Treasury Single Accounts System (TSA)

March 2, 2021

In News

- The government mulls putting in place a 'Treasury Single Account' for all Central ministries and departments to help lower the cost of borrowing and enhance efficiency in fund flows.

What is a TSA?

- A TSA can be defined as a unified structure of government bank accounts enabling consolidation and optimum utilization of government cash resources.It separates transaction-level control from overall cash management.
- In other words, a TSA is a bank account or a set of linked bank accounts through which the government transacts all its receipts and payments and gets a consolidated view of its cash position at the end of each day.
- This banking arrangement for government transactions is based on the principle of fungibility of all cash irrespective of its end use. While it is necessary to distinguish individual cash transactions for control and reporting purposes, these objectives are achieved through the accounting system and not by holding and/or depositing cash in transaction-specific individual bank accounts.
- This enables the ministry of finance/treasury to delink management of cash from control at a transaction level.

An effective TSA system is founded on three key principles:

- The government banking arrangement should be unified, to enable ministry of finance/ treasury oversight of government cash flows in and out of these bank accounts and allow complete fungibility of all cash resources, including on a real-time basis if electronic banking is in place.

- No other government agency should operate bank accounts outside the oversight of the treasury.
- The TSA should have comprehensive coverage, i.e., it should ideally include cash balances of all government entities, both budgetary and extrabudgetary, to ensure full consolidation of government's cash resources .

Importance of TSA in Public Financial Management Systems

- If a country has a fragmented system for handling government receipts and payments through the banking system, it is a critical PFM weakness that needs to be addressed.
- A country with fragmented government banking arrangements pays for its institutional deficiencies in multiple ways.
  - First, idle cash balances in bank accounts often fail to earn market related remuneration.
  - Second, the government, being unaware of these resources, incurs unnecessary borrowing costs on raising funds to cover a perceived cash shortage.
  - Third, idle government cash balances in the commercial banking sector are not idle for the banks themselves, and can be used to extend credit. Draining this extra liquidity through open market operations also imposes costs on the central bank.
- A TSA system helps consolidate government cash balances, gives the ministry of finance/treasury oversight of all government cash flows, and brings improvements in budget control and monitoring.
- A TSA enables regular and effective monitoring of

government cash resources by providing complete and timely information.

- A TSA also facilitates better fiscal, debt management, and monetary policy coordination as well as better reconciliation of fiscal and banking data, which in turn improves the quality of fiscal information.
- Finally, the establishment of a TSA significantly reduces the government debt servicing costs, lowers liquidity reserve needs, and helps maximize the return on investments of surplus cash .