



**Monetary and Banking Research Institute**  
Central Bank of the Islamic Republic of Iran

# **An overview of how government accounts are maintained**

**Zeinab Biabani**

**Policy Report**

**MBRI-PR-9936**

**[www.mbri.ac.ir](http://www.mbri.ac.ir)**

**September 2021**



Monetary and Banking Research Institute  
Central Bank of the Islamic Republic of Iran

## Monetary and Banking Research Institute (MBRI) published the Policy Paper on “**An overview of how government accounts are maintained**”

**Monetary and Banking Research Institute**  
**Central Bank of the Islamic Republic of Iran**

No.10, Africa Ave., Argentina Sq.,

Tehran.Iran.P.O.box:16765-1654

[www.mbri.ac.ir](http://www.mbri.ac.ir)

- The paper expresses the views of the authors and not necessarily those of Monetary and Banking Research Institute.
- Copyright © 2016 by Monetary and Banking Research Institute. All rights reserved. The results may not be used elsewhere, unless being clearly referred to.



## **An overview of how government accounts are maintained**

Zeinab Biabani

How the government manages liquidity is an important factor in government financial discipline. Government liquidity management is having the right amount of money at the right time and place so that the government can meet its obligations fully and have the greatest impact on government spending. Managing government liquidity is a necessary issue because there are always mismatches between the timing of payments and the liquidity available to the government. Even if the annual budget is perfectly balanced, with realistic estimates of revenues and expenditures, budget execution during the year is not smooth because the timing and seasonality of cash inflows and outflows are such that it can lead to a temporary excess or deficit of liquidity. It should be noted that how to maintain government accounts is one of the things that show the efficiency of government financing, and in the meantime, the use of the Treasury Single Account (TSA) method has been approved. Since one of the basic features of effective liquidity management refers to how government accounts are maintained, this issue has come to the attention of economic actors in recent years. Government accounts in Iran refer to bank accounts that are opened, through the General Treasury or certain treasuries in the province in the Central Bank or other government banks represented by the Central Bank, to concentrate funds or pay expenses to the executive bodies in the center and their affiliated units. In general, government accounts include treasury funds concentration accounts, payment accounts, and revenue interface accounts. The sum of these three groups is government budget resources and belongs to the public sector. It should be noted that the government treasury is also the concentration of all revenues and the source of distribution of all government expenditures. The Treasury is the organization that coordinates the country's finances and determines the government's fiscal policy. Therefore, most governments use treasury mechanisms to regulate and manage their revenues and expenditures. In our country, according to Article 53 of the Constitution, all government receipts are concentrated in the treasury accounts as a whole, and all payments are made within the limits of the appropriations approved by law. In other words, all government receipts are deposited in the Treasury funds centralized account with the Central Bank, and all payments are made through the Treasury funds payment accounts with the Central Bank in accordance with the relevant laws and regulations. In fact, the resources specified in the approved budget, which are obtained by the executive bodies and state-owned companies, are deposited sparsely in accounts in the country's banking system and then accumulated in accounts with the treasury called "treasury concentration accounts." These accounts include the three accounts "Deposit Funds," "Private Funds," and "Public Funds," which aggregate the relevant resources. Of course, there are also accounts for state-owned companies under the heading "Concentration of State-Owned Corporate Revenue." Then, according to the budget law and the budget allocation mechanism, these resources are deposited in different payment accounts. These payments are deposited in the relevant accounts to be used in expenditure credits, acquisition of capital assets and acquisition of financial assets, deposit rejection, or allocation to the relevant state-owned company. It should be noted that according to paragraph (A) of Article (12) of the Monetary and Banking Law, the Central Bank of the Islamic Republic of Iran is required to maintain the accounts of ministries and government and government-affiliated institutions, and



state-owned companies and municipalities, as well as institutions with half of their capital, belongs to ministries and government institutions and is affiliated with the government and state-owned companies or municipalities. In other words, as the banker of the government, the Central Bank is responsible for maintaining government accounts. However, in the past few decades, due to reasons such as the multiplicity and geographical dispersion of government institutions, the centralized administrative structure of the Central Bank in Tehran, and the lack of necessary infrastructure in the field of electronic banking and modern banking systems, maintaining and conducting all banking of the executive bodies are assigned to the operating banks with a representative contract by the Central Bank. Evidence suggests that this has had many consequences and problems. In some cases, some laws, such as paragraph (D) of Article (10) of the Fourth Development Plan Law, according to which government agencies and public institutions were given the authority to select the operating bank, have intensified the confusion in government accounts. In general, some of the main problems due to the lack of concentration of government executive accounts with other banks operated by the central bank can be described as follows: Lack of transparency in government accounts, accumulation of liquidity in executive accounts, lack of clear and transparent financial discipline, choosing the operating bank by the sense of taste of the executive bodies, frequent changes and shifts of the operating bank by the executive bodies, lack of treasury access to executive accounts and lack of Central bank access to executive accounts.

Currently, based on the recommendations of international institutions such as the International Monetary Fund and the World Bank, the most important way to improve the current situation is to transfer all government accounts to the Central Bank and operate the **Treasury Single Account (TSA)**. The main purpose of running a treasury single account is to maximize the use of cash resources by reducing and consolidating floating costs. As mentioned earlier, one of the major weaknesses in public finance management that needs to be reformed is having a fragmented system for handling government-related receipts and payments. The treasury single account system improves the oversight of all government cash flows by helping to aggregate government cash balances. The treasury single account provides regular and effective monitoring of government cash resources by providing complete and timely information; It also facilitates finance, debt management, and monetary policy, and better consistency of financial and banking data, ultimately improving the quality of financial information and significantly reducing government spending. Also, all the cash of the government apparatus, both budgetary and extra-budgetary, is concentrated in these accounts, and no cash belonging to the government is kept outside it. In this way, a single trustee will be responsible for managing the government's cash and will try to make the most of the government's cash resources to meet the government's obligations by using this tool at the lowest borrowing cost. The treasury single account allows the government to accurately record the government's cash and expenditure sources on a daily basis and improve its collection and payment systems. In this way, it can have continuous oversight of government spending by concentrating government account balances; Something that can be considered part of government financial discipline. According to the International Monetary Fund, a treasury single account is a unified structure of government bank accounts that provides a unified view of government cash resources. In other words, the treasury single account is a prerequisite for modern liquidity management and is a suitable tool for the treasury



to establish centralized supervision and control over government cash resources. Numerous advantages of this method lead to increasing the overall effectiveness of the **public financial management** system, so the implementation of the treasury single account should be a priority on the agenda of public financial management reform programs. Countries that have adopted this method and increased oversight and transparency have also increased the velocity of their cash flows. In designing the treasury single account system, at least four basic issues of coverage, the structure of government bank accounts, transaction processing arrangements and related cash flows, and finally, the role of the central bank and commercial banks in managing the treasury single account and providing banking services should be considered. In this system, the coverage should be such that it covers all government budget institutions.

The structure of government bank accounts can also be **centralized, distributed (decentralized), or a combination of both**. In a fully centralized structure, a treasury single account consists of a single bank account (with or without subsidiaries), usually at the central bank. All transactions through this single account, using a fully advanced accounting system, are managed. In the case of distributed bank accounts (for example, Sweden), there are several independent bank accounts where these accounts' positive and negative balances are recorded in the TSA main account. Confirmed payments are transferred to these accounts (usually at the beginning or end of the day), and the central bank that manages the system presents the cash balance at the end of each day. Intermediate and hybrid states can exist based on these two structures. In all these cases, the important thing to keep in mind is to deposit all the remaining balances in the banking system into the main treasury single account overnight. The design of the treasury single account system in each country depends on factors such as the development of public institutions, financial management systems, the degree of maturity of the banking system, as well as the technology used to settle interbank accounts and settlement systems.

Studies show that the infrastructure is fully prepared to transfer the Rial portion of government accounts to the central bank, and all government agencies have centralized their concentration and payment accounts with the central bank's Rial trading office. However, this process in some large organizations is delayed for some reason, such as the scope of their activities. One thing that needs to be considered is the distinction between transferring government accounts to the central bank and implementing the treasury unit account plan. The plan to transfer government accounts to the central bank is a separate matter and, in other words, a prerequisite for the treasury unit account plan. Therefore, the limitations that have existed in transferring these accounts in recent years have also led to the slow implementation of the treasury unit account plan. In other words, the simultaneous implementation of these two categories has made the work complex and problematic for the stakeholders. Also, according to some experts in this field, changes and developments in various agencies and the transfer of managers have hurt the implementation of this plan. More precisely, considering that the relevant tasks are jointly the responsibility of the Ministry of Economic Affairs and Finance and the Central Bank, the preparation of the relevant instructions and procedures also requires coordination and agreement between them, which implements the plan slow and sometimes, accompanied by a long delay. Also, the breadth of different dimensions of work has made the transfer



of government accounts to the central bank an extra-organizational plan. Therefore, the implementation process of the plan, especially in the early years, faced serious bottlenecks and problems for reasons such as diversity and complexity of the executive bodies, lack of preparation in the technical departments of relevant organizations, and the desire to maintain the status quo due to continued use of some facilities and benefits that are unfortunately sometimes questionable. It is clear that planning and providing the necessary infrastructure for the operational implementation of the plan, given the dimensions and scope of the plan and due to the different nature of the accounts and financial operations of the organizations involved, is time-consuming. It is worth noting that the relevant tasks are jointly the responsibility of the Central Bank and the Ministry of Economic Affairs and Finance, and the responsibility for matters related to networking lies with the Ministry of Communications; At present, and with all the upcoming challenges, some of which were mentioned earlier, extensive, effective and round-the-clock measures have been taken by the Central Bank's stakeholders in cooperation with the banking network, as well as using the facilities of some service companies. Opening 22 thousand government accounts with the Central Bank (reducing the number of accounts from 220,000 accounts with the banking network to 22,000 centralized accounts with the Central Bank) and equipping and establishing various electronic platforms to facilitate and expedite the direct collection of revenues and consequently optimal management of the government's revenue sources and timely spending and thus the optimal advancement of government development projects has been prepared.



**Monetary and Banking Research Institute**

Central Bank of the Islamic Republic of Iran

No.10, Africa Ave., Argentina Sq.,  
Tehran.Iran.P.O.box:16765-1654

[www.mbri.ac.ir](http://www.mbri.ac.ir)