

# Linking Public Investment Management to Public Financial Management: A Case of Public Sector Accounting in Korea

2024.06.05

Sung-Jin Park  
Korea Institute of Public Finance  
Government Accounting and Finance Statistics Center



# Background: Public Financial Management

## Basic Framework of Post-1998 PFM Reform in Korea



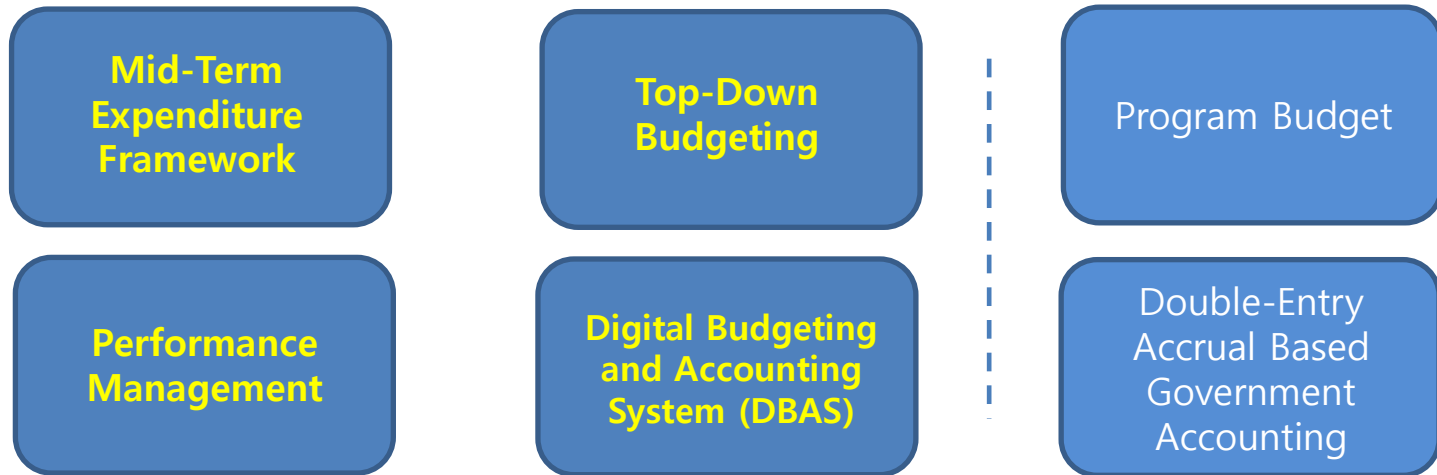
Allen Schick - World Bank,  
University of Maryland,  
Brookings Institute

### Basic Elements of PEM (Schick 1998)

(1) Aggregate Fiscal Discipline	Budget <b>totals</b> should be the result of explicit, enforced decisions; they should not merely accommodate spending demands. These totals should be set <b>before</b> individual spending decisions are made, and should be sustainable over the medium-term and beyond.
(2) Allocative Efficiency	Expenditure should be based on government priorities and on effectiveness of public programs. The budget system should spur <b>reallocation</b> from lesser to higher priorities and from less to more effective programs.
(3) Operational Efficiency	Agencies should produce goods and services at a cost that achieves ongoing <b>efficiency gains</b> and (to the extent appropriate) is competitive with market prices.

# Background: Public Financial Management in Korea

## 4 Pillars of Korean PFM system since 2004



## Implication of PFM Reform

- ◆ Allowing aggregate fiscal sustainability perspective in policymaking
  - National fiscal management plan (MIEF) and Top-Down Budgeting
- ◆ Result-oriented fiscal management
  - Performance management (Fiscal performance monitoring and evaluation)
- ◆ Supporting Information Infrastructure
  - DBAS (Integrated FMIS); Program budget; Accrual accounting

# Background: Linking PFM and Public Investment Management

From Public Investment Management Reference Guide (2020, p.27)

## Mid-Term Expenditure Framework

**TABLE 2.1 Public financial management objectives and implications for PIM**

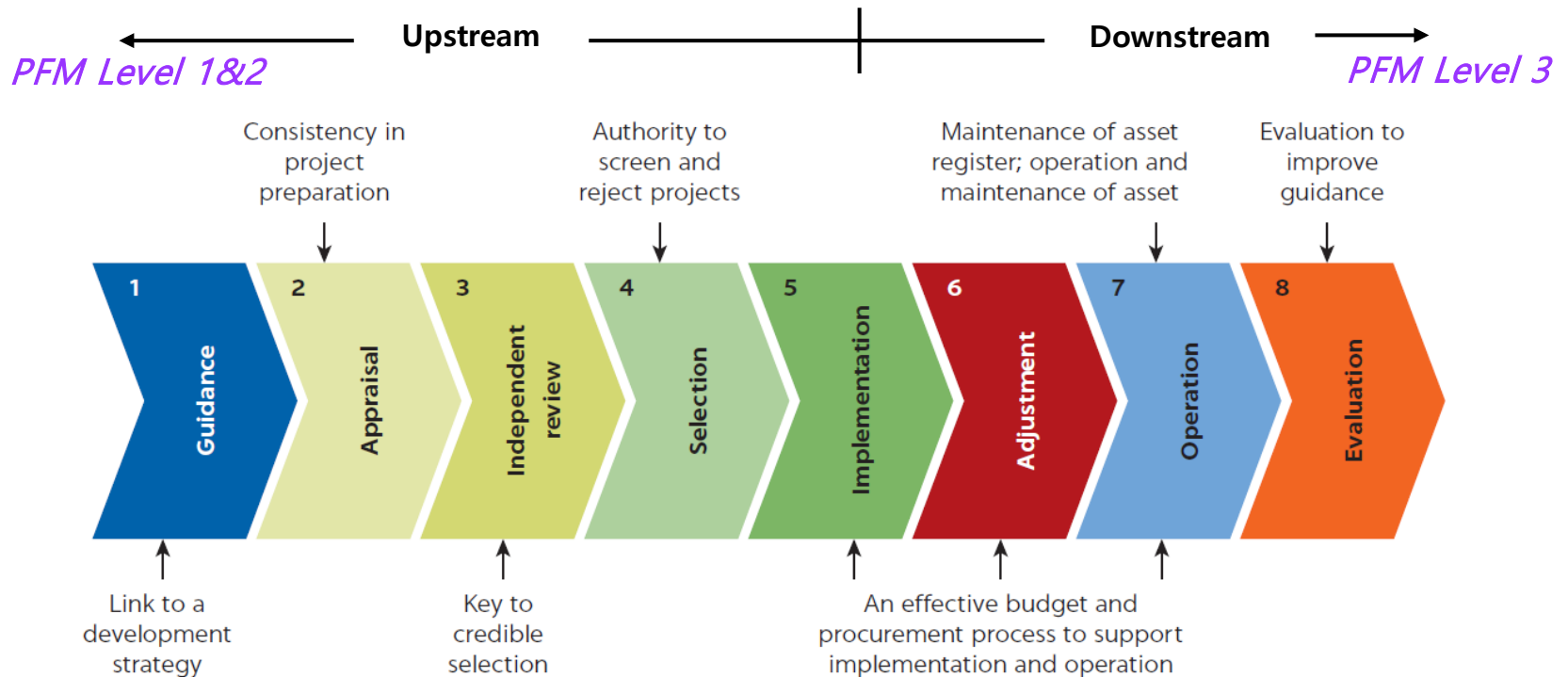
LEVEL	OBJECTIVES OF PUBLIC FINANCIAL MANAGEMENT	IMPLICATIONS FOR PUBLIC INVESTMENT MANAGEMENT
Level I: aggregate fiscal discipline	Exercising effective control of the total budget and management of fiscal risks	<u>Aggregate public investment spending</u> planned within realistic resource ceilings and individual projects completed within budget
Level II: strategic allocation of resources	Planning and executing the budget in line with government priorities aimed at achieving policy objectives	<u>Capital investment projects selected and budgeted</u> in accordance with government's strategic priorities to address the most pressing problems or constraints
Level III: efficient service delivery	Using budgeted resources to achieve the best levels of public services within available resources	Capital investment projects evaluated to verify that they represent efficient and effective solutions to identified problems; that they are <u>procured economically, implemented efficiently, and operated as planned</u>

Information on the actual or expected effectiveness of programs (including social outcomes)

Information on budgeted and actual outputs (financial and organizational performance)

# Background: Framework for Public Investment Management

From Public Investment Management Reference Guide (2020, p.28)



## Korean PIM (Quality-at-Entry)

- Preliminary Feasibility Study(PFS)
- Feasibility Study

## Korean PIM System

- Reassessment Study of Feasibility (RSF)
- Reassessment of Demand Forecast (RDF)
- Total Project Cost Management (TPCM)



## Korean PFM System

- MTEF
- Top-Down
- Performance Management

# 1 Public Investment Management Framework in Korea



# Public Investments in Korea

## ◆ What is “Public Investment”?

- Kim, Fallov, and Groom (2020) – “**Investment** is the acquisition of an asset in the expectation of generating a stream of future benefits. Investment by the public sector can take various forms involving the **acquisition of both financial and nonfinancial assets**, including fixed assets” (WB Public Investment Reference Guide, p.18)
- More specifically, government spending on **public infrastructure**

## ◆ Public Infrastructure in Korea

- Economic Infrastructure
  - ✓ Concept of public goods and market failure warranting government intervention
  - ✓ Network effect, positive externalities, natural monopoly, etc.
  - ✓ ex) Airport, Roads, Railways, Port, Water and Sewage, Power, Gas, Telecom
  - ✓ Mainly operated by State-Owned Enterprises (SOEs)
- Social Infrastructure
  - ✓ Consideration of social equity (universal access, social mobility, etc.)
  - ✓ ex) Public Schools, Hospitals, Prisons
  - ✓ Mainly provided by General Government Sector (GGS)



*"Sun Drying Red Peppers on Airport Runways?"*

## NEWS

▶ Watch ONE-MINUTE WORLD NEWS

News Front Page



Africa

Americas

Asia-Pacific

Page last updated at 23:08 GMT, Monday, 18 May 2009 00:08 UK

E-mail this to a friend

Printable version

### South Korea's abandoned airports

By John Sudworth  
BBC News, Seoul

**Yangyang International is an airport looking for a reason to exist. Built on South Korea's east coast just seven years ago, you won't find any delays or long queues here. In fact, you won't find any passengers at all.**

The initial vision could not have been more different.

Up to three million people a year were meant to throng the gleaming floors of the departure and arrival halls, built at a cost of almost \$400m (£260m).

But last year an average of just 26 passengers a day came through the doors, vastly outnumbered by the 146 airport staff on hand to serve them.

*Yangyang International Airport Project began in 1994, construction started in 1997*



# “Upstream” PIM: Preliminary Feasibility Studies (PFS)

## ◆ Brief History of Implementing PFS

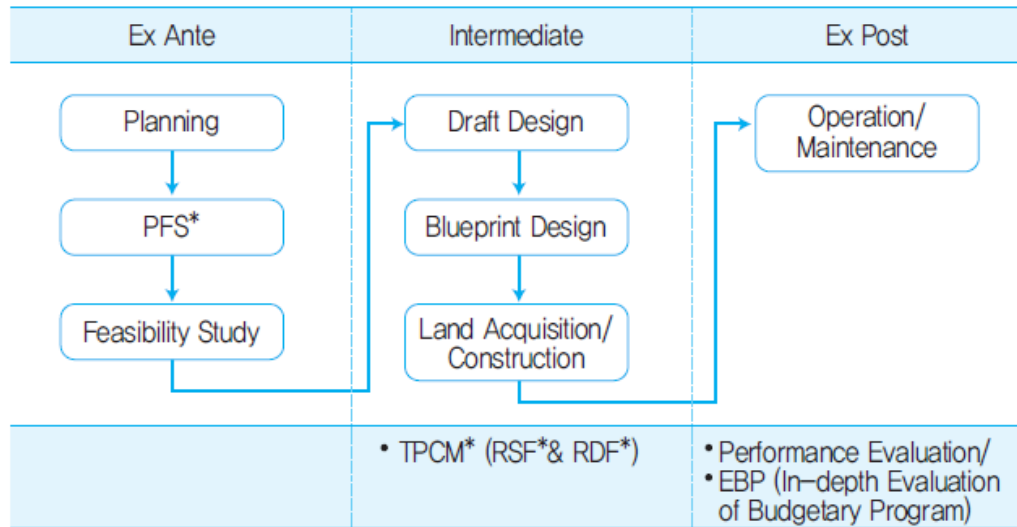
### ● Pre-1994 Traditional Approach

- ✓ Infrastructure investment projects managed by Economic Planning Board (EPB) along with “5-year Economic Development Plan”
- ✓ EPB and Ministry of Finance (MOF) **merged into MOEF** in 1994
- ✓ Total Project Cost Management System (TPCM) introduced in 1994 for Infrastructure Investment Projects
- ✓ Nonetheless, PIM system weakened → Only 1 rejection from the feasibility studies conducted between 1994 and 1998 (revealing limitations of “Bottom-Up” approach from Line Ministries)

### ● PFM Reform in the aftermath of 1998 Asian Financial Crisis

- ✓ 4 pillar PFM system – MTEF, Top-Down Budgeting, Performance Management, DBAS
  - Aggregate fiscal discipline (through MTEF and Top-Down) requires strategic resource allocation (including public investment into infrastructure)
- ✓ 1999 Amendment of Budget and Accounting Act (Enforcement Decree §9-2) → Adopting **“Preliminary Feasibility Studies”** for public construction projects
- ✓ 2007 enactment of *National Finance Act*
  - PFS and RSF (Reassessment Studies of Feasibility) stipulated in §38-4

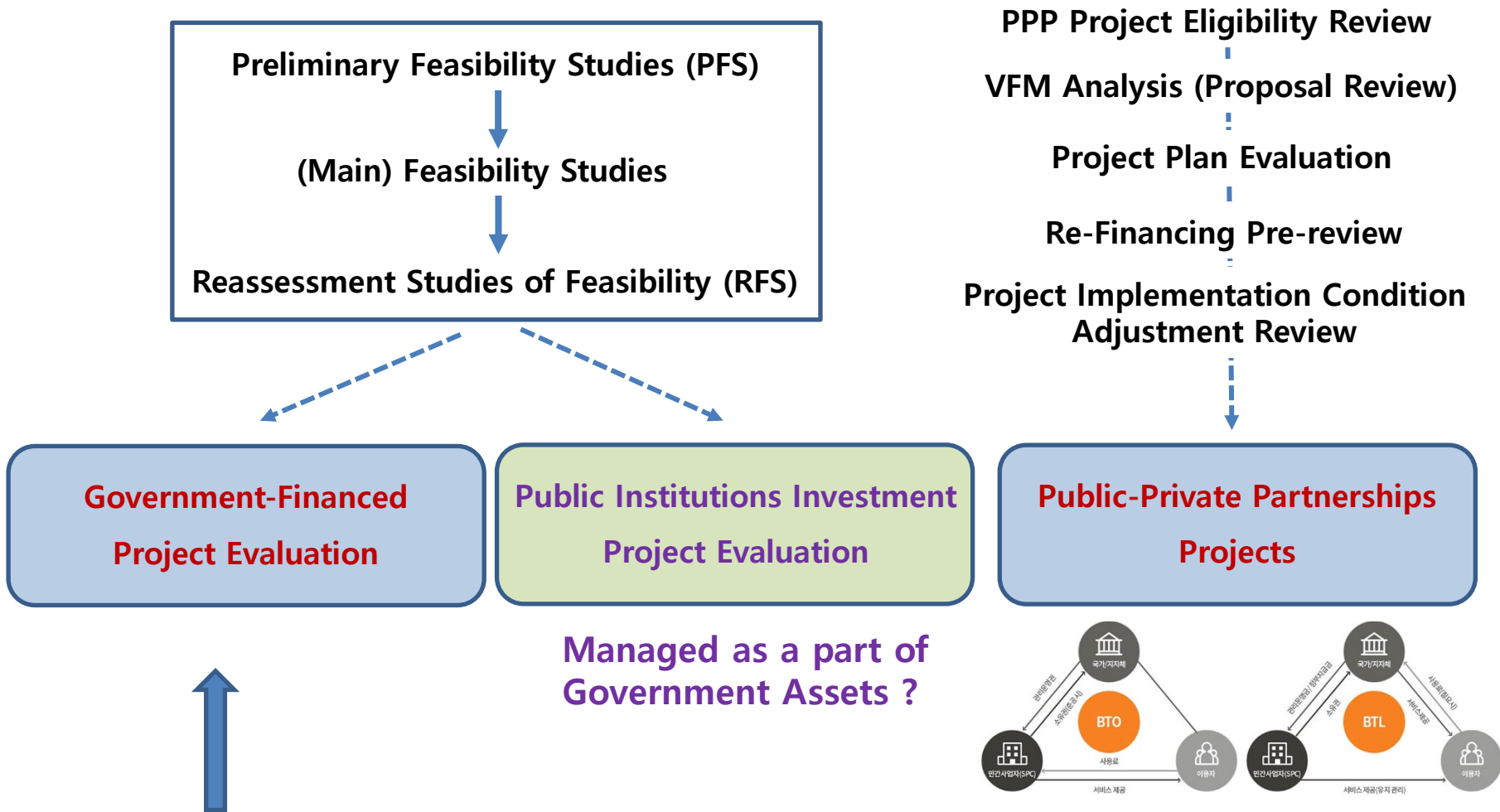
# “Upstream” PIM: Preliminary Feasibility Studies (PFS)



## ◆ Required to all New Projects with Government Financial Support

- Public infrastructure projects (e.g., construction, IT, and other fiscal projects) with **total Costs of KRW 50 billion** (or more) and **state funding of KRW 30 billion** (or more)
- Policy projects (e.g., welfare, healthcare, education, labor, culture, etc.) with mid-long term fiscal expenditure of KRW 50 billion (or more)
- (Independent) PFS conducted by Korea Development Institute (KDI PIMAC) or Korea Institute of Public Finance (KIPF)

# From Upstream to Downstream to PFM

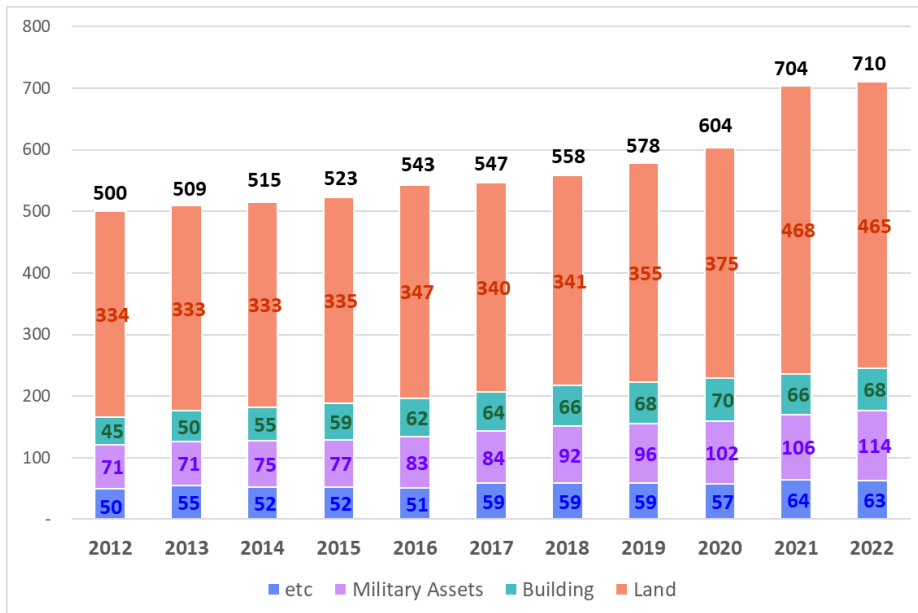


Once constructed, recognized as a part of **Government Assets** and managed through PFM system

# Nonfinancial Assets on Government Financial Statements

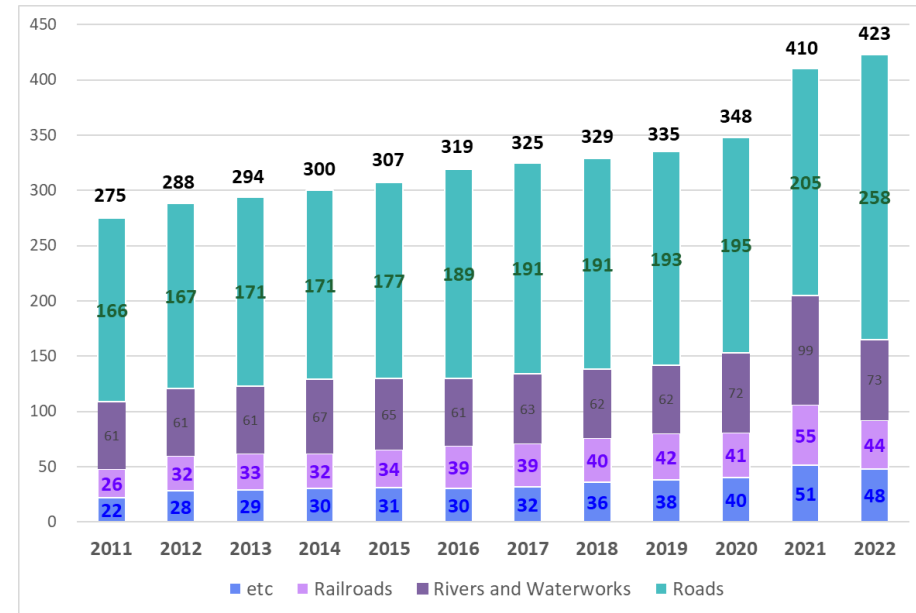
## ◆ Changes in General PP&E and Infrastructure Assets (12'~22')

### ◆ General PP&E



etc: Machinery, Equipment, Furniture and Fixtures, PP&E under construction, and others

### ◆ Infrastructure Assets



etc: Harbor, Airports, State-owned fishery harbor, infrastructure under construction

# Management of Government Property

## ◆ Measurement of General PP&E and Infrastructure Assets

### ● (Initial Recognition) Acquisition cost

- Acquisition cost determined by adding incidental costs to the purchase price or production costs of the asset.

### ● (Subsequent Measurement) Fair value at the remeasurement date

- If there is no reasonable evidence of fair value (from highest and best use), allow alternative measurements.

Assets subject to remeasurement			Alternative
State Properties*	General PP&E Infrastructure Asset	Lands	① Officially announced price or standard market price by authorities (Apply the following sequentially) a. Officially Announced Land Price by authorities b. Adjacent Assessed Land Price, Land Price Index Table c. Average of officially announced land price of the particular or similar land d. Lowest officially announced land price within the district where the land is located
		Buildings	① Officially announced price or standard market price by authorities ② Depreciated replacement cost* * the current cost to replace the asset less accumulated depreciation
		Structures	
	General PP&E		
		Standing Timbers	
		Fixed Machineries	
	Ships and Aircraft		

\* PP&E and Infrastructure under construction are excluded

# Management of Government Property

## ◆ Depreciation of Assets

- Lands, standing trees, infrastructure assets with maintenance expense replacing depreciation expense, securities, etc., are not subjected to depreciation

Government Property	Line Item	Useful Life	Depreciation Method	
Lands	Lands	-	Unamortized	
Buildings	Buildings	(General) 10yr ~ 62yr (Infra.) 20yr ~ 50yr	Straight-line Method	
Structures	Structures	(General) 2yr ~ 60yr (Infra.) 10yr ~ 100yr		
	<i>*Some of the infrastructure assets(pavement of the roads etc.) are exempted due to its depreciation expense replaced with maintenance expense</i>			
Standing Trees	Other General PP&E	-	Unamortized	
Vessels and Airplanes	Furniture and Fixtures, Office Equipment, Vehicles	1yr ~ 40yr	Straight-line Method, Fixed-rate Method, Inventory Method	
Machineries	Machinery	1yr ~ 25yr		
Intangible Property	Intangible Asset	Industrial Property Right	3yr ~ 40yr	Straight-line Method
		Software	1yr ~ 20yr	
		Other Intangible Asset	1yr ~ 100yr	
		Mining Right	20yr	
Securities	Short-term Investment Securities, Long-term Investment Securities	-	Unamortized	

# Public Investments in Korean Government's Financial Position

(Unit: Trillion Korean Won)

Other Public Investments (including infrastructure owned and operated by Public Institutions and SOEs) – **Equity Method Not Applied**

Korean National Accounting Standard recognize 8 types of Infrastructure Assets:  
 (1) Roads, (2) Railroads, (3) Harbors, (4) Dams, (5) Airports, (6) Rivers, (7) Waterworks, (8) National Fishing Ports

Category	'FY23(A)	'FY22(B)	Variation Amount (A-B)
<b>Assets</b>	<b>3,014</b>	<b>2,834</b>	<b>180</b>
Current Assets	556	514	42
Investments	1,276	1,149	127
General PP&E	721	710	11
Infrastructure Assets	423	423	0
Intangible Assets	3	3	0
Other Non-current Assets	35	35	0
<b>Liabilities</b>	<b>2,439</b>	<b>2,326</b>	<b>113</b>
Current Liabilities	220	220	0
Long-term Interest Bearing Liabilities	874	812	62
Long-term Provisions	1,293	1,243	50
Other Non-current Liabilities	52	50	2
<b>Net Assets</b>	<b>575</b>	<b>508</b>	<b>67</b>

Source: Open Fiscal Data

2

# SOEs Management for Public Investment Management





# SOEs and Economic Infrastructure Management in Korea

## ◆ List of Selected Public Institutions (SOEs) managing Economic Infrastructure

Name	Competent Line Ministry	Est.	Main Operation
Korea Electric Power Corporation	Ministry of Trade, Industry and Energy	1961.07.	KEPCO is in charge of the power generation, transmission, distribution, supply and other related activities. KEPCO promotes the development of electric power sources, stabilizes the supply and demand for electricity.
Korea Hydro & Nuclear Power Co.	Ministry of Trade, Industry and Energy	2001.04.	KHNP is the largest electric power company which generates approximately 31.5% of the total electric power generated in Korea. KHNP contributes to enhancement of national competitiveness in energy and improvement of quality of life through stable supply of high-quality green energy and advanced technology sharing.
Korea Expressway Corporation	Ministry of Land, Infrastructure and Transport	1969.02.	KEC builds, rehabilitates, operates and maintains expressways to promote the development of highways network and efficiency of the road transportation in Korea.
Korea Railroad Corporation	Ministry of Land, Infrastructure and Transport	2005.01.	KORAIL enhances expertise and efficiency in rail operations system and projects. Based on the know-how and expertise accumulated over its 114 years of experience in railway operation, KORAIL strives to become one of the world's best railway operators.
Incheon International Airport Corporation	Ministry of Land, Infrastructure and Transport	1992.02.	IIAC contributes to the national economic development and improvement of air transit through effective construction, maintenance, and management of the Incheon International Airport, the major airport in Korea.
Korea Water Resources Corporation	Ministry of Environment	1967.11.	K-water constructs, operates, and manages facilities for the comprehensive use and development of water resources. The organization constructs and manages multi-regional waterworks, multi-purpose dams, etc.; sells and rents land; and operates and manages local waterworks and sewage treatment facilities. It also engages in aggregate, consignment, and renewable energy businesses; and the operation of Kyung-in canal and four river restoration projects. In addition, the organization develops projects for industrial complexes and special-purpose areas.
Busan Port Authority	Ministry of Oceans and Fisheries	2004.01.	The purpose of BPA is to make the Busan Port a competitive hub of shipping logistics in Northeast Asia by raising professionalism and efficiency in the development and operations of the port.
Incheon Port Authority	Ministry of Oceans and Fisheries	2005.07.	IPA developed the Incheon Port as a platform for global logistics to contribute to the national economy. IPA enhances the expertise and effectiveness of the development, management, and operation of the Incheon Port facilities.

# Annual Performance Evaluation by Industry Type

▶ Public institutions subject to performance evaluation operating in the following seven industries:

Public corporations (32)			Quasi-governmental institutions (55)			
SOC*	Energy	Industrial promotion ·Service	Fund- management- type quasi- governmental institutions	Quasi-governmental institutions		
				SOC· Safety	Industrial promotion	Health and welfare
(8)	(12)	(12)	(10)	(14)	(16)	(15)
Incheon Airport, Korea Expressway Corporation, etc.	Korea Gas Corporation, Korea National Oil Corporation, Korea Electric Power Corporation, etc.	Kangwon Land, Inc., Korea Minting, Korea Housing & Urban Guarantee Corporation, etc.	Government Employees Pension Service, Korea Sports Promotion Foundation, etc.	Korea National Railway, Korea Authority of Land & Infrastructure Safety, etc.	Korea Trade-Investment Promotion Agency, Small Enterprise & Market Service, Postal Savings & Insurance Development Institute, etc.	Health Insurance Review & Assessment Service, Korea National Park Service, National Institute of Ecology, etc.

\* Social Overhead Capital (SOC) encompasses the fundamental infrastructure required for a country's economic development. Key components of SOC include transportation systems like roads, bridges, and airports; utilities such as water supply, telecommunications, and energy; and public institutions including schools, hospitals, and government buildings.

## Ex) Performance Measures - Evaluation Indicators

Category	Indicator	Nonquantitative	Quantitative
Management(55)	<b>1. Management strategy and leadership</b>	<b>8</b>	<b>1</b>
	- Leadership	2	
	- Strategy and Innovation	5	
	- Public communication	1	1
	<b>2. Social values</b>	<b>8.5</b>	<b>6.5</b>
	- Creating jobs and Equal opportunity	3	2
	- Safety and disaster management	1	1
	- Eco-friendly and carbon neutrality	1	0.5
	- Social cohesion, Equal partnership and community	2	2
	- Ethical management	1.5	1
	<b>3. Financial performance management</b>	<b>3</b>	<b>17</b>
	- Budgetary and financial management	3	
	- Budget operation and financial performance		11
	- Efficiency management		6
	<b>4. Organizational and human resources management</b>	<b>4</b>	
	- General organization/personnel	2	
	- Relationship with labor unions	2	
<b>5. Remuneration and fringe benefits</b>	<b>4</b>	<b>3</b>	
- Remuneration and fringe benefits	4		
- Total wage cost management		3	
	<b>Subtotal</b>	27.5	27.5
Main projects(45)	Planning, activities, and outcomes of main projects	21	24
<b>Total</b>		<b>48.5</b>	<b>51.5</b>

## Ex) Busan Port Authority (2022)

Category	Indicator	Nonquantitative	Quantitative
Management (55)	<b>Common indicators</b>	<b>27.5</b>	<b>27.5</b>
Main projects (45)	<b>1. Port Logistics project</b>		
	(1) Index of volume improvement		6
	(2) Value Added Performance from Water Usage in Downstream Areas		3
	(3) Appropriateness of Performance Management for port Logistics project	6	
	<b>2. Port Operation project</b>		
	(1) Diversification Achievement in Port Functions		2
	(2) Port Competitiveness Index		2
	(3) Efforts for Eco-Friendly Port Development		3
	(4) Achievement in Port Security Management		2
	(5) Appropriateness of Performance Management for port Operation project	6	
	<b>3. Port Construction and Maintenance Project</b>		
	(1) Improvement of Port Facility Safety		6
	(2) Appropriateness of Performance Management for port Construction and Maintenance Project	5	
	<b>4. Appropriateness of composition of major business metrics and the challenge of the goal</b>	4	
	<b>Subtotal</b>		21
<b>Total</b>		48.5	51.5

# Mid/Long-Term Financial Management Plans for Public Institutions

- ◆ Public investments for infrastructure require a special management framework due to the characteristics including (Kim, Fallov, and Groom 2020):
  - Multiyear projects
  - Large and “lumpy” projects
  - Long forecasting horizons
  - Systematic planning errors
  
- ◆ Mid/long - term (5 year) financial management plans for major public institutions
  - Provides long - term financial management framework for public institutions (SOEs) meshed with MTEF of PFM system
  - Mandated under Article 39 -2 of the Act on the Management of Public Institutions and Article 9 -2 of the National Finance Act (since 2012).
    - [Article 39 -2 of the Act on the Management of Public Institutions and Article 25 -2 of the Act’s Enforcement Decree] Public enterprises and quasi -governmental institutions that have a **total asset amount of KRW 2 trillion or higher** , or whose **losses are to be compensated by the government in accordance with relevant legal provisions** , or those that are **in a state of capital impairment (negative equity)** shall establish a mid/long - term financial management plan for at least five fiscal years.

# Mid/Long-Term Financial Management Plans for Public Institutions

- ◆ The establishment and implementation of the mid/long -term financial management plans enable the review of debt levels at public institutions, in turn laying the foundation for systematic financial management for public institutions.
  - This encourages public institutions to sustain sound financials through a continuous review of their asset quality and improve their management efficiency.
- ◆ (Target institutions) A total of 35 institutions (for FY2023)

Classification	Total numbers	Public institutions
Public Enterprises	21	<p><b>Loss Compensation Firms:</b> Korea Land &amp; Housing Corporation, <u>Korea Resources Corporation</u>, <u>Korea Coal Corporation</u>,</p> <p><b>Total Assets KRW 2 trillions or more:</b> Korea Electric Power Corporation, five power generation companies, Korea Hydro &amp; Nuclear Power Co., Kang-Won Land, Korea Water Resources Corporation, Korea Railroad Corporation, Korea Expressway Corporation, Incheon Airport, Korea Airports Corporation, Korea District Heating Corp., Korea Gas Corporation, Korea Racing Association, Korea Housing &amp; Urban Guarantee Corporation, <u>Korea National Oil Corporation</u></p>
Quasi-Governmental Institutions	14	<p><b>Loss Compensation Firms:</b> Korea Credit Guarantee Fund, Korea Technology Finance Corporation, Korea Trade Insurance Corporation, Korea SMEs and Startups Agency, Korea Housing Finance Corporation, Korea Trade-Investment Promotion Agency, Korea Student Aid Foundation</p> <p><b>Total Assets KRW 2 trillions or more:</b> Korea Health Insurance Service, Korea Deposit Insurance Corporation, Korea Rural Corporation, Government Employee Pension Corporation, Korea Asset Management Corporation, Korea National Railway, Korea Sports Promotion Foundation</p>

## Ex) Mid/Long-Term Financial Management (2023-2027)

- ◆ (Overall direction) Public institutions have sought to improve their financials by reducing liabilities by improving management efficiency and selling nonessential assets .
  - This should help them control the financial impacts of COVID -19 and maintain financial sustainability.
- ◆ (Key investment areas) Investment plans should be developed, centering on essential areas to support government policies.
  - Taking into consideration policy measures such as real estate policies (including housing policies announced on August 4 and February 4) and the Korean New Deal initiative , the plans reflect investments that are necessary for creating jobs, nurturing growth drivers, promoting safety, and minimizing COVID -19 impacts .
  - However, given the potential impacts of investment expansion on asset quality , institutions should continue to strive to minimize the financial risks that could result from investment activities.
- ◆ (Asset quality management) A management system that is tailored to institutions in different financial conditions is to continue this year.
  - Institutions with sound asset quality are allowed to manage their financials autonomously .
  - That said, continuous monitoring is required to limit an excessive increase in liabilities after the end of the liability reduction plan (2017).
  - Institutions with high financial risks , such as those in a state of capital impairment, should continue to make efforts to improve management efficiency and adjust business operations.

## Ex) Mid/Long-Term Financial Management (2023-2027)

### Asset outlook for public institutions (2023 –2027)

- ◆ Thanks to the expansion in national infrastructure, assets of the 35 public institutions subject to mid/long term financial management plans will likely continue to reach 1,137.7 KRW trillion (increase by KRW 154.0 trillion).
  - (SOC) Assets are projected to increase by KRW 79.5 trillion thanks to the construction of public housing properties and infrastructure led by the Korea Land & Housing Corporation and Korea Expressway Corporation.
  - (Energy) Assets for energy -related institutions are anticipated to climb by KRW 25.8 trillion , helped by investment in power transmission/distribution facilities, power plants, and new industries led by the Korea Electric Power Corporation’s affiliates .

### Asset outlook for 2023–2027 (KRW 1 trillion)

Category	2022 (Result)	2023 (A)	2024	2025	2026	2027 (B)	Increase (B-A)
· Total (35)	938.3	985.1	1,037.8	1,074.7	1,104.0	1,137.7	152.6
- SOC (7)	382.5	401.3	423.9	446.0	463.5	480.8	79.5
- Energy (12)	329.2	332.5	345.0	351.1	352.6	358.3	25.8
- Finance (11)	199.5	222.0	238.5	245.4	255.4	264.5	42.5
- Others (5)	27.2	29.3	30.4	32.2	32.4	34.1	4.8



## Ex) Mid/Long-Term Financial Management (2023-2027)

### Liability and Debt outlook for public institutions (2023 –2027)

- Over 2023–2027, liabilities for public institutions subject to mid/long -term financial management plans are expected to expand by KRW 72 trillion (from KRW 671.7 trillion in 2023 to KRW 743.7 trillion in 2027) , but the debt ratio (debt/equity) is expected to decrease 25.59%p (from 214.3% in 2023 to 188.8% in 2027) .

#### Liability and Debt ratio outlook for 2023–2027 (KRW 1 trillion, %, %p)

Category	2022 (Result)	2023 (A)	2024	2025	2026	2027 (B)	Increase (B-A)
Total (35) (Debt ratio)	629.0	671.7	703.5	720.8	727.9	743.7	72.0
	203.4%	214.3%	210.4%	203.7%	193.6%	188.8%	△25.5%p
- SOC (7)	243.6	256.9	272.5	287.4	295.0	304.0	47.1
	175.5%	177.9%	180.0%	181.1%	175.1%	171.9%	△6.0%p
- Energy (12)	280.3	289.5	292.8	293.0	287.6	288.6	△0.9
	573.1%	673.8%	560.8%	504.2%	442.4%	414.1%	△259.7%p
- Finance (11)	90.6	109.5	121.9	123.0	128.0	132.5	23.0
	83.3%	97.2%	104.6%	100.4%	100.4%	100.3%	3.1%p
- Others (5)	14.5	15.8	16.3	17.5	17.3	18.7	2.9
	114.0%	117.6%	115.2%	119.2%	114.4%	120.9%	3.3%p

## Ex) Mid/Long-Term Financial Management (2023-2027)

### Liability outlook for public institutions (2023 –2027)

- ◆ (Liability/debt ratio outlooks) The debt ratio is projected to decrease over 2023–2027 for the social overhead capital (SOC) and energy domains but increase for finance and other domains .
- ◆ (SOC) Liabilities are forecast to climb by KRW 47.1 trillion from KRW 256.9 trillion in 2023 to KRW 304.0 trillion in 2027, owing to the supply of public housing properties.
  - The debt ratio is expected to decrease from 177.9% in 2023 to 171.9% in 2027.
- ◆ (Energy) Liabilities are projected to remain stable (shrink by KRW 0.9 trillion from KRW 289.5 trillion in 2023 to KRW 288.8 trillion in 2027), despite the collection of accounts receivable of Korea Gas Corporation, because of huge loss accumulation of Korea Electronic Power Corporation.
  - However, the debt ratio is forecast to decline from 673.8% in 2023 to 414.1% in 2027.
- ◆ (Finance) Liabilities are likely to increase by KRW 23 trillion from KRW 109.5 trillion in 2023 to KRW 132.5 trillion in 2027, owing to the expansion of Korea Housing Finance Corporation's and Korean Asset Management Corporation's policy mortgage programs.
  - The debt ratio is forecast to increase from 97.2% in 2023 to 100.3% in 2027.

## Ex) Mid/Long-Term Financial Management (2023-2027)

### Financial liability outlook for public institutions (2023 –2027)

- ◆ The percentage of financial liabilities to total assets is likely to range between 51 and 54%, showing monotonic decline year over year .
- The percentage of financial liabilities to total liabilities is forecast to range between 78% and 80%, also showing a falling trend .

### Financial liability outlook for 2023–2027 (1 trillion KRW)

Category	2022(Result)	2023	2024	2025	2026	2027
Financial liabilities	497.7	536.1	559.0	568.9	572.7	583.8
(Percentage to total assets)	53.0%	54.4%	53.9%	52.9%	51.9%	51.3%
(Percentage to total liabilities)	79.1%	79.8%	79.5%	78.9%	78.7%	78.5%

## Ex) Mid/Long-Term Financial Management (2023-2027)

### Other Financial Ratios monitored for public institutions (2023 –2027)

- ◆ (Net profit) The net loss is reduced to KRW 3.1 trillion in 2023 (from KRW 12.5 trillion loss in 2022).
  - The aggregate loss in 2022 is mainly driven by the big loss from Korea Electric and Power Corporation (net loss of 24.4 trillion).

#### Net profit forecast for 2023–2027 (KRW 1 trillion)

2022 (Result)	2023	2024	2025	2026	2027
△12.5	△3.1	6.0	9.2	11.2	7.0

- ◆ (Interest coverage ratio) The interest coverage ratio (operating income / interest expenses), a major indicator of the ability to service interests on debts, temporarily fall to △2.6 due to COVID-19, shall be improved to 1.7 times by 2027.

Category	2022 (Result)	2023	2024	2025	2026	2027
Operating profit (a)	△185.2	1.6	17.6	22.4	24.6	20.4
Interest expenses (b)	7.1	10.2	11.2	11.9	11.9	11.7
Interest Coverage Ration (a/b)	△2.6	0.2	1.6	1.9	2.1	1.7

## If necessary, Designate as “Institutions at Financial Risk”

- ◆ (Evaluation criteria) ① Financial indicators, ② financial performance, and ③ financial improvements are reviewed for evaluation.
  - Public institutions with points of less than 14, a threshold required for an investment -grade status based on the credit rating system of private credit evaluation regulations
  - Public institutions with a debt ratio of 200% or higher, given the potential risk of insolvency at a time of changing management environments at home and abroad

	Detailed evaluation criteria (maximum 20 points + extra 2 points)
① Financial indicators (16 points)	Assessment of indicators related to business profitability and financial stability* for the past five years and estimates for the future based on private credit evaluation regulations * EBITDA/sales, return on asset, debt ratio, net debt / total assets, etc.
② Financial performance (4 points)	Evaluation of the grades for finance/budget operation performance-related indicators over the recent three years based on the results of public institution management evaluation
③ Financial improvements (Extra 2 points)	Additional 2 points given in the event that financial indicator evaluation results, debt ratio, and the net debt to net asset ratio have improved for two consecutive years immediately preceding the evaluation.

# Investment Mgmt and Asset Mgmt under Financial Risks

## Directions for the establishment of five-year plans for asset quality improvement

### ① Disposal of nonessential assets

- Disposal of assets that are irrelevant to an institution's roles and those obtained for nonessential welfare benefits
- Disposal of companies that are irrelevant to an institution's core operations or for which it is uncertain about recouping investment

### ② Streamlining investment/business plans

- Performing business feasibility analysis to downsize or delay projects that are not profitable, urgent, or essential
- Establishing restructuring measures for businesses with accumulated losses and low profitability (e.g., cost reduction and demand adjustment)
- Prohibition of institutional investment excluding those executed as part of matters decided by relevant conventions

### ③ Improving management efficiency

- Streamlining labor force operation
- Restructuring of overlapping organizations or those facing demand decline amid changing policy environments
- Establishment of annual funding plans that include diversification of debt portfolios and timeline adjustments

