



INTOSAI Public Debt Working Group Meeting

Nadi, Fiji Islands

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Some public dept audit problems in Russian Federation

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Dear Chairman!

Dear members of the Working Group!

It is my pleasure to introduce this overview of the public debt auditing process in Russian Federation and have a possibility to share some approaches to this activity with my counter parts. The increasing concern about the public debt audit problems that are familiar to many members of the WG is one of the major items on our agenda. Chiefly, we're greatly interested in your thoughts about this subject which we hope you will express.

In recent years, the level of the Russian Federation public debt has been considerably reduced. The results are reassuring and on the surface this seems to be an impressive performance, but there are major problems. Nowadays, our country aims to optimize the public debt and state assets management and adopts that goal as extremely relevant. In practice, the achievement of it is based on a wide range of the decisions. Its brief is to:

- provide economically well-grounded volume and acceptable structure of the Russian public debt;
- cut the cost of the debt service;
- improve management procedures;
- enhance constantly the efficiency of the Russian state assets management abroad.

The Government set these goals for a fixed period of time. As a final result by 2011 the Russian Federation public debt level should be reduced to 8, 7 % against gross national product, the public debt volume should be turned down to 39, 2 % against the 2004 level. The governmental activity is also targeted to increase the internal debt share in the Russian Federation public debt in whole.

It would be well to notice, that the Debt strategy of the Russian Federation is grounded on the fundamentally new principles of the federal budget preparation and performance as compared with the previous decade of years. This policy seeks to obtain sufficient, appropriate evidence to reduce the dependence of the national economy from the developing and exporting of natural resources. First of all, it means the oil and natural gas exports. Besides, in carrying out these improvements in quality of public debt service, the Government may shape the



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National Reserve Fund, fill it up and diversify using, among other measures – more active internal loans.

The existing debt situation in Russia is reflected in developing of two opposite tendencies and the contradiction between them is expanding fast. On the one hand, there is a consistent and wise reduction of the state external debt volume. On the other – the increasing indebtedness of the Russian economy residents as a result of their more active borrowed capital formation from abroad.

By January the 1st, 2008, the external public debt volume of the Russian Federation amounted to \$44, 9 billion while for the 1st of January, 2002, it had accounted for more than \$129, 3 billion. In addition, we have practically paid off with the club creditors on the former soviet debts.

At the same time, according to the Bank of Russia data, the consolidated (national) external debt of the Russian Federation which comprises the indebtedness of all economical sectors debt against non-residents, has increased in 2007 by \$149 billion and has made at the 1st of January, 2008 – almost \$460 billion, from which only \$37, 4 billion fall on the government bodies and \$9, 0 billion – on the monetary and credit regulatory bodies.

Practically, this considerable increasing of the debt falls on private loans sector entirely. This is the reality as such. It is already impossible, nowadays, to exclude the situation when the Government would be forced to undertake obligations of the private sector debts adjustment with a purpose to support the stability on the stock markets, or national credit rating, or for any other objective reasons.

In this connection the creation of the effective system for monitoring of the private sector external debt becomes a more actual problem. The Government has already started the appropriate activity that will focus on the monitoring of the indebtedness and new external loans of the Russian economy residents. The Accounts Chamber of the Russian Federation was much more interested in getting this work done and consistently convinced the Government to move in this direction.

It's evident that the developed situation with the private debt and optimization of the state loans requires new approaches to the wide variety of problems in areas of the public debt audit and Value for Money (VFM) audit of the operations with money market instruments and the strategic audit.

At the same time there are no estimation criteria of the public debt management efficiency and effectiveness in the Russian Federation up to now. There are lacks



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in the debt instruments accounting and the engagements calculation. The federal legislation doesn't examine the issues of the arrearage repayment to the budget by the final borrowers. As the Supreme Audit Institution (SAI) we have to call for stiffer penalties against the borrowers who are responsible for the public funds given to under the Government guarantees.

The internal investment potential of the Russian citizens' savings is used for the state loans in extremely limited way. That's also explained by the state failure to carry out some debt instruments before the population. A number of legal acts approved in this area are suspended because of lack of correspondence with the financial markets reality. There are no key indicators in the Debt strategy of the Russian Federation characterizing the usage of the Government papers in the internal investment market.

In the legislation of the Russian Federation there are no responsibility measures for the administrative decisions in the public debt sphere and there are no criteria approaches for the efficiency estimation of the debt management that can create additional conditions for corruption.

The system of the debt instruments accounting in the Ministry of Finance doesn't provide for the resident/nonresident registration and separate taking into account such categories of the private sector debts as "unforeseen" or "accidental" debt. That couldn't be suitable basis to estimate the corresponding risks of the state loans in the private sector.

In that way, in the conditions of the national public debt reduction, the Accounts Chamber of the Russian Federation accepts new challenges that force it to focus on a new, complex public debt auditing process related to carrying out Value for Money and strategic audits in the sphere of debt.

Well, all institutions like ours need to have a conceptual and practical framework to help them to analyze their current position and then to use that information to prepare for the future. There are many different ways that they can do this. I think that our Working Group is one of them.

We would be extremely grateful to the Working group members if they could submit relevant materials concerning the information on how the given questions are solving in the SAIs which you represent.

I greatly appreciate your attention. Thank you.