

Korea's Sovereign Asset Liability Management

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Disclaimer

The views expressed in the presentation does not necessarily represent those of the MOSF or the Korean Government

Outline

- The Concept of SALM
 - The Role of the Treasury Bureau
 - SALM in General Government
 - SALM in Public Sector
 - Sovereign Wealth Fund
 - Prudential Measures for External Balance
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SALM in terms of National Economy

External Balance
Macro/micro
Prudential Measure

Reporting, Plans,
Guidelines, or
Coordination, etc.

NATIONAL ECONOMY

< PUBLIC >

< PRIVATE >

GOVERNMENT

Coordination &
Consultation

Central

Local

Local

Local

Public Entities

Non-
Financial
Public
Entities

Financial
SOEs

HOUSEHOLD

CORPORATE

Ministry of Strategy and Finance
(Treasury Bureau)

e.g.) KIC(SWF), KDB, KAMCO, etc

THE ROLES of TREASURY BUREAU (CFO of the Government)

Government Cash Management (Controller)

- Manage efficient government cash flows, Set up cash management schedules and plans
- Allocate/manage treasury funds for budget execution

Government Debt Management (Debt Manager)

- Ensure stable bond issuance/ operate related policies
- Develop government bond products/ devise and implement bond market regulations
- Execute bond issuance, redemption, etc.

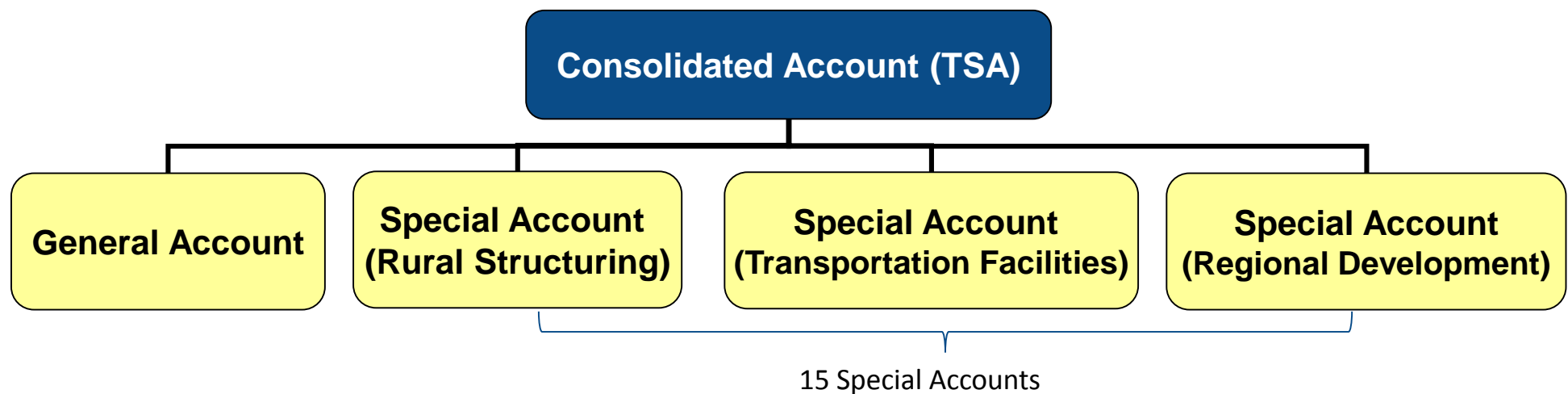
Government Property Management (Asset Manager)

- Enhance efficiency through integrated government property management
- Devise/implement government property development policies
- Execute policies on government investment and dividends
- Manage and sell government-owned stocks and securities
- Accounting and settlement of public enterprises and quasi government institutions
- Policies on public contracts, procurement, market globalization

CASH FLOW MANAGEMENT

- All the government cash is converged **Consolidated Account**(=TSA; **Treasury Single Account**)
- TSA introduced in 2005 to manage efficiently all government cash by minimizing idle money
- Consisting of general account and 15 special accounts(excluding 3 accounts*)

* Postal Insurance/Postal Saving/Grain Management special accounts



- The unified structure of government bank accounts composed of 7,200 sub-accounts under General Account & each Special Accounts

CASH FLOW MANAGEMENT

Cash Flow Management Structure

- ◆ *Set Target Balance*
 - *Minimize Idle Money*
 - *Utilize resources*

Capital Market / BOK

Idle Cash Mgmt ↑ Temporary Financing ↓

TSA
(Treasury Single Account)

Revenue
Expenditure

General Account

Revenue
Expenditure

Special Account

Loan

PCMF
(Public Capital Management Fund)

Deposit
Loan

FUND

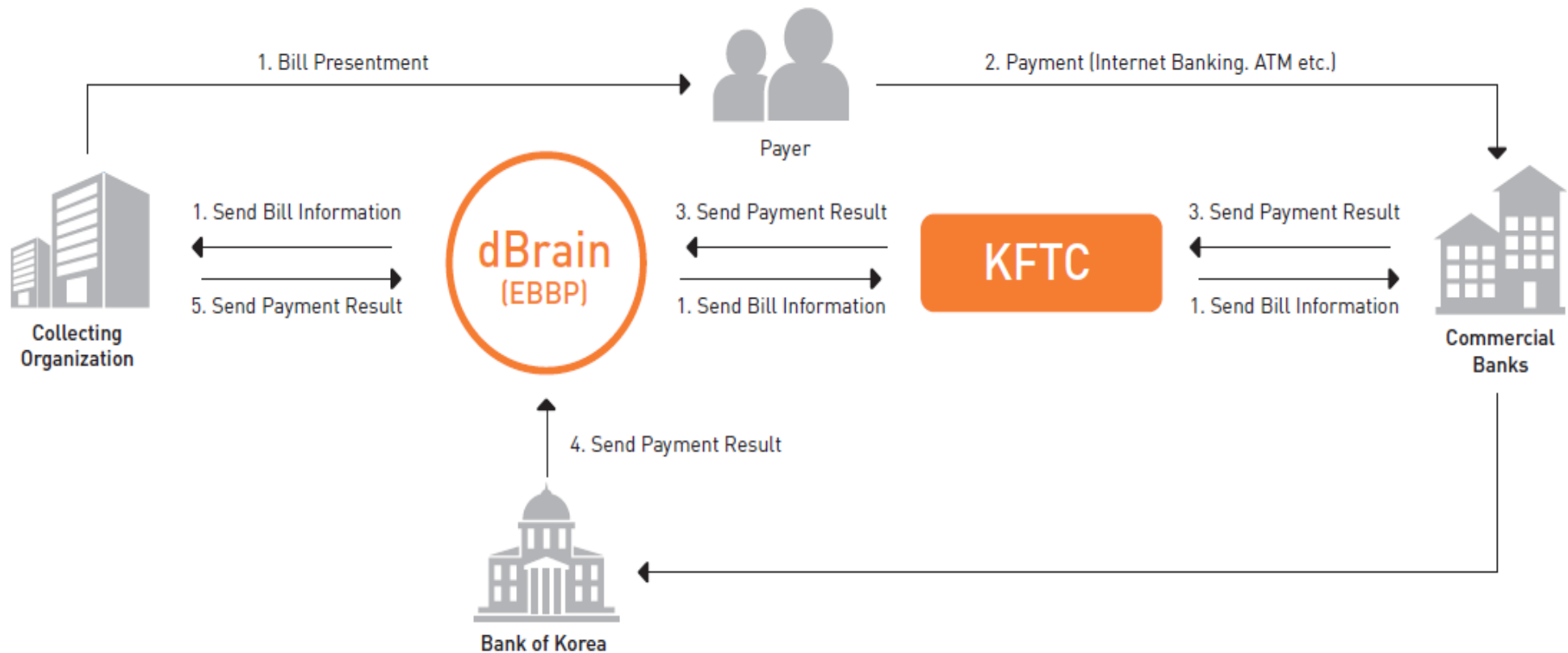
Financing

KTB
Issuance

DIGITALIZED CASH FLOW MANAGEMENT SYSTEM

dBrain

- Digital Budget & Accounting System
- Real time basis Cash Flow and Expenditure Review

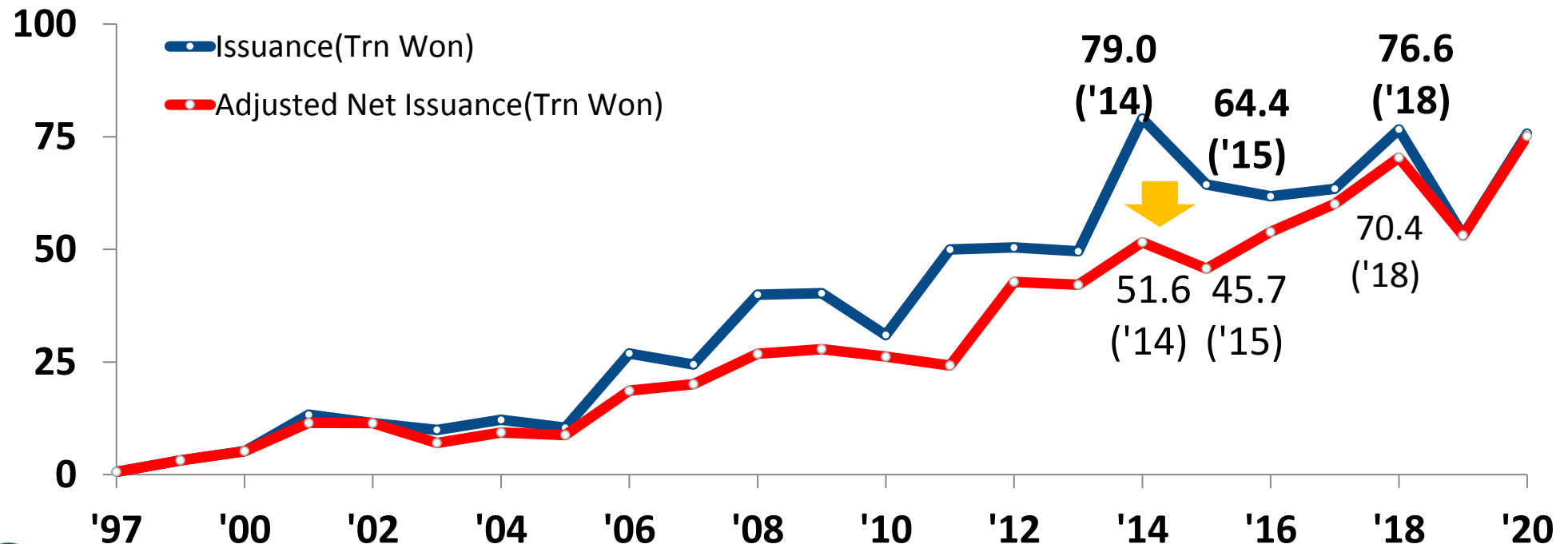


DEBT MANAGEMENT (MAIN FINANCING TOOL)

- Minimizing the costs and the risks of financing government's needs
- Mature market : Predictability, openness, efficiency (evenly spread monthly issuance)
- Balanced Debt portfolio management(structure, maturity, duration, etc.)

Annual Issuance Guideline 2016

3 YR	5 YR	10YR	20YR	30YR
20~30%	20~30%	25~35%	5~12%	8~15%



DEBT MANAGEMENT COMPONENT MATRIX

	Bond Market	National Debt	Financing	
Gov't bond outstanding/GDP KTBs outstanding/GDP KTB ratio by year/type	<ul style="list-style-type: none"> ● 3yr KTB ● 5yr KTB ● 10yr KTB ● 20yr KTB ● 30yr KTB ● 50yr KTB ● Futures ● KTBi (inflation-linked) 	<ul style="list-style-type: none"> ▪ By nature <ul style="list-style-type: none"> - debt (repaid by tax) - debt (repaid by selling gov't assets, etc) - total national debt ▪ By type <ul style="list-style-type: none"> - central gov't <ul style="list-style-type: none"> · gov't bond · loans · others - local gov't <ul style="list-style-type: none"> · local gov't debt · debt from central gov't 	<ul style="list-style-type: none"> ▪ Government bond coupon rates ▪ loan interest ▪ financing cost ▪ PD/PPD ▪ Forum for government bond market development ▪ Inter-government consultative TF ▪ Consultative TF (institutions) ▪ Meeting with experts ▪ Consideration of investor opinions 	Outstanding balance /repayment amount
National Housing Bond/KIB issue				Yearly/monthly issue plan
Deposit in general account				Time to maturity
KTB bid-to-cover ratio				Spread out maturity dates
KTB redemption amount				Holdings by investor/institution
Maturing debt amount				Foreign investor proportion
Buy-backs/conversion				
Trading vol./turn-over ratio				

GOVERNMENT PROPERTY MANAGEMENT

1945~1976

Sales oriented; to meet finance demand for Public Expenditure

1977~1993

Valuation oriented; Maintenance & Preservation

1994~Present

Expansion & Utilization; Active manager or Creative Developer

Integrated Management	Comprehensive Plan	Specialized Funds for Government Properties
<ul style="list-style-type: none">▪ GIS-based decision-making▪ Integrated statistical analysis▪ Mobile on site management▪ Transparency	<ul style="list-style-type: none">▪ Government Property Policy Committee▪ Proper Assessment▪ Set up the rules a regulations▪ Intensive Consultation	<ul style="list-style-type: none">▪ Active Developer▪ Maximize Asset value with long-term view▪ Efficient management (land, buildings, software, etc.)

PUBLIC SECTOR SALM - I : *Annual Reporting on Fiscal Soundness*

Annual Public Sector Fiscal Soundness Management Report

❖ **Goals of the Report** (Since 2014)

- **Comprehensive efforts** for fiscal risk management in public sector as a whole
 - Systematic and comprehensive manner; Categorize fiscal risks in details
 - Enhance transparency (disclose to public annually)
 - Provide criteria for proper evaluation of “National Fiscal Position”

❖ **Scope of the Report**

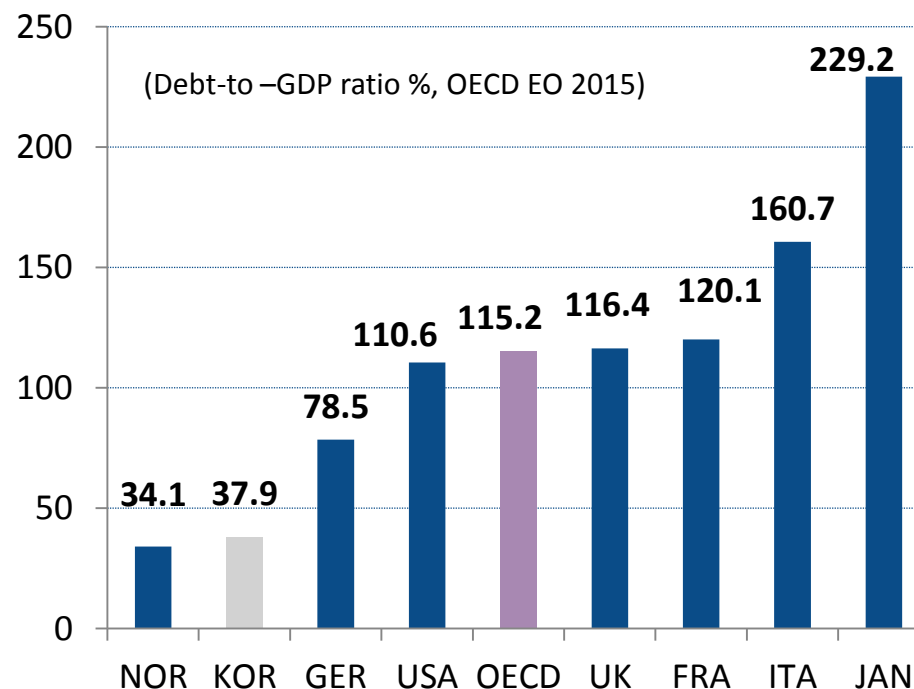
- **General government + Non-financial public enterprises**(477 public entities)
 - include total debt of non-financial SOEs in central and local
 - Debt is reported on an **accrual basis** (*including future debt and cash flow to pay*)
 - => priority on the fiscal soundness of the public Sector
(debt instruments, debt securities, loans, other accounts payable, etc.)

PUBLIC SECTOR SALM - I : *Annual Reporting on Fiscal Soundness*

Public Sector Fiscal Soundness Management Report 2015

- “FISCAL RULES” : National debt/GDP $\leq 45\%$
- “PAY-GO” rules
- Budgeting based on Long-term fiscal outlook (every five yrs)
- Priority on Fiscal stability for social insurances, management systems
- Establishment/implementation/evaluation of plans for fiscal soundness

2014	Amount (tr won)	Ratio to GDP (%)
▪ Public Sector Debt	957.3	64.5
▪ Government Debt	620.6	41.8
- Central Gov't	569.3	38.3
- Local Gov't	58.6	3.9
- Internal Transaction	7.3	0.5
▪ Non Financial Public Enterprise	408.5	27.5
▪ Internal Transaction	71.7	4.8



PUBLIC SECTOR SALM - II : *Mid-term Fiscal Plan(Rolling Plan)*

Mid-term National Fiscal Operation Plan

◆ Five-year fiscal Rolling Plan

- Program Budgeting : efficiency, fiscal soundness, long-term view, etc.
- Strategic Resource allocation (beyond short-term myopic view)

◆ Gradually improved as Overarching & Comprehensive plan

- First started as simplified mid-term fiscal expenditure plan in 1982
- In 2004, developed as five-year “**comprehensive rolling plan**”
- In 2007, submitted to the Assembly as a compulsory legal duty
- In 2010: revenues categorized into nat’l tax, non-tax receipts, fund revenues; **Consolidated fiscal balance/National debt Projection**
- In 2012, Projection of future expenditure (**bottom-up approach**) - government, public enterprises and quasi-government institutions
- In 2014 **Mid-to-long term taxation policy** management plan included

PUBLIC SECTOR SALM - II : *Mid-term Fiscal Plan(Rolling Plan)*

National Fiscal Operation Plan (2016~2020)

● Based on the outlook on economic conditions in and abroad (SALM scenarios)

● Outlook on fiscal operation conditions (Revenues in detail)

	'16		'17	'18	'19	'20	Average Rate of Increase
	Original Budget	Supplementary Budget					
▣ Revenues (trn won)	391.2	401.0	414.5	436.0	456.3	476.4	5.0
○ National Tax	222.9	232.7	241.8	252.1	264.5	277.2	5.6
○ Non-tax Receipts	27.2	27.2	26.2	28.2	27.1	26.2	(0.9)
○ Fund Revenues	141.1	141.1	146.6	155.8	164.7	173.0	5.2

● Expenditures Outlook by Field

	'16		'17	'18	'19	'20	Average Rate of Increase
	Original Budget	Supplementary Budget					
▣ Expenditures (trn won)	386.4	398.6	400.7	414.3	428.4	443.0	3.5
(rate of incr, %)	(2.9)	(6.2)	(3.7)	(3.4)	(3.4)	(3.4)	
○ Mandatory spending	182.6	186.7	195.6	204.8	215.1	226.2	5.5
○ Discretionary spending	203.8	211.9	205.1	209.5	213.3	216.8	1.6

PUBLIC SECTOR SALM - II : *Mid-term Fiscal Plan(Rolling Plan)*

National Fiscal Operation Plan (2016~2020)

● Fiscal Balance Outlook

	'16	'17	'18	'19	'20
▣ Operational budget balance (trn won)	-39.1	-28.1	-25.0	-23.2	-20.4
(Ratio to GDP, %)	(-2.4)	(-1.7)	(-1.4)	(-1.2)	(-1.0)
※ Consolidated budget balance (trn won)	2.4	13.8	21.7	27.9	33.4
(Ratio to GDP, %)	(0.1)	(0.8)	(1.2)	(1.5)	(1.7)

● Mid-term Government Debt Outlook

	'16	'17	'18	'19	'20
▣ Gov't Debt (trn won)	637.8	682.7	722.5	756.8	793.5
(Ratio to GDP, %)	(39.3)	(40.4)	(40.9)	(40.7)	(40.7)
○ Debt to be repaid with tax revenues	368.0	397.5	423.3	448.5	471.8
○ Debt to repaid by selling gov't assets, etc	269.8	285.2	299.2	308.4	321.7

PUBLIC SECTOR SALM - II : *Mid-term Fiscal Plan(Rolling Plan)*

National Fiscal Operation Plan (2016~2020)

- General direction of fiscal operation
- Policy tools for disciplined fiscal management
- Measures to enhance fiscal management efficiency through continuous fiscal reforms

Sectoral Expenditure

- Healthcare/welfare/employment
- Education
- Culture/sports/tourism
- R&D
- Industries/SMEs/energy
- SOC
- Agriculture/forestry/fisheries
- Environment
- National defense
- Diplomacy/reunification
- Public order/safety
- General & local administration

Fiscal Soundness

- Restructure public expenditure
- Consolidate repetitive projects
- Promote private-public partnerships
- Expand revenue base
- Improve fiscal management system
- Integrated management system for government subsidies

FINANCIAL STATEMENT : *Balance Sheet of RoK Government*

* Accrual basis(tr won)

	2014 (A)	2015 (B)	Net Change (B-A)	
◇ Asset (A)	1,759.3	1,856.2	96.9	
Current Assets	316.6	352.8	36.2	cash, deposits
Investment Assets	618.5	664.9	46.4	long-term deposits, securities
Tangible Assets	514.6	523.5	8.9	land, buildings
Social Infrastructures	300.1	305.9	5.8	roads, railways, ports
Intangible Assets	1.1	1.2	0.1	software, etc
Other Non-current Assets	8.4	7.9	△0.5	long-term trade receivables
◇ Liability (B)	1,212.7	1,284.8	72.1	
Current Liabilities	119.1	132.8	13.7	Korea Treasury Bonds (less than 1 yr), loans
Long-term Liabilities	381.9	421.0	39.1	KTBs, public loans, etc
Long-term Provisions	682.3	699.9	17.6	pension, retirement, post- retirement liabilities, etc
Other Non-current Assets	29.4	31.1	1.7	long-term payables (BTL, rentals)
◇ Net Asset (A-B)	546.6	571.4	24.8	



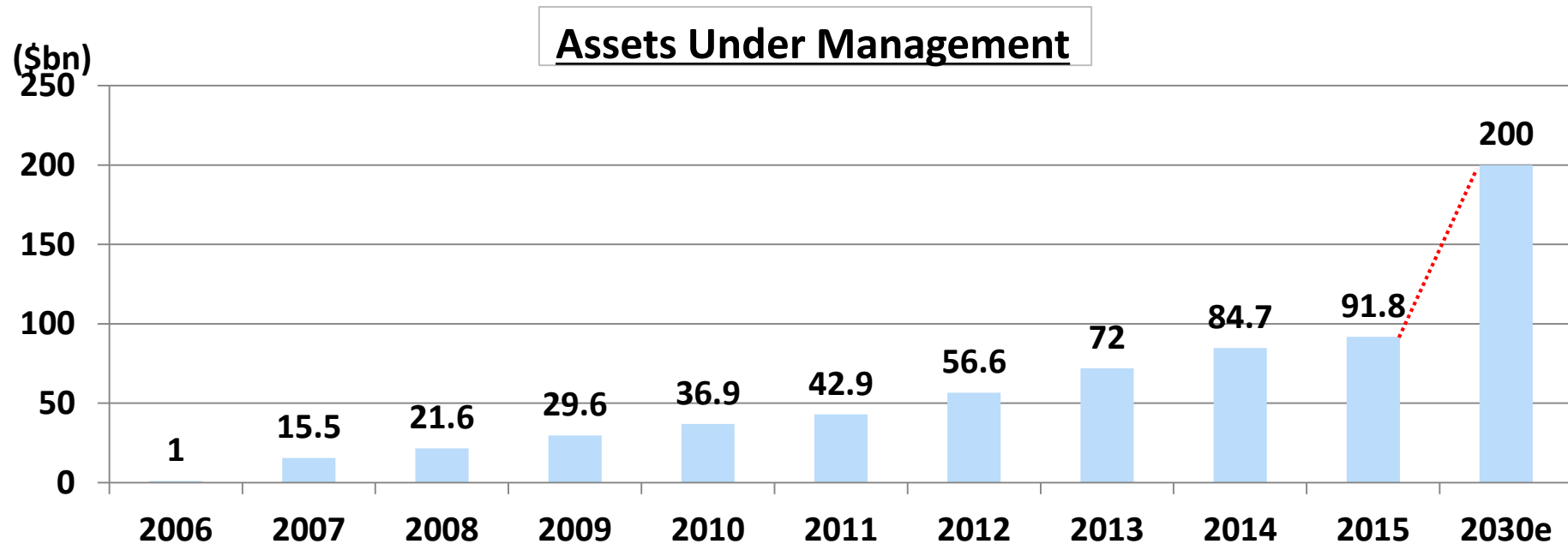
FINANCIAL STATEMENT : *Total Debt of RoK Government*

* Cash basis (tr won)

	2014 Total (A)	2015		Net Change	
		Exp*(B)	Total (C)	YoY (C-A)	Compared to Exp(C-B)
◇ Central Government (A)	503.0	561.2	556.5	53.5	-4.7
(Ratio to GDP, %)	(33.9)	(36.3)	(35.7)	(1.9%p)	(-0.6%p)
▪ Gov't bonds	498.1	556.2	551.5	53.5	-4.7
- Korea Treasury Bonds	438.3	490.6	485.1	46.8	-5.4
- Korea International Bonds	7.0	7.0	7.1	0.1	0.1
- National Housing Bonds	52.8	58.7	59.3	6.5	0.6
▪ Loans	2.6	3.1	3.3	0.7	0.2
▪ Others	2.4	1.8	1.7	-0.7	-0.1
◇ Local Government (B, Exp.)	30.1	34.0	34.0	3.8	-
◇ National Debt (A+B, Exp, D1)	533.2	595.1	590.5	57.3	-4.7
(Ratio to GDP, %)	(35.9)	(38.5)	(37.9)	(2.0%p)	(-0.6%p)

SOVEREIGN WEALTH FUND *(Korea Investment Corporation)*

- Established in 2005 by the ACT
- Financial Asset Management Role
- Trusted by Government, BoK and public funds
- **The Steering Committee** *(decision making body)*
 - ✓ Six financial experts + Minister of Finance + Governor of BoK + CEO of KIC



STRENGTHENING EXTERNAL SOUNDNESS

Macro-prudential measures

- Cap on FX derivatives positions: domestic banks(40%) , foreign bank branches(200%)
- Stability Levy: 10% levy on non-deposit foreign currency liabilities
- Restoring withholding tax on foreigners' bond investment (equal treatment between residents and non-residents)

Micro-prudential measures

- Introducing Foreign Currency Liquidity Coverage Ratio:
Minimum ratio(domestic banks): 2017(60%) → 2018(70%) → 2019(80%)
- Mid-to Long-term Funding Resources Ratio

TAKEAWAY

◆ Numbers matter

- Accurate statistics and reporting system

◆ Don't be in a hurry

- SALM is not a sprint; It's a marathon
- Needs enough of time and enormous resources.

◆ It's all about "Starting"

- There is no short-cut. Just start where you are, what you can do

◆ Don't be alone (coordination, cooperation, & integrity)

- Show and share the benefit, mobilize support in and out
 - ex) Public Capital Management Fund (risk reduction through buffer)

◆ External Balance

- Resilience to external shock (open economy with non-key currency)

Thank You

