



Analysis of National Government Budget Rigidities

2010-2021

Director
Marcos Makón

Directorate of Budget Analysis

Analysts
María Laura Cafarelli – Ariel Melamud

December 27, 2021

ISSN 2683-9598

Contents

Executive Summary	3
Conceptual framework	4
Methodological framework.....	6
Rigidities resulting from the nature of expenditures.....	6
Rigidities resulting from earmarked resources	8
Evolution of expenditures by rigidity 2010-2021	10
High rigidity expenditures.....	12
Medium rigidity expenditures.....	14
Evolution of expenditures by resource earmarking 2010-2021	16
Evolution of expenditures by rigidity and degree of earmarking 2010, 2015 and 2021	17
References	18

List of Tables

Table 1. Expenditure items by rigidity.....	7
Table 2. Sources of funding by earmarking.....	9
Table 3. Sources of unearmarked funding.....	9
Table 4. Evolution of high rigidity expenditures	12
Table 5. Evolution of medium rigidity expenditures.....	14
Table 6. Evolution of flexible expenditures	15
Table 7. Expenditures by rigidity and resource earmarking	17

List of Figures

Figure 1. Expenditures by rigidity in terms of GDP	11
Figure 2. Expenditures by rigidity in terms of total expenditure	11
Figure 3. Expenditures by earmarked resources in terms of total expenditure	16

Executive Summary

This report analyzes the degree of budget rigidity of the National Government during fiscal years 2010-2021 based on a classification methodology developed by the Argentine Congressional Budget Office (OPC). Rigidity by nature of expenditure and earmarking by source of funding are analyzed. By relating both concepts, it is possible to identify those expenditures with a lower degree of rigidity that are funded with freely available resources, or to determine the resources remaining to the Government after deducting rigid expenditures and resources that are highly earmarked, known as "fiscal space".

For the period analyzed, rigid expenditures, mainly composed of pensions, wages, interest on debt, family allowances, among others, accounted for about two thirds of total expenditure (66.9%), with a maximum of 80.0% in 2019 and a minimum of 57.9% in 2014. Around 20% of expenditures were of medium rigidity (energy and transportation subsidies, social programs, non-personal services, among others), and the remaining 13.2% were flexible expenditures (capital expenditures, transfers to provinces, consumer goods, among others). High rigidity expenditures not only represented the largest proportion of total expenditure but were also its most dynamic component. They accounted for 84.0% of the increase recorded in total expenditure. Between 2010 and 2021, the weight of high rigidity expenditures went from 19.8% to 25.5% of the Gross Domestic Product (GDP).

In 2020, the effects of the health crisis caused by COVID-19 increased the performance of medium rigidity expenditures because of the extraordinary implementation of social programs, altering the relative shares of other items. Finally, in 2021, the continuity of the emergency (medium) is emphasized by the ongoing social programs, a slight recovery of public investment (flexible) and the fall in interest payments because of the debt restructuring (high). In 2021, high rigidity expenditures accounted for 63.6% of total expenditure, those classified as medium rigidity accounted for 24.8% and the remaining 11.5% consisted of those expenditures that are more feasible to be reallocated.

On the side of budgetary rigidity resulting from the earmarking of resources for specific purposes, expenditures that are freely available are the ones that accounted for the highest percentage of total expenditure (63.1%) because of the share of internal and external credit and of resources from the National Treasury. On the other hand, those expenditures that are funded with sources from earmarked resources, which include Social Security contributions, averaged a 28.4% share in the years analyzed. Finally, expenditures whose funding has a medium level of earmarking (own resources excluding Social Security contributions), show an evolution that averaged 8.5% of total expenditure.

When comparing both concepts we see that expenditures classified as non-rigid and unearmarked - those over which the government has greater margin for action - reduced their share of the total from 16.6% in 2010 to 9.8% in 2021, which shows that at present there is a margin for reallocating resources or reducing expenditures close to 10% of the National Government's budget. When comparing unearmarked expenditures with medium rigidity, it is observed that their share increased from 17.2% in 2010 to 22.0% in 2021. By contrast, rigid expenditures with all sources of funding increased their share from 61.6% in 2010 to 64.2% in 2021. Finally, high rigidity expenditures for all sources of funding and medium rigidity with high and medium earmarking increased their share from 64.6% of total expenditures in 2010 to 67.1% in 2021.

In summary, at present, the fiscal space in terms of expenditures and allocation of resources of the National Government's budget is very limited.

Conceptual framework

The purpose of this report is to identify and quantify the margin that the National Executive Branch has each year to reallocate resources or reduce expenditures. The reference framework considered here for the measurement of budget inflexibilities is the public expenditure of the National Government, which is measured both by the nature of the expenditure (understood by its purpose or programmatic category, or economic classification) or by its source of funding (degree of resource earmarking). In extreme cases, there are inflexibilities to reallocate resources both in terms of rigid expenditures funded with unearmarked resources and flexible expenditures funded with earmarked resources.

According to the Manual of the Budget System of the National Government of the Argentine Republic (2011), governments generally have little margin to decide on annual budget allocations. This is because a large share of public expenditure is determined in advance by legal instruments, contracts, community needs, political commitments, or government management. The set of budget items that cannot be reallocated in the short term by the authorities without high costs (judicial, economic, or political) is referred to as "budget rigidity".

Ramiro Ruiz del Castillo (2017) says that budget inflexibilities or rigidities, in general terms, are institutional restrictions that limit the ability to modify the level or structure of the public budget in a specific time, both by establishing immobility in expenditures and in the allocation of resources.

The distinction between rigid and discretionary expenditures is not exhaustive, but rather, following a subjective methodology consistent with common guidelines in the literature, attempts to classify expenditures gradually from the most rigid to the most flexible¹. However, rigidity is neither absolute nor permanent since it depends on the policies or regulations in force at any given time. In other words, rigidity is calculated in approximate terms following subjective criteria.

The emergence of rigidities or inflexibilities can be seen as a reflection of the roles and functions assumed by the public sector over time and can be analyzed from both a negative and a positive perspective. The former emphasizes that greater rigidity limits the ability of fiscal policy in the face of changes in the economic cycle or government plans. The positive perspective considers that rigidities result from the need to generate institutional frameworks that contribute to achieving public policy goals (Cetrángolo et al, 2010). Rigidities may be desirable when it comes to guaranteeing certain types of priority expenditures for the development of human capital or investments in infrastructure.

However, in many cases, rigidities originate in the distrust of certain sectors that they will not be considered at the time of allocation, thus seeking to guarantee public resources for the future. This behavior conditions not only the composition of public spending but also its level and, consequently, restricts the possibilities of adapting fiscal policy to the needs of the context and the macroeconomic outlook. On the other hand, this set of allocations can create a sort of labyrinth which makes it difficult to identify the use of public resources and even distorts allocations in terms of priorities². Susana Vega (2005) states that this process usually involves what is called "escape from budget", evading restrictions and general procedures involving tax expenditures in tax exemptions and industrial promotion regimes and those related to agencies and funds that are not part of the budget, such as INCAA (National Institute of Cinema and Audiovisual Arts), AFIP (Federal Administration of

¹ Therefore, the use of the concepts referred to as more flexible or less flexible, more discretionary, or less discretionary expenditures must be graduated.

² This is a threat to fiscal transparency, which can lead to the coexistence of non-priority surpluses with priority shortfalls.

Public Revenues), among others³. Therefore, the budget requires a critical and periodic evaluation process for the determination of priorities to reduce automatism. Otherwise, the budget becomes predetermined in advance, limiting the achievement of the goals.

There is no single, universal solution that concludes on the degree of discretion fiscal authorities should have, versus the level of rigidity or inflexibility of previously established rules. However, the presence of budget rigidities limits the ability of fiscal policy to react to unforeseen or new scenarios. Allier (2006) argues that budget rigidities can lead to overspending in some sectors at the expense of others and mentions the case of public investment in Latin America, which has experienced difficulties in the allocation of resources because of the priority given to social spending by the democratic governments that took office in the 1980s. Thus, the effects of fiscal inflexibilities on fiscal policy autonomy refer to the concept of "fiscal space" and the ability of governments to generate it (Fanelli and Jiménez, 2009). There are different definitions of "fiscal space" in the literature. The narrower view considers "fiscal space" to be the resources remaining to the Government after deducting rigid expenditures (either due to their nature or resource earmarking); and the broader view adds to the previous definition the Government's capacity to access public debt as an element that increases "fiscal space". Budget inflexibilities affect fiscal space, not only because they have an impact on resources, but also because they determine the degree and intensity with which policies compete. Thus, having some flexibility or discretion to modify what has been committed in the past may be desirable. The solution to these problems requires reducing the allocation of earmarked resources, finding ways to make rigidities more flexible, strengthening universality and budget unity, including what is outside the budget, absorbing surpluses of unused funds, modifying related regulations, and avoiding new ones that aggravate the problem. To make its implementation feasible, action must be taken in a medium-term context, since inflexibilities tend to soften over an extended period of time.

Without being exhaustive with respect to the typologies developed in this paper, we can mention the following as origins of inflexibilities⁴:

- ✓ Rigidities arising from policies or programs linked to the "benefit principle", i.e., designed to benefit those who finance them (such as social security or health policies).
- ✓ Rights and guarantees established in different regulations, which result in specific allocations of resources to protect certain expenditures (such as the earmarking of the fuel tax for road expenditures).
- ✓ Intergovernmental transfers, which is linked to the degree of decentralization of fiscal policy.
- ✓ Rigidities linked to legal frameworks (laws, contracts, etc.), such as interest payments on public debt, wage indexation and pensions, fiscal rules, and stabilization funds.

For example, personnel expenses, retirement and pension payments, and debt service are considered non-discretionary expenditures. As for personnel expenses and transfers linked to wages (transfers to universities), although they can be modified by decreases in the number of personnel or in remunerations, there are regulations that limit in the short term the government's actions⁵. One legal way to reduce the number of government employees is through the implementation of voluntary retirement programs, but in the short term this does not reduce spending on wages because these programs usually include severance payments or non-remunerative sums for periods

³ For more information on the definition and estimation of tax expenditures, see <https://www.opc.gob.ar/politica-tributaria/gastos-tributarios-cuestiones-metodologicas-y-analisis-del-presupuesto-2021/>

<https://www.opc.gob.ar/politica-tributaria/gastos-tributarios-cuestiones-metodologicas-y-analisis-del-presupuesto-2021/>.

⁴ Cetrángolo et al. (2010).

⁵ In this regard, among other regulations, the stability of government employees is guaranteed by Section 14 bis of the National Constitution.

longer than one fiscal year⁶. Furthermore, although inflationary processes may reduce the payroll burden in real terms, it is not easy to reduce their nominal load, since government employees are protected by employment stability and their nominal wages are also protected by law. The same is true for pensions and retirement benefits. As for debt services, they can be modified by conversion operations, swaps, mega swaps, shielding and other types of operations aimed at reducing their impact, but this is not simple and takes time⁷. On the other hand, public investment expenditures are discretionary in nature, since they can be postponed, although doing so may hinder the continuity of projects under execution, promote cost increases in future years, or generate legal claims against the Government for breach of contract.

Methodological framework

In this study, expenditures are grouped according to their rigidity and earmarking, using the budget classifications of expenditure, mainly by object, programmatic category, economic classification, and source of funding, as defined in the Manual of Budget Classifications for the National Public Sector (2016 version).

Budget classifications are policy instruments that group resources and expenditures according to certain criteria, whose structuring is based on the establishment of common and differentiated aspects of government operations.

Rigidities resulting from the nature of expenditure

Based on their nature, it is possible to classify certain expenditures according to their degree of mandatory compliance. For example, classification by object makes it possible to identify expenditures on personnel, consumer goods, non-personal services, transfers, interest on public debt, and others. For some of these items, the distinction between greater or lesser degree of compliance is simple. For example, personnel expenditures are of greater compliance (rigid), while for others, a more in-depth analysis must be carried out, combining other classifications to determine the degree of rigidity, as in the case of transfers or some social programs created by law (Universal Child Allowance), for which other types of classifications are used, such as the programmatic category or the economic classification. The latter classification makes it possible to identify capital expenditures, which include real direct investment, capital transfers and financial investment.

For the purposes of this report, to measure the degree of rigidities resulting from the nature of the expenditure, two categories were created:

1. **High rigidity:** refers to those expenses arising from a Law. It includes Social Security benefits (contributory and non-contributory pensions), personnel expenses (because of the impossibility of making layoffs, as well as the difficulties to reassign functions or reduce wages), family allowances for active and inactive population and others, Universal Allowance for Social Protection, and interest on the public debt. In addition, current transfers to universities and to the National Institute of Social Services for Retirees and Pensioners (INSSJP) are included, since they are linked to the payment of teachers' salaries and the management of priority health benefits, respectively. Finally, current transfers to provinces under laws or agreements are included.
2. **Medium rigidity:** non-personal services and current transfers other than those included in the high rigidity categories are recorded under this category. It includes expenditures that are not within the

⁶ As was the case, for example, with the Voluntary Retirement Plan implemented in the scope of the National Executive Branch in fiscal year 2018 through Executive Order 263/2018.

⁷ Only in very serious circumstances are payroll, social security and debt expenses not covered.

framework of a Law. Non-personal services cover a wide variety of components: basic services (such as energy, water, and natural gas), rents and other fees, maintenance, repair and cleaning services, technical and professional services, transportation and mobility, among others, which may be adjusted in the short term but not permanently without affecting the normal operation of government entities. As for current transfers, those to the private sector (social aid, transfers to private companies, transfers to non-profit institutions), other transfers to entities of the National Public Sector and to the external sector, which arise from regulations other than laws, are of medium rigidity. Transfers to the private sector and other public sector entities include subsidies for energy, transportation, and other functions, which can be adjusted in the short term, but at a high political cost. In addition, expenses related to disease prevention (vaccines in the schedule) are included in the budget under consumer goods. For fiscal years 2020 and 2021, contingent expenditures made by the National Government related to the health emergency in the context of the COVID-19 pandemic were included in this category. These expenditures are considered, for the purposes of this paper, as discretionary but necessary expenses, originated in unforeseen external situations (natural or epidemiological disasters) whose medium rigidity disappears once the emergency is resolved.

The remaining expenditures are grouped as **flexible expenditures**, i.e., more feasible to reallocate, such as consumer goods (not arising from contracts), items related to real direct investment⁸, financial investment, and capital transfers to the private and external sectors and to other entities of the National Public Sector. In addition, it includes the rest of the current transfers to provinces and other current expenses, not included in the previous categories.

The analysis of expenditure rigidities includes "above-the-line" expenditures, thus excluding financial applications (e.g., debt amortization) recorded "below-the-line".

Table 1 shows the expenditure items included for each category:

Table 1. Expenditure items by rigidity

1. High Rigidity
Pensions
Family and child allowances (including AUH and AUE)
Non-contributory pensions
INSSJP benefits
Personnel Expenses
Current transfers to Provinces (arising from Laws or Agreements)
Current transfers to universities
Interest
2. Medium Rigidity
Non-Personal Services
Social Programs (arising from regulations other than Laws)
Economic Subsidies (energy, transportation, and others)
Consumer Goods (vaccines in the schedule)
Expenditures under specific emergency (COVID-19 in 2020 and 2021)

SOURCE: OPC.

⁸ It is not possible to identify real direct investment related to projects under execution to include it as expenditures with medium rigidity

For **non-rigid or flexible** expenditures, the following items were considered: consumer goods, other current transfers to the provinces, other current expenditures, and capital expenditures, including real direct investment, capital transfers and financial investment.

Rigidities resulting from earmarked resources

To measure the degree to which resources are earmarked, the classification by source of funding is used, which shows expenditures by type or origin of the resources used to fund them. By means of this classification it is possible to distinguish resources that are freely available from those that are earmarked.

Resources with the funding source "National Treasury" are those that are freely available and are therefore considered to be unearmarked. On the other hand, resources are considered as "own or earmarked" when they are collected by an agency and are predetermined for a specific expenditure, in other words, their availability is restricted (high or medium earmarking).

For those expenditures that are debt-financed or funded by grants or transfers made by institutions or individuals outside the National Government, the source is not determined by its legal nature, but is specified by the type of transaction that gives rise to it. This transaction may be implemented through "internal or external credit", or by "internal or external transfers". This classification allows controlling that these resources are effectively used for the purposes that gave rise to the debt, grant, or transfer. In these cases, when the transactions have a specific purpose, the expenditure is highly earmarked; otherwise, it can be grouped as a medium earmarked or unearmarked expenditure.

Two categories of inflexibilities from the funding sources standpoint are considered for the purposes of this report:

1. High earmarking: expenditures funded by resources with specific allocation and contributions to Social Security. The former finance institutions, programs and activities of the National Government as determined by the legislation in force. It includes national resources that, by special laws, have a specific purpose, and non-refundable contributions from individuals, institutions, and foreign organizations with a specific earmarking. Examples are the revenues from the tax on current account debits and credits, the emergency additional tax on cigarettes and the simplified regime for small taxpayers, which are earmarked 100%, 100% and 70%, respectively, to ANSES (National Social Security Administration); the Wealth tax of which 6.27% goes to the non-transferred provincial pension funds; the special tobacco fund which fully subsidizes tobacco producers; the tax on liquid fuels and carbon dioxide (15.07% to the National Housing Fund, 10.40% to the provinces, 28.69% to the Unified Social Security System, 4.31% to the Water Infrastructure Trust Fund, 28.58% to the Transportation Infrastructure Trust Fund and 2.55% to the Public Transportation Compensation); the tax on electric energy (0.7% for the energy generated by wind power systems that are sold to wholesale markets or used to provide services, 19.86% to the Federal Electric Transportation Trust Fund and 79.44% to the Subsidiary Fund for regional compensation of tariffs to end users and to the Fund for the Development of Electricity in the provinces); import duties, excluding the statistical rate (0.45% to the National Institute of Agricultural Technology, 0.15% to the National Agri-Food Health and Quality Service and 0.05% to the National Institute of Industrial Technology); taxes on audiovisual communication services (25% to the National Institute of Cinema and Audiovisual Arts, 10% to the National Theater Institute, 20% to *Radio y Televisión Argentina Sociedad del Estado*, 28% to the National Communications Entity, 5% to the Office of the Public Defender of Audiovisual Communication Services, 10% for special audiovisual communication projects and support to

community, border and native peoples' audiovisual communication services, and 2% to the National Music Institute).

For fiscal year 2021, this category includes the Solidarity and Extraordinary Contribution, created to mitigate the effects of the COVID-19 pandemic⁹. On the other hand, although the contributions to Social Security fall within the "own resources" and "internal transfers", given their allocation to the payment of pensions and retirement benefits, they are included among the items with the highest earmarking.

2. Medium earmarking: expenditures financed by own resources other than social security contributions. This refers to income received by government agencies from the sale of goods and services, property income, sale of assets, collection of fees, duties, royalties, and funds arising from changes in financial assets. Those agencies may reallocate resources internally, but not to other agencies of the National Government.

The remainder is considered, for the purposes of this report, as freely available resources, in other words, unearmarked. This category includes those expenditures funded by general revenues ("National Treasury"), which are the rest of the revenues of the National Government that are unearmarked and do not relate to the agencies own revenues. It also includes expenditures classified by source of funding: "external transfers", "external credit" and "domestic credit". The "external credit" is considered within this category because it is not possible to identify, during the period analyzed, the amount earmarked for projects to include it in the group considered as highly earmarked. The analysis of resource earmarking for certain expenditures includes both "above-the-line" resources and "below-the-line" financing.

Table 2. Sources of funding by earmarking

High Earmarking
Resources with Specific Earmarking
Own resources (Social Security contributions)
Internal Transfers (Social Security contributions)
Medium Earmarking
Own Resources (without Social Security contributions)
Internal Transfers (without Social Security contributions)

SOURCE: OPC.

The remaining sources of funding are unearmarked or freely available:

Table 3. Sources of unearmarked funding

Unearmarked
National Treasury
External Transfers
External Credit
Internal Credit

FUENTE: OPC.

⁹ Law 27,605 (12/18/20) creates a Solidarity and Extraordinary Contribution, an emergency one-time mandatory contribution, for the purpose of mitigating the effects of the COVID-19 pandemic. As established by the Law, the funds raised by this contribution have a specific allocation.

Budget rigidity arises from both the expenditure and resource components of the budget. This interaction between both types of inflexibilities creates four types of public expenditure categories: a) mandatory expenditures funded with earmarked resources; b) mandatory expenditures funded with general revenues; c) discretionary expenditures funded with earmarked resources; and d) discretionary expenditures funded with general revenues.

This report seeks to determine the rigidity of the National Government Budget and the space that would be available for the reallocation of resources (category d: discretionary expenditures funded with general revenues). To this end, National Government expenditure is disaggregated according to its different degrees of rigidity and earmarking, and the interaction of both types of inflexibility is shown for fiscal years 2010 to 2021, to determine which are the flexible expenditures funded with freely available resources¹⁰.

Evolution of expenditures by rigidity 2010-2021

Figure 1 shows the share in Gross Domestic Product (GDP) of National Government expenditures

In 2021, rigid expenditures of the National Government are equivalent to approximately 13.8% of GDP.

according to their degree of rigidity. Expenditures with high rigidity increased steadily between 2010 and 2016, from 12.2% to 17.8% of GDP, and between 2017 and 2019 they remained stable on average at an annual level close to 17.5%. In contrast, medium-rigidity expenditures grew

to a lesser extent, from 4% in 2010 to 5% of GDP in 2016, and then fell to 2.5% of GDP in 2019. Finally, the non-rigid expenditures on which there is room for reallocation or reduction increased from 3.6% in 2010 to 4.9% in 2014, and then declined steadily to 1.9% of GDP in 2020.

Between 2010 and 2016, total expenditure grew by 6.2 percentage points (p.p.) of GDP and, of this variation, 90% was explained by the growth of high rigidity expenditures, while the rest was the result of the increase in medium rigidity expenditures. Between 2016 and 2019, public expenditure fell by 4.4 p.p. of GDP, 56.8% of which was the result of the fall in medium rigidity expenditures and 29.5% of the contraction in non-rigid expenditures, as the decrease in high rigidity expenditures accounted for only 6.8% of the total fall. Finally, between 2019 and 2021, because of the COVID-19 pandemic, medium rigidity and non-rigid expenditures grew by 2.9 p.p. and 0.7 p.p., respectively, while high rigidity expenditures fell by 3.6 p.p. of GDP.

An expenditure projection prepared by the OPC¹¹ was used for fiscal year 2021.

¹⁰ Tax expenditures and off-budget funds are not considered in this analysis.

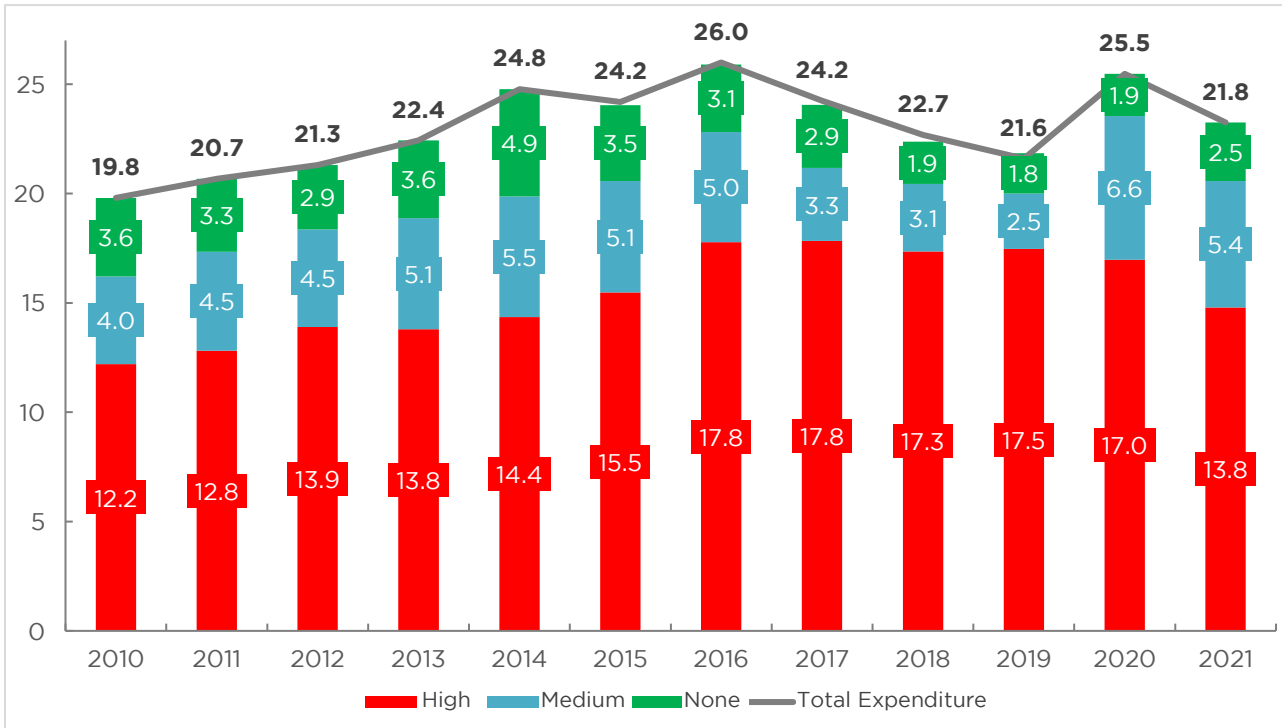
¹¹ For further details on the methodology used, see OPC report at: <https://www.opc.gob.ar/ley-de-presupuesto/descripcion-general-del-contenido-del-proyecto-de-ley-de-presupuesto-2022-de-la-administracion-nacional/>.

Does not include Necessity and Urgency Decree 809/21 which increases the budget by ARS1,255,887 million. For further details see OPC report at:

<https://www.opc.gob.ar/modificaciones-presupuestarias/analisis-de-modificaciones-presupuestarias-de-la-administracion-nacional-noviembre-2021/>

Figure 1. Expenditures by rigidity in terms of GDP

2010-2021, as % of GDP

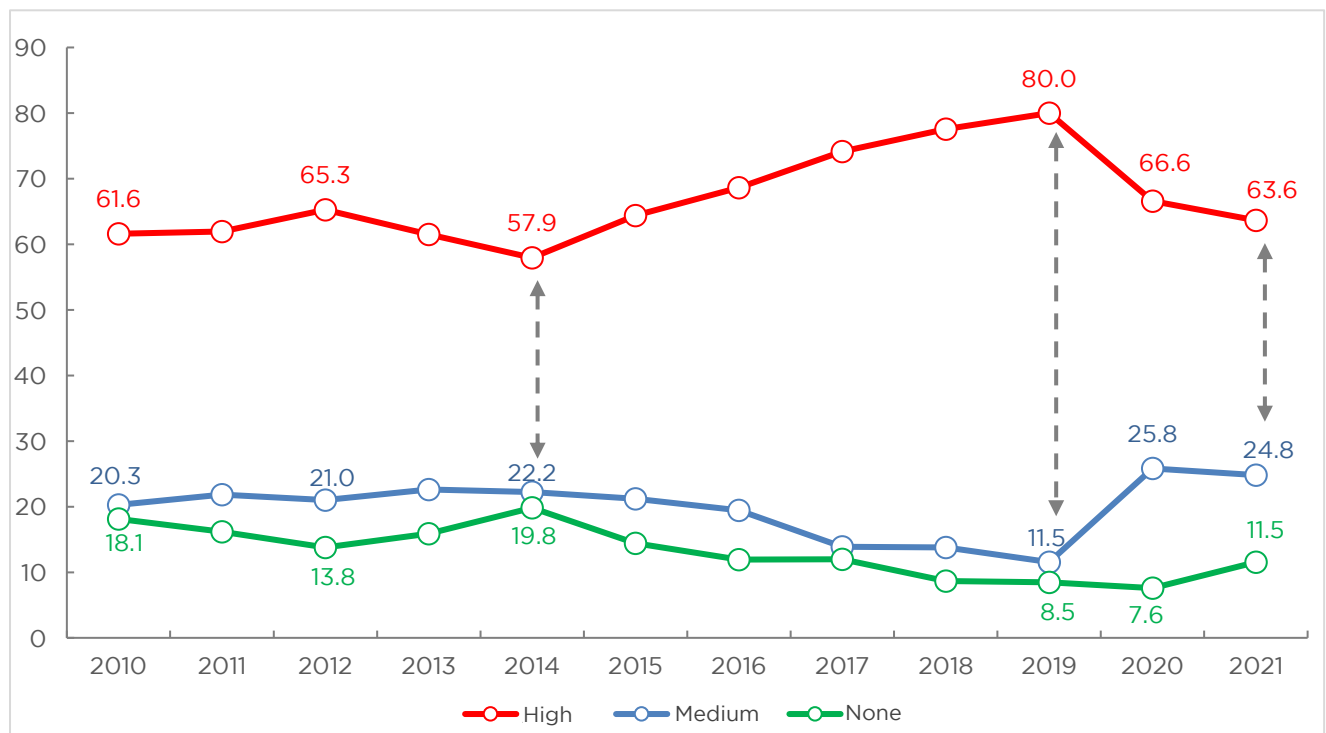


GDP 2021: OPC estimate.

SOURCE: OPC, based on own estimates, E.Sidif and INDEC.

Figure 2. Expenditures by rigidity in terms of total expenditure

2010- 2021, as % of total expenditure



SOURCE: OPC, based on own estimates and E.Sidif.

Figure 2 shows, for the years 2010 to 2021, the share in total expenditure of items grouped according to their degree of rigidity. Although expenditures with high rigidity and without rigidity reached an annual average of 66.9% and 13.2% of total expenditure, respectively, three time periods with different trajectories in each one can be identified. Between 2010 and 2014, expenditures with high rigidity averaged 61.7% of total expenditure per year; expenditures without rigidity 16.8% and expenditures with medium rigidity the remaining 21.6%. However, between 2015 and 2019 there was a sustained increase in the share of high rigidity expenditures, reaching an annual average of 72.9% of the total, while the share of non-rigid and medium rigidity expenditures fell to an annual average of 11.1% and 16.0%, respectively. Finally, in the last two years, because of public policies implemented to address the health and economic emergency caused by the COVID-19 pandemic, the share of medium rigidity expenditures increased from 11.5% in 2019 to 25.8% in 2020 and 24.8% in 2021. Likewise, non-rigid expenditures increased 3.1 p.p. from 2019 to 2021. On the other hand, the share of high rigidity expenditures fell to an annual average of 65.1% of the total. However, the share of non-rigid expenditures is still well below the ratios recorded at the beginning of last decade.

An analysis of the main components of expenditure according to each degree of rigidity is described next, considering the main events that took place during the period under analysis.

High rigidity expenditures

Social benefits are the main component of the high rigidity expenditures group. Within this group,

In 2021, slightly more than half of the high rigidity expenditures were for pension benefits (52.3%), 3.3 p.p. above the average from 2010 to 2020.

expenditures on pensions represented the largest relative share, with an average of 49.3% of high rigidity expenditures during 2010 to 2021. This item includes pension benefits from the general regime, special regimes, and payments to retirees and pensioners from the armed and security

forces. Expenditure on pensions under the general regime is the most significant component of this item. Pension benefits of the general regime are automatically updated through pension mobility, and the rest of the regimes are updated based on increases in the wages of active workers. Currently, more than half of the expenditures with high rigidity are for pension benefits (52.3%), which is 3.3 p.p. above the average for the years 2010 to 2020.

Table 4. Evolution of high rigidity expenditure

2010- 2021, as % of total expenditure

Item	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021e
Social benefits	61.4	60.3	62.5	66.2	62.6	64.7	57.7	62.6	59.7	58.0	67.1	67.9
Pensions	48.4	47.3	49.6	52.1	48.7	50.8	44.9	49.7	47.5	46.3	53.6	52.3
Family allowances	8.1	7.7	6.7	7.2	7.2	7.1	7.4	7.5	7.3	7.0	8.4	9.0
Non-contributory pensions	4.9	5.3	6.3	6.9	6.7	6.8	5.5	5.4	4.9	4.7	5.2	5.3
INSSJP benefits								0.1	0.03	0.02	0.01	1.2
Personnel expenses	18.1	17.2	17.3	17.8	18.1	17.6	15.0	14.3	12.9	11.8	12.5	14.5
Transfers to provinces	2.6	1.8	1.3	1.0	0.8	0.8	2.6	1.9	1.9	2.0	2.5	3.1
Transfers to universities	6.2	6.0	5.8	5.9	5.6	5.3	4.4	4.6	4.2	3.9	4.4	4.8
Interest	11.6	14.8	13.1	9.0	12.9	11.6	20.3	16.6	21.2	24.3	13.5	9.7
Total High Rigidity	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

SOURCE: OPC, based on own estimates and E.Sidif.

The second most important component of social benefits is family allowances, with an annual average of 7.5% of expenditures with high rigidity. These allowances include the contributory ones for active and inactive workers and those of the National Public Sector, and the non-contributory benefits such as the Universal Child Allowance and Pregnancy Allowance (AUH and AUE). In 2015, Law 27,160 was enacted, which provided for automatic mobility also for family allowances. During the period under analysis, the share of these expenditures in 2021 stands out, when they reached their highest share during the entire series analyzed¹².

Within rigid expenditures, the last two items that comprise social benefits are non-contributory pensions and INSSJP benefits, which showed average shares of 5.6% and 0.3%, respectively.

Next in order of importance, in terms of relative weight, are personnel expenses, which on average accounted for 15.6% of total rigid expenditures during the period analyzed. There was a 3.6 p.p. drop between 2010 (18.1%) and 2021 (14.5%). Expenditure on government employees' wages is adjusted through the National Sector bargaining agreements and may have increases or decreases depending on the number of paid employees.

Debt interest payments reached an annual average of 14.9% of high rigidity expenditure, but showed uneven trajectories during the period under analysis, largely explained by the different financing policies. In 2013, interest on long-term foreign currency debt decreased because of greater relative financing in the domestic market and within the public sector. In 2016, the share of interest grew to 20.3%, implying a rise of 8.1 p.p. above the average of the previous 6 years, mainly because of higher financing in international markets. During the last two years of the series, the weight of debt interest payments decreased, driven by lower payments accrued in foreign currency, and by the reduction of the interest rate reached in the last debt restructuring. In 2021, this item accounted for 9.7% of total rigid expenditure, which is equivalent to a drop of 5.6 p.p. with respect to the average for 2010 to 2020, a level comparable to that of 2013.

Transfers to universities, which are accrued almost exclusively for the payment of teaching and non-teaching wages, reached an annual average of 5.1% of total high rigidity expenditures from 2010 to 2021. A drop in their share in 2019 stands out (3.9%), followed by a recovery in 2021 (4.8%). In the current fiscal year, expenditures related to wages (personnel expenses and transfers to universities) account for 12.3% of total expenditure.

The last component of rigid expenditures is composed of current transfers to provinces by special laws, which reached an annual average of 1.9% of high rigidity expenditures. During 2016, there was an increase mainly because of higher transfers from the Treasury to the provinces for the gradual withdrawal of 15% of the primary sharing allocated to ANSES. In 2020 and 2021, the performance of this component of current expenditure were influenced by transfers to the Province of Buenos Aires for the Fiscal Strengthening Fund and transfers to the Autonomous City of Buenos Aires (CABA) because of the regulation of Law 27,606, which provided for the transfer of certain law enforcement powers and functions.

¹² In 2021, Executive Order 719 provided for the doubling of the family allowance for registered workers and those under the Simplified Regime for Small Taxpayers (*monotributistas*).

Medium rigidity expenditures

Within this classification, economic subsidies constitute the item with the highest relative weight and reached an average of 61.8% of the total in the analyzed period. In 2014, subsidies accounted for 70.0% of medium rigidity expenditures (8.2 p.p. above the average of the series), mostly driven by energy subsidies. Transfers to *Compañía Administradora del Mercado Mayorista Eléctrico S.A. (CAMMESA)* and *Energía Argentina S.A. (ENARSA)* reached 55.1% and 31.2% of total energy subsidies, respectively. In 2017 they contracted as a consequence of lower transfers to ENARSA, whose share decreased by 21.4 p.p. from 2014 to 2017 (9.8%). During 2018 and 2019, energy subsidies gained ground again, but in 2020 and 2021 they decreased their share (2020: 24.0% and 2021: 38.5%) mostly because of expenditures related to social programs, which increased from an average of 20.2% for the term 2010-2019, to 44.8% in 2020 and 32.0% in 2021 as of the health crisis.

Economic subsidies averaged 61.8% of total medium rigidity expenditures during the term 2010-2021. Energy subsidies are the most significant.

Table 5. Evolution of medium rigidity expenditures

2010-2021, as % of total expenditure

Item	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021e
Social benefits	21.9	17.8	18.5	18.0	17.3	20.7	20.7	22.2	21.0	24.5	46.1	33.4
Other programs	21.9	17.8	18.5	18.0	17.3	20.7	20.7	22.2	21.0	24.5	44.8	32.0
INSSJP benefits											1.3	1.4
Subsidies	62.1	67.8	67.1	65.7	70.0	65.3	68.2	59.4	64.1	58.6	40.4	52.9
Energy	35.3	43.1	43.0	46.9	51.4	46.0	50.7	36.0	40.9	41.7	24.0	38.5
Transportation	18.6	20.9	20.9	16.3	16.4	16.8	15.0	20.7	20.9	14.6	7.3	8.4
Other functions	8.2	3.8	3.2	2.6	2.2	2.5	2.5	2.7	2.3	2.2	9.0	6.0
Goods and Services	16.1	14.4	14.4	16.3	12.7	14.0	11.1	18.4	14.9	17.0	6.6	13.4
Transfers to provinces											6.4	
Capital expenditures											0.6	0.4
Real Direct Investment												0.1
Capital transfers											0.6	0.3
Total Medium Rigidity	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

SOURCE: OPC, based on own estimates and E.Sidif.

During the last two years, the social programs included exceptional expenditures to mitigate the effects of the economic and health emergency caused by COVID-19 such as the Emergency Family Income (IFE), Supplementary Wages (AETP), *Potenciar Trabajo* program, Food Policies, among others. The aid granted through FOGAR and FONDEP is included within the other functions of economic subsidies, whose share also increased during 2020. As for investment expenditures (capital expenditures), the construction of modular hospitals is the main item considered. In transfers to provinces, financial assistance and contributions from the National Treasury were also part of the transfers during the pandemic, as well as INSSJP benefits. The economic measures implemented by the National Government to offset the effects of COVID-19, implied during 2020 an additional expenditure of around ARS921,623 million, equivalent to 13.2% of the total expenditure accrued in

the year, and 3.4% of GDP. As of November 2021, these expenditures accumulated ARS414,813 million with an execution of 84.8% of the allocated budget appropriation¹³.

Finally, the last item of medium rigidity expenditures is composed of payments for goods and services that include exclusively non-personal services, which reached an annual average of 14.1% of the total. In 2020, the effects of the health crisis and isolation are evident, with a contraction in this item of 8.3 p.p. with respect to the average of previous years.

Flexible expenditures

Finally, within flexible or non-rigid expenditures, capital expenditures are the most important item, with an annual average share of 73.2%. In 2014, a higher share (85.0%) was observed with respect to the rest of the years analyzed, which is mainly the result of the increase in the share of financial investment, attributable to the purchase of shares of the company YPF S.A.¹⁴.

In 2014, capital expenditures reached a share of 85.0% of total flexible expenditures, the highest during the period under analysis.

Tables 6. Evolution of flexible expenditures

2010- 2021, as % of total expenditure

Item	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021e
Goods and Services	5.7	6.2	6.7	6.3	4.7	6.8	5.5	6.4	7.1	7.0	7.9	5.9
Current trans. to provinces	13.0	11.3	9.9	8.9	6.1	10.2	19.2	22.4	17.4	13.8	20.5	14.1
Other current expend.	7.1	6.8	6.8	5.0	4.2	5.7	7.4	6.6	10.1	8.5	6.8	3.9
Capital expenditures	74.2	75.7	76.6	79.9	85.0	77.3	67.9	64.6	65.5	70.8	64.8	76.1
Real Direct Investment	19.4	24.6	20.3	19.7	13.5	16.1	17.5	19.4	23.0	38.6	18.7	24.5
Capital Transfers	52.9	50.5	55.5	54.2	48.4	55.7	42.8	41.1	36.7	24.6	36.0	43.6
Financial Investment	2.0	0.6	0.8	6.0	23.1	5.5	7.6	4.1	5.7	7.5	10.1	8.0
Total Flexible Expenditures	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

SURCE: OPC, based on own estimates and E.Sidif.

The remaining components of capital expenditures, real direct investment and capital transfers, compose public investment¹⁵. A decrease in the share of both items over total non-rigid expenditures in 2014 stands out, which is mostly attributable to the increase in financial investment. Likewise, a reduction in public investment executed between 2016 and 2018 because of the expenditure reduction policy implemented in that period and another contraction observed in 2020, because of the health emergency, are also noteworthy. Although procurement of capital goods increased in

¹³ More details at:

<https://www.opc.gob.ar/ejecucion-presupuestaria/analisis-de-la-ejecucion-presupuestaria-de-la-administracion-nacional-ano-2020/> and <https://www.opc.gob.ar/ejecucion-presupuestaria/analisis-de-la-ejecucion-presupuestaria-de-la-administracion-nacional-noviembre-2021/>

¹⁴ Refers to the purchase of 51% of the capital stock of YPF S.A. and YPF GAS S.A. (Law 26,932) for ARS40,003 million, equivalent to 20.9% of capital expenditures during 2014. Source: 2014 National Government Financial Report.

¹⁵ For the purposes of this report, public investment is the sum of real direct investment and capital transfers. The fiscal year 2019 includes an equity regularization of prior years' records, which refers to expenses incurred in advances to suppliers (DNU 740/2019).

2020, driven by the purchase of sanitary and laboratory equipment, they failed to offset the fall in investment projects because of delays in execution, affected by the pandemic. Finally, in 2021 (68.1%) a recovery of public investment can be observed with an increase of 1.8 p.p. in its share, compared to the average of previous years (66.3%).

Finally, other current expenditures, which include the rest of the disbursements mostly related to the core activities of government agencies, averaged 6.6% in the period under analysis. The level reached in 2018 (10.1%) stands out, since mostly the amounts executed for core activities increased.

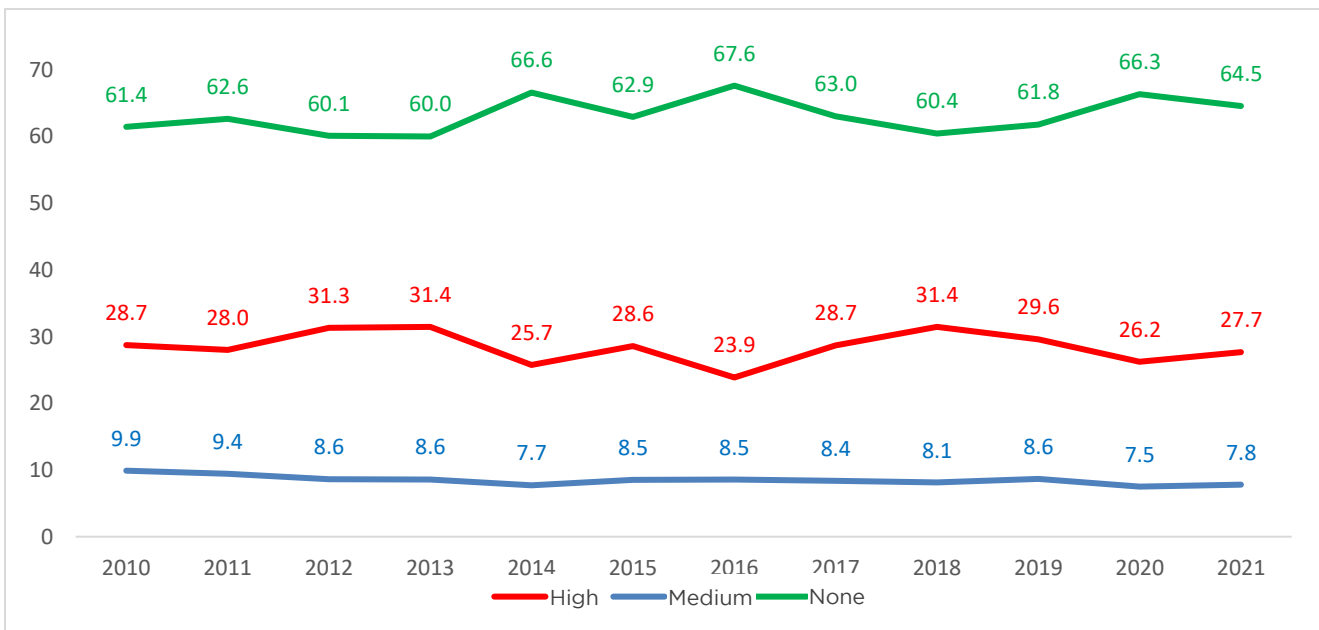
Evolution of expenditures by resource earmarking 2010-2021

Figure 3 shows the degree of resource earmarking for certain expenditures and measures the percentage of earmarking for fiscal years 2010 to 2021.

Resources that are not earmarked for a specific purpose and are freely available are the ones that have the highest share in total expenditure, with an average of 63.1%. During 2014, 2016, 2020 and 2021, these expenditures accounted for above-average proportions. On the other hand, those resources with high earmarking, which include expenditures funded by resources with specific allocation and revenues from contributions to Social Security, had an average share of 28.4% in the years studied. Because of their relative weight, the proportions reached during 2014 and 2016, below the average, stand out. Finally, those resources with medium earmarking show an evolution that averages 8.5% of total expenditure. These resources with medium earmarking to certain expenditures experienced a drop of close to 1.0 p.p. in the last two years.

Figure 3. Expenditures by earmarked resources in terms of total expenditure

2010- 2021, as % of total expenditure



SOURCE: OPC, based on own estimates and E.Sidif.

Evolution of expenditures by rigidity and degree of earmarking 2010, 2015 and 2021

Table 7 classifies expenditures according to their degree of rigidity and earmarking for the years 2010, 2015 and 2021, with the purpose of identifying the evolution of the National Government’s ability to reallocate resources or reduce expenditures over the last decade.

The quadrant that reflects the greatest discretion or flexibility to reallocate resources or reduce expenditure items refers to non-rigid and unearmarked expenditures. This group includes expenditures on consumer goods, capital expenditures, transfers to the provinces and other current expenditures, funded with unearmarked resources. Non-rigid and unearmarked expenditures decreased in the period considered, from 16.6% of total expenditure in 2010, to 13.7% in 2015 and 9.8% in 2021. This reflects that, of the total budget, the National Government only has the margin to reallocate or reduce 10% of public expenditure.

If we consider medium rigidity expenditures (economic subsidies, social programs, and non-personal services) that are also unearmarked as the second expenditure component that can be used to reallocate resources or reduce expenditures, even though with certain limitations and costs, its share increased from 17.2% in 2010 to 18.5% in 2015 and 22% in 2021.

On the other hand, the three quadrants of rigid expenditures with all sources of funding, in which the government has no discretion, its share increased from 61.6% in 2010 to 64.4% in 2015 and in 2021 it remained at a level very close to that of 2015.

Finally, the five quadrants that comprise high rigidity expenditures for all funding sources and medium rigidity with high and medium earmarking, their share increased from 64.6% in 2010 to 67.0% in 2015 and 67.1% in 2021.

Table 7. Expenditures by rigidity and resource earmarking

2010, 2015, and 2021, as % of total expenditure

2010					2015					2021				
Rigidity	Earmarking			Total	Rigidity	Earmarking			Total	Rigidity	Earmarking			Total
	High	Med.	None			High	Med.	None			High	Med.	None	
High	27.7	6.3	27.5	61.6	High	28.0	5.7	30.7	64.4	High	25.0	6.5	32.7	64.2
Medium	0.3	2.7	17.2	20.3	Medium	0.2	2.4	18.5	21.2	Medium	2.0	0.9	22.0	24.9
Flexible	0.6	0.9	16.6	18.1	Flexible	0.4	0.4	13.7	14.4	Flexible	0.7	0.4	9.8	10.9
Total	28.7	9.9	61.4	100.0	Total	28.6	8.5	62.9	100.0	Total	27.7	7.8	64.5	100.0

SOURCE: OPC, based on own estimates and E.Sidif.

References

Alier, Max. (2007). "Measuring Budget Rigidities in Latin America," IMF Working Paper, forthcoming, International Monetary Fund, Washington, DC.

Cetrángolo, Oscar, Juan Pablo Jiménez, Ramiro Ruiz del Castillo. (2010). Rigidities and Fiscal Space in Latin America: A Comparative Case Study. Macroeconomía del Desarrollo Serie. Santiago, United Nations.

Fanelli, J.M. y Jiménez, J.P. (2009). "Crisis, volatilidad y política fiscal en América Latina" [*Crisis, volatility and fiscal policy in Latin America*], in Kacef, O. y Jiménez, J.P. compilers (2009), "Políticas Macroeconómicas en tiempos de crisis: opciones y perspectivas" [*Macroeconomic Policies in times of crisis: options and prospects*], CEPAL, Santiago de Chile.

Ministry of Economy (2016). "El Sistema Presupuestario de la Administración Nacional de la República Argentina" [*The Budget System of the National Government of the Argentine Republic*].

Ministry of Economy (2016). "Manual de Clasificaciones Presupuestarias para el Sector Público Nacional" [*Budget Classifications Manual for the National Public Sector*].

Ruiz del Castillo, Ramiro (2017). "Inflexibilidad en el Presupuesto de la Provincia de Buenos Aires. Mito o realidad sobre los "superpoderes" [*Inflexibility in the Budget of the Province of Buenos Aires. Myth or reality about the "superpowers"*]. ASAP Magazine

Vega, Susana (2005). "Inflexibilidades: Rigideces y Afectaciones Presupuestarias y Otros Aspectos. Experiencia Argentina" [*Inflexibilities: Rigidities and budget earmarks and Other Aspects. Argentine Experience*], XXXII International Seminar on Public Budget, April 25-28, 2005, Lima - Peru.

OPC Publications

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.

www.opc.gob.ar



Hipólito Yrigoyen 1628. Piso 10 (C1089aaf) CABA, Argentina.
T. 54 11 4381 0682 / contacto@opc.gob.ar

www.opc.gob.ar