

THE RBA'S ROLE IN PROCESSING THE FISCAL STIMULUS PAYMENTS¹

Introduction

In addition to its responsibilities for monetary policy and financial system stability, the Reserve Bank of Australia (RBA) has important responsibilities in the payments system and the provision of banking and related services to certain entities. Amongst other functions, the RBA operates the interbank settlement system, is responsible for the production of currency notes, and provides banking and payment services to around 90 Australian Government agencies. As part of its operations in this area, the RBA played a significant role in processing the Government's recent stimulus payments on behalf of two of its clients – Centrelink and the Australian Taxation Office (ATO). It also worked closely with financial institutions as they prepared for the increase in demand for currency notes anticipated as a result of these payments. This article discusses the steps taken to ensure the smooth processing of the stimulus payments, and the impact of these payments on cash withdrawals.

Operational Preparations for the Stimulus Payments

As part of its fiscal stimulus package, the Australian Government has made payments to individuals totalling around \$20 billion since late last year.² The first of these was made in December 2008, when Centrelink made 5.5 million payments to low-income households totalling \$8.7 billion. A further 2.8 million payments, totalling over \$5 billion, were made in March and early April 2009. In addition, in April and May the ATO made around 8.4 million tax bonus payments, with a total value of around \$7.3 billion.

The RBA is the banker for many government agencies, including Centrelink and the ATO, and is responsible for processing payments initiated by these agencies. Given the large number of stimulus-related payments and their high overall value, the RBA's Banking Department liaised closely with these agencies as well as the Australian Office of Financial Management (AOFM) – which is responsible for managing the Government's liquidity position – to ensure the payments did not cause operational difficulties in the payments system overall. In particular, special attention was paid to ensuring that the large volume of cheques were processed smoothly, and that financial institutions had sufficient access to currency to meet the additional cash demand as households withdrew their payments from their bank accounts.

¹ This article was prepared by the RBA's Banking Department.

² As part of its response to the global financial crisis, the Australian Government made a significant number of one-off payments to families, pensioners, carers, middle-income earners, students and other eligible recipients.

Managing cheque clearances

While the Centrelink payments made as part of the stimulus package were undertaken electronically, more than half of the ATO payments were made by cheque as the ATO does not have direct crediting arrangements with all taxpayers. As this very large number of cheques had to be processed in a relatively short period of time, there was considerable focus on the rate at which the cheques would be deposited and the RBA had to ensure it had sufficient resourcing to deal with the record levels of processing required.

As part of its preparations, the RBA estimated the daily number of cheque presentments that were likely to flow from the expected issuance profile, based on historical data on presentment patterns of ATO cheque issuances. To ensure the most accurate estimates, only cheques with a value of \$900 or less were included in this analysis.³ Historical data showed around one-half of cheque recipients deposit their ATO cheque within one week after issuance, one-quarter in the second week and almost one-tenth in the third week, with few cheques still outstanding after five weeks.

Once a cheque is deposited, the depositor's financial institution forwards it to the institution on which it is drawn for payment. To ensure that the RBA's systems were able to process the higher volume of ATO cheques presented, all relevant banking systems were tested for substantially increased overnight cheque presentment volumes. The RBA also ensured that all stimulus cheques would be scrutinised by its proprietary cheque fraud detection system within hours of presentment. This system is able to identify government agency cheques that have been altered after they were issued, and cheques that fall into this category are dishonoured.

In contrast to processing physical cheques, processing the ATO direct deposits into household bank accounts as well as the Centrelink payments – which were all direct deposit transactions – proceeded on a 'business as usual' basis. The RBA is already a large direct entry processor, initiating around 250 million direct credit payments a year – predominantly on behalf of Centrelink – and as such was able to process the additional direct deposit payments within existing arrangements.

Forecasting currency demand and liquidity implications

The stimulus payments to households also had a significant effect on currency demand as households withdrew cash from their bank accounts to finance their spending. In order to avoid the concentration of cash demand in any particular region of the country, the distribution of ATO's daily cheque and direct credit payments was spread among the states and territories on a *pro rata* basis in line with their share of the total number of eligible recipients. Prior to the distribution of these payments, forecasts of the number and aggregate value of stimulus payments to be made in particular areas were given to financial institutions' currency distribution managers. This advance notice enabled them to forecast likely demand at branches and ATMs and place orders for additional currency where necessary. Associated distribution arrangements for this currency were also put in place.

The profile used to project the stimulus cheque presentment volumes was also used as an input to estimating the value of stimulus payments that the Government would need to fund

³ The maximum ATO bonus payment amount was \$900.

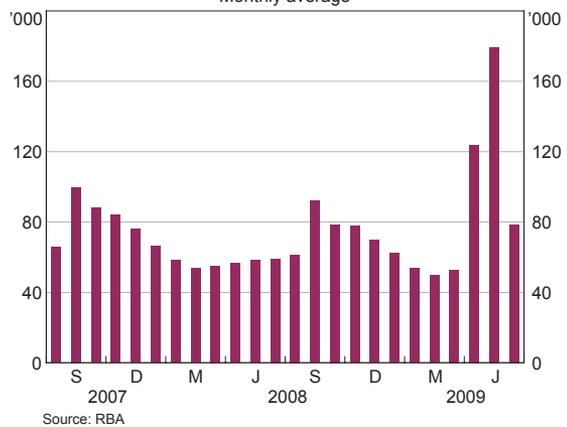
on a daily basis. Estimates of the aggregate value of direct credit payments issued by Centrelink and the ATO were also taken into account in this analysis. This information was provided to the AOFM to ensure that there were sufficient funds in the Government's core account at the RBA. Similarly, the RBA used the projected size of daily stimulus payments as an input into the RBA's liquidity forecasting for its daily open market operations.⁴

Actual Payment Distribution and Currency Demand

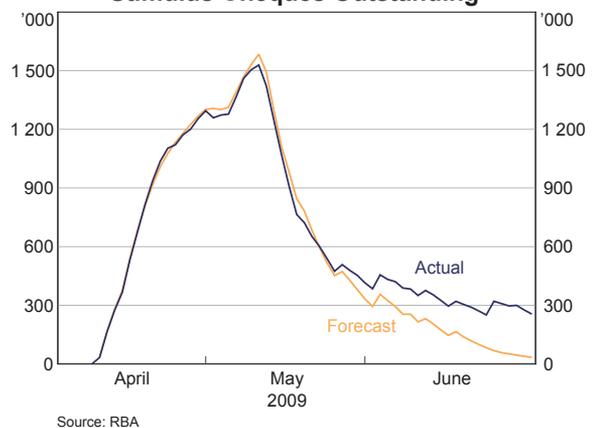
The late-2008 stimulus payments were distributed largely in line with recipients' usual Centrelink benefit payment date. The largest number of direct credit stimulus payments (around 1.6 million) occurred on 11 December, which coincided with the due date for aged pension payments. The second round of payments began on 11 March 2009, with Centrelink distributing 2.8 million direct credit payments totalling \$5 billion in the ensuing weeks. The ATO began distributing its stimulus payments in early April, with the daily number of payments increasing gradually during the first five days of issuance. The ATO issued 4.3 million stimulus cheques over a five-week period to eligible individuals for whom the ATO did not have bank account details and around 3.7 million direct credit payments where bank account details had been provided.

The stimulus cheques issued by the ATO in April and May significantly increased the RBA's average daily number of cheque presentments in those months compared with previous years (Graph 1). On average, these cheques were presented nine days after issuance, and the speed with which recipients deposited their stimulus cheques closely followed previous presentment patterns for recipients of ATO cheques in line with the RBA's initial estimates (Graph 2).

Graph 1
Daily Cheque Presentment
Monthly average

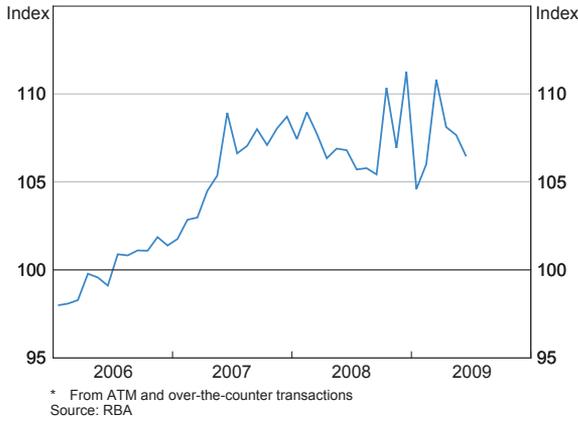


Graph 2
Stimulus Cheques Outstanding



⁴ For additional information on the RBA's open market operations, see Debelle G (2008), 'Market Operations in the Past Year', speech to 2008 FTA Congress, Melbourne, 31 October.

Graph 3
Value of Cash Withdrawals*
 2006 average = 100



Finally, as had been expected, there was a considerable increase in the value of cash transactions at ATMs and at financial institutions' branches in the months of December 2008 and March 2009 following the stimulus payments, offset by declines in the subsequent months (Graph 3). In addition to the impact from the stimulus payments, recent monthly cash withdrawal data have been quite volatile, reflecting changes in the transparency of charges for ATM transactions since March 2009 and, more broadly, fluctuations in the level of cash demand in response to developments in the global financial sector.⁵ ❧

⁵ For details of the ATM reforms, see 'The Introduction of Direct Charging for ATMs', RBA Bulletin, April 2009, pp 1–4.