

## **The INTOSAI Public Debt Committee meeting**

5-6 June, 2006  
Buenos-Aires, Argentina

### **“The current problems of contingent debt in Russia”**

Dear Colleagues,

Thank you for the opportunity to share with you our thoughts on urgent and important issues dealing with public debt and its auditing. Various aspects of public debt legislative regulation and audit of the government liabilities elaborated by the Committee, are also very important for the Accounts Chamber of the Russian Federation.

Social and economic structure changes at the beginning of 90s in Russia followed by the crises in the world and in the Russian (August of 1998) economy resulted in turning the national debt issue into a very critical one for our country. At present the debt management issues deserve special attention. Due to this fact, as well as to favorable economic conditions, we succeeded in stabilizing and improving the situation.

There are specialized services dealing with the state debt management issues in the State Duma of the Russian Federation as well as in the Government, the Ministry of Finance and in the Central Bank. In accordance with the Law the Accounts Chamber of the Russian Federation exercises control over the national internal and external debt management and their servicing, as well as over legality, rationality and efficiency of utilization of the loans, received by the Russian Government from foreign states and finance entities. Reports on the results of the control, expert and analytical studies are forwarded to the Federation Council and State Duma. The Accounts Chamber has more than once submitted its proposals in respect to the necessity to improve the legislation, including the parts relating to providing government guarantees and settling accounts on guarantee commitments. Information on control, expert and analytical studies may be found on the Accounts Chamber web-site and is available to the wide audience.

In recent years the policy targeted at advanced repayment of the national external debt and at maintenance and development of the domestic equity market is being pursued in the Russian Federation.

Over a period of several years the Russian state debt to GDP ratio is gradually decreasing: by January 1, 2006 this ratio dropped to 14,2 %.

On January 1, 2006 the national debt volume of the Russian Federation made up 106,9 bln US Dollars<sup>1</sup>. In the year of 2005 alone its volume dropped by 28 %.

Furthermore, it may be also mentioned that due to the pre-term repayment of the external debt of the Russian Federation to the Paris Club in 2005 we witness a significant increase of the marketable debt<sup>2</sup> share in the gross volume of the national external debt of the Russian Federation from 37 % up to 51 %.

At the same time, I would like to recur to the subject of the “contingent debt” in my statement; since at present these questions are of great practical interest for us.

The “contingent debt” issues in the Russian Federation arise mainly during the drafting of the Federal Budget for the following year when specific categories of the “explicit contingent” debentures are calculated. First of all, these are the public guarantees commitments of the Russian Federation which are included in accordance with the Budget Code of our country into the concept of “state debt of the Russian Federation”. That’s why during the drafting of the budget the planned expenditures on the above commitments are estimated. Besides, recoverable costs arising from foreign exchange rates fluctuations are forecasted. Draft Budget Executive Summaries and Addendums to the Federal Budget Bill for the coming financial year contain the corresponding information. Thus, “explicit contingent debt” estimates are reflected in the Federal Budget. In accordance with the Law every year the Accounts Chamber provides its opinion on the Draft Budget.

As regard to the “implicit contingent debt”, particular reserves are envisaged in the Federal Budget for its reimbursement, while yet it is rather difficult to appraise such expenses, though it seems to us that these matters should not be neglected.

It has been already mentioned, that the volume of the state external debt of the Russian Federation is gradually being brought down. At the same time the Russian national state debt repayment is accompanied by increase of loan borrowings on the part of banks and non-financial institutions, including the companies with partial or 100 % state participation. That’s why the external debt of the Russian Federation, calculated by the Central Bank of Russia on the basis of the criteria of the International Monetary Fund, increased in 2005 by 20,5 % and made up 258,5 bln US Dollars as effective on January 1, 2006.

According to the Russian practice, due to different factors such arrears have been converted into the state debt. For example, the so-called commercial debts were included into the external state debt with subsequent transformation into Eurobonds; indebtedness on centralized credits and accrued interest of agroindustrial complex enterprises and organizations providing shipments of

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<sup>1</sup> On the basis of the data of Finance Ministry of Russia at the rate of CB of RF on 31.12.2005

<sup>2</sup> public securities

supplies to the Extreme North regions, and other types of arrears were included into the state domestic debt.

Growth of corporate arrears volume, including the arrears at the external market, may lead to the situation when the state will have to regulate arrears through transformation into the state debt due to different reasons, such as the necessity to support the stock market, country credit rating, and preservation state assets share in the corporate capital, etc.

Similar situation may arise with the liabilities of the subjects of the Russian Federation.

Taking into consideration the abovementioned factors of the debt risks, our opinion is that the activities on monitoring different categories of the contingent debt are of great urgency.

At the same time, we must point out that there are certain problems hindering the process of control in the field of “contingent debentures”. First of all, imperfection of the current legislative basis on “contingent debts” matters should be mentioned. The concept of “contingent debts” is not defined in the legislation of our country. Hence, there is another problem, stemming from this – legislation limitations in the field of control over “contingent debt”, since the current regulatory basis does not take account all its types.

Risks management in relation to some categories of the contingent debt is executed by certain ministries and state bodies within the framework of their powers and functions, however there is a lack in centralized control over the “contingent debt”. To some extent it may be also explained by insufficient experience of the Russian executive authorities in matters of the national debt management as a whole and “contingent debt” in particular.

In view of the abovementioned, the further activities of the Accounts Chamber, in our judgment, should be directed at promotion of forecasting the “contingent debt” incurring and estimation of its volume as well as at elaboration of its minimization mechanisms and at increasing the transparency of the state debt policy.

Therefore I would like to once again stress the primary concern of the matters considered by the INTOSAI Public Debt Committee including the ones relating to “contingent debt” and its control and the extrinsic value to the Accounts Chamber of the Russian Federation of the recommendations elaborated by the Committee.

Thank you for your attention.