OFICINA DE PRESUPUESTO DEL CONGRESO

ANALYSIS OF THE INDIRECT PUBLIC DEBT

FLORENCIA CALLIGARO
EUGENIA CARRASCO
FEDERICO CUBA
MARIANO ORTIZ VILLAFAÑE

DECEMBER 2019

CONTENTS

SUMMARY 1

INTRODUCTION 2

BEST PRACTICES FOR GUARANTEE MANAGEMENT 8

REGULATORY FRAMEWORK IN ARGENTINA 12

Operation stages 13

Guarantee enforcement and recovery 15

Statistical-accounting treatment in Argentina 15

INDIRECT DEBT STOCK IN OFFICIAL STATISTICS 18

Treasury bills 19

Guarantees to provinces 21

Sureties (*avales*) 23

Guaranteed Bonds (BOGAR) 24

Maturity profile 25

RECENT EVOLUTION 27

Authorizations 28

Granting 29

Disbursements and amortizations 30

ANNEXES 33

ANNEX 1. Information sources 33

ANNEX 2. Recording differences at the regional level 37

BIBLIOGRAPHY 39

LIST OF FIGURES AND TABLES

FIGURE 1. PUBLIC SECTOR RISK MATRIX 5
FIGURE 2. PARTIES TO A GUARANTEED DEBT OPERATION 5
FIGURE 3. INDIRECT DEBT: OPERATION STAGES 14
FIGURE 4. INDIRECT DEBT BY PRINCIPAL DEBTOR 19
FIGURE 5. LOANS FROM INTERNATIONAL ORGANIZATIONS TO PROVINCES 22
TABLE 1. STOCK OF GUARANTEES GRANTED TO PROVINCES BY CREDITOR AND PRINCIPAL DEBTOR 23
TABLE 2. SURETIES (*AVALES*) BY PRINCIPAL DEBTOR 24
FIGURE 6. INDIRECT DEBT MATURITY PROFILE 26
FIGURE 7. INDIRECT DEBT STOCK 28
FIGURE 8. AUTHORIZATIONS FOR GUARANTEE GRANTING 29
FIGURE 9. GUARANTEES GRANTED 30
FIGURE 10.INDIRECT DEBT RESIDUAL BALANCE: INCREASES AND DECREASES 31
TABLE 3. COMPARISON OF INDIRECT DEBT INFORMATION SOURCES 35
FIGURE 11. GOVERNMENT GUARANTEES 36
TABLE 4. GUARANTEED DEBT IN A SAMPLE OF COUNTRIES (2018) 37

SUMMARY

Contingent liabilities are an important source of fiscal risks, which must be considered when analyzing the sustainability of a country's fiscal position. Globally, contingent liabilities are one of the most widespread types are guarantees, mainly guaranteed debt, which are present in practically all countries.

Guarantees are a type of government intervention aimed at altering the economic incentives faced by the private sector and the public entities involved. The contingent nature of guarantees makes them difficult to value, which hinders their accounting and statistical recording in the public accounts.

The existence of institutionalized procedures for the granting of guarantees and transparency in the dissemination of information promote greater caution in their use. To ensure the integrity of the fiscal framework, the granting of guarantees must be completely integrated into the fiscal policy formulation process.

In Argentina, guarantees granted by the Treasury require authorization through the Budget Law or a special law, except for loans from international organizations. The residual balance of the guarantees granted by the Treasury is recorded within gross public debt as indirect debt.

The maximum exposure faced by the National Treasury with respect to the guarantees granted (contractually guaranteed amount) totaled at the end of 2018 close to USD20 billion (5.1% of GDP), based on information included in the 2020 Budget Message. On the other hand, according to public debt statistics published by the Secretariat of Finance, at the end of September 2019 the residual balance of indirect debt was USD9.719 billion (3.1% of total gross debt).

The lack of consistency in publicly available information on indirect debt makes it difficult to analyze its historical evolution. In 2017 and 2018, the residual balance of indirect debt increased mainly because of the issuance of Treasury Bills placed to the Trust Fund for the Development of Renewable Energies (FODER).

INTRODUCTION

In recent decades, contingent liabilities have gained importance for the analysis of public finances. Recent history is full of events in which the financial position of the public sector is substantially altered by the government's need to bail out troubled entities, either financial and non-financial or public and private.[1]

The increased focus on contingent liabilities reflects the growing perception of their potential to destabilize a country's fiscal position. While most contingent liability realization events have a small impact, some are of sufficient magnitude to put public debt on an unsustainable trajectory.

Examples of fiscal instabilities arising from the realization of contingent liabilities could be observed both in contingencies originating in the private sector (oil sector in New Zealand, road infrastructure in Mexico and Thailand) and in the public sector (sub-sovereign debts in Brazil, Argentina, or Colombia).

Guarantees are contingent liabilities that can generate significant fiscal risks for the government granting them. According to the OECD[2], the use of government guarantees, and other types of contingent liabilities, showed a significant increase since the onset of the global financial crisis in 2008.

Countries that accumulate a substantial number of guarantees are exposed to the risk of a fiscal shock, to the extent that they do not have sufficient budgetary resources to face a large-scale enforcement of guarantees. This type of risk becomes more pronounced in times of crisis since the default risks of guaranteed debts are usually highly correlated.

Credit rating agencies have substantially increased the coverage of contingent liabilities in their sovereign risk analyses since the Asian crisis of the late 1990s. Simultaneously, a considerable academic literature on the subject has been developed. Within this framework, under the leadership of multilateral organizations (OECD, IMF), significant progress has been made in recent years in the development of "best practice" guidelines for the management of contingent liabilities, particularly government guarantees.

[1] (Cebotari, 2008)
[2] (Organization for Economic Co-operation and Development (OECD), 2017)

In Argentina, guarantee granting by the National Treasury is a commonly used intervention tool. Third-party debts guaranteed by the Treasury are recorded as part of the gross public debt, in accordance with current legislation. However, the granting process, the valuation and recording methodology, and the mechanisms for the dissemination of information show certain features that undermine transparency and make the analysis difficult.

This paper analyzes the debts guaranteed by the National Treasury in Argentina. First, the conceptual framework of guaranteed debts as contingent liabilities of the public sector is described, with emphasis on their importance when assessing the sustainability of the fiscal position. Secondly, a set of best practices for the management of government guarantees, developed at the international level in recent years, are discussed. Thirdly, the regulatory framework in Argentina is analyzed, covering different phases and aspects of the operation: authorization, granting, disbursement, cancellation, enforcement, recovery, recording and dissemination of information. Finally, the current composition and recent evolution of the indirect public debt is analyzed, considering different measures and sources of official information.

CONCEPTUAL FRAMEWORK

Guarantees are a type of government intervention aimed at altering the economic incentives faced by the private sector and the public entities involved. The contingent nature of guarantees makes them difficult to value, which hinders their accounting and statistical recording in the public accounts.

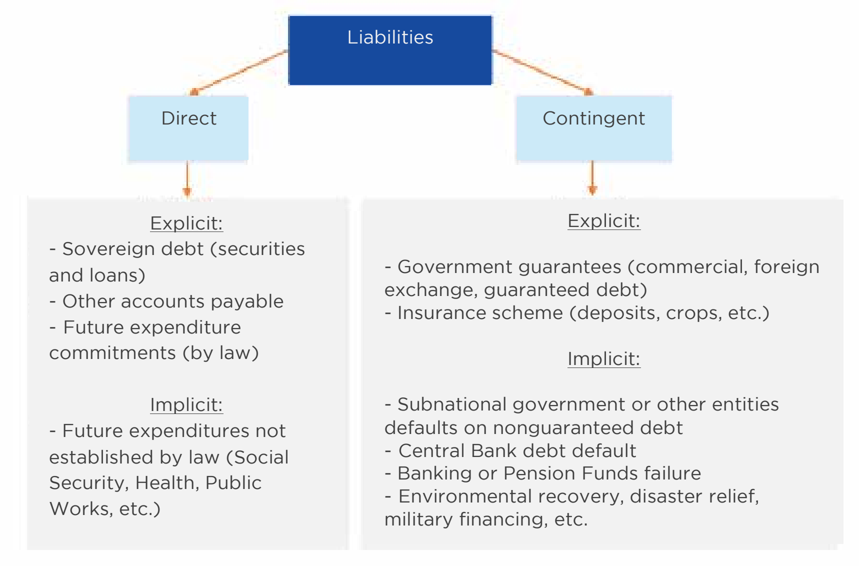
Adopting a comprehensive approach is essential for a correct assessment of the sustainability of fiscal policy and for the identification of the fiscal risks to which the public sector is exposed. As a general principle, the analysis should have the broadest possible coverage, both in terms of the institutional aggregate and the types of liabilities considered. This implies considering the transactions of entities outside the central government, such as government-owned companies, trust funds and other extra-budgetary entities, and obligations like derivative instruments, accounts payable, insurance, guarantees and other contingent liabilities.

Contingent liabilities are obligations whose realization is tied to the occurrence of an uncertain future event beyond the government's control. The uncertainty may relate to both the magnitude and timing of payment and includes the possibility that the obligation may never become enforceable.

Liabilities can be classified as explicit, if they arise from a contract or a statutory provision, or implicit, if they are the result of a moral or political obligation related to the role of the State.

FIGURE 1

PUBLIC SECTOR RISK MATRIX

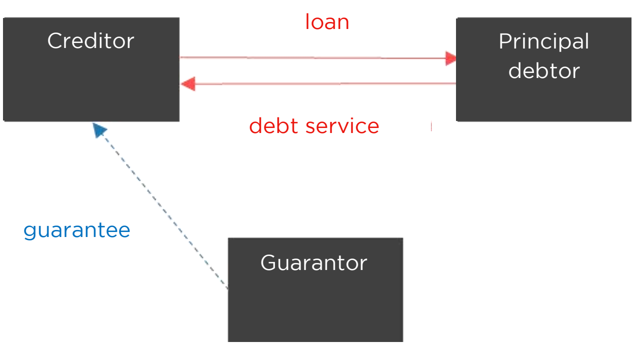


SOURCE: OPC, based on (Polackova, 1989).

Globally, the most widespread type of contingent liabilities are guarantees, mainly guaranteed debt, which are present in virtually all countries[3]. A government guarantee is a legally enforceable commitment whereby the government granting the guarantee assumes responsibility for repaying a debt or performing an obligation on behalf of another entity under certain specified conditions, typically a default of that entity.

FIGURE 2

PARTIES TO A GUARANTEED DEBT OPERATION



SOURCE: OPC.

[3] (Cebotari, 2008).

Guarantees are a type of government intervention aimed at altering the economic incentives faced by the private sector and the public entities involved. The purpose of a guarantee is usually to improve the conditions of access to credit for the guaranteed entity, thereby increasing the economic viability of projects that are perceived as beneficial to society. Government guarantees are also necessary for the approval of loans from multilateral and official agencies to sub-sovereign entities.

Government guarantees can be classified into three types:

- Guarantees provided by means of a financial derivative: those that are granted through a financial derivative such as a credit default swap.
- Standardized guarantees: are issued in large numbers, usually for relatively small individual amounts, following the same scheme. Examples of standardized guarantees are deposit insurance, export (trade) credit guarantees, other types of insurance, etc.
- One-off guarantees: cover individual guarantee contracts where it is not possible to accurately estimate the degree of risk involved in the debt. One-off guarantees may be granted on loans, debt securities, letters of credit, credit lines and other contracts involving certain or contingent payments.[4]

The granting of a guarantee does not imply an immediate disbursement of funds but exposes the granting government to the risk of future disbursements. The magnitude and timing of such disbursements are generally difficult to estimate.

The absence of budgetary impact at the time of granting generates a distortion since they may be perceived as "no cost". In the presence of fiscal rules with quantitative limits on budgetary expenditure, the government may be tempted to use them to avoid such restrictions and prefer them over other options such as subsidies or direct loans.

The use of guarantees is not always economically efficient. Guarantees may not be the most economical instrument of government intervention. As a general principle of efficiency, any type of risk should be assumed by the party best positioned to manage it, in the sense of being able to anticipate it, control its exposure, mitigate it, and minimize its cost.

[4] Credit lines guarantees, and other similar guarantees do not cover an existing debt but become effective as funds are disbursed.

The contingent nature of guarantees makes them difficult to value, which makes their budgetary, accounting, and statistical treatment and recording more complex. There are several analytical approaches for the valuation of guarantees, among which Monte Carlo simulations and the Black-Scholes method of option valuation can be mentioned.[5]

The cost of a guarantee is typically determined by the *expected payment*, in other words, the probabilistic estimate of the payments to be made, expressed in terms of current value. In addition, there are alternative measures that supply important information for the analysis, such as the maximum exposure (or nominal value), which represents the maximum loss that the guarantor could face, the exposure at default (EAD), which indicates the most probable loss at the time of default, and the value at risk, which reflects the maximum loss that the guarantor would face in each period given a selected confidence interval.

[5] (International Monetary Fund, 2005).

BEST PRACTICES FOR GUARANTEE MANAGEMENT

The existence of institutionalized procedures for the granting of guarantees and transparency in the dissemination of information promote greater caution in their use. To ensure the integrity of the fiscal framework, guarantee granting must be completely integrated into the budget process.

The identification, measurement and classification of the guarantees granted are the first step towards strengthening the management of guarantees. A unified and permanently updated record enables risk monitoring and ensures that different internal (officers, internal auditors) and external (media, consulting firms, investors, independent fiscal institutions, and the public in general) stakeholders can verify that prudent management is being carried out. If possible, there should be comprehensive reports covering the different types of guarantees granted, including a consolidated analysis of the risks linked to these instruments.

The existence of an institutionalized procedure for granting guarantees promotes greater caution in their use, limiting them to cases in which they are the most efficient policy instrument for the purpose to be achieved. The development of analytical capacity to evaluate proposals and quantify risks is an essential component of the scheme.

As a step prior to the granting of a new guarantee, the quantification of the implicit risk can be carried out through different approaches with different degrees of complexity, from the use of standardized credit ratings to statistical models and the analysis of scenarios built with stochastic simulations. In developed markets, it is sometimes possible to determine the implied risk using the price spread between a guaranteed debt and a similar non-guaranteed debt.

Once the risk has been quantified, it should be evaluated within the framework of an overall government risk profile and mitigation measures should be considered. The most common mitigation tools include stock limits, collection of fees from guaranteed entities, creation of reserve funds for payment of enforced guarantees, term limits, use of partial guarantees (covering only a fraction of the loss arising), request for collateral (counter-guarantees), and reinsurance.

When the guarantee is granted, the coverage must be clearly delimited, both to avoid moral hazard[6] in the guaranteed entity and to provide certainty to the public as to the maximum cost that would be assumed if the guarantee is enforced. From that moment on, the government should perform continuous monitoring so that any change in the risk analysis can be included and eventual budgetary or accounting modifications can be evaluated.

Finally, should a guarantee be enforced, the specifics of the event should be internalized so that they are considered in risk assessments of future operations. On the other hand, the liability incurrence should be limited exclusively to the contractually assumed risk, although governments may have short-term incentives to overstep their role by "bailing in" liabilities that were not included in the analysis of risk. Failure to do so would damage long-term sustainability by raising liabilities that were not previously assessed and accounted for and expose the public sector to greater moral hazard from other guaranteed entities.

Budgetary treatment

To ensure the integrity of the fiscal framework, guarantee granting should be fully included in the budget process. During the budget formulation stage, contingent outlays should be evaluated alongside conventional expenditures to avoid biases in the choice of instruments. Guarantees should be treated as an explicit budgetary decision rather than as an extra-budgetary instrument.

The inclusion of guarantees in the budgetary process involves two main aspects: making their cost explicit at the time of granting and ensuring that there are sufficient resources to cover payments if the guarantee is enforced.

If a reasonable estimate of the expected cost of a guarantee can be obtained, such estimate should be recorded as an expenditure at the time the guarantee is granted. At the very least, the Annual Budget should include an appropriation for the cost of guarantees expected to be enforced during the fiscal year.

Including the estimated cost of guarantees in the Budget does not necessarily imply the freezing of funds. The purpose is to increase transparency and avoid distortions in the incentives for granting guarantees.

[6] Moral hazard is the risk that the guaranteed entity will make decisions detrimental to the guarantor resulting from not having to bear the costs of such decisions

Accounting treatment

The recording of transactions with guarantees can be made following two different criteria: one approach promotes the recognition of the liability at the time a new guarantee is granted, while the other approach does not recognize the guarantees until they are enforced[7]. In general, early recognition is preferred, although the method is more demanding in terms of technical capacity.

Besides the accounting criteria used, transparency in government guarantees can be strengthened by the publication of supplementary information in budget documents, fiscal reports, and public sector accounting statements. The IMF's Fiscal Transparency Code recommends the periodic publication of detailed information on the exposure generated by government guarantees[8]. Information that should be published includes:

- a brief description of the nature of the contract, beneficiary, purpose, and duration
- government's gross exposure, the maximum nominal amount contractually guaranteed
- where possible, an estimate of the fiscal cost (the current net value of the expected payments) and a probable payment schedule
- payments made on enforced guarantees, claims made on entities with defaulted guarantees, and recovery of related funds
- if any, counter-guarantees linked to each contract

Statistical treatment

Under the IMF's Public Sector Debt Statistics Manual, the granting of one-off guarantees is considered a contingency and therefore is not statistically recorded as a debt of the guarantor. The debt continues to be held by the principal debtor until enforcement for nonpayment. The enforcement of this guarantee, whether in the form of a loan or other debt instrument, should be treated in the same manner as the assumption of new debt by the guarantor.

[7] (International Accounting Standards Board (IASB), 2002)
[8] (International Monetary Fund, 2019)

However, since the guaranteed debt stock may be particularly important for the analysis of the financial situation of the public sector, it is recommended to show them at their nominal value (the maximum amount to which the guarantor is contractually exposed), as an informative item in public debt statistics.[9]

The only case of guarantees that should be accounted for as direct public debt are standardized guarantees since, as there are many guarantees with similar characteristics, and a diversification of risks, guarantors can estimate a default rate and record it as a liability, despite being a group of contingent liabilities.

[9] (International Monetary Fund, 2013).

REGULATORY FRAMEWORK IN ARGENTINA

Guarantees granted by the Treasury require authorization either through the Budget Law or a special law, except for loans from international organizations. The residual balance of the guarantees granted by the Treasury is accounted for within gross public debt as indirect debt.

In Argentina, the legal basis for the granting of guarantees by the Treasury is framed in the government's capacity to incur debt. Law 24,156, on Financial Administration (LAF), governs guarantee granting through different legal instruments (sureties, guarantees) as part of public credit operations.

Currently, the Central Administration guarantees debts of decentralized agencies, provinces, government-owned companies, and trust funds. In the past, it also guaranteed debts of cross-governmental (Yacyretá Binational Entity) and private entities (several privatized companies).

In addition to the authorization process for the granting of new guarantees, which is usually done through the annual Budget Law, new operations are not recorded in the Budget at the time of granting. Unless the guarantee is enforced, they do not require a budget appropriation and are not reflected in the budget execution.

Entities requesting a guarantee must submit information on their financial situation and the obligation to be guaranteed:[10]

a. the amount and maturity profile of the debt contracted and of the new obligations arising

b. statement of net worth

c. statement of sources and allocation of funds projected for the term of indebtedness

d. an updated report with the status of the debt guaranteed by the National Government

However, the regulations do not specify the methodology for credit risk analysis or for estimating the cost of the guarantee to properly assess its suitability compared to alternative intervention instruments, such as a subsidy or a direct loan.

[10] Executive Order 1344/2007, regulating Law 24,156.

For guarantees requested by the provinces, a counter-guarantee is required in the form of an authorization for the Treasury to automatically deduct from the federal tax sharing of the province the funds required to comply with the obligation in a due and timely manner. For other entities' requests, the assignment of collection rights from commercial or similar contracts may be required as counter-guarantee. On the other hand, the Treasury has the power to issue payment orders in favor of the guaranteed entity or its bank accounts if they are public entities.

The legal framework does not establish fees for the granting of guarantees. Nor does it provide for the existence of a reserve fund to cover enforced guarantees.

OPERATION STAGES

The life cycle of indirect debt includes a series of stages. First, these operations generally require authorization through the Budget Law or a specific law. The authorized amount is the total amount of the principal contract, which may be disbursed in one or more tranches. The guarantee is then granted at the time the principal contract, or the issuance of the instrument guaranteed by the National Treasury is executed. Next, the principal debtor receives the loan. Finally, the principal debtor makes the principal payments. If the principal debtor defaults on its obligation, the Central Government assumes the debt and a financial asset is originated against the principal debtor with recovery procedures.

Guarantees whose maturity exceeds one financial year constitute a public credit operation and, as such, require an **authorization** granted by the Budget Law or specific law. Only guarantees on loans from international financial organizations are exempted[11]. The authorization includes a detail of the guaranteed entity, the type of debt, the maximum amount authorized, the minimum amortization term and the purpose of the financing. If not used during the budget year, the authorization expires.

[11] Law 24,156, Section 60.

FIGURE 3

INDIRECT DEBT: OPERATION STAGES

01
Authorization

By Budget Law or special law.

02
Granting

Execution of the principal contract (loan or issuance of security) and its respective guarantee.

03
Loan disbursement

Loan disbursements or placement of guaranteed securities.

04
Cancellation

Amortization of the loan or guaranteed security.

SOURCE: OPC

The next stage is the execution of the principal contract and the **granting** of the respective guarantee by the National Treasury on the payment obligations arising from it. The contractually guaranteed amount represents the maximum exposure assumed by the Treasury as guarantor and may not exceed the maximum amount authorized by law. A counter-guarantee contract (between the principal debtor and the guarantor) is also usually entered into at this stage to cover the potential enforcement of the guarantee. Once the guarantee has been granted, the principal debtor must submit a semi-annual report to the National Public Credit Office (ONCP) with the status of the operation.

After the execution, the principal contract becomes effective, which for a loan or credit line may involve one or more disbursements. The National Government, the provincial governments, and the Autonomous City of Buenos Aires (CABA) must update and report the status of the guaranteed debt, as well as the payments made, classified by beneficiary, at the time of submitting their respective Draft Budgets.[12]

Finally, for loans or similar transactions, the principal debtor makes the principal payments until full **amortization**.

[12] Executive Order 1731/2004, Section 23, regulating Law 25.917.

GUARANTEE ENFORCEMENT AND RECOVERY

Default by the principal debtor gives rise to the enforcement of the guarantee. In such case, the Central Administration must cover the payment of the obligations of the principal debtor. The contingency generates an outlay for the National Treasury and, at the same time, gives rise to a claim in its favor against the principal debtor. The recording and monitoring of these operations is carried out in the Registry of Receivables (RECAC), within the Secretariat of Finance.[13]

Subsequently, a procedure for the management and recovery of these receivables is implemented. The Secretariat of Treasury may affect the bank accounts of the guaranteed public entities. If the guaranteed entity is a province, the National Treasury (TGN) may affect resources from the federal tax sharing, with prior provincial authorization. If the principal debtor is another entity of the National Public Sector, the Secretariat of Treasury may affect the existing payment orders in the TGN in favor of such entity. The National Treasury may impose a charge on the principal debtor from the date of the debt until the date of repayment, which is determined according to market conditions.[14]

STATISTICAL-ACCOUNTING TREATMENT IN ARGENTINA

In Argentina, debts guaranteed by the Treasury are recorded as part of the gross public debt. Law 24,156 on Financial Administration classifies the public debt of the Central Administration as direct and indirect. Direct debt is assumed by the Central Administration as principal debtor, while indirect debt is assumed by any individual or legal entity, public or private, other than the Central Administration, but which is backed by the Central Administration through different legal forms (sureties, guarantees)[15]. Thus, indirect debt comprises instruments that can be classified as *one-off guarantees*.

Securities issued within the framework of public-private participation projects (PPP) are a special case. Although the National Treasury is the ultimate guarantor of their repayment (through a contingent contribution to the trust fund that issues them), the regulations in force establish that such securities are not considered public debt.[16]

[13] Joint Resolution 476/2006 and 7/2006 of the Secretariats of Treasury and Finance.
[14] Law 11,672, Section 41.
[15] Law 24,156, Section 58.
[16] Law 27,431, Section 60, added to Law 11,672 Permanent Complementary Budget Law.

BOX 1

Debt linked to PPP projects

Law 27,328 on PPP (public-private participation) was enacted at the end of 2016, establishing a new contracting regime for the procurement of infrastructure works or services. The risk sharing between public and private parties is a central aspect of this contracting modality.

In 2018, the first projects under the new modality were tendered and awarded: six road projects that are part of Stage 1 of the Safe Roads and Highways Network Program (RARS). The financial scheme involves the repayment of the main road improvement works through securities in dollars (TPI) issued by a Trust Fund (*Fideicomiso PPP RARS*).

The Trust funding comes mainly from a portion of the collection of the tax on liquid fuels and carbon dioxide. However, if such flow is not sufficient, the contract establishes a contingent contribution from the Treasury to cover the maturities of the TPIs. Thus, the TPIs issued represent a contingent liability for the Treasury.

In the official public debt statistics, prepared by the ONCP and published by the Ministry of Finance, the stock of indirect debt reflects the **residual balance** of such instruments, the amounts disbursed minus the amortizations made, in line with that informed for the direct public debt.[17]

Each guaranteed entity is responsible for informing the ONCP when it receives a guaranteed debt disbursement, so that it may be recorded and included in the official statistics.[18]

Official statistics do not include information on the **contractually guaranteed amount**, which is a measure of the maximum exposure assumed by the Treasury for the guarantees granted. The difference between the contract amount and the residual balance may be significant in cases such as credit lines or loans from international organizations, which involve a series of partial disbursements. In such cases, the residual balance increases with each disbursement and converges only progressively towards the contractually guaranteed amount, which is the same since the guarantee was granted.

[17] See Annex 1: Sources of Information
[18] The General Audit Office of the Nation (AGN), in its Audit Report of the 2016 Financial Report, Public Debt Chapter, identifies this aspect as a problem to be solved to improve the records' accuracy.

Guarantees on contracts that do not involve disbursements of funds, such as *stand-by* letters of credit, contingent credit lines and bank guarantees, which only involve contingent disbursements of funds, constitute an extreme example of this phenomenon. In these cases, the residual balance is nil until and unless the contingency provided for in the principal contract occurs.

The only information available on the contractually guaranteed amount can be found in a table that is included annually in the Budget Bill Message and refers to December 31 of the previous year.[19]

On the other hand, official statistics do not include any systematized information on the enforcement of guarantees and the status of recovery procedures.

As for the accounting treatment, given its nature as a subsidiary liability, the indirect debt is not recorded in the balance sheet of the Central Administration, but is included in the supplementary notes to the financial statements, included in the National Government Financial Report prepared annually by the General Accounting Office of the Nation (CGN). Like the statistics of the Secretariat of Finance, the values reported are for the residual balance of the guaranteed debt, and do not include any indication of the contractually guaranteed amount.

[19] Section 23 of Law 25,917 on Fiscal Responsibility provides that when submitting its Budget Bill, the National Government, the provinces, and the Autonomous City of Buenos Aires must report on the status of the guarantees granted.

INDIRECT DEBT STOCK IN OFFICIAL STATISTICS

The maximum exposure faced by the Treasury with respect to the guarantees granted (contractually guaranteed amount) totaled at the end of 2018 close to USD20 billion (5.1% of GDP). According to public debt statistics published by the Ministry of Finance, at the end of September 2019 the residual balance of indirect debt was USD9.719 billion (3.1% of total gross debt).

As of December 31, 2018, the maximum amount contractually guaranteed (in the form of sureties, guarantees and Treasury bills) totaled USD19.894 billion, equivalent to 5.1% of GDP. This information is based on a table included in the Budget Bill Message to which the current stock of Treasury bills is added[20]. Thus, the information on the maximum amount granted is disseminated on an annual basis, with a lag of nine months (the information on guarantees granted as of December 31, 2018, was disclosed at the time of the Budget Bill 2020 was submitted). This source of information does not include the guaranteed debt of decentralized agencies or the outstanding amount of guaranteed bonds (BOGAR).

On the other hand, according to official public debt statistics of the Secretariat of Finance, at the end of September 2019, the stock of indirect debt of the Central Administration reached USD9.719 billion, equivalent to 3.1% of total gross debt. This amount reflects the residual balance of guaranteed debt, that is, disbursements made minus accumulated amortizations which it is comprised of guarantees on obligations of trust funds, provinces, and government-owned companies.

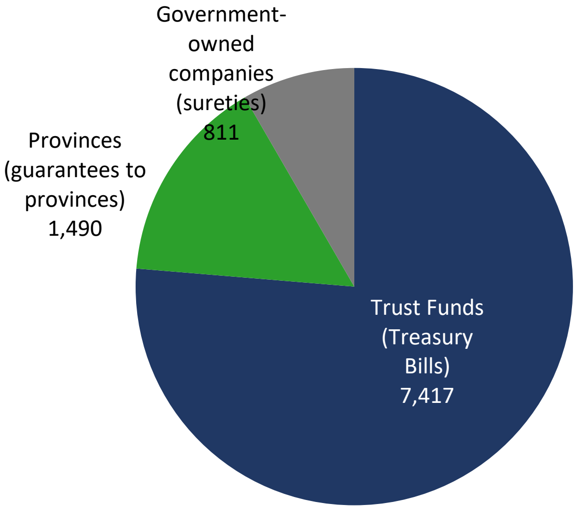
The Trust Fund for the Development of Renewable Energies (FODER) has assumed contingent financial commitments with a group of energy generating companies, which are guaranteed by Treasury bills. In addition, the provinces have obtained financing from international and bilateral credit organizations, as well as from commercial banks, with the support of the National Government. Finally, government-owned companies have received sureties (*avales*) from the Treasury to obtain external financing or to enter contracts for the provision of goods or services with foreign companies that require compliance with certain quality standards.

[20] This information has been disclosed since 2005, in accordance with Executive Order 1731/2004, Section 23, regulating Law 25.917.

FIGURE 4

INDIRECT DEBT BY PRINCIPAL DEBTOR

AS OF SEPTEMBER 30, 2019; RESIDUAL BALANCE; IN MILLIONS OF USD



SOURCE: OPC, based on data from the Ministry of Finance.

As for the counter-guarantees provided by the guaranteed entities, in FODER's case, the collateral is the certificate of participation in the generation plants in favor of the National Treasury for amounts equivalent to the granted guarantee. For the guarantees granted to the provinces, their enforcement gives the National Treasury the right to affect the funds of the Federal Tax Sharing Regime of the debtor province. Finally, guaranteed government-owned companies generally assign the National Treasury collection rights on a specific contract.

TREASURY BILLS

Treasury bills are debt instruments issued to back the payment of contingent obligations. If the contingency is not realized, the bills expire at maturity without generating any payment.

The 2009 Budget Law provided for the issuance of Treasury bills to cover the liquidity requirements of government agencies for the opening of letters of credit to guarantee imports of energy inputs, thus facilitating the management of the National Treasury's liquidity.

Between 2009 and 2016, the Treasury issued bills as guarantee for the purchase of liquid and gaseous fuels, and for the import of goods for certain infrastructure works. These bills, maturing within the same fiscal year in which they were issued, at the time were not included in the public debt statistics of the Secretariat of Finance.

Subsequently, starting in 2017, the Ministry of Finance issued Treasury bills in favor of FODER, within the framework of the Renewable Energy Law (Law 27,191) with the purpose of guaranteeing compliance with put option contracts of companies generating energy from renewable sources. The issuances were made for an original nominal value of USD4.499 billion in 2017 and USD2.919 billion in 2018. Thus, at the end of September 2019, the stock of those bills totaled USD7.417 billion, representing 76% of the total indirect debt.

BOX 2

Treasury Bills to FODER

In 2006, the National Promotion Regime for the Use of Renewable Energy Sources (Law 26,190) was enacted with the purpose of progressively increasing the production of energy from renewable sources so that its share in the electricity matrix would reach 8% of total consumption by 2017. To achieve such purpose, the Executive Branch granted promotional benefits to new producers of electric energy from renewable sources. Afterwards, in 2015, a second stage of the Regime was defined in which the goal of reaching 20% of energy consumption from renewable sources by 2025 was set (Law 27,191).

In 2016, a program for the supply of electricity from renewable sources (RenovAr) was implemented. Within this framework, 147 contracts for the supply of energy from renewable sources were entered into between *Compañía Administradora del Mercado Mayorista Eléctrico S.A.* (CAMMESA) and the companies awarded in a public tender.

To reduce the risk to which the supply contracts could be exposed, the National Government entered into option contracts with the electric power generation companies of the RenovAr 1 and 1.5, which include:

a) Option rights to purchase the generation plant or its assets for the National Government in the event of serious non-compliance by the companies that cause the termination of the contract.

b) Put option rights of the generation plant or its assets by the titleholder in the event of a set of causes of sale such as (i) the lack of payment in due time and form of sales settlements by CAMMESA, (ii) the contractor's inability to acquire U.S. dollars, (iii) the contractor's inability to make payments or transfers in U.S. dollars to foreign bank accounts, (iv) the extinction of the guarantees granted by the National Government before the completion of the term of the contract, and, (v) CAMMESA's failure to comply with any court ruling or final arbitration award with respect to the performance of the supply contract.

To guarantee the payment of the sale price of the generation plant, the National Government issued Treasury bills as guarantee to the FODER for the total amount of the projects to be guaranteed, against the issuance of certificates of participation in the generation plants for equivalent amounts. If the producing companies make use of the put options, the National Government must pay, at most, the amount of the non-amortized investment at the time the option is exercised.

GUARANTEES TO PROVINCES

The provinces receive loans from international and bilateral organizations, mainly for financing projects related to the development of infrastructure works in the energy, transportation, and communications sectors; the provision of social services in sanitation, urban development, education, and the environment; and the modernization of the State and institutional development.

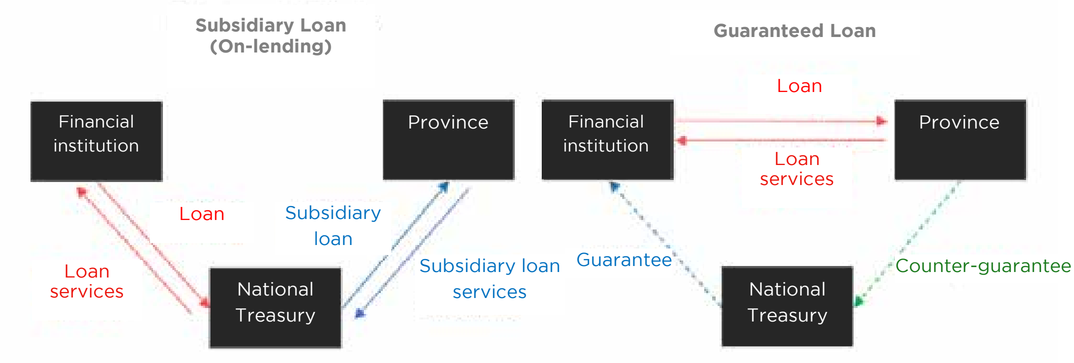
The operating policies of international financial institutions require a sovereign guarantee for the approval of financing to subnational governments. Therefore, in the loans from these organizations to the provinces, the National Government is part of the operation, either by assuming the role of principal debtor and then "on-lending" the credit to the provinces, or by acting as guarantor of the loan to the province.

If the National Government assumes the role of principal debtor, the international organization grants a loan to the National Government which then enters into a subsidiary loan agreement with the province. The loan with the international organization is part of the **direct debt** of the National Government and is also recorded as a financial asset against the province.

If the National Government acts as guarantor, the contract is entered into between the international organization and the province. Simultaneously, the National Treasury enters into a counter-guarantee agreement with the province in which the province commits to pay the financial obligations arising from the loan[21] and, in case of failure it authorizes the National Government to withhold the amount owed from the funds of the Federal Tax Sharing Account. In these cases, the granting of the guarantee is classified as **indirect debt** of the National Government.

FIGURE 5

LOANS FROM INTERNATIONAL ORGANIZATIONS TO PROVINCES



SOURCE: OPC.

As of September 2019, the stock of guarantees to the provinces totaled USD1.49 billion, mainly to back loans from multilateral financial institutions.

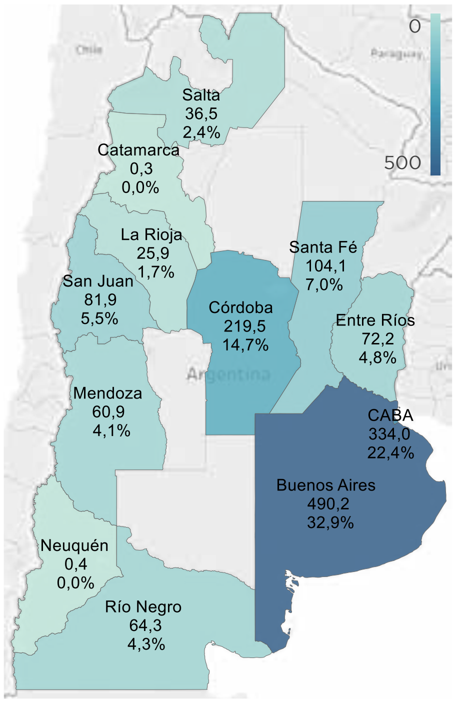
[21] The financial obligations arising from the loan include the payment of amortization, interest, expenses, costs, losses, management fees, commitment fees and others

TABLE 1

STOCK OF GUARANTEES GRANTED TO PROVINCES BY CREDITOR AND PRINCIPAL DEBTOR

AS OF SEPTEMBER 30; RESIDUAL BALANCE; IN MILLIONS OF USD AND AS % OF TOTAL

Creditor	Residual stock	%
Multilateral institutions	1,423	**95.5%**
IDB	698	46.9%
World Bank	559	37.5%
CAF	59	4.0%
OFID	61	4.1%
FONPLATA	36	2.4%
EIB	10	0.6%
Bilateral institutions	36	**2.4%**
Commercial banks	31	**2.1%**
Total	1,490	**100.0%**



SOURCE: OPC, based on data from the Ministry of Finance.

SURETIES (*AVALES*)

The stock of sureties (*avales*) as of September 30, 2019, totaled USD811 million. The main borrowers of all the sureties in force are government-owned companies.

Integración Energética Argentina SA (IEASA, formerly ENARSA) has guaranteed debt of USD489 million, which includes guarantees on several loans for the acquisition of power generation plants (USD268 million), for the completion of works of the *Brigadier López and Barragán* power plants (USD137 million), for the import of natural gas from Bolivia (USD77 million) and on IEASA's obligations with the *Compañía Administradora del Mercado Mayorista Eléctrico* (CAMMESA, USD9 million).

Austral Líneas Aéreas obtained sureties for USD314 million, which guarantee different loans for the importation of aircraft. Some are direct debts with the manufacturer EMBRAER (USD247 million) and others back a loan from *Banco de la Nación Argentina* (BNA) used to refinance another loan from BNDES (USD66 million).

Finally, INVAP SE obtained sureties for USD8 million, issued in 2016, to back bank guarantees received under contracts for the export of goods and services.

TABLE 2

SURETIES BY PRINCIPAL DEBTOR

AS OF SEPTEMBER 30; RESIDUAL BALANCE; IN MILLIONS OF USD

Principal debtor	Stock
IEASA	489
AUSTRAL	314
INVAP	8
Total	**811**

SOURCE: OPC, based on data from the Ministry of Finance.

GUARANTEED BONDS (BOGAR)

BOGARs, maturing in 2018 and 2020, were issued by the *Fondo Fiduciario para el Desarrollo Provincial* (Provincial Development Trust Fund) (FFDP), through the BNA, within the framework of the voluntary provincial debt swap program started in 2001. The FFDP assumed a portion of the defaulted provincial public debt, which was instrumented with bonds, treasury bills and loans, exchanging it for BOGARs. In exchange, the provinces assumed an equivalent amount of debt with the FFDP.

BOGARs amortize in monthly and consecutive payments and the principal balance is adjusted monthly by the Reference Stabilization Coefficient (CER). They have as main guarantee the allocation of up to a maximum of 15% of the resources of the Federal Tax Sharing Regime applicable to the provinces holding the converted public debt. In addition, the National Government guarantees, on a subsidiary basis, the principal and interest services of the BOGARs.

In 2010, Executive Order 660/2010 implemented the "Argentine Provinces' Debt Relief Program", which implied the refinancing of provincial debt conditions. Within this framework, the national government assumed as its own the commitments of the provinces with the FFDP in their original conditions, and simultaneously a debt of the provinces towards the Nation was generated, although with more favorable financial conditions. The implementation of the program did not affect the national government guarantee, which continued to be in force.

Until 2013, BOGARs were included within the indirect debt of the Central Administration in the National Government Financial Report, although they were accounted for as direct debt in the public debt statistics of the Secretariat of Finance. Thereafter, the criterion was changed, and they were no longer considered public debt[22], even though the bonds continued to have the guarantee of the national government provided for in their issuance conditions.

MATURITY PROFILE

Principal and interest payments on indirect debt are included in the maturity profile published quarterly by the Secretariat of Finance in the debt statistics. The maturities of existing sureties as of September 2019 are mainly in the next four years, while those of guarantees to provinces and Treasury bills are evenly distributed over the next twenty years.

The actual impact of these maturities on the Treasury's financing needs is largely determined by the nature of the principal debtor. For guarantees granted to provinces, if the principal debtors meet their obligations in due time and form, the maturities do not constitute an effective financing need for the Treasury, since the provinces would cover them with their own resources. On the other hand, for the guaranteed bills placed with the FODER, if the events that enable the awarded companies to exercise the put option on the power plants do not occur, the bills will not generate any effective obligation.

The situation is different for guaranteed loans whose principal debtors are decentralized agencies and government-owned companies that are financed in part with transfers from the Treasury. In such cases, the payments detailed in the maturity profile represent an effective financing need for the Central Administration, which in any case will have to make the respective budgetary contributions for the debtors to meet their obligations.

[22] According to note (2) of Table 1 of the Public Debt Report for the first half of 2014, available on the website of the Secretariat of Finance. However, this explanatory note does not mention any statutory provision justifying the change in the criteria.

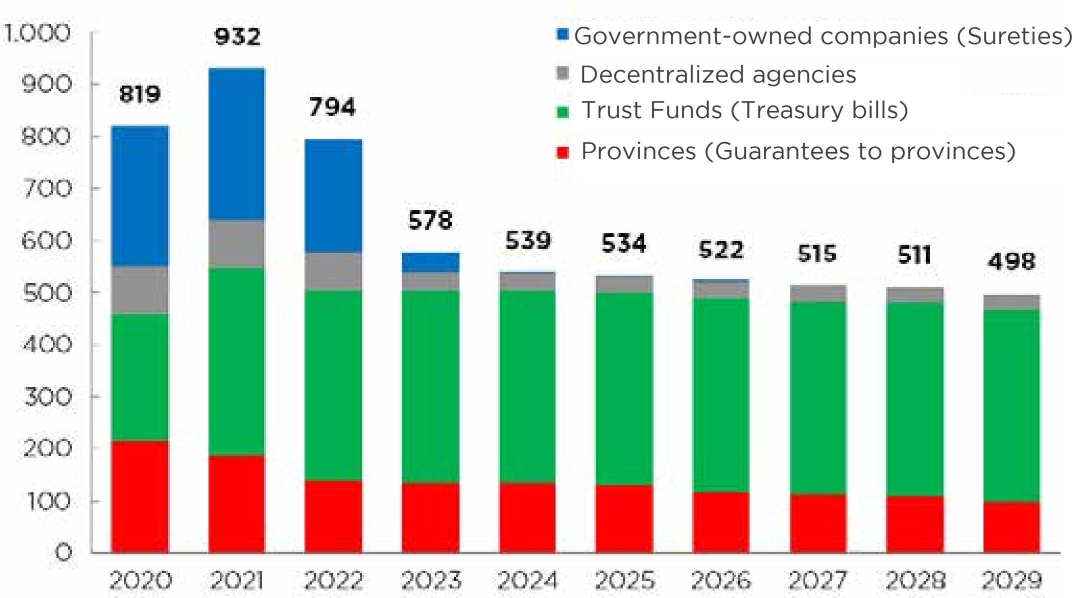
OPC

ANALYSIS OF THE INDIRECT PUBLIC DEBT

FIGURE 6

INDIRECT DEBT MATURITY PROFILE

IN MILLIONS OF USD



Note: Own estimate using OPC scenario of exchange rate and inflation and including decentralized agencies' guaranteed debt (which the Secretariat of Finance classifies as direct debt).

SOURCE: based on data from the Secretariat of Finance.

RECENT EVOLUTION

The lack of consistency in publicly available information on indirect debt makes it difficult to analyze its historical evolution. In 2017 and 2018 the residual balance of indirect debt increased mainly because of the issuance of Treasury bills as guarantee for the FODER.

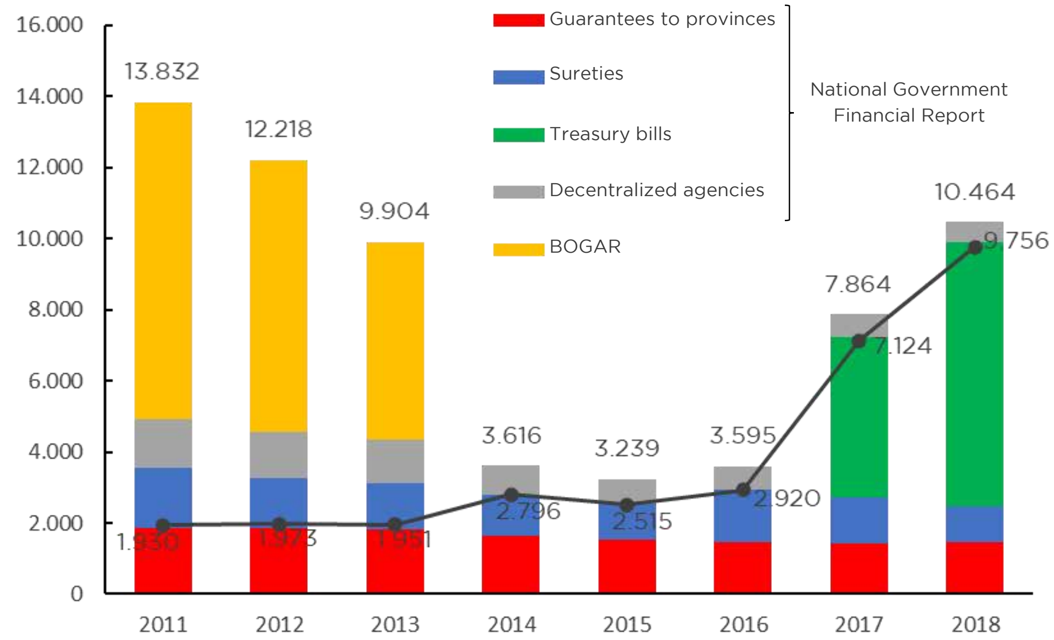
The available indirect debt statistics have undergone successive methodological changes over the last decade, which makes it difficult to construct a homogeneous series to analyze the historical evolution in perspective. The main sources of information come from the National Government Financial Report and the public debt statistics disseminated quarterly by the Secretariat of Finance. Although both coincide in reporting data based on the residual balance of these liabilities, there are substantial differences in criteria for some concepts and other inconsistencies between the two sources. The most significant differences refer to the treatment of BOGARs, the debt of decentralized agencies and, up to and including 2013, guarantees to government-owned companies (Annex 1: Sources of information).

Between 2011 and 2013, the main balance variation was given by the partial amortizations of BOGARs. Between 2014 and 2016, after the methodological change that removed BOGARs from the debt statistics, the reported balance stabilized at around USD3.5 billion. Finally, in 2017 and 2018 a new increase in the stock to around USD10 billion took place, mainly because of the issuance of Treasury bills as guarantee to FODER.

FIGURE 7

INDIRECT DEBT STOCK

RESIDUAL BALANCE AT YEAR-END; IN BILLIONS OF USD



Note: The bars represent the stock of indirect debt reported in the National Government Financial Report for each year. The line represents the stock of indirect debt reported in the debt statistics published by the Secretariat of Finance.

SOURCE: OPC, based on data from the Secretariat of Finance and National Government Financial Reports (2011 to 2018).

AUTHORIZATIONS

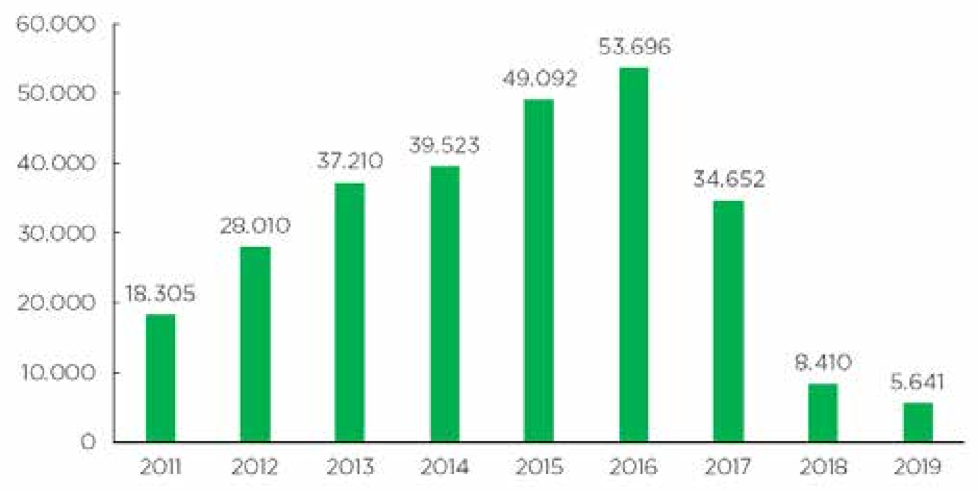
The first step in an indirect debt operation is the authorization in the Budget Law or in a specific law. The authorized amount refers to the total amount of the principal contract, which may be disbursed in one or more tranches. Authorizations provided for in the Budget Law that have not been used expire at the end of the respective fiscal year. Therefore, it is not uncommon to see authorizations that are renewed for several successive years, since the guarantee has not been effectively granted and a new authorization is required each year.

Between 2011 and 2016 there was an increase in the amount authorized for the granting of guarantees. During this term, authorizations were mainly used to guarantee the financing of energy infrastructure projects: hydroelectric works, acquisition of equipment for the *Atucha* II and III atomic power plants, refurbishment of the *Embalse* atomic power plant, and expansion of gas pipelines and natural gas distribution networks. There were also authorizations for the acquisition of energy and fuels and for the *Trasandino Central* railroad project. As from 2017, a reduction in the total amount authorized is observed. In 2017 and 2018, the authorizations for the issuance of Treasury bills as guarantee to FODER stand out.

FIGURE 8

AUTHORIZATIONS FOR GUARANTEE GRANTING

IN BILLIONS OF USD



Note: The authorized amounts refer to the respective Budget Laws as amended.

SOURCE: OPC, based on data from the National Government Financial Reports (2011 to 2018) and Budget Law 2019 as amended.

GRANTING

Between 2011 and 2016, the granting of indirect debt was substantially lower than the authorized amount. In 2011 and 2012, guarantees to ENARSA (USD1.807 billion and USD422 million, respectively) to finance the import of natural gas from Bolivia and for energy infrastructure works stands out. In 2015, the company received new sureties for the payment of materials for the construction of the *Noroeste Argentino* gas pipeline for the equivalent of USD529 million.

Between 2013 and 2016, different guarantees were granted to *Banco Hipotecario SA* in its capacity as trustee of the Trust Pro.Cre.Ar. for a cumulative total of ARS41.5 billion (approximately USD4.7 billion).

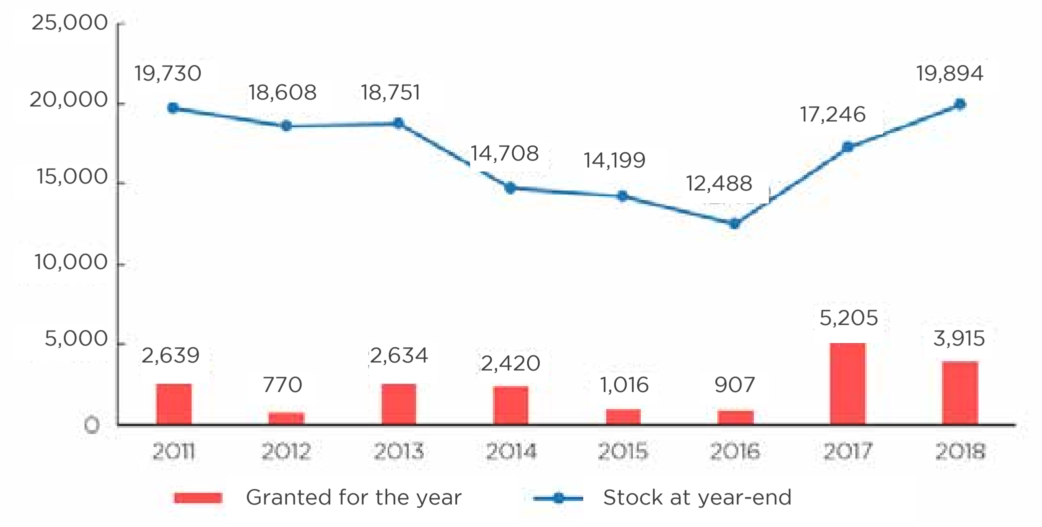
The increase in the amount granted in 2017 and 2018 is mainly explained by the placement of Treasury bills as guarantee to FODER (USD4.499 billion and USD2.919 billion, respectively).

The amount granted includes some operations that do not require authorization in a Budget Law or specific law, as is the case of guarantees granted to the provinces on loans from international organizations. In 2018, about 20% of the guarantees granted were for these operations.

FIGURE 9

GUARANTEES GRANTED

MAXIMUM CONTRACT AMOUNT; IN MILLIONS OF USD



Note: the amounts refer to the maximum nominal value contractually guaranteed. Includes Treasury bills. Does not include BOGAR or decentralized agency debt.

SOURCE: OPC, based on Budget Messages and National Government Financial Reports (years 2011 to 2019).

DISBURSEMENTS AND AMORTIZATIONS

Disbursements of guaranteed loans and placements of Treasury bills increase the stock of indirect debt reported in the statistics, which reflect the residual balance, while amortizations of these instruments reduce it.

Between 2011 and 2013, partial amortizations of the 2018 and 2020 BOGARs stood out, partly offset in 2011 by higher disbursements for sureties.

In 2014, there was a break in the series due to methodological issues since the National Government Financial Report showed a strong decrease in indirect debt because of a reduction in the stock of BOGARs. The exposure criterion was changed that year and these instruments were no longer considered public debt.

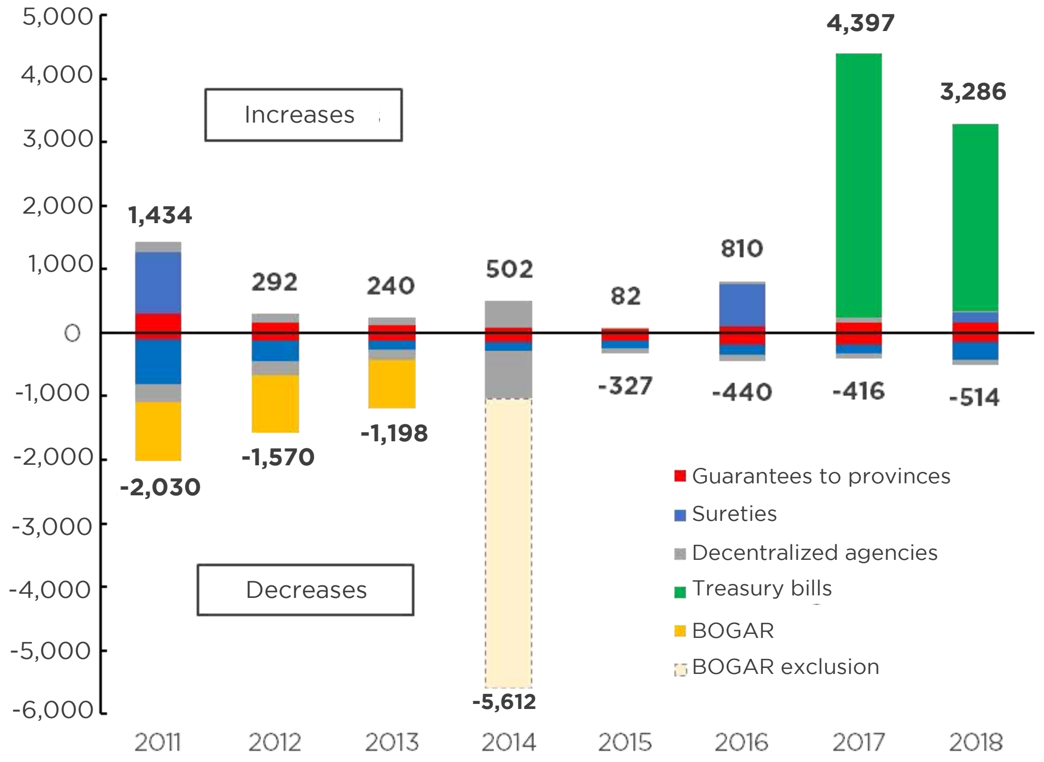
Subsequently, in 2016 there were new disbursements for guaranteed loans to government-owned companies. Finally, in 2017 and 2018, an increase in indirect debt stands out, explained by the placement of

Treasury bills as guarantee to FODER for USD4.499 billion and USD2.919 billion, respectively. These bills mature as of 2038.

FIGURE 10

INDIRECT DEBT RESIDUAL BALANCE: INCREASES AND DECREASES

IN MILLIONS OF USD



Note: Valuation changes are not included. Flows converted at the exchange rate at each year-end. The exclusion of BOGAR in 2014 responded to a methodological change.

SOURCE: OPC, based on data from the National Government Financial Reports (2011 to 2018).

There is currently no public information available on dropped sureties and guarantees. However, there are some long-standing financing operations in an irregular situation within the stock of indirect debt (there are sureties granted in 1977). If the guaranteed entities had complied with their commitments, the guarantees would have been completely cancelled and, therefore, should no longer be included in the stock of indirect debt. On the other hand, if the guaranteed entities had not complied with their commitments in due time and form, the Central Government would have had to make disbursements to comply with those commitments.

The General Audit Office of the Nation[23] reported in 2016 the existence of sureties in arrears (transactions in which the principal debtor has defaulted on its payment obligation) as well as the granting of sureties for amounts exceeding those authorized in the Budget Laws as amended.

[23] (General Audit Office of the Nation, 2018).

ANNEXES

ANNEX 1. INFORMATION SOURCES

Unlike other countries in the region (Brazil, Chile), Argentina does not publish a specific report on government guarantees and other contingent liabilities[24]. Publicly available information on the status of guarantees granted by the Central Administration is spread across different sources, and in some respects, it is limited or non-existent. There is a lack of detailed information on the terms and conditions of surety contracts and on the enforcement of guarantees. In addition, there are multiple inconsistencies and criteria discrepancies among the official sources available to identify the operations that constitute indirect debt, so that the stock reported in each case shows substantial differences.

The main sources of publicly available information are:

a. Public debt statistics of the Secretariat of Finance

The Secretariat of Finance, under the Ministry of Economy, publishes information on public debt of the National Government on a quarterly basis (and a summarized version monthly). Currently, these data are published about three months after the close of each quarter.

Since 2011, the stock of indirect debt (residual balance) is broken down into three categories: sureties, guarantees to provinces and Treasury bills. However, until 2013, only one surety granted in 1977 to the Paraguayan electric company *Administración Eléctrica de Paraguay* – ANDE (Administration of the Paraguayan Electricity Company) was included as surety while the rest were classified as direct debt.

Decentralized agencies' debt guaranteed by the National Government is considered direct debt in the publications of the Secretariat of Finance. In addition, the 2018 and 2020 BOGARs were also classified as direct debt until 2014, when they ceased to be recorded.

b. National Government Financial Report

The National Government Financial Report is prepared by the General Accounting Office of the Nation (CGN) on an annual basis and published six months after the closing of the fiscal year. This document includes information on the status and evolution of the Central Administration's indirect debt operations.

[24] (Directorate of Budgets, Ministry of Economy, Development and Tourism of Chile, 2018), (Secretariat of the National Treasury, Ministry of Economy of Brazil, 2018).

In Volume I, within the Analysis of the provisions of the Budget Law, the amendments to the authorizations for the granting of guarantees as well as the use of these authorizations (guarantees granted) throughout each fiscal year are reported.

On the other hand, the Notes to the Financial Statements (in Volume I) show the residual balance of indirect debt at year-end, including that of the previous year. The stock is shown in Argentine pesos, broken down by type of creditor: private banks, multilaterals, bilateral, suppliers and government securities. The accrued interest receivable is also detailed. This information is also provided in the table of the Public Debt Status Statement (Table 34).

Finally, Table 1-A in Offprint II (Statement of Public Debt Position) contains a detail of the transactions that constitute indirect debt, within the "Rest of the Public Sector" debt. The operations are shown by SIGADE number and include the initial residual balance, valuation adjustments, increases and decreases during the year and the final residual balance.

In the National Government Financial Reports, the stock of indirect debt consists of sureties, guarantees to provinces and FODER guaranteed Treasury bills, in addition to the debt of decentralized agencies guaranteed by the Treasury and BOGAR 2018 and 2020 (until 2014).

c. Annexes to the Budget Bill Message

The Federal Fiscal Responsibility Regime (Law 25,917) establishes that the National Government, the provincial governments, and the Autonomous City of Buenos Aires (CABA) must report the status of the guarantees granted at the time of submitting their respective Budget Bills.

In this regard, the National Executive Branch annually submits a spreadsheet attached to the Budget Bill Message detailing the status of the guarantees granted. For each operation, the beneficiary, the legal framework, the amount of the contract (in thousands of pesos), the currency of denomination and the residual balance owed are detailed. An observation is included in many cases specifying that the Executive Branch "has not become aware of any disbursement being made". At the end of 2018, there was USD6.332 billion of indirect debt granted for which the Executive Branch has no knowledge of disbursements (equivalent to 32% of the maximum contractual amount granted).

The operations reported here do not include the debt of decentralized agencies or the FODER's Treasury bills as guarantee. Until 2014, the stock of BOGAR 2018 and 2020 was included.

On the other hand, there are numerous cases in which the information in this table does not match the granting of sureties reported in the Analysis of the Articles of the respective National Government Financial Report. For example, the data for two sureties granted to *Banco Hipotecario* in its capacity as trustee of ProCreAr can be mentioned: *aval* 4/2013 (ARS15 billion granted according to the table in the Budget Bill Message, but not reported in the 2013 National Government Financial Report) and *aval* 2/2016 (ARS7 billion granted according to the table vs. ARS15 billion according to the 2016 National Government Financial Report).

The differences in the criteria adopted in each case (or even, for the same source) result in significant discrepancies in the measurement of the stock of indirect debt.

TABLE 3

COMPARISON OF INDIRECT DEBT INFORMATION SOURCES

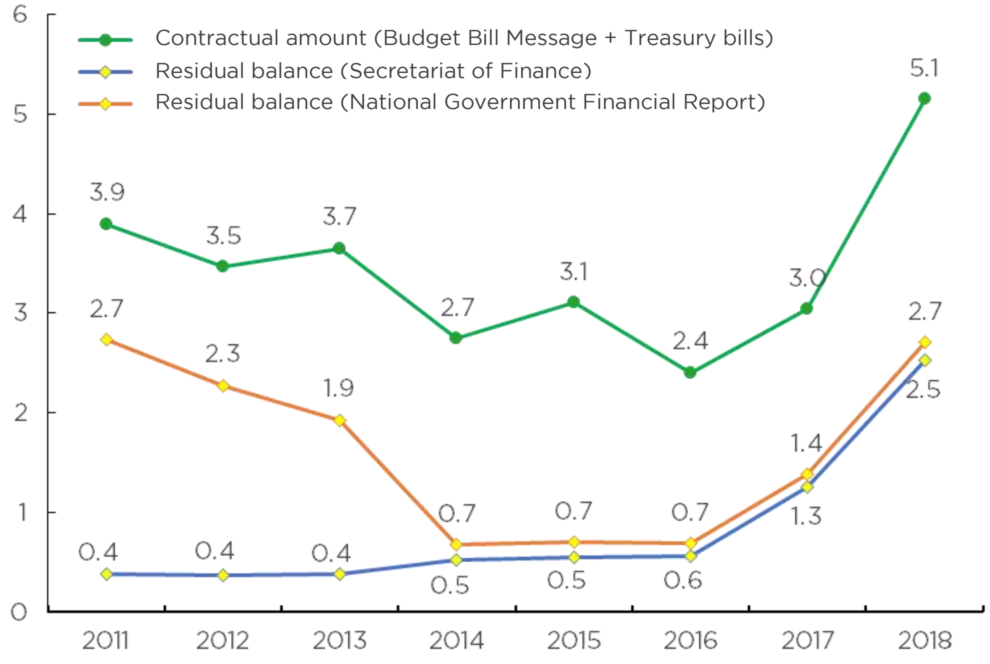
Categories and criteria	Financial Report	Public Debt Statistics of the Sec. of Finance	Budget Bill Message
Decentralized agencies' guaranteed debt	Included as indirect debt	Not included (classified as direct debt)	Not included
BOGAR	Included until 2013	Not included (classified as direct debt until 2013)	Included until 2013
Sureties	Included	Included (Up to 2013, only *aval* ANDE is included as indirect debt)	Included
Treasury bills	Included	Included	Not included
Valuation criteria	Residual Balance	Residual Balance	Contractual amount and residual balance

SOURCE: OPC.

FIGURE 11

GOVERNMENT GUARANTEES

YEAR-END STOCK; IN % OF GDP



SOURCE: OPC based on Secretariat of Finance, National Government Financial Reports (2011 to 2018) and Budget Bill Messages (2012 to 2019).

ANNEX 2. RECORDING DIFFERENCES AT THE REGIONAL LEVEL

As the statistical treatment of direct public debt differs among countries, indirect debt is also treated in different ways. A comparison with some countries in the region (Brazil, Chile, and Uruguay) shows that, like Argentina, Uruguay accounts for guaranteed debt within the stock of public debt

Brazil's guaranteed debt is accounted for based on the principal debtor (States, municipalities or other public sector entities that have been guaranteed), instead of being recorded as indirect debt of the federal government. When the levels of government are consolidated to account for the country's gross public debt, such debt is consolidated within the reported stock.

Chile differs from the previous cases since the figures for guaranteed debt are independent of the reported debt stock. However, the amount is reported complementarily. The methodology adopted by Chile is consistent with the IMF's Government Finance Statistics Manual.

TABLE 4

GURANTEED DEBT IN A SAMPLE OF COUNTRIES (2018)

	Amount (GDP%)	Included in Debt Stock
Argentina	2.5%	Included
Brazil	3.8%	Included
Chile	1.7%	Not included
Uruguay	4.6%	Included

SOURCE: Own elaboration based on IMF WEO, Secretariat of Finance (Argentina), BACEN (Brazil), Ministry of Economy, Development and Tourism (Chile) and BCU (Uruguay).

Uruguay's indirect debt mostly consists of guarantees on the debt of local governments and government-owned companies with official creditors. Liabilities arising from Monetary Regulation Bills are excluded from this analysis since the consistent debt stock for international comparison (IMF WEO) considers only the debt of the Non-Monetary Public Sector.

In Brazil, because of several crises in past decades, credit restrictions were imposed on subnational governments. They are mainly disqualified from accessing international debt markets and must therefore finance themselves mainly through the banking sector and official credit agencies. For this purpose, the federal government rates subnational governments depending on the strength of their public accounts, whereby it grants guarantees, subject to compliance with the Fiscal Responsibility Law. The states represent most of the guarantees granted, accounting for 77% of the stock of guaranteed debt.

In Chile, guaranteed debt is explained by two main sources. On the one hand, there are the government-owned companies whose financial assets are not sufficient to guarantee their debt, and on the other hand, the guarantee for the financing of Higher Education. It should be noted that 100% of the guaranteed debt issued in Chile is domestic debt.

BIBLIOGRAPHY

Auditoría General de la Nación [*General Audit Office of the Nation*] (2018). *Informe de Auditoría Financiera y del Control del Cumplimiento Gubernamental de la Cuenta de Inversión 2016* Departamento de Control de Operaciones de Crédito Público y Sustentabilidad.

Cebotari, A. (2008). *Contingent Liabilities: Issues and Practice.* International Monetary Fund, Fiscal Affairs Department.

Contaduría General de la Nación. (s.f.). *Cuenta de Inversión (2010 al 2018).*

Dirección de Presupuestos, Ministerio de Hacienda de Chile. (2018). *Informe de Pasivos Contingentes 2018.*

International Accounting Standards Board (IASB). (2002). *Provisions, Contingent Liabilities and Contingent Assets (IPSAS 19).*

International Monetary Fund. (2005). *Government Guarantees and Fiscal Risk.* Fiscal Affairs Department.

International Monetary Fund. (2013). *Public Sector Debt Statistics : Guide for Compilers and Users.*

International Monetary Fund. (2014). *Government Finance Statistics Manual.*

International Monetary Fund. (2019). *Fiscal Transparency Code.*

INTOSAI. (2003). *Contingencias Fiscales: Implicaciones en la Administración de la Deuda Pública y el Papel de las EFS.* Comité de Deuda Pública.

Irwin, T. (2012). *Accounting Devices and Fiscal Illusions.* International Monetary Fund.

Organization for Economic Co-operation and Development (OECD). (2013). *Budgeting for Contingent Liabilities.* OECD Discussion Paper.

Organization for Economic Co-operation and Development (OECD). (2017). *The Role of Public Debt Managers in Contingent Liability Management.* OECD Working Paper on Sovereign Borrowing and Public Debt Management.

Poder Ejecutivo Nacional. [*National Executive Branch*] (s.f.). Mensaje de Elevación del Proyecto de Ley de Presupuesto [*Budget Bill Message*] (2010 al 2020).

Polackova, H. (1989). *Contingent Government Liabilities: A hidden risk for fiscal stability.* Policy Research Working Paper, World Bank.

Saxena, S. (2017). *How to Strengthen the Management of Government Guarantees.* How to Notes, International Monetary Fund, Fiscal Affairs Department, Washington DC.

Secretaria do Tesouro Nacional, Ministério da Fazenda (Brasil). (2018). *Guaranteed Debt Report Sep-Dec 2018.*

Tesorería General de la Nación, Ministerio de Hacienda. [*General Treasury of the Nation, Ministry of Treasury*] (2017). *Sistema de Tesorería.*

OPC

OFICINA DE PRESUPUESTO
DEL CONGRESO

HIPÓLITO YRIGOYEN 1628, PISO 10 (C1089AAF) CABA, ARGENTINA.
T. 5411 4381 0682 / CONTACTO@OPC.GOB.AR

www.opc.gob.ar