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Opacity in the management of the public finances

[Unofficial English Translation]

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Lately, efforts have been made by investment houses and other organizations in order to demonstrate the transparency deficit regarding the way of recording and reporting of public financial data. Unfortunately, media have not given sufficient attention to this important issue.

Hence, let us examine the issue from the beginning. Our state traditionally registers (records) its financial data pursuant to the cash accounting system, already since its establishment. In practice, the State registers what it collects and what it spends. However, commitments arising from contracts regarding the provision of services or products that have not yet been disbursed are not reflected in the books of the state. The same applies to the revenue expected, but not yet collected.

Our loan obligations that will be paid after many years, with lower market interest rates or grace periods, are also not reflected up to their fair value, due to them not being discounted in current euro and thus, that the fact that their fair value is less than their nominal one is not reflected at all. The difference of the value depends on the interest rate and the repayment time. Another example is that the value of 100 installments of citizens' loans is much lower than their nominal value. In short, citizens are not only facilitated in the repayment time of the installments, but they repay at the same time their debts in euros that should have a value much lower than the current one.

The current existing cash accounting framework cannot highlight these important financial issues. It does not reflect the economic reality; it does not help in order to ensure proper assessments and to make right decisions, it does not inspire confidence to investors and therefore it constitutes an obstacle to development. Furthermore, the fact that some financial data are not highlighted feeds transparency deficit and therefore the current system presents corruption risks.

The solution of course is the adoption of a double-entry accounting system to record (register) the data and the reports to be made on the basis of the international accounting standards for the public, known as International Public Sector Accounting Standards (IPSAS).

The State correctly obliges private entities and public organizations (hospitals, public utilities, etc.), as well as the local authorities, to use the double-entry accounting system.

The paradox is that the State itself has failed to adopt it. Most of our lenders, as well as Spain, Portugal and Ireland have adopted it. The State, however, had made various attempts in the past towards the adoption of IPSAS but for numerous reasons, economic or not, has failed to do so.

The IPSAS standards provide the best tools to measure the financial performance of the government. If we had adopted them, they would help towards the optimal decision-making, increase of transparency, strengthen of accountability, facilitation of global comparability, they would have had a positive impact on building trust both internally and internationally, resulting thus in facilitating investment inflow.

Using IPSAS, we could highlight that the fair value of our loan obligations is much lower than the nominal one. Nowadays, we know that the relationship of nominal gross public debt to gross national product is 175%. The same comparison of the fair value versus the nominal value of the net versus the gross debt to GDP will be considerably less and it is estimated to be comparatively less than that of our creditors, which actually constitutes an important competitive advantage.

IPSAS help us to have knowledge of the fair value of the debt and its changes. To know precisely the net position of the country, the impact of decisions on the financial balance and the impact on cash flow.

Our country cannot use primitive tools, even more in a period of crisis. The right financial decisions and the effective management of the country's resources in general require modern, accurate and transparent tools, which are none other than IPSAS.

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