

# Excess liquidity in publicly owned entities

The Colombian government presented a draft decree for dealing with the excess liquidity in the general government sector, to establish rules for authorising local and national government entities to invest surplus cash flow from their budgets.

In principle, the decree will offer a growth opportunity to microfinance entities that meet its requirements. Traditionally, the investment rules for public entities were highly restrictive in Colombia. However, this new type of leverage is much more attractive for microfinance entities than other traditional mechanisms such as the issuance of To-Term Deposit Certificates or the opening of retail savings accounts, given the large amounts of money flowing through the Colombian government organisation.

## General specifications

It defines excess liquidity as the positive difference left over after subtracting daily cash requirements and short-term obligations. It also establishes how this must be calculated.

It lists the acceptable investments with such excesses, including savings accounts and interest-bearing accounts and CDTs (To-Term Deposit Certificates) issued by financial institutions.

It allows the investments to be made in Colombian legal tender or foreign exchange.

It lays down rules for reciprocity agreements between publicly owned entities and banks, consisting of products and services packaged by the banks for the entities to deposit their funds.

It obliges financial institutions to ensure compliance with the investment rules in the decree.

It obliges the entities covered by the decree to implement due policies and procedures to make these investments.

It lists the investments that are not allowed, such as swaps, repos, borrowing of securities, etc.

## Risk rating

The institutions wishing to attract the investments of government bodies must meet the following risk ratings:

For investments of one year or less: highest rating for short term (BRC 1+), and minimum second best rating for long term (AA).

For investments of over one year: Highest rating for short and long term (BRC 1+ and AAA)