Public Sector Debt FAQ

1. Why is the government releasing information regarding the public sector debt?

There are 3 main reasons why the government started following international guidelines* to calculate public sector debt and why the government made this information public:

- Preemptively manage fiscal risks, such as public corporation debt, that can become a burden on the economy.
- Contribute to public sector reform by making information regarding public sector debt, including public corporation debt, available to the public.
- Boost public sector transparency as part of realizing administrative initiatives and promoting 'government 3.0.'

*Public Sector Debt Statistics (PSDS): Guide for Compilers and Users (2011), a guide developed jointly by the IMF along with 8 other international organizations

2. Why is this new measure of public sector debt lower than when the national debt (443.1 trillion won) and public institution debt (493.4 trillion won) were simply added together?

The government used to simply add together the national debt and public institution debt and called that 'public sector debt.' However, the system that the government is using now excludes internal transactions.

Internal transactions within the public sector have been excluded from the debt calculation in order to prevent instances of double-counting. Public bonds owned by the National Pension Fund have been excluded when calculating public sector debt due to being counted as an internal transaction. Internal transactions within the general government* and between the general government and public enterprises** have been excluded.

*internal transactions within the central government (11.3 trillion won) and internal transactions between the central government and local governments (15.8 trillion won)
**debt securities transactions between the National Pension Fund and non-financial public corporations (30.8 trillion won) and internal transactions between the National Housing Fund and the Korea Land and Housing Corporation (29.7 trillion)

3. Why are pension liabilities and publicly guaranteed debt accounted for separately and not included in the calculation for public sector debt?

Taking into account the nature of the debt and international guidelines, the pension fund liabilities and publicly guaranteed debt are not included in the public sector debt calculation. However, they will be accounted for and made public in order to preemptively manage future fiscal risks.

Public sector debt as calculated by the new guidelines is debt that must be paid, while payments regarding pension liabilities can be modified in the future. The US and UK also follow the accrual basis of accounting and, like Korea, do not include pension liabilities and publicly guaranteed debt in their debt statistic calculations.

Publicly guaranteed debt is an explicit contingent liability that does not arise unless a particular, discrete event occurs in the future, and is not included in public sector debt calculations as it is a debt that may never be called.

4. Why are pension fund liabilities not included?

Public pension liabilities and other social guarantees are not included in the public sector debt calculation according to the international guidelines. At this time, there are no countries that calculate social security liabilities and release that information to the public.

5. Why is public financial corporation debt excluded?

The nature of public financial corporation debt is different from other forms of debt in that deposits in these corporations are regarded as debt. Public financial corporations use debt, such as deposits, to engage in financial activities, such as offering loans and making investments. On the other hand, nonfinancial public corporations procure funds by issuing bonds in order to provide goods and services to the real economy.

The assets held by public financial corporations are, for the most part, quite liquid and therefore their debt should be managed by taking into account the Bank of International Settlements (BIS) ratio, which measures bank solvency, along with other measures.

*According to article 2.50 of the PSDS: Relative to other subsectors of the public sector, public financial corporations may tend to have relatively large levels of gross debt and relatively low, or negative, net debt because of their role in financial intermediation.

6. What types of public sector debt have the highest potential for becoming a burden that must be borne by the public (such as in the form of higher taxes)?

It is quite difficult to accurately calculate exactly what level of debt will correspond with an increased burden on the public.

However, 220 trillion won of the national debt may become a burden on the public as of the end of the 2012 fiscal year, and debt held by public institutions will not become a burden. Any public sector debt problems will be resolved by increasing management efficiency.