



2024 Annual Meeting of INTOSAI Working Group on Public Debt

BAI's Response to the Global Challenges of Public Debt

-> Focusing on High-Risk Areas

The Board of Audit and Inspection of the Republic of Korea

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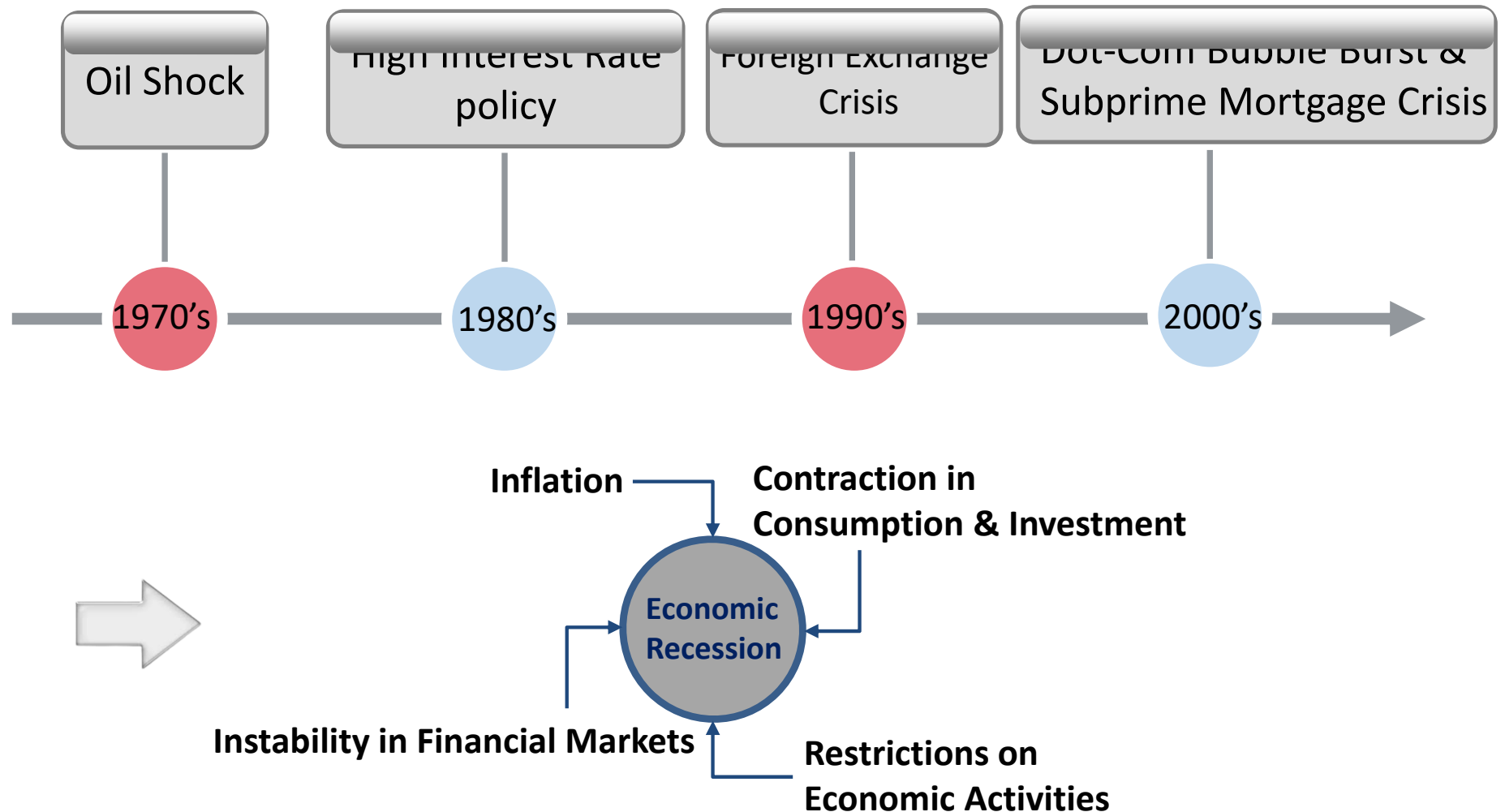
Fiscal Soundness Management Sector

01

Global Crises and Public Debt in Korea

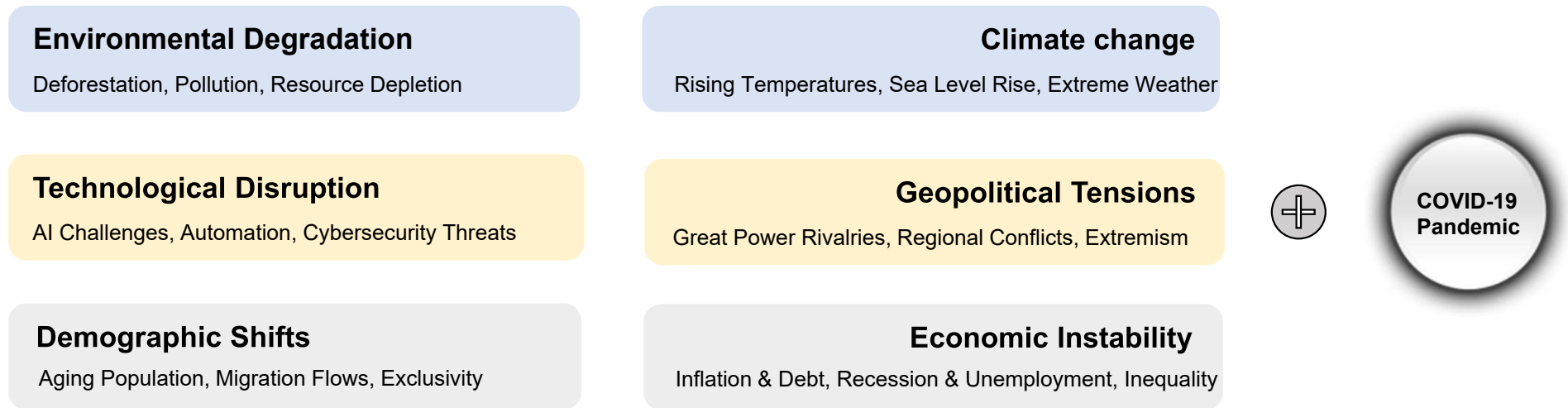
History of Global Crises

- ✓ **Global Crises have constantly occurred from the past to present**

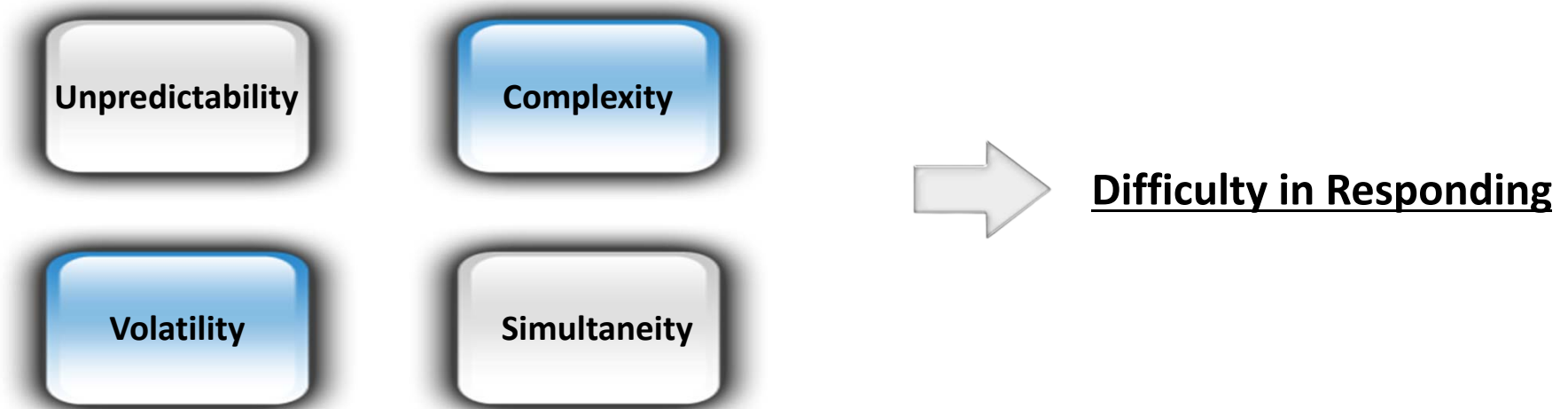


Current Global Crises

✓ The world is facing Global Crises of various kinds



✓ Today's Global Crises have the following characteristics



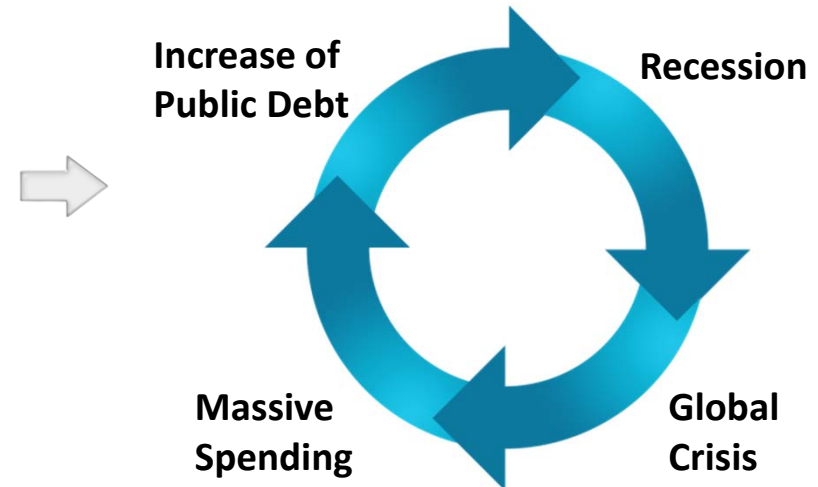
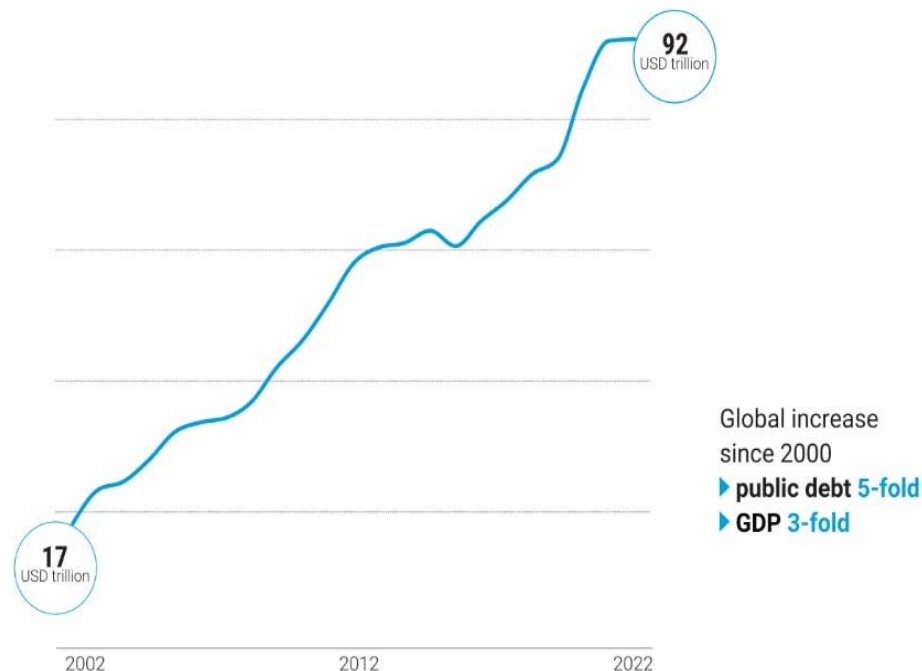
Global Public Debt Status

- ✓ **Global Public Debt reached \$92 trillion as of end of 2022**
- ✓ **If Global Public Debt continues to grow, it is likely to cause other Global Crises**

→ As a result of each country's increased spending in response to crises like COVID-19 pandemic

Public debt has increased more than fivefold since 2000

Global public debt (USD trillion)

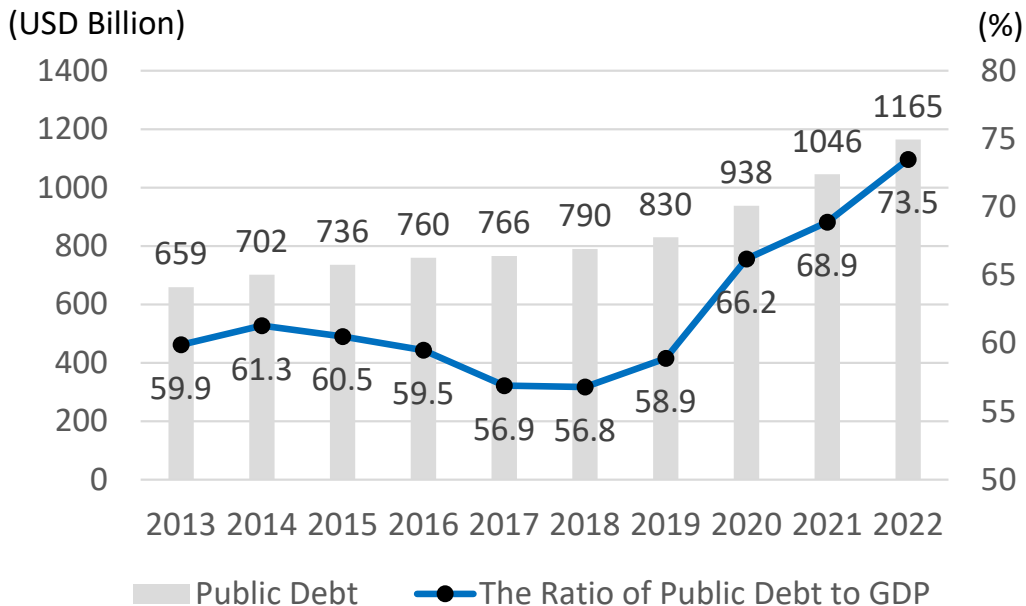


→ **A vicious cycle of Public Debt & Global Crisis**

Source: UN Global Crisis Response Group calculations based on IMF World Economic Outlook(April 2023)

Public Debt in Korea

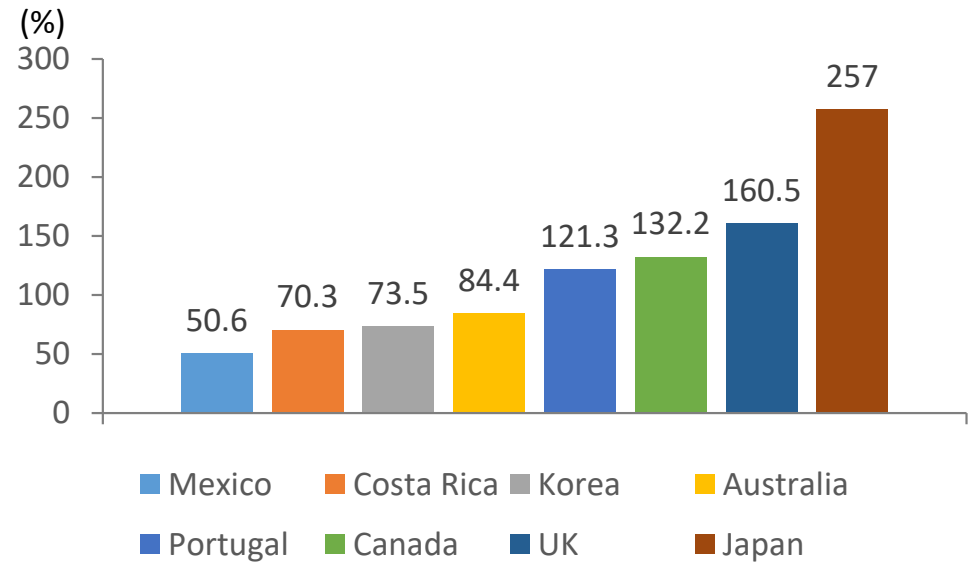
✓ Trend of Korea's Public Debt



Source: "Calculating general government debt and public debt" by Ministry of Economy and Finance of Korea

- From 2013, Public Debt grows 6.5% of annual average for 10 years
- By the end of 2022, Public Debt reached \$1.2 trillion (73.5% of GDP)
- The ratio of Public Debt to GDP shifted upward from 2019

✓ The ratio of Public Debt to GDP of 8 OECD countries(2022)



Source: IMF data

- Korea's ratio of Public Debt to GDP was 73.5% in 2022, the third lowest among 8 major OECD countries
- However, the ratio continued to rise since 2019 and Korea has faced financial risk due to COVID-19, demographic shifts, etc.

→ The need to manage Fiscal Soundness is increasing

What SAIs should do

✓ According to IMF Fiscal Monitor,

- Global Public Debt reached 93% of GDP in 2023
→ 9% points higher than pre-COVID 19 levels
- Also, it is projected to reach 100% of GDP in 10 years

➡ **We need to come up with New Strategies to strengthen the management of Fiscal Soundness**

✓ Required Attitude of SAI in Preparing for Fiscal Risks

KEY POINT → **“Proactive Response”**

- ① Identifying key fiscal risk factors that affect Fiscal Soundness in advance
- ② Establishing a Strategic Audit Management System to manage vulnerabilities from a mid-to-long term perspective
- ③ Continuous Monitoring of Fiscal Soundness

02

High-Risk Areas as BAI's Response Strategy

Overview of High-Risk Areas

✓ Definition of High-Risk Areas

- 1) Among significant problems of the country
- 2) Where Performance and accountability can be secured through management operations, but the uncertainty of achieving the goals is high due to the lack of internal responses
- 3) In particular, due to the structure, nature of the policy, or the behavior of the policy executor
- 4) Experts believe that it will result in significant losses, both monetary & non-monetary, and a decline in institutional credibility

→ Benchmarked the GAO's High-Risk Series

✓ Purpose of Introduction of High-Risk Areas

Identify key issues
affecting national
development in advance



Establish a strategic audit
management system in
the mid-to-long term in
connection with the
annual audit plan



Conduct systematic audits
focusing on the core,
ultimately contributing to
national development

Introduction Process of High-Risk Areas

✓ 2022

- Big data analysis of existing audit results and parliamentary debates to identify key words
 - **Selected 20 High-Risk Areas to be audited and managed in the mid-to-long term**
 - **Reflected in the 2023 annual audit plan as example application**



✓ 2023

- Collected opinions from related organizations such as Ministry of Economy and Finance, Government-Funded research institute and prepared regulations for operating High-Risk Areas
 - **Analyzed data such as indexes, related policies, expert seminars on High-Risk Areas for internalization**
 - **Also reflected in the 2024 annual audit plan**



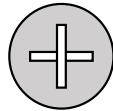
✓ 2024

- Analyzing the process and results of the previous two years to continuously improve the range, evaluation index & method of High-Risk Areas

How to select High-Risk Areas

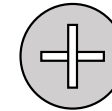
✓ Significance

- Budget Scale
- Impact on the Public
- Importance to National Development



✓ Indicative & Structural Risk

- Fluctuation of Objective Indicators
- Possibility of Corruption due to the Inherent Nature of the Project
- Structural Vulnerability of the Project



✓ Management Policy Risk

- Occurrence of Large-Scale Damage
- Establishment & Implementation of Management Plans for Risks
- Recurrence of Inconsistencies or Inefficiencies



- Selected 20 High-Risk Areas based on 3 criteria

- **Linked to BAI's 4 Strategic Goals: Fiscal Soundness, Public Welfare Stability, Economic Vitality, Discipline in Public Services**
- **Conducting Strategic Audits by Reflecting High-Risk Areas in Annual Audit Plan(since 2023)**

High-Risk Areas(2024)

Strategic Objectives	High Risk Areas		
Fiscal Soundness	<ul style="list-style-type: none"> Fiscal Soundness Management Sector 	<ul style="list-style-type: none"> Government spending and fiscal soundness Financial solvency of key pension and funds 	<ul style="list-style-type: none"> Revenue and spending for local education funds Financial soundness of public institutions
Public Welfare Stability	<ul style="list-style-type: none"> Strengthening Public Safety and Welfare Sector 	<ul style="list-style-type: none"> Privacy protection and cyber security Preparedness for social disasters Climate change adaptation and preparedness for natural disasters 	<ul style="list-style-type: none"> Financial risk management system for SMEs Design and delivery of welfare programs Acquisition, operation and management of weapon system
Economic Vitality	<ul style="list-style-type: none"> Preparing for the Future Society and Economic Revitalization Sector 	<ul style="list-style-type: none"> National R&D projects Large-scale investment projects (SOC) National informatization program, utilization of public data 	<ul style="list-style-type: none"> Improving regulatory governance National energy policy Higher education and manpower training system responsive to social changes
Discipline in Public Services	<ul style="list-style-type: none"> Establishment of Discipline in Public Services Sector 	<ul style="list-style-type: none"> Public integrity Eradicating corruption related to local development projects 	<ul style="list-style-type: none"> Responsible management in public institutions Eradicating authoritarian administrative practices

03

Fiscal Soundness Management Sector

Overview of Fiscal Soundness Management Sector

✓ Responsibility in Responding to Fiscal Crises

- The States : Obligated to Maintain Fiscal Surpluses to buffer against internal & external economic shocks and to prepare
 - for Fiscal Crises by Appropriately Managing fiscal burden factors
- SAI : Obligated to Constantly Monitor the government's fiscal management policies to Support government Proactively Prepare for Fiscal Crises

→ SAI need to Strengthen our Management of Fiscal Soundness

✓ 4 High-Risk Areas of Fiscal Soundness Management Sector

Government spending and fiscal soundness

Revenue and spending for local education funds

Financial soundness of key pension and funds

Financial soundness of public institutions

Government Spending and Fiscal Soundness

✓ Response of Government

- Establish the 'National Fiscal Management Plan' every year (by the Ministry of Economy and Finance)
→ Which includes the **Basic Direction of Fiscal Management, mid-to-long term Fiscal Forecasts, and Growth Rates of Fiscal Revenues & Expenditures**

✓ Necessity of Management

- Facing Challenges such as Declining Economic Growth Rate and Working-Age Population
→ **Making it Difficult to Secure Stable Tax Revenues for active Fiscal Management**
→ **Risk of Declining Government's Fiscal Capacity and Response to the Global Crises**

➡ **Need to be managed by Priority**

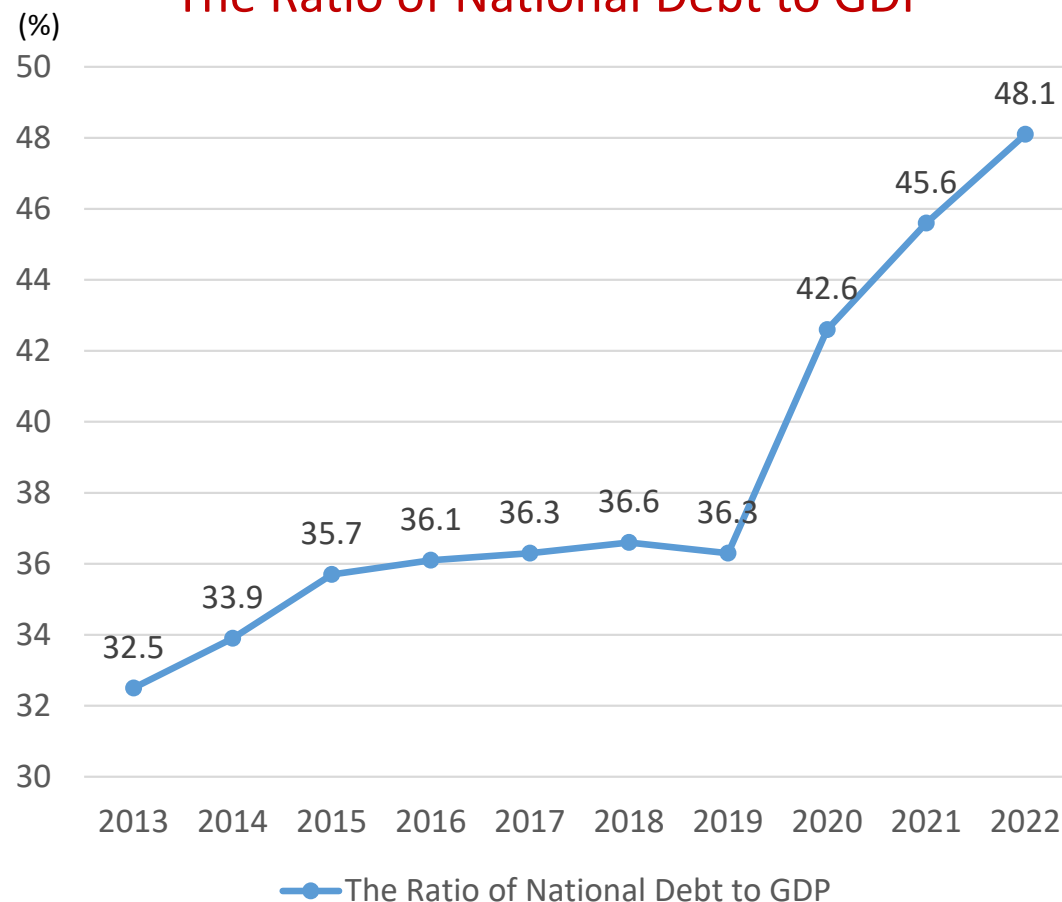
Government Spending and Fiscal Soundness

✓ Reasons for Selection as High-Risk Area

Indicative & Structural Risk

- The ratio of national debt to GDP has grown in response to crises such as COVID-19
- The share of deficit debt in the national debt continued to rise
- Public debt will increase in the future due to demographic changes and the risk of slowing economic growth

The Ratio of National Debt to GDP



Source: Financial Statistics by Korea Financial Intelligence Service

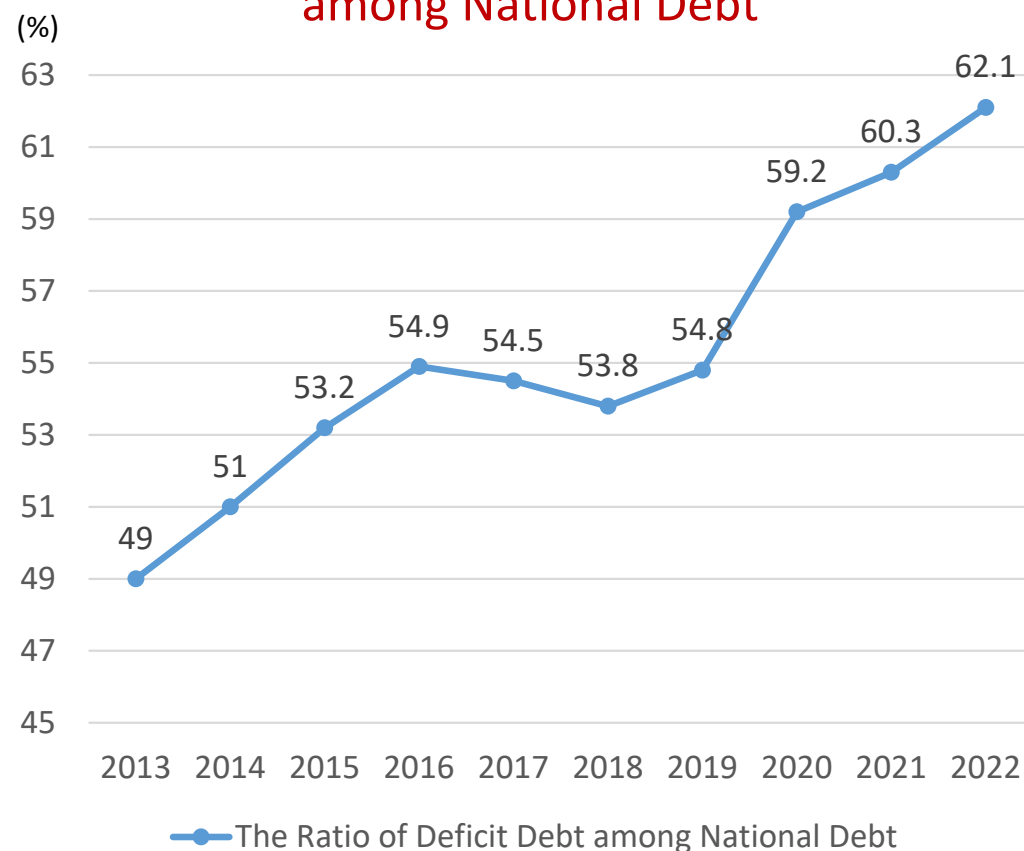
Government Spending and Fiscal Soundness

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The Ratio of Deficit Debt among National Debt



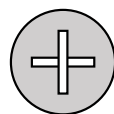
Source: Financial Statistics by Korea Financial Intelligence Service

Government Spending and Fiscal Soundness

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Management Policy Risk

- Estimation of government's fiscal soundness needs to be trusted
- Debt management by government must be managed systematically and efficiently
- Management framework of spending restructuring need to be established effectively

Government Spending and Fiscal Soundness

✓ Relevant Audit Cases by BAI

- “The reality of mid-to-long term national fiscal operation and management”(2020)
→ **Examined mid-to-long term fiscal estimation, national fiscal management plan, etc.**
- “The reality of mid-to-long term national fiscal management system”(2021)
→ **Examined management systems of Funds and Government bonds & debts**
- “The reality of progress of spending restructuring”(2023)
→ **Examined problems of spending restructuring**

➡ Nevertheless, as fiscal conditions continue to deteriorate due to the impact of the global crisis, it is important to continue to monitor

✓ Future Contribution Strategies of BAI

- Inspecting revenue budgets operation and management
 - Inspecting the appropriateness of spending restructuring direction
 - Inspecting plans of maintaining fiscal soundness
- **Supporting government to proactively prepare for the global fiscal crises**

Financial Soundness of Public Institutions

✓ Response of Government

- Conducting annual management evaluations of public institutions to encourage them to establish an autonomous and responsible management system
- Requiring public institutions to establish and implement a mid-to-long term financial management plan for at least five fiscal years

→ To manage the overall financial soundness of public institutions

✓ Necessity of Management

- Public institutions are generally in charge of core infrastructure such as energy, SOC, and transportation

→ Closely related to people's lives

- The debt of public institutions account for a large share of public debt

→ Their debts accounted for 29% of the total public debt in 2022

- Public institutions is highly vulnerable to global crises such as rising oil prices, commodity prices, and interest rates

➔ It is necessary to continuously manage the financial soundness of public institutions through proactive responses

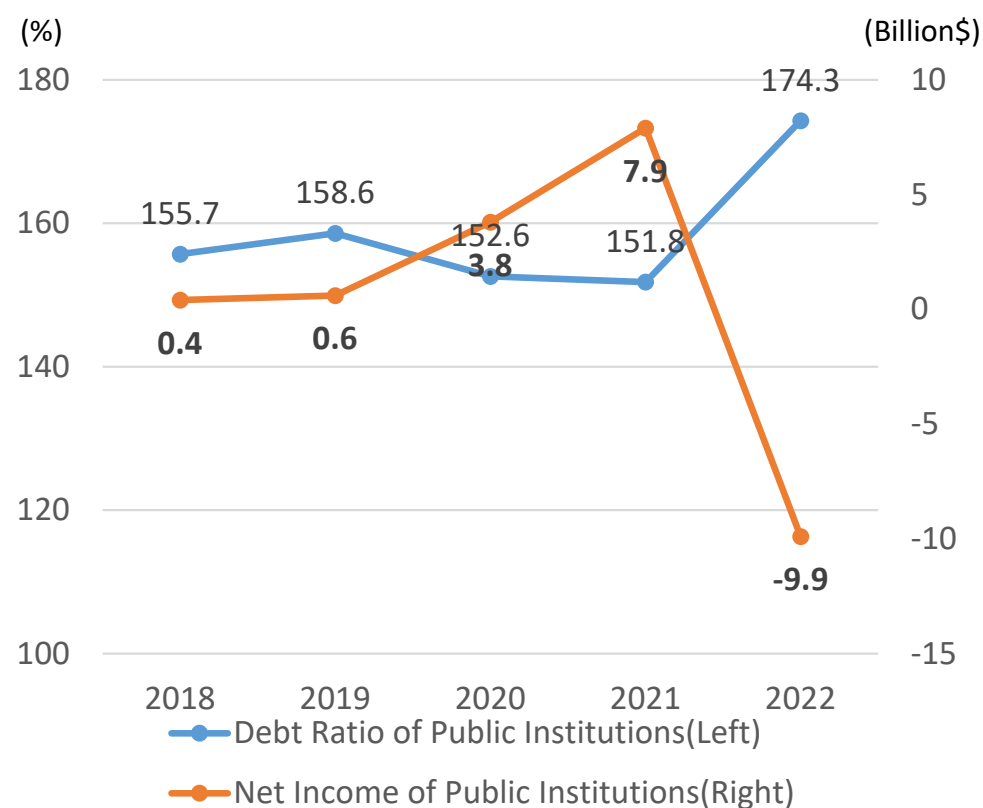
Financial Soundness of Public Institutions

✓ Reasons for Selection as High-Risk Area

Indicative & Structural Risk

- Debt ratio and net income of public institutions have deteriorated
- Less incentive to manage their financial soundness due to the payment guarantee system
- Government's control of public utility charges leads to deterioration of financial soundness of public institutions

Debt Ratio & Net Income of Public Institutions



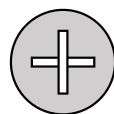
Source: "Financial Statement of Accounts of Public Institutions for fiscal year 2022 by BAI

Financial Soundness of Public Institutions

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Management Policy Risk

- Public institutions may establish financial management plans in a formal manner without effectiveness
- There is a risk of the issue of underpricing due to preferential treatment when they sell assets to improve its financial strength
- It is necessary to check whether public institutions comply with project feasibility system

Financial Soundness of Public Institutions

✓ Relevant Examples of Audit by BAI

- “Financial Soundness and Business Management of Public Institutions”(2023)

- Guided the government to improve the public utility charge system

- Guided the government to prevent public institutions from establishing optimistic and formalized plans

- Uncovered budget waste cases and guided public institutions to prevent recurrence

- ➔ However, ‘Deterioration of financial soundness -> Intensive management by government -> Improve and loosen management -> Deterioration again -> Intensive management again’ can occur
- ➔ Necessary to constantly monitor to ensure an effective management system is established

✓ Future Contribution Strategies of BAI

- Inspecting the appropriateness of country factors as a contributor to deterioration of financial soundness
- Inspecting financial soundness of public institutions covered by the payment guarantee system
- Inspecting whether public institutions establish effective fiscal management plans



Thank you

