



NATIONAL GOVERNMENT FLOATING DEBT

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Executive Summary

Government procedures for the management of expenditures, procurement and contracts often determine the existence of a period between the generation of a payment obligation arising from an expenditure and its effective cancellation. At any given time, expenses incurred that for various reasons have not yet been paid are known as floating debt.

Floating debt is a government liability since it represents certain outstanding obligations. However, under Argentine regulations, it is not part of public debt, which is debt implemented through the issuance of securities and the obtaining of loans. Therefore, it is not included in public debt statistics.

Unpaid expenditures comprise both obligations that are within their payment term and obligations that are overdue (arrears), which were involuntarily or intentionally not paid when due. The excessive buildup of overdue payments has negative consequences for government transactions and for the functioning of the economy.

The volume of accrued expenses that remained unpaid at year-end reached 6.7% of total expenditure in 2013. This ratio declined to a minimum of 3.7% in 2017, and then reversed in recent years, reaching 4.5% in 2019. Outstanding expenses ranged between 0.7% and 1.4% of GDP since 2012. On average, 97% of the floating debt was paid during the first year following the accrual that originated it.

Introduction

Government procedures for the management of expenditures, procurement and contracts often determine the existence of a period between the generation of a payment obligation arising from an expenditure and its effective cancellation. At any given time, expenses incurred that for various reasons have not yet been paid are known as floating debt. Operational issues and the seasonality of the different resources and expenditures result in periods in which expenditure arrears accumulate and periods in which they are reduced.

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Unpaid expenses comprise both obligations that are within their payment term and obligations that are overdue (arrears), which were involuntarily or intentionally not paid when due. Fiscal restrictions and difficulties in accessing credit generate incentives to rely on floating debt as an alternative source of financing, intentionally delaying payments for goods and services acquired by the government for its operation.

The excessive buildup of overdue payments has negative consequences for government transactions and for the functioning of the economy. First, it increases government's supply costs, as suppliers and contractors increase reference prices offered to the public sector to mitigate the risks and opportunity cost of an eventual excessive delay in payment. Additionally, it leads the government to obtain less favorable contracting conditions because of suppliers' defensive behaviors to try to secure payment and may discourage competitive suppliers from participating in public tenders and bids.

Payment delays can affect the liquidity of suppliers and contractors, affect the rest of their activities and projects, put pressure on credit markets to the extent that they must resort to bank financing, and even lead them to delay their tax payments.

These effects undermine the efficiency of public spending and contribute to raising the economy's price level. Also, delays in payments add uncertainty about the true debt position of the public sector, which affects confidence in fiscal policy, thus reducing its effectiveness.

The distortions caused by excessive accumulation of floating debt and systematic delays in payments underline the importance of having adequate monitoring and control mechanisms in place. The existence of a sound financial management and procurement framework, including the process of budget preparation, financial programming, liquidity management, payment management, follow-up, and monitoring reduces the risks of an unintentional accumulation of outstanding expenses.

Because of their potential impact on the implementation and effectiveness of fiscal policy and on the public sector's balance sheet, the monitoring and payment regularization of arrears are aspects usually addressed in programs supported by the International Monetary Fund (IMF).

Most of the programs approved in recent decades included structural targets or quantitative criteria related to arrears. As for Argentina, the last Stand-By Arrangement (SBA) negotiated in 2018 included targets on the accumulation of unpaid expenses.

For its part, the analysis of expenditure arrears is part of the Public Expenditure and Accountability (PEFA) evaluations, which constitute a standardized diagnosis of institutions and the public finance management system¹. In its latest version of 2016, the PEFA includes a specific performance indicator on the subject (ID 22), which has two dimensions related to the volume of expenditure arrears and the follow-up mechanism for them. In its [evaluation](#) of Argentina completed in 2019, a grade D (the lowest) was given for that indicator, noting that the information available is insufficient to establish the actual level of performance on the volume and follow-up of arrears.

Expenditure and Floating Debt

Floating debt generation is linked to expenditure management and budgetary and financial programming processes. The Budget Law determines the budgetary appropriations for the national government, which constitute the maximum authorized limit to be spent during the fiscal year. Based on the approved amounts, the budget execution programming is then carried out to make expenditures compatible with the availability of resources, and acts as a basis for setting quotas that act as a ceiling to be spent in successive sub-periods (months, quarters)².

The expenditure process has three fundamental stages: commitment, accrual, and payment (Table 1). In the commitment stage, the allocation of resources for a given item and amount is approved, and the contractual relationship with third parties (purchase order, contract, agreement, etc.) is established, while a preventive allocation of budgetary appropriations takes place. At the accrual stage, a payment obligation arises from the receipt of goods or services duly contracted or from the fulfillment of the administrative requirements in the case of non-exchange expenses, such as transfers. At this stage, the budgetary appropriations are allocated, and the payment order is issued, which has a due date for cancellation. The circuit closes at the payment stage with the cancellation of the obligation that arose in the previous stage, based on the financial programming prepared by the National General Treasury (TGN). All movements at each stage are recorded through electronic vouchers in the Integrated Financial Information System (eSIDIF).

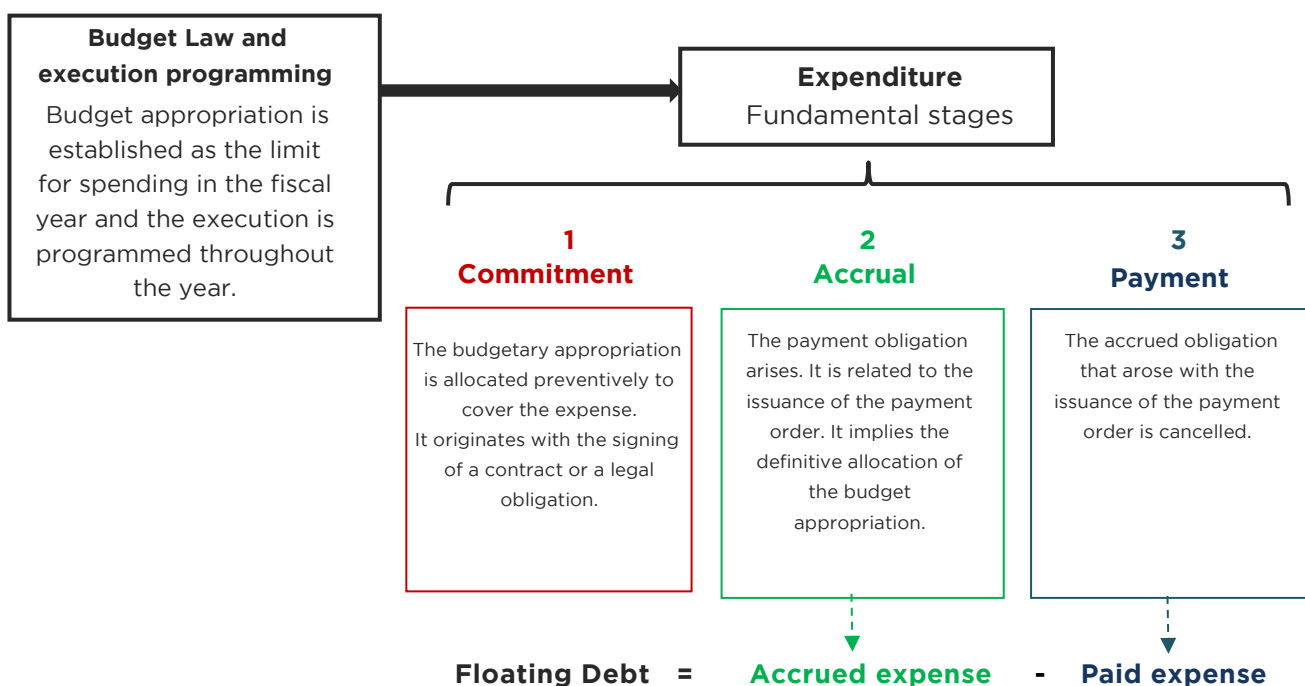
From the moment of accrual until payment is made, there is an obligation pending cancellation that constitutes the floating debt. Thus, the stock of floating debt at a given point in time can be estimated by the differential between accrued expenses and those actually paid. It should be noted that this estimate does not include any expenditures for goods and services satisfactorily provided but not yet recorded as accrued in the system.

¹ The PEFA Performance Measurement Framework is an integrated monitoring system to measure public financial management performance over a specific period. It includes 31 performance indicators (PIs) with 94 dimensions. The PEFA Framework assigns a grade to each PI (and to each of its dimensions) on a scale ranging from A to D (high to low) using methodologies, guidelines and practical tools prescribed or issued by the PEFA Secretariat and available on its website.

² [Law 24.156](#) on Financial Administration and Control Systems of the National Public Sector (LAF) establishes the need for physical and financial programming to ensure compliance with budgetary equilibrium (Art. 34). This is done through the Budget Execution Programming process.

When an expense is accrued and the respective payment order is issued, the due date for its cancellation is established. The due date depends on the type of expenditure involved (wages, purchases of goods, contracting of works, transfers). Floating debt includes both expenditures whose due date has already occurred (arrears) and those not yet due. Operational cash management issues, such as temporary liquidity shortages, problems in the process of obtaining financing, failures in the information on expenses incurred by the different agencies of the national government, delays in data uploading, monitoring failures, among others, are potential sources of involuntary delays in the payment of expenses.

Table 1. Expenditure process under current Argentine regulations



Source: OPC, based on Ministry of Finance.

Current procedures provide for the expiration of payment orders at the closing of the fiscal year following their accrual, with certain exceptions.³ Although expiration does not imply the loss of rights on the part of the creditor, when payment orders expire, they cease to be part of the floating debt.

Available Information Sources

Floating debt balance is determined by comparing the accrual and payment records of expenses. There are several official reports published periodically that include partial information related to this matter, with different coverage in terms of expenditure items and institutional aggregates:

- The Secretariat of Treasury publishes monthly budget execution reports on an accrual basis covering the national government, which provides information on accruals "above the line" (current and capital expenditures).

³ Section 44 of [Law 11,672](#) Permanent Supplementary Budget Law establishes that payment orders expire at the end of the fiscal year following their accrual, unless partial payments are made, in which case the term is extended as from the last payment date (those issued for the fulfillment of judicial obligations are exempted from expiration). Expiration does not imply the loss of collection rights by the creditor.

- The Secretariat of Treasury also publishes monthly cash basis execution reports covering the National Non-Financial Public Sector (NFPS)⁴, which records expenditures when the movement of funds takes place. An analysis of the fiscal position based exclusively on cash basis execution runs the risk of losing sight of a higher expenditure track record disguised by a delay in payments and the consequent accumulation of outstanding obligations in the form of floating debt. It should be noted that cash basis reporting includes all payments made in the period, regardless of the fiscal year in which the transaction giving rise to the payment was accrued.
- The [National Government Financial Report](#) (*Cuenta de inversion*) prepared annually by the National General Accounting Office (CGN) includes within the budget execution statements a Savings - Investment - Financing (AIF) scheme on an accrual basis for the national government. In the "below the line" transactions, it includes floating debt as a Financial Source, a concept equivalent to floating debt. It considers the expenses accrued in the period that were outstanding at the end of the year for all items (current and capital expenditures and financial investments).
- The TGN publishes a [report](#) on the stock of debt of the central government⁵ at the end of each month, broken down by item of expense: personnel, goods and services, fixed assets, transfers, financial investment, acquisition of securities, and figurative expenditures, but excluding expenditures for public debt service (item 7 of the budget classification by item). It includes expenses accrued in the current and previous fiscal years.
- The [Fiscal Newsletter](#) published quarterly by the Ministry of Economy includes information similar to that published by the TGN relating to the Central Government debt, broken down by institutional sector, at the end of each fiscal year and of each quarter of the last two years.
- As mentioned above, floating debt is not included in the public debt statistics prepared by the Secretariat of Finance, since it is not included in the definition of public debt under Section 57 of Law 24,156 on Financial Administration.
- Quantitative targets on expenditure arrears, included in the SBA program agreed with the IMF in 2018, were established on the differential between accrued and paid primary expenditure.⁶ Thus, it included expenditures for personnel, consumer goods, non-personal services, fixed assets, and transfers, but did not consider figurative transfers, debt servicing, and increases in financial assets.

Recent evolution

For the analysis of the evolution of floating debt in recent years, a data series was created based on information from eSIDIF. At the institutional aggregate level, it covers the national government. Expenditures from items 1 to 5 of the classification by purpose of expenditure (personnel, consumer goods, non-personal services, fixed assets, and transfers) are considered, excluding payment orders related to the increase in financial assets (item 6), public debt services (item 7), other expenses (item 8) and figurative expenses (item 9).

⁴ The National Non-Financial Public Sector includes the National Government, government-owned companies, trust funds and other entities (PAMI, AFIP, among others).

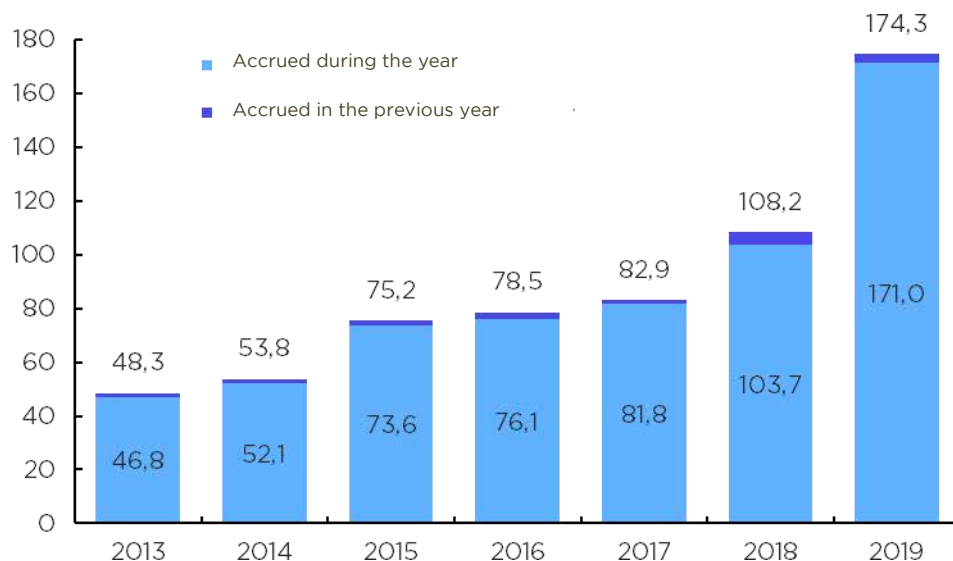
⁵ The Central Administration is part of the National Government, together with the Decentralized Agencies and the Social Security Institutions.

⁶ The agreement established a maximum limit for this indicator equivalent to 0.5% of GDP.

Based on this approach, at the end of fiscal year 2019, the stock of floating debt totaled approximately AR\$174.3 billion (Figure 1), an amount equivalent to 0.9% of the stock of public debt. This amount includes expenses accrued in that fiscal year (AR\$171 billion) and in the previous one (AR\$3.3 billion), which were still outstanding at the end of 2019. From an administrative standpoint, the two-year window considers that payment orders expire at the end of the year following the year in which they were accrued, and that exceptions to such expiration are not usually significant.

Figure 1. National government floating debt stock

In billions of ARS - at end of period

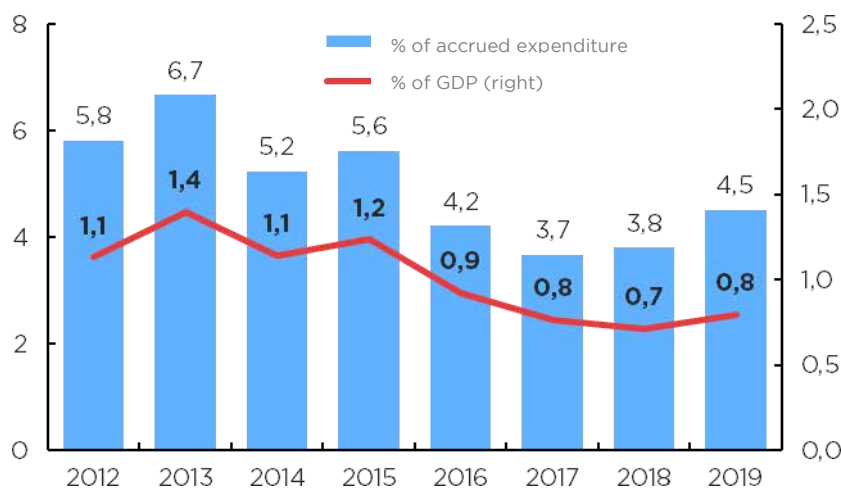


Note: Estimate based on accrued expenses for the last two fiscal years. Excludes increase in financial assets, public debt service, figurative expenses, and other expenses.

Source: OPC, based on eSIDIF.

The volume of accrued expenses that remained unpaid at year-end reached 6.7% of total accruals in 2013. The ratio declined to a minimum of 3.7% in 2017, and then reversed in recent years, reaching 4.5% in 2019. Outstanding expenses ranged between 0.7% and 1.4% of GDP (Figure 2).

Figure 2. Unpaid expenses at fiscal year-end



Source: OPC, based on eSIDIF.

For the term 2012-2019, an average of about 80% of total outstanding expenses at the closing of each fiscal year was incurred by the Central Government, 14% by Decentralized Agencies and the rest by Social Security Institutions (Table 2).

Table 2. Unpaid expenses at year-end, by institutional sector

In billions of ARS

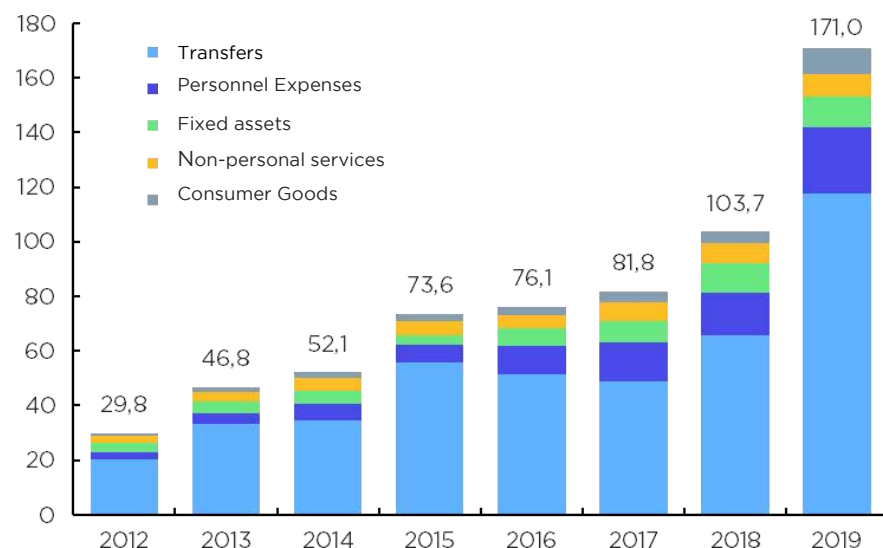
| Fiscal Year | Central Government | Decentralized Agencies | Social Security Institutions | Total Central Government | % accrued expenses | % GDP |
|-------------|--------------------|------------------------|------------------------------|--------------------------|--------------------|-------|
| 2012 | 23.9 | 5.2 | 0.7 | 30 | 5.8 | 1.1 |
| 2013 | 39.0 | 5.8 | 2.0 | 47 | 6.7 | 1.4 |
| 2014 | 44.1 | 5.8 | 2.2 | 52 | 5.2 | 1.1 |
| 2015 | 61.0 | 6.6 | 6.0 | 74 | 5.6 | 1.2 |
| 2016 | 58.8 | 9.6 | 7.8 | 76 | 4.2 | 0.9 |
| 2017 | 63.7 | 14.4 | 3.8 | 82 | 3,7 | 0.8 |
| 2018 | 81.0 | 16.4 | 6.2 | 104 | 3.8 | 0.7 |
| 2019 | 135.0 | 21.2 | 14.8 | 171 | 4.5 | 0.8 |

Source: OPC, based on eSIDIF and INDEC.

In terms of classification by purpose of expenditure, the largest share consisted of transfers (Figure 3), which include transfers to provincial and municipal governments, private companies, national universities, non-financial government companies, trust funds, and retirement and pensions.

Figure 3. Unpaid expenses at fiscal year-end, by purpose

In billions of ARS - National Government

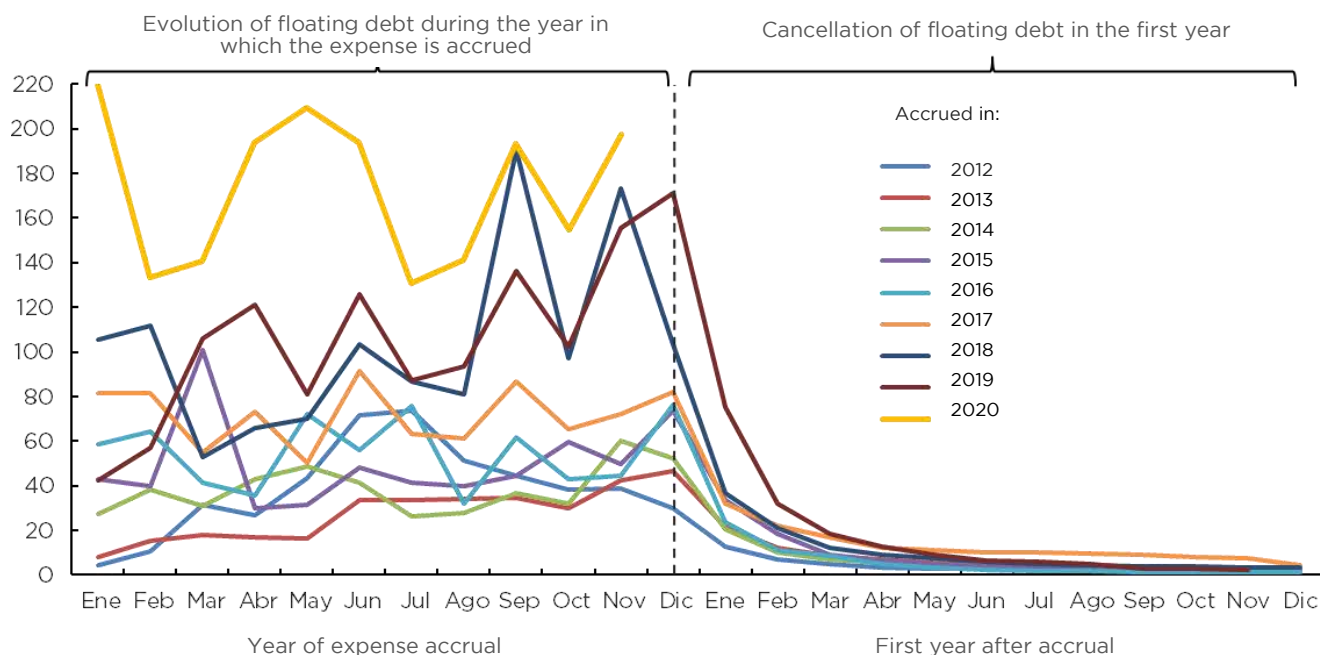


Source: OPC, based on eSIDIF

A significant portion of the floating debt at the end of each year is paid in January of the following year. This reflects the occurrence of expenditures that are usually paid in the first days of the month following their accrual. In these cases, payment orders are issued in December with payment due in the first days of January. Most of the remainder is paid in subsequent months during the fiscal year following its accrual. Thus, an average of 97% of the floating debt at year-end is paid during the first year following the accrual of the expense that originated it (Figures 4 and 5).

Figure 4. Floating Debt build-up and cancellation

In billions of ARS - National Government



Source: OPC, based on eSIDIF

Figure 5. Floating debt cancellation by year of accrual

In billions of ARS - National Government



Note: accrued expenses not paid at the end of the fiscal year following their accrual should expire, except for the exceptions under Section 44 of Law 11,672 (Permanent Supplementary Budget Law).

Source: OPC, based on eSIDIF

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The Argentine Congressional Budget Office was created by Law 27,343 to provide support to the Legislative Branch and deepen the understanding of issues involving public resources, democratizing knowledge and decision making. It is a technical office of fiscal analysis that produces reports open to the public.

This report does not contain binding recommendations.

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