STATISTICS

Meeting of the IMF Government Finance Statistics

Advisory Committee

Washington, D.C.

Valuation of Nonfinancial Assets
Country Case: Uruguay

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1. Compilation process of Fiscal Statistics in Uruguay

- For the moment, Uruguay follows the Government Finance Statistics Manual 1986 (GFSM 1986) framework, but it does not apply a pure cash regime, and consequently, this allows the reconciliation between stocks and flows ;

- The country has a solid and reliable GFS system, with wide coverage for the public sector (PS) ;

- Currently, in Uruguay there is no documented methodology that describes the integral compilation process.

Responsibilities for the compilation process

The compilation of GFS, data collection as well as its subsequent processing <u>are a joint responsibility</u> of both the Ministry of Economy and Finance (MEF) and the Central Bank of Uruguay (CBU).

Units in charge in MEF:

- Macroeconomic Advisory (MA)

- National Treasury (NT)

- National Accounting Office (NAO)

Unit in charge in CBU:

- Department of Fiscal Analysis (DFA)

The Macroeconomic Advisory (MA) of the MEF, is the office responsible for the consolidation of the information provided by NT, and also responsible for the publication of the summary of the fiscal balance "above the line" of the CG.

The MA of the MEF also receives fiscal data "above the line" of the main pension fund called Social Security Institute (SSI).
The financial statements of the Public Enterprises (PE) are delivered by the Planning and Budget Office (PBO) to the MA.

One month lag

As there is no "above the line" transactions for the local governments, the State Insurance Bank (SIB) and the Central Bank of Uruguay (CBU), the MA of MEF uses the fiscal balance "bellow the line" produced by CBU for these institutions to construct the aggregates of the fiscal balance "above the line"

Above the line

Below the line

The CBU, through its Fiscal Analysis Department, is responsible for the compilation and publication of the fiscal balance "bellow the line" of the PS.

Three months lag

Problem

Full balance sheet is not yet compiled in Uruguay, so the consistency between stocks and flows is not always possible to assure.

Challenges

Improve the sources of data and a key point on this process is the adequate valuation of nonfinancial assets.

Solutions

Uruguay in 2018 has decided to undertake a process of modernization and strengthening of its fiscal statistics, where the incorporation of the balance sheet approach and implementation of the GFSM 2014 are among the great challenges that the country will have to face.

Also, the valuation of the stock positions of nonfinancial assets will be a significant task for the GFS compilers.

Modernization Project of Fiscal Statistics

Objective

Prepare the necessary institutional framework for the compilation of fiscal statistics according to the latest international standards and the coordination of all institutions and stakeholders that produce the necessary information for GFS.

Short Term

Pilot experiences will be undertaken in order to generate fiscal statistics.

Develop a database and a platform where the information is loaded .

Also, an intra and inter-agency consolidations of PS will be carried out.

The GFS unit will be in charge of the coordination between different data suppliers to ensure consistency of methodology and standards adopted in the production of information.

Migration path towards GFSM 2014

Set roadmap towards the implementation of the GFSM 2014 methodology.

Evaluation proposed by the Data Quality Assessment Framework (DQAF)

Preparation of balance sheets

2.Conceptual Issues – Valuation of Nonfinancial Assets

The GFSM 2014 recommends the valuation of nonfinancial assets at **current market values**

In practice, nonfinancial assets depreciate in value over time due to their use and the **second-hand markets**, form which one could derive markets prices for assets of different ages, **are often non-existent**

Given the **diversity and size of the public sector**, it is very challenging to apply the existing rules

Consequently, there is need to set **alternative options** that are feasible and accurate to measure stock positions in nonfinancial assets

Fair value decision tree

Measure considering __the most appropriate use of nonfinancial asset__ as long as the country do not have socio-political restrictions for that nonfinancial asset.

Using the concept of "**the highest and best use**" of them, there might be socio-political restrictions that do not allow another possible use for that asset.

The best alternative for this is to search in the market if there is a "*liquid*" price available for that asset.

In the case of not having that liquid price, a recent transaction of the same asset or a similar asset in use, type and conditions of the same can be used.

Fair value decision tree (continued)

If information is not available, we must identify if the asset is part of **cash generating operations and can be estimated correctly.**

YES   NO

The lowest can be taken between the sum of the market prices of the individual assets and the market value of the cash generating operation.

Fair value equals the asset's market buying price, the best indicator of which is the replacement cost of the asset's remaining future economic benefits.
Replacement cost means the mínimum cost of an optimised modern equivalent asset.

For the appropriate estimation of the cash generating operation, **the opinion of the market will be used**, except in two cases:
i) when the market is imperfect or
ii) it does not have sufficient knowledge about the nature of the operation, and in these two cases the management's expectations on these flows would be used.
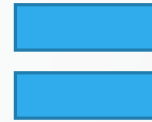
Perpetual Inventory Method (PIM)

- Most OECD countries have estimated nonfinancial assets based on the PIM in the context of the national accounts, being another source of valuable information to find the market value of nonfinancial assets for GFS. Finding the main difficulty in the measurement of nonproduced assets category of nonfinancial assets.

- PIM produces an estimate of the stock of fixed assets in existence and in the hands of producers by estimating how many of the fixed assets installed as a result of gross fixed capital formation undertaken in previous years have survived to the current period.

How the PIM is calculated ?

Starts with an estimation of the gross capital stock — With a depreciation function calculate the consumption of fixed capital = Net capital stock

Alternative:

Start estimating age-efficiency for each type of assets. → Then use it to generate age-price profiles for these assets. → With this age-price profiles can directly estimate the net capital stock from which depreciation is obtained indirectly.

Basic requirements to apply the PIM to estimate the Gross Capital Stock

- An initial benchmark estimates of the capital stock.

- Statistics on gross fixed capital formation extending back to the benchmark, or, if no benchmark is available, back over the life of the longest-lived asset.

- Asset price indices.

- Information on the average service lives of different assets.

- Information on how assets are retired around the average service life (mortality functions).

3. Data Availability – Principal Challenges and Future Plans

Central Government

- Only cash information on the execution of the national budget.

- The Financial Information System of Uruguay (SIIF), is still in a reengineering process.

- Other systems are being developed and started to be implemented by some ministries (Government Resource Planning (GRP)), which is a key tool for the management of assets and liabilities.

- The new SIIF will integrate daily budgetary transactions, accounting, treasury transactions and debt service transactions, made as a result of the usual operations of the public finance administration.

- A possible approach would be to use the accounting information as a reference, identifying the differences between the valuation proposed by IPSAS and the GFSM 2014.

3. Data Availability – Principal Challenges and Future Plans

National System of Public Investment (NSPI)

- The NSPI is a government instrument that allows the best use of public resources for investment.

- The NSPI applies a set of principles, technical standards, methods and procedures for the formulation, evaluation and execution of Public Investment Projects in the country.

- Its main objective is to improve the quality of public investment, contributing to the execution of the most profitable investment options from the socioeconomic and environmental points of view for the country.

3. Data Availability – Principal Challenges and Future Plans

Public Enterprises

- All public companies have **accrual accounting** and therefore, present their financial statements in accordance with the appropriate accounting standards in Uruguay, established in Ordinance No. 89 of the Court of Auditors.

- This ordinance establishes that the accounting standards should apply:

    1. The International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB)

    2. The International Financial Reporting Standards for Small and Medium-Sized Entities (IFRS for SMEs) issued by the International Accounting Standards Board (IASB)

    3. The International Public Sector Accounting Standards (IPSAS) issued by the International Financial Accountants (IFAC) in force at the beginning of each fiscal year

- Generally, independent accounting firms audit the balance sheets and in the vast majority, they do not present valuation problems according to the appropriate accounting standards.

4. Main Challenges for the Valuation of Nonfinancial Assets
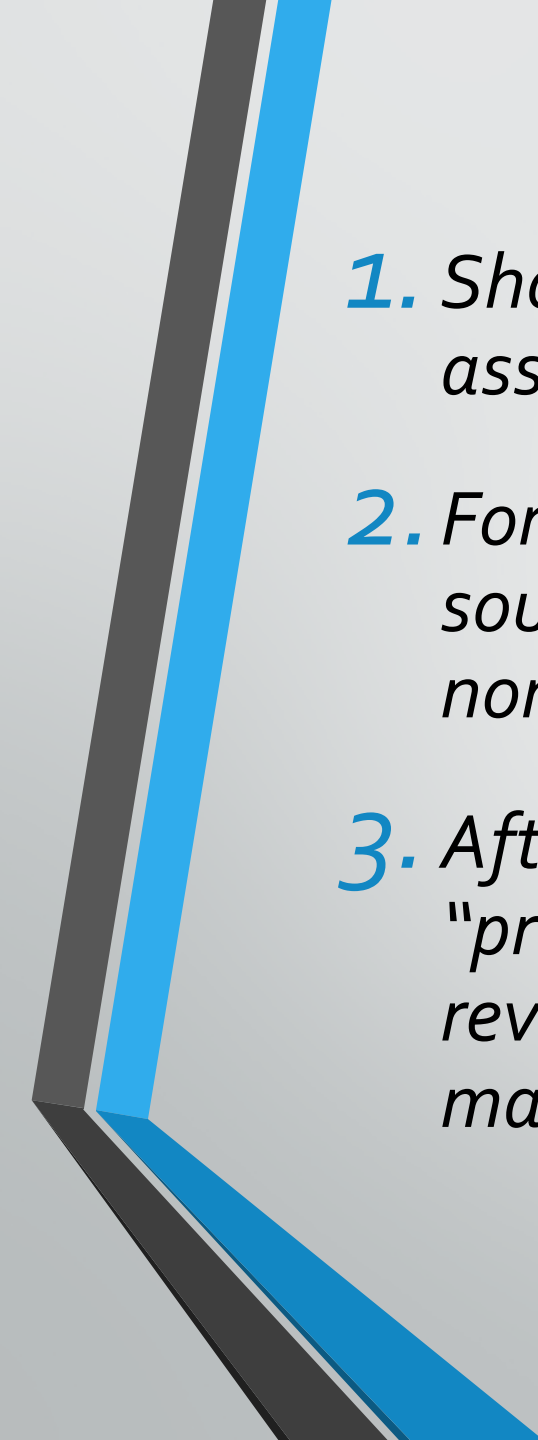
CENTRAL GOVERNMENT

- Construction of an inventory with the use of the GRPs, the new SIIF and the NSPI the first step towards the valuation

PUBLIC ENTERPRISES

- Adjust the valuation proposed by the accounting standards to the recommendations of the GFSM 2014.

Questions

1. *Should countries have a lead agency to value nonfinancial assets?*

2. *For countries that do not yet apply accrual accounting, how can source data be adjusted for an adequate valuation of nonfinancial assets?*

3. *After completing the inventory of nonfinancial assets and their "proper" valuation, how often should the valuation be reviewed? How often should the criteria used to determine the market value of each type of asset be reviewed?*