



STATE AUDIT OFFICE OF GEORGIA

Role and Challenges of SAIs in Auditing Public Debt



2024 Annual Meeting of the INTOSAI Working Group on Public Debt
June 5-7, 2024 | Baku

Legal Mandate of State Audit Office of Georgia (SAO)

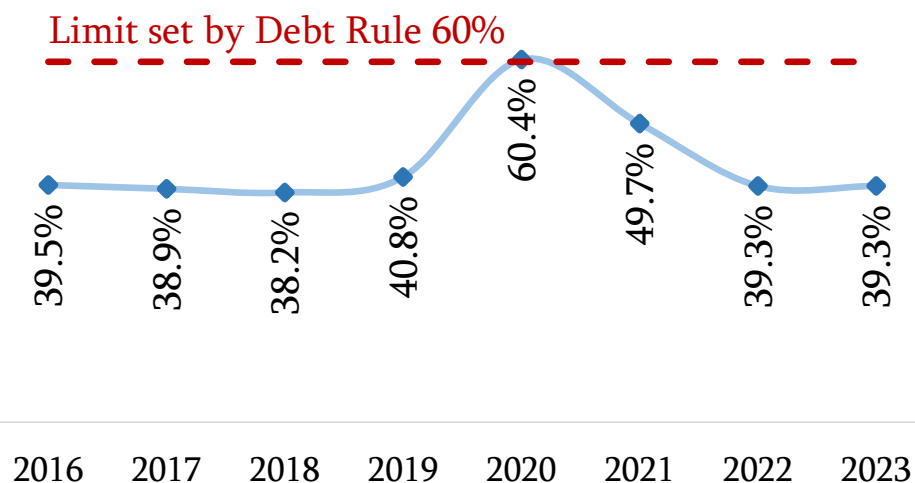
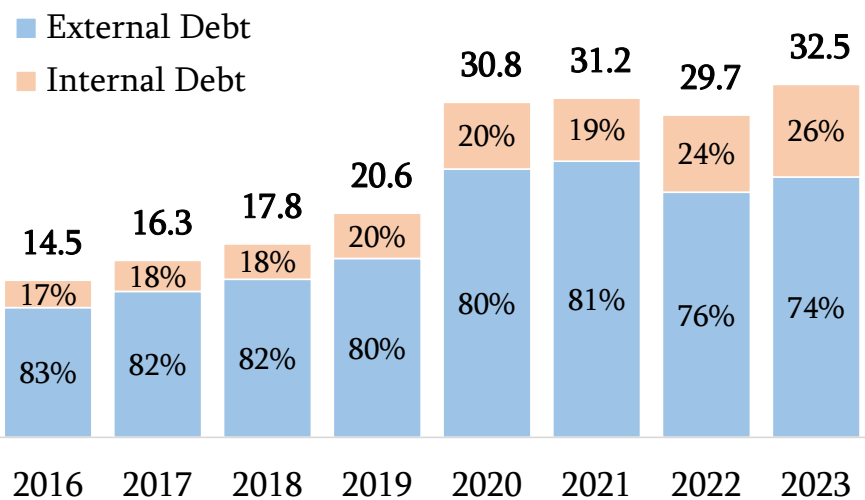
- The mandate of the SAO for auditing public debt is defined by the Organic Law of Georgia on State Audit Office and Budget Code of Georgia
- Organic Law of Georgia on State Audit Office confers exclusive and comprehensive mandate of auditing public debt by SAI Georgia
- The Budget Code of Georgia sets a role of SAI Georgia in budget cycle
- The audit authority of SAI Georgia covers the following topics:
 - Formation of the public debt
 - Management of the public debt
 - On-lending
 - Contractual obligations and loans of the legal entities under private law that are guaranteed by the state

Audit Reports on Public Debt

- SAI Georgia prepares a report on the government's report "On the Annual Execution of the State Budget"
- The report covers the following topics to support debt transparency:
 - Compliance assessment of fiscal rules (including debt rule)
 - Checking actual figures against targets declared in strategic documents (including Debt Management Strategy prepared by the MoF)
 - Quality assessment of DSA prepared by the MoF
 - Analysis of fiscal risks (include contingent liabilities)
 - Analysis of on-lending activities
 - Etc.
- SAO periodically conducts stand-alone performance audits related to government debt management

Government Debt Dynamics in Georgia

- By the end of 2023, the stock of government debt amounted to 32.5 billion Gel (12.1 billion USD)
- External debt share in the total debt is high (73.8% in 2023) which makes the debt stock vulnerable to the exchange rate fluctuation
- Georgian legislation sets a fiscal rule for the sum of Government Debt and PV of liabilities coming from PPP projects. The sum shall not exceed 60% of annual GDP



* Exchange rate (31.12.2023) 1 USD = 2.6894 GEL

General Government Debt Management Strategy

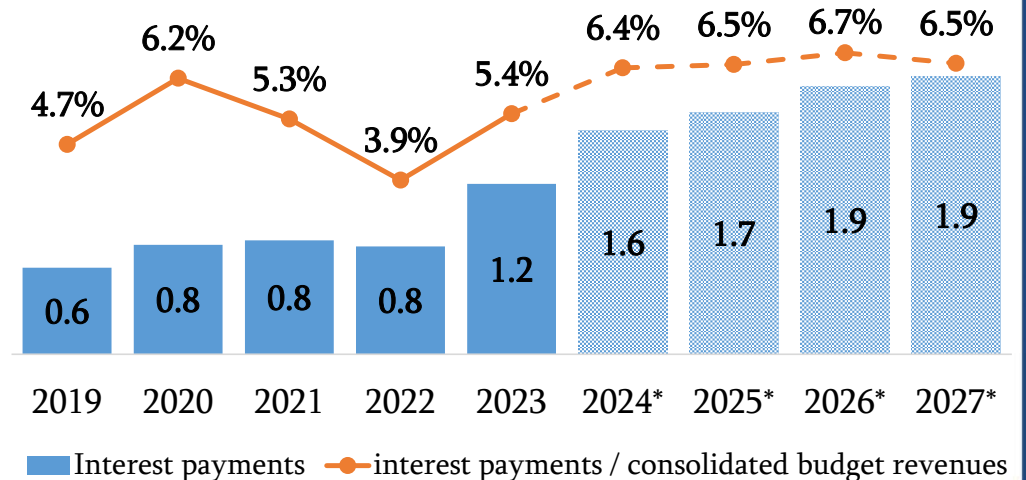
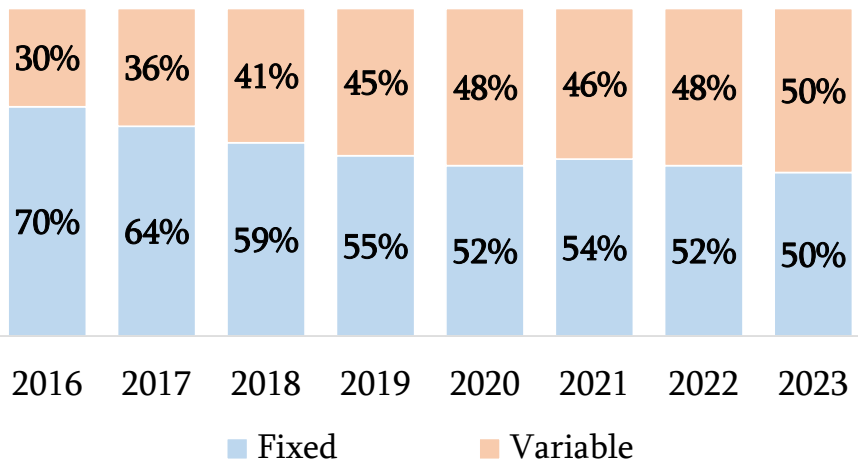
- The MoF of Georgia develops and the government approves the Government Debt Management Strategy (DMS) annually
- The strategy defines the directions of the debt management policy, the main target indicators and sets the plan for their achievement
- From 2024 MoF implemented SAO's recommendation and the current strategy defines the targets based on the General Government Debt instead of Net Debt
- By the SAO assessment, DMS still has some challenges in terms of non-measurability and non-existence of the target indicators

Target Indicators in DMS

Types of Risk	Indicators	Target/Threshold (FY 2023)	Actual (FY 2023)
Solvency Risk	Government debt to GDP ratio	Max. 40.0%	39.2%
Exchange Rate Risk	Share of government's domestic debt into the total government debt	Min. 28.0% (for 2025)	27.3%
Refinancing Risk	Debt maturing within 1 year (% of total) for total government debt	Max. 15.0%	12.2%
	ATM for total government debt	Min. 5.5	7.4
	ATM for government's domestic debt	Min. 3.0	2.9
Interest Rate Risk	Share of fixed-interest external debt in government external debt	Min. 50.0%	50.0%

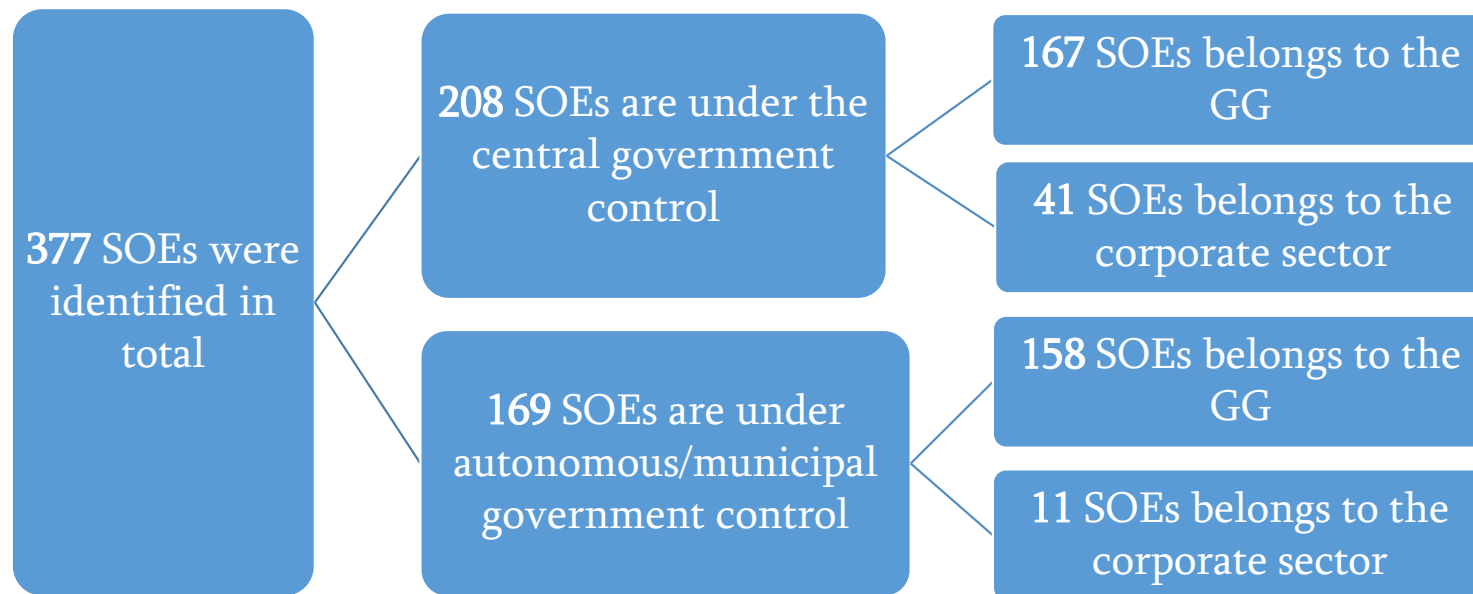
Government Debt Services Costs

- One of the critical part in existing DMS is necessity of detailed analysis of the impact existing policy directions may have on debt service costs:
 - Reassessment of existing limit (min. 50%) on fixed rate debt share in government’s external debt as global monetary policy has a dramatic impact on the debt service costs
 - Introducing debt service cost targets and analysis of potential impact of policy directions on them
- MoF intends to integrate above mentioned issues in the next strategy



Challenges Related to the SOEs

- According to the GFSM 2014, debt of the GG SOEs is part of the public debt in Georgia from 2023
- In 2020, MoF classified the SOEs into 2 sector: General Government (GG) and Public Corporation (PC)
- The results of the sectorisation were the following:



Challenges Related to the SOEs

- By the end of 2023 debt of the GG SOEs amounted to 48.8 million GEL (18.2 million USD)
- Government debt statistics produced and published by the MoF for the 2023 is not complete. Formal mechanisms does not guarantee full accounting of debt of the GG SOEs
- In particular, SAO identified SOEs which had unpaid debt in the end of 2023 in their balance sheet, borrowed during 2023, which was not accounted by the MoF
- SAO issued recommendation about the necessity of additional restrictions/regulations on GG SOE's borrowing authority and role of MoF in the process to guarantee GG debt sustainability and comprehensive accounting

Fiscal Risks Analysis

- To support debt transparency and its sustainability, SAO closely follows sources of fiscal risks as it can dramatically affect the stock of GG debt especially during economic downturn
- Traditionally, MoF used to present the following sources of fiscal risks in the annual Fiscal Risks Analysis (FRA) Statement:
 - State-owned enterprises (SOEs)
 - PPP/PPA
 - Aging population and climate related risks

Contingent Liabilities

- In 2022, SAO identified arbitrage disputes (2.9 billion USD) as a significant source of fiscal risk
- Based on SAO's recommendation, MoF presented the analysis of this disputes in the FRA Statement from 2023
- Also SAO identified Deposits Insurance Scheme as a source of fiscal risk
- By the end of 2023 the volume of insured deposits amounted to 6.9 billion GEL (2.6 billion USD), while the amount of the insurance fund was 193 million GEL (72 million USD)
- SAO expects the analysis of this scheme to be introduced in an upcoming FRA statements for 2025

Challenges

- Audit of government debt management process requires extensive knowledge in different areas (audit standards; tools for debt management; overall capital markets etc.)
- Currently, significant part of capacity building programs related to the government debt management process is conducted by IFIs (IMF, WB etc.) and are invitation based
- Despite the fact that SAO extensively works on public debt related issues, participation in these programs are significantly limited for SAO staff and is mostly focused on MoF staff
- The necessity of access to these kind of capacity building programs for SAIs were also identified into a research project published by WGPD in 2022

THANK YOU!

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