financial transactions (Clearing Balances)
 - fedwire funds and securities
 - foreign exchange
 - checks
 - currency orders

2. FED balances and financial transactions

- Used to process and clear, \$ billions 2003
 - currency 585
 - checks 15,769
 - ACH 16,762
 - securities 267,644
 - fedwire funds 436,706
 - Total 737,466

- Daily average of \$2.9 trillion

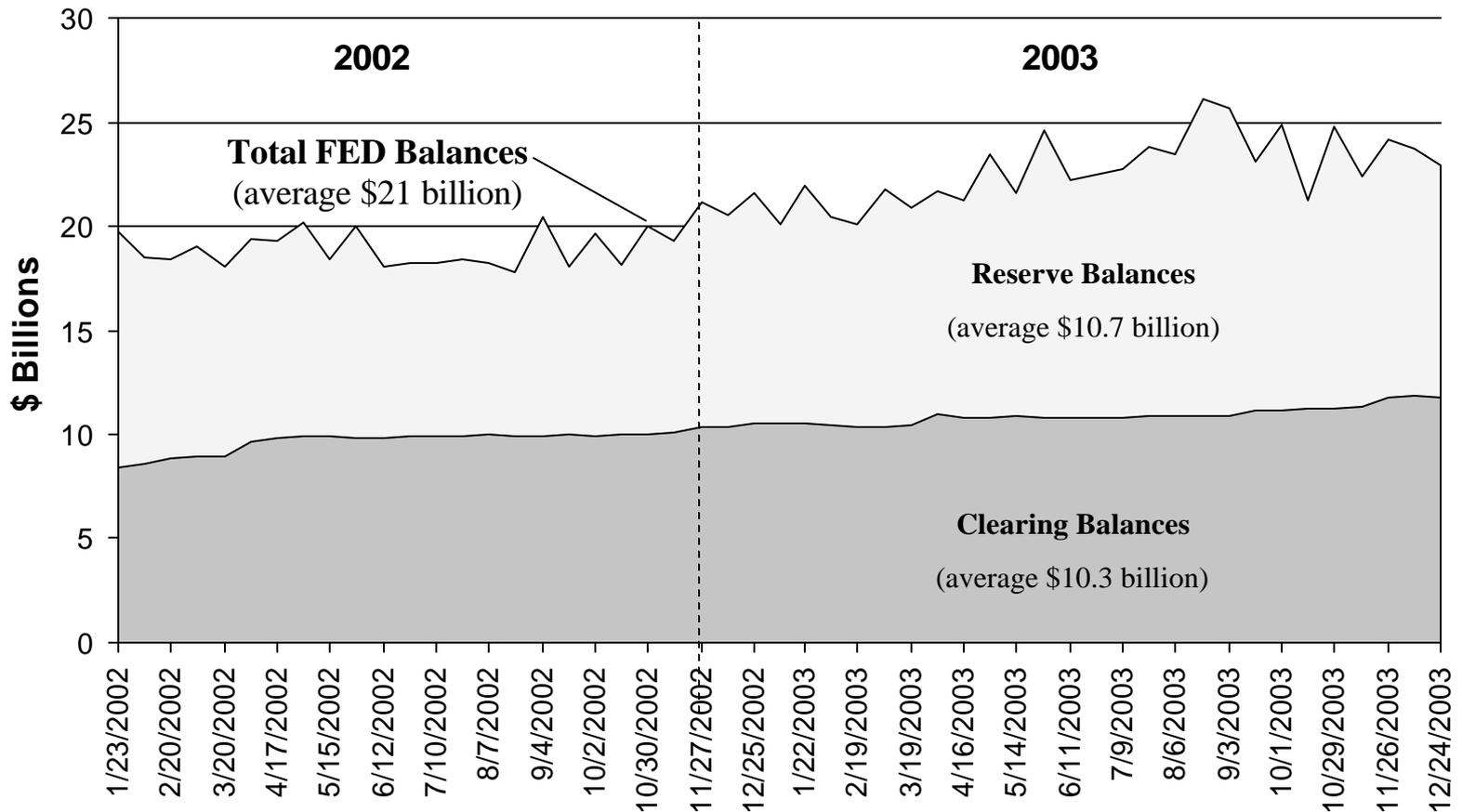
3. FED Balances and the federal funds rate

- Federal funds rate is the interest rate charged on borrowings of FED balances (typically overnight) between banks in the federal funds market.
- The level of FED balances, therefore, has a strong influence on trading in the fed funds market and on the fed funds rate.
- The Federal Reserve (FOMC) sets a target for the federal funds rate (1.25%) and uses open market operations to add or drain FED balances to achieve that target.

- The fed funds rate affects other money market rates (RPs, T-bills, commercial paper) and ultimately longer term interest rates (T-bonds, corporate securities, bank loans).
- In turn this affects the level of economic activity through household and business spending.
- Thus, one form of the “Nation’s Money” can have an impact on other broader forms of the “Nation’s Money”, such as
 - level of bank deposits
 - value of fixed income investments
 - or aggregate economic activity

FED Balances

Reserve Maintenance Periods: 2002-2003



H.4.1

2. Consolidated Statement of Condition of All Federal Reserve Banks

Millions of dollars

Assets, liabilities, and capital	Eliminations from consolidation	Change since		
		Wednesday Oct 22, 2003	Wednesday Oct 15, 2003	Wednesday Oct 23, 2002
Assets				
Gold certificate account		11,039	0	+ 1
Special drawing rights certificate account		2,200	0	0
Coin		810	- 3	- 264
Securities, repurchase agreements, and loans		692,359	- 4,501	+ 64,510
Securities held outright		656,764	+ 265	+ 46,523
U.S. Treasury ¹		656,754	+ 265	+ 46,523
Bills ²		242,131	+ 252	+ 33,914
Notes and bonds, nominal ²		399,595	0	+ 11,029
Notes and bonds, inflation-indexed ²		13,454	0	+ 1,212
Inflation compensation ³		1,574	+ 13	+ 369
Federal agency ²		10	0	0
Repurchase agreements ⁴		25,500	- 4,750	+ 18,000
Loans		94	- 16	- 13
Items in process of collection	(1,273)	7,605	- 6,697	- 234
Bank premises		1,597	+ 1	+ 69
Other assets ⁵		38,852	+ 546	+ 1,339
Total assets	(1,273)	744,462	- 10,652	+ 65,422
Liabilities				
Federal Reserve notes, net of F.R. Bank holdings		669,207	- 854	+ 38,790
Reverse repurchase agreements ⁶		18,111	- 531	+ 18,111
Deposits	(0)	29,303	- 5,827	+ 7,330
Depository institutions		23,902	- 6,018	+ 7,875
U.S. Treasury, general account		5,123	+ 266	- 590
Foreign official		99	- 66	- 29
Other	(0)	279	- 10	+ 74
Deferred availability cash items	(1,273)	7,513	- 3,794	+ 235
Other liabilities and accrued dividends ⁷		2,263	+ 24	- 161
Total liabilities	(1,273)	726,398	- 10,981	+ 64,306



DAILY TREASURY STATEMENT

Cash and debt operations of the United States Treasury
 Wednesday, October 22, 2003
 (Detail, rounded in millions, may not add to totals)

TABLE I—Operating Cash Balance				
Type of account	Closing balance today	Opening balance		
		Today	This month	This fiscal year
Federal Reserve Account	\$ 5123	\$ 6,134	\$ 7,224	\$ 7,224
Tax and Loan Note Accounts (Table V)	15,134	13,948	27,735	27,735
Total Operating Balance	\$ 20,257	\$ 20,083	\$ 34,960	\$ 34,960

TABLE II—Deposits and Withdrawals of Operating Cash

Deposits	Today	This month to date	Fiscal year to date	Withdrawals	Today	This month to date	Fiscal year to date
Federal Reserve Account:				Federal Reserve Account:			
Agriculture Loan Repayments (misc)	\$ 23	\$ 519	\$ 519	Commodity Credit Corporation programs ..	\$ 281	\$ 5,507	\$ 5,507
Commodity Credit Corporation programs ..	30	489	489	Defense Vendor Payments (EFT)	782	11,963	11,963
Customs and Certain Excise Taxes	136	1,639	1,639	Education Department programs	203	3,809	3,809
Deposits by States:				Energy Department programs	115	1,553	1,553
Supplemental Security Income	0	3	3	Federal Employees Insurance Payments ..	176	2,199	2,199
Unemployment	47	397	397	Fed. Highway Administration programs ...	200	1,922	1,922
Education Department programs	55	979	979	Federal Salaries (EFT)	152	6,215	6,215
Energy Department programs	45	326	326	Food and Nutrition Service (misc)	69	1,325	1,325
Estate and Gift Taxes	149	1,527	1,527	Food Stamps	38	1,444	1,444
Federal Reserve Earnings	242	2,353	2,353	GSA programs	46	1,093	1,093
Foreign Deposits, Military Sales	19	943	943	Health and Human Services Grants (misc)	257	3,578	3,578
FTD's Received (Table IV)	3,379	31,310	31,310	Housing and Urban Development programs	100	3,606	3,606
Housing and Urban Development programs	29	669	669	Interest on Treasury Securities	2	2,317	2,317
Individual Income and Employment				Justice Department programs	33	985	985
Taxes, Not Withheld	1,215	6,809	6,809	Labor Dept. prgms (excl. unemployment) ..	50	778	778
Interest recd from T&L Depositories	0	4	4	Medicaid	695	11,961	11,961
Justice Department programs	4	110	110	Medicare	1,221	17,628	17,628
Postal Service	366	6,315	6,315	NASA programs	8	455	455
Public Debt Cash Issues (Table III-B)	402	243,639	243,639	Postal Service Money Orders and Other ..	158	2,950	2,950
Other Deposits:				Public Debt Cash Redemp. (Table III-B) ..	37	214,319	214,319
				Social Security Benefits (EFT)	3,111	30,685	30,685

FED Balances and the Treasury General Account

- Treasury expenditures add to the level of FED balances, as funds flow from the Government (TGA) to the private sector.
- Treasury receipts (tax collections, net debt issues) drain FED balances, as the private sector funds Government operations.
- Maintaining the TGA at a constant level prevents Government transactions from affecting the level of FED balances and the federal funds rate.
 - establish reserve/clearing account, or a correspondent/respondent relationship with the Federal Reserve
 - complete several forms

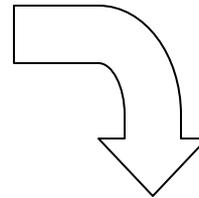
Daily Treasury Conference Call

Arrows indicate the flow of funds between the Treasury's account at the Federal Reserve and its accounts at commercial banks.

Federal Reserve

Banking System

If estimates are above target

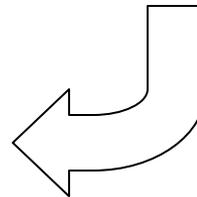


Direct
Investment

TARGET TGA BALANCE
(\$5 billion)

TAX & LOAN NOTE
ACCOUNTS

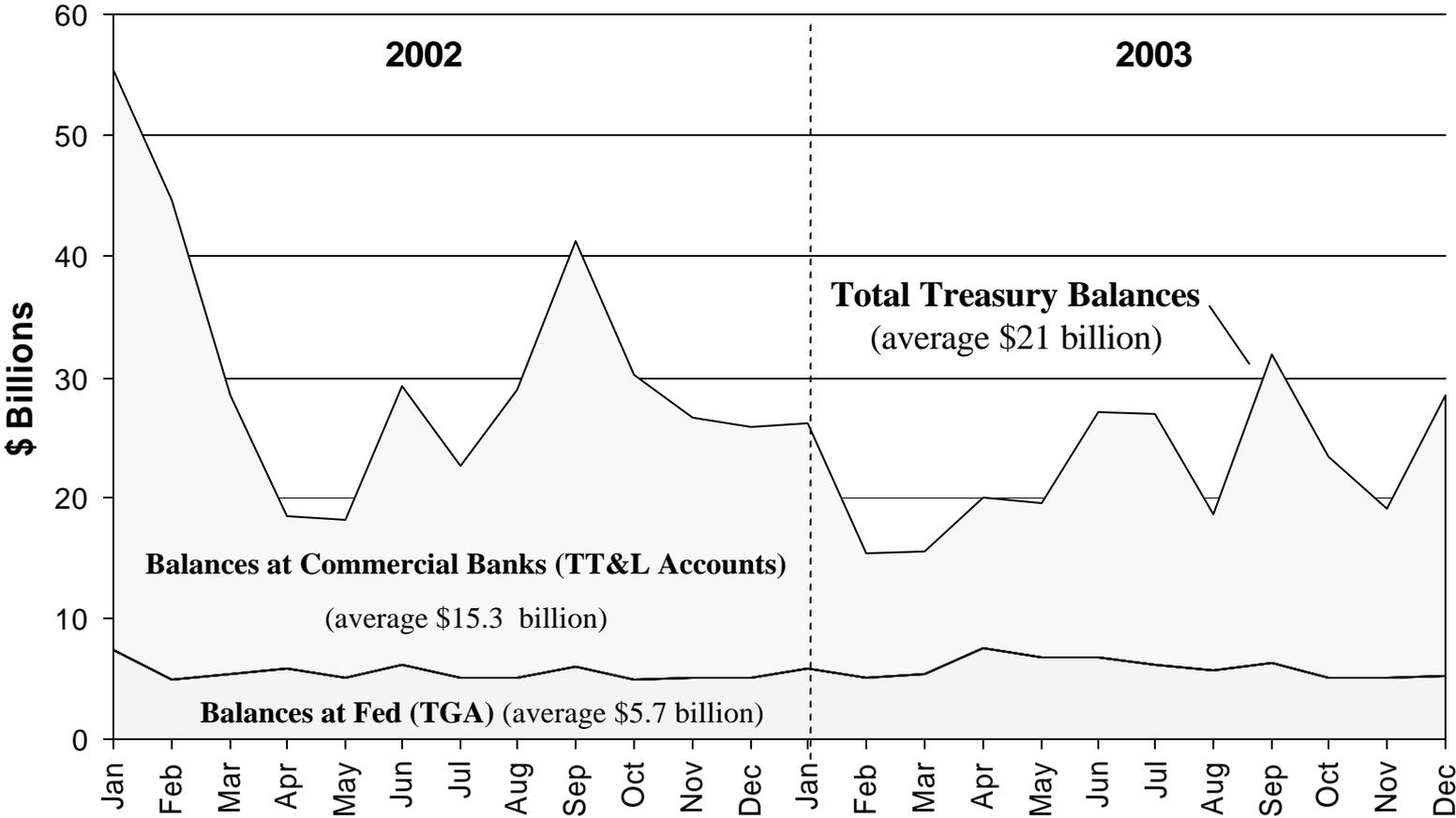
If estimates are below target



Call

U.S. Treasury Balances

Monthly Average Levels: 2002-2003



Summary

- Balances held with the Federal Reserve (FED balances) are a key element of the “Nation’s Money”.
- FED balances meet reserve requirements, clear financial transactions and influence the level of interest rates.
- Open market operations are the primary tool for managing the level of FED balances and the federal funds rate.
- Transactions in the TGA affect FED balances. Thus, the Treasury and the Federal Reserve manage the TGA to minimize impacts on FED balances and on the Fed’s market operations.