



# Financial Settlement Status and Fiscal Soundness Analysis of Public Institutions in Fiscal Year 2019

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## Overview of fiscal settlement status of public institutions in fiscal year 2019

- The Ministry of Strategy and Finance discloses the financial settlement results of 340 public institutions in~ the fiscal year 2019<sup>1)</sup>(June 29, 2020).
  - The Ministry of Economy and Finance announced that the total assets and total liabilities of public institutions in fiscal year 2019 were KRW 861.1 trillion and KRW 525.1 trillion respectively. Compared with the figures in 2018, assets have increased by KRW 32.8 trillion and liabilities by KRW 21.4 trillion.
    - According to the Ministry of Economy and Finance, this increase in public institutions' assets and liabilities is mainly due to increased investment in power generation facilities of Korea Electric Power Corporation and its subsidiaries, increase in loans by Korea Housing Finance Corporation, construction of rental assets by Korea Land and Housing Corporation, and investment in highway construction by Korea Expressway Corporation.
  - Since 2016, net income has been continuously decreasing, reaching KRW 0.6 trillion in 2019.
    - Korea Electric Power Corporation recorded a net loss of ΔKRW 1.2 trillion in 2018 and ΔKRW 2.3 trillion in 2019. Meanwhile, the National Health Insurance Service recorded ΔKRW 3.9 trillion trillion and ΔKRW 3.6 trillion in net losses in 2018 and 2019, respectively.

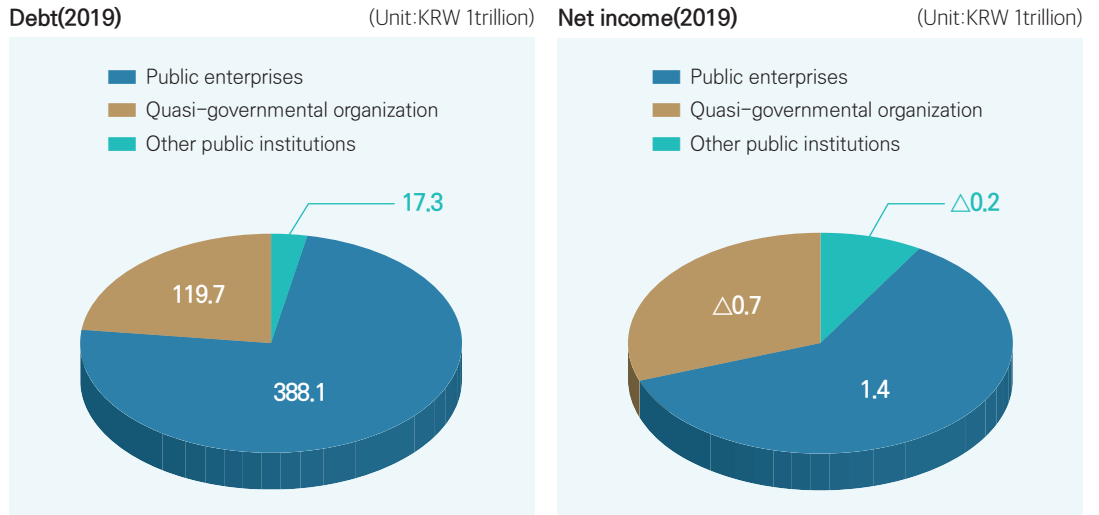
**[Table 1] Asset, debt and net income status of public institutions(2015-2019)**

(Unit: KRW 1 trillion, %)

	2015	2016	2017	2018(A)	2019(B)	Difference (C=B-A)	Difference rate (C/A)
Asset	781.1	799.8	810.1	828.3	861.1	32.8	4.0
Debt	504.7	500.4	495.2	503.7	525.1	21.4	4.2
Net Income	12.5	15.4	7.2	0.7	0.6	Δ0.1	Δ14.3

Source: Ministry of Economy and Finance, "Public Institution Management Information Disclosure in 2019", press release, 2020.4.29.

1) The Ministry of Economy and Finance designated a total of 340 public institutions in 2020(adding 1 more institution to the 2019 list), and the results of these public institutions' financial settlement in the fiscal year 2019 were disclosed

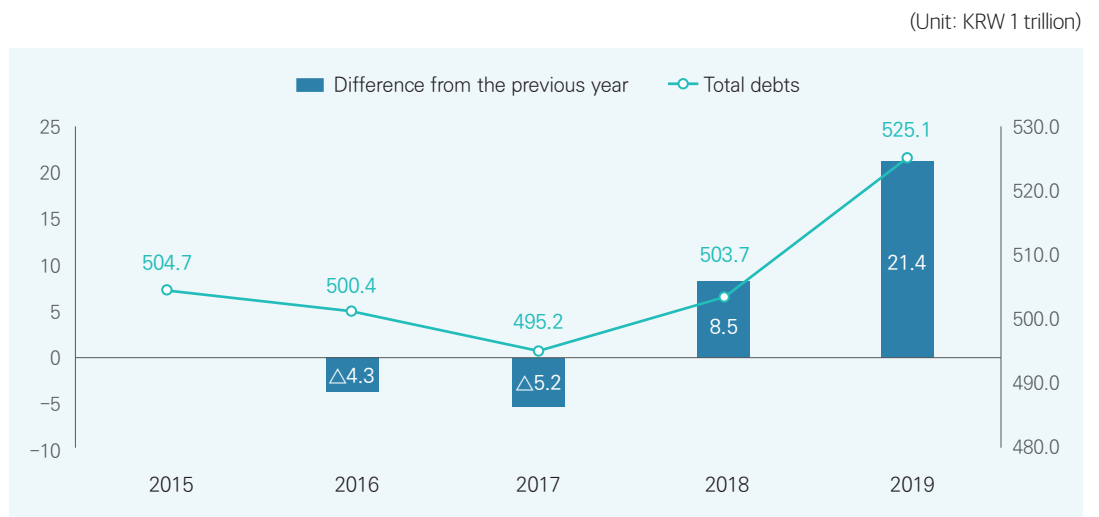


**Increase in debt size and debt ratio in public institutions**

● **The increase in public institutions' total debt size, debt ratio, and the ratio of total debt to GDP**

- The public institutions' total debt volume and debt ratio and the ratio of total debt to GDP had been continuously decreasing since the implementation of the "normalization measures for public institutions" by the Ministry of Economy and Finance at the end of 2013. However, they have recently increased.
- At the end of 2019, the total amount of debt was KRW 525.1 trillion, an increase of KRW 21.4 trillion(4.2%) from the end of 2018. Moreover, the yearly total debt increased from KRW 8.5 trillion in 2018 to KRW 21.4 trillion in 2019.

[Figure 1] Total debts of public institutions by year and the difference from the previous year

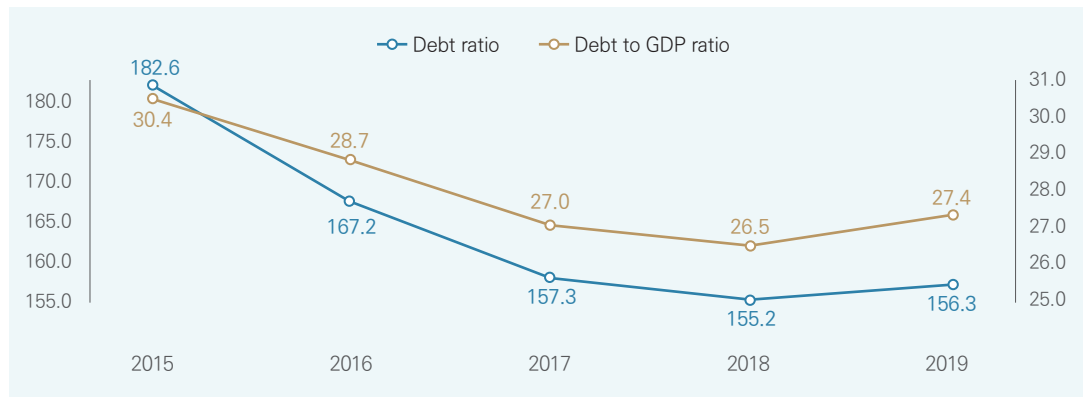


Source: Reproduced by NABO based on the data from the Ministry of Economy and Finance

- The total debt ratio of public institutions was 156.3% in 2019, an increase of 1.1%p from 155.2% in the previous year. Moreover, the ratio of public institutions' total debt to GDP was 27.4% in 2019, an increase of 0.9%p from 2018.

[Figure 2] Total debt ratio and debt to GDP ratio of public institutions by year

(Unit: %)



Note: When calculating the debt-to-GDP ratio, the annual nominal GDP valued at current prices was used as an indicator.  
 Source: Reproduced by NABO based on the data from the Ministry of Economy and Finance and Economic Statistics System of the Bank of Korea

- Compared to 2018, the increased debt of KEPCO and its power generation subsidiaries in 2019 was KRW 14.6 trillion resulting from net loss(Δ2.3 trillion KRW) due to decreased power consumption and borrowing of KRW 6.87 trillion to supplement increased investment cost(KRW 2.4 trillion). Moreover, the lease debt increased by KRW 4.8 trillion based on the amendment of lease accounting standard. Furthermore, the provision for Korea Hydro & Nuclear Power(post decommissioning and restoration of nuclear power plants and treatment of used nuclear fuel) also increased by KRW 2.9 trillion.
- The KRW 3.3 trillion debt increase of Korea Housing Finance Corporation was mainly due to the increase in mortgage loans, such as the provision of relief loans in 2019.

Manage financial soundness of public banks

- The BIS decreased for the three public banks excluded<sup>2)</sup> from the financial settlement of public institutions by the Ministry of Economy and Finance.
  - The total debt of the three public banks was KRW 608.2 trillion won, which is a KRW 37.2 trillion increase from the previous year. Meanwhile, the total net income for the year decreased to KRW 2.33 trillion for all three institutions, a decrease of KRW 0.83 trillion from the previous year.

[Table 2] Debt and net income of public banks(2017-2019)

(Unit: KRW 1 trillion)

	Debt				Net income			
	2017	2018(A)	2019(B)	Changes (C=B-A)	2017	2018(A)	2019(B)	Changes (C=B-A)
Korea Development Bank	230.2	225.8	233.8	8.0	0.56	0.71	0.28	Δ0.43
The Export-Import Bank of Korea	72.0	76.8	79.1	2.3	0.02	0.69	0.43	Δ0.26
Industrial Bank of Korea	254.3	268.4	295.3	26.9	1.51	1.76	1.61	Δ0.15
Total	556.5	571.0	608.2	37.2	2.09	3.16	2.33	Δ0.83

Source: Reproduced by NABO based on the audit reports of each institution

2) The financial soundness of three public banks (Korea Development Bank, The Export-Import Bank of Korea, and Industrial Bank of Korea) is managed by the BIS ratio, not the debt ratio. Thus, the Ministry of Economy and Finance is excluding these banks from the financial settlement.

- The average BIS ratio of the three public banks at the end of 2019 was 14.31%. The BIS ratio increased from 2015 to 2018, but it started to decline in 2019 for Korea Development Bank.
- As of 2019, the BIS ratio of public banks is 1.59% lower than the average BIS ratio of commercial banks; this gap is widening.

**[Table 3] BIS ratio of public banks(2015-2019)**

(Unit: %, %p)

	2015	2016	2017	2018(A)	2019(B)	Changes (C=B-A)
Korea Development Bank	14.18	14.86	15.25	14.80	13.97	△0.83
The Export-Import Bank of Korea	10.04	10.77	12.90	14.42	14.48	0.06
Industrial Bank of Korea	12.51	13.13	14.20	14.50	14.47	△0.03
Average BIS ratio for 3 public banks(a)	12.24	12.92	14.12	14.57	14.31	△0.26
Average BIS ratio of commercial banks(b)	14.69	15.77	15.84	15.90	15.90	0.00
Difference(a-b)	△2.45	△2.85	△1.72	△1.33	△1.59	-

Note: 1. The 2019 figure is an estimated value

2. On June 2016, the government implemented “complementary measures including capital expansion of state-owned banks” and calculated the target BIS ratio as 13% for the Korea Development Bank and 10.5% for the Export-Import Bank of Korea, taking into account the application of Basel III.

Source: Reproduced by NABO based on Financial Supervisory Service’s Financial Statistics Information System and press release (“BIS capital adequacy ratio of banks and bank holding companies at the end of 2019”, March 19, 2020)

- According to the net loss compensation clause in the foundation act of public banks, the financial soundness of public banks should be managed to prevent future financial risks.

## Manage financial soundness including debt of public institutions

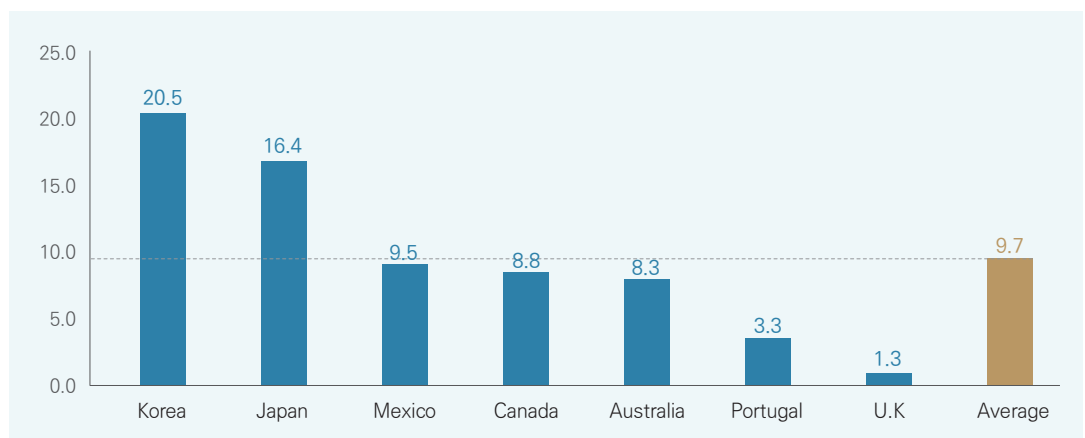
- **In the analysis of national fiscal soundness, it is important to track the increasing public institution debt, which is not included in the national debt(D1)<sup>4</sup>.**
  - Apart from the national debt calculated on a cash basis(D1, KRW 680.5 trillion in 2018), the general government debt(D2, KRW 759.7 trillion in 2018), non-profit public institutions and public sector debt(D3, KRW 1,078.0 trillion in 2018), and non-financial public institutions should be considered.
    - In the 2019 settlement, the ratio of national debt(D1) to GDP was 38.0%, whereas in 2020, the estimated ratio is 43.5% due to the introduction of the third supplementary budget for 2020.

3) When the loss is not offset by reserve fund, the government can(temporary loss offset) or must(mandatory offset) make up for it.

- Korea's non-financial public enterprises<sup>5)</sup> debt ratio to GDP decreased from 28.4% in 2013 to 20.5% in 2018. However, this decrease should be managed at a higher level than that of other major economies.
  - In the Ministry of Economy and Finance's fiscal report, they analyzed that the proportion of non-financial public corporations' debt to GDP, which is included in the calculation of Korea's public sector debt(D3), is higher than that of major countries<sup>6)</sup>.
  - Korea's debt to GDP ratio of non-financial public companies was 20.5% in 2018, the highest among seven OECD countries that calculate non-financial public companies' debt, and 10.8% higher than the average value(9.7%).

**[Figure 3] Debt to GDP ratio of non-financial public companies in major economies(2018)**

(Unit: %)



Source: IMF and World Bank, "Quarterly Public Sector Debt Database"

4) Statistics on national debt are divided into three categories according to the scope of coverage: national debt, general government debt, and public debt. National debt(D1) refers to the debt based on the central and local governments, whereas the general government debt(D2) refers to the debt of the central and local governments. Public debt encompasses non-profit public institutions on an accrual basis and the debt of non-financial public companies.

Types	Debt in 2018 (Debt to GDP)	Coverage	Calculation method	Used for
National Debt(D1)	KRW 680.5 trillion (35.9%)	Accounting and fund of central and local governments	"National Finance Act", cash basis	National finance management plan
General Government Debt(D2)	KRW 759.7 trillion (40.1%)	D1 + nonprofit public institutions	International guidance, accrual basis	International comparison (IMF, OECD)
Public Debt (D3)	KRW 1,078.0trillion (56.9%)	D2 + nonfinancial public enterprise	International guidance, accrual basis	Manage fiscal soundness of public sector

Source: Ministry of Economy and Finance, Fiscal year 2018 general government and public sector debt performance announced", press release, Dec., 2019.

5) Non-financial public enterprises subject to the public sector debt(D3) calculation by the Ministry of Economy and Finance have some differences from the scope of public institutions designated in accordance with the "Act on Management of Public Institutions." That is, the above non-financial public enterprises refer to both central and local public institutions. The classification and inclusion of these institutions are determined according to marketability and whether financial or non-financial business is performed. As of 2018, the debt of central public institutions takes up the largest share of non-financial public enterprises(91.3%)

6) Ministry of Economy and Finance, "Fiscal Status and Policy Directions(2018 Fiscal Policy Report)", Nov, 2018