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2022 BUDGET PROPOSAL

2022 BUDGET DRAWN UP TO HELP MAKE STRONG LEAP FORWARD BEYOND RIDING OUT PANDEMIC

The government proposed an expansionary budget of 604.4 trillion won for 2022, an 8.3 percent increase from the previous year. Tax revenues growing extensively backed by steady recovery, fiscal deficits are expected to decline substantially by 20 trillion won in 2022. The 2022 budget aims to help citizens recover from the pandemic, promote the sharing of economic recovery and push toward an adequate preparation for a post-pandemic economy. In 2022, the government will work toward these goals as it will increase recovery-support investment, raise spending on inclusive growth, boost investment in net-zero, digital transformation and other restructuring issues, and reinforce social security insurance.

The 2021-2025 fiscal management plan has been drawn up to secure fiscal sustainability in the mid-term according to the fiscal rules, as well as through fiscal spending innovation.

I. 2022 Budget Proposal

1. Key Policies

- Maintain budgets expansionary to help achieve inclusive recovery, as well as take steps toward jumpstart
- Reinforce fiscal roles in fighting the pandemic, from vaccination to small business support
- Achieve a virtuous cycle of increased fiscal spending and growth, despite the spending boosted due to the pandemic
- Invest in net-zero, digital transformation and other issues to open a better future
- Strengthen citizen protection and welfare
- Reduce discretionary spending and promote inter-ministerial cooperation

2. Key Features

(Total Revenues) The government revenues are projected to be 548.8 trillion won, an increase of 6.7 percent compared with the 2021 supplementary budget, backed by steady recovery.

(Total Expenditures) The total government expenditures will be 604.4 trillion won, an increase of 8.3 percent compared with the 2021 original budget.

(trillion won, %)

	2021 Budget		2022 Budget Proposal
	Original	Supplementary	
Total Government Revenues (y-o-y, %)	482.6 (0.2)	514.6 (6.8)	548.8 (6.7)*
Total Government Expenditures (y-o-y, %)	558.0 (8.9)	604.9 (18.1)	604.4 (8.3)

* Change from the 2021 supplementary budget

(Fiscal Balance) Deficits in the consolidated fiscal balance will decline from 4.4 percent to GDP to 2.6 percent, compared with the 2021 supplementary budget.

(Government Debt) Government debt is expected to rise compared with 2021 from 47.3 percent to GDP to 50.2 percent.

(trillion won, %)

	2021 Budget		2022 Budget Proposal
	Original	Supplementary	
Consolidated Fiscal Balance (% to GDP)	-75.4 (-3.7)	-90.3 (-4.4)	-55.6 (-2.6)
Government Debt (% to GDP)	956.0 (47.3)	965.3 (47.3)	1,068.3 (50.2)

Budgets by area

(trillion won)

	2021 Budget (A)	2022 Budget Proposal (B)	Changes	
			B-A	B-A (%)
Total Expenditures	558.0	604.4	46.4	8.3
1. Health, Welfare, Employment	199.7	216.7	17.0	8.5
2. Education	71.2	83.2	12.0	16.8
- Grants to local governments	53.2	64.3	11.1	20.8
3. Culture, Sports, Tourism	8.5	8.8	0.3	3.9
4. Environment	10.6	11.9	1.3	12.4
5. R&D	27.4	29.8	2.4	8.8
6. Industry, SME, Energy	28.6	30.4	1.8	6.0
7. SOC	26.5	27.5	1.0	3.8
8. Agriculture & Forestry, Fishery, Food	22.7	23.4	0.7	3.4
9. National defense	52.8	55.2	2.4	4.5
10. Diplomacy, Reunification	5.7	6.0	0.3	5.7
11. Social order, Safety	22.3	22.4	0.1	0.3
12. Public administration, Local governments	84.7	96.8	12.1	14.3
- Grants to local governments	51.8	64.1	12.3	23.9

Budget allocation summary

The expansionary budgets are to properly finance Korean New Deal 2.0, pursue carbon neutrality, strengthen social safety nets to narrow the gaps widening due to the pandemic and help local governments.

- Increase environment budgets by 12.4 percent from the previous year to finance the 2050 net-zero goals and other green issues, such as waste treatment and water quality
- Increase R&D budgets by 8.8 percent to support Korean New Deal 2.0 projects and promote new industries
- Strengthen health and welfare budgets by 8.5 percent to finance the 100 percent vaccination plan and improve employment security, such as by expanding employee insurance to all citizens

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- Expand the industry and SME budget by 6.0 percent to promote business restructuring, as well as help pandemic-hit small businesses
- Increase subsidies to local governments by 22.7 trillion won and set 0.75 trillion won worth of rural depopulation budgets

3. Budget Proposal by Initiative

Investment to support fast recovery and have the country well equipped

Jobs

- Increase the employment support budgets to 31.3 trillion won with the focus shifting from crisis response to preparation for the future
- Create a total of 2.11 million jobs in the public and private sectors
- Expand public jobs to 1.05 million to help the elderly, physically-challenged and low-income households
- Support private job creation of around 1.06 million, including 59,000 SW jobs

COVID-19 Vaccines

- Spend 664.9 billion won to help develop vaccines, a total of 2.2 trillion won planned to be invested by 2026 in vaccine development
- Invest 50 billion won in a 1 trillion won worth of public-private joint fund for vaccine development, spend 192 billion won on the purchase of 10 million doses of vaccines and 6.8 billion won to support vaccine production
- Work to commercialize country's first vaccine by the first half of 2022, and work to expand the vaccine market share to one fifth of the global total by 2025

SOC improvement

- Make a highest-ever SOC investment of 27.5 trillion won, 20 percent of which will be invested to improve metro transportation systems and build smart SOC
- Spend 600 billion won on the Seoul metropolitan area high speed train system

Support inclusive growth and help bridge the gap

Strengthen social safety nets

- Raise the spending on social security benefits and entitlements to 16.4 trillion won, standard median income hiked by 5.02 percent
- Work to introduce sickness benefits at 60 percent of minimum wage, 2.63 million workers first benefiting from the program in 2022
- Expand employment insurance to low-income independent workers, thus 200,000 platform workers and 430,000 daily and temporary workers made eligible for the insurance program

Fix the widening gap in the post pandemic world

- Spend 41.3 trillion won to narrow gaps in education, housing, healthcare, daycare and cultural activities
- Increase college tuition support, adopt temporary housing support for young adults and supply 210,000 rental homes
- Give social workers up to 9.4 percent raise to improve the quality of their care

Expand low-income household support

- Increase budgets for low-income household support to 23.3 trillion won
- Introduce a 30 percent income tax deduction to single parents, and double their childcare benefits to 200,000 won a month
- Increase veterans' benefits by 5 percent and introduce a program to help them with medicine costs, up to 250,000 won a year

Support pandemic-hit small businesses

- Spend 1.8 trillion won on small business compensation for losses amid prolonged social distancing
- Expand the retrial-after-failure support by more than threefold to 3.9 trillion won, which includes 1.4 trillion won worth of emergency funds, business consulting services, financial support for new business opening and online sales opportunities

Support local development

- Invest a total of 52.6 trillion won in local government fiscal support, local infrastructure development, local government New Deal projects and rural depopulation
- Spend 22.3 billion won on megacity development planning

Expand support for farmers and fishermen

- Increase the farmers and fishermen support by 3.4 percent to 23.3 trillion won
- Lower the age limit for reverse farm mortgages to 60 and spend 2.4 trillion won on direct payments for farming and fishing
- Invest 558.6 billion won in rural improvement projects

Support net-zero, digital transformation and new industries

Invest to help achieve the 2050 net-zero goal

- Invest 11.9 trillion won in NDC¹, such as in green financing worth 7.6 trillion won, green mobility, forest development, business restructuring support and CCUS² technology development
- Launch 2.5 trillion won worth of climate funds and try out the greenhouse gas reduction awareness budget

Invest in Korean New Deal 2.0

- Invest 33.7 trillion won in Korean New Deal 2.0³, which will be followed by 160 trillion won worth of investment by 2025
- Out of the 33.7 trillion won, invest 9.3 trillion won in metaverse and similar technologies for connectivity, 13.3 trillion won in smart and green cities and 11.1 trillion won in Human New Deal projects, such as human resources development and young adult support

Develop high-tech workforce

- Spend 2 trillion won on training programs for 20 new technologies ranging from AI and SW to a system-on-a-chip and space exploration

¹ Nationally determined contributions

² Carbon capture, usage and storage

³ Digital New Deal, Green New Deal and Human New Deal

- Invest 400 billion won in advanced industry-university cooperation (LINC⁴ 3.0), promote online offerings of college programs which meet industry demand, and provide support for future doctors and health scientists to strengthen the bio-health sector (979 students)

Increase spending on R&D

- Expand the New Deal R&D budget by 48.1 percent to 3.6 trillion won
- Reinforce Covid-19 vaccine R&D to help deal with variants, and increase investment in BIG3⁵ and other key industries of the future to 2.8 trillion won
- Invest 0.7 trillion won in satellite navigation, space exploration, quantum technology, 6G and other frontier technologies

Offer citizens adequate protection and help improve quality of life

Control disease

- Spend 3.5 trillion won on Covid-19 vaccine rollouts, including 2.6 trillion won worth of purchases for 90 million doses
- Expand the mandatory vaccination support, such as to shots against cervical cancer
- Invest 1.8 trillion won in Covid-19 control from testing to quarantine and treatment, as well as to 10,000 hospital beds reserved for those critically ill
- Increase the number of infectious disease hospitals and provide 35 designated local health centers with Covid-19 treatment equipment
- Spend 500 billion won on Covid-19 vaccine R&D

Invest in citizen safety

- Spend 21.8 trillion won in controlling natural disasters, preventing accidents and improving the environment such as water qualities and waste treatment
- Spend 300 billion won on mental healthcare programs to help those confronting corona depression, and finance the replacement of old equipment in small workplaces

Improve child benefit

- Expand the child benefit to children younger than 8 years
- Expand the family support package to 4.1 trillion won as it will include an infant benefit of 300,000 won a month and childbirth allowance of 2 million won, as well as an infant-care-leave benefit of up to 3 million won a month

Invest to fight against child abuse and protect underprivileged

- Increase budgets for fighting against child abuse by 40 percent to over 100 billion won, which will go to Welfare Ministry's general account for spending efficiency
- Offer internship opportunities for as many as 8,000 women who want to be reemployed
- Triple the smartwatches to 10,000 and newly invest 1 billion won in voice phishing detection

Strengthen defense capabilities

- Increase national defense budgets to 55.2 trillion won to support high-tech weapons development and operational capabilities, R&D budgets raised to 4.9 trillion won and education budgets to 200 billion won

⁴ Leaders in Industry-University Cooperation

⁵ A system-on-a-chip, bio-health and future cars

- Spend 4.7 trillion won to boost morale, such as on military pay raise and matched saving programs
- Increase ODA to 4.0 trillion won to support Korean companies' participation in relevant projects, and raise foreign affairs and reunification budgets to 6.0 trillion won

4. Three Policies to Achieve Fiscal Spending Innovation

1) Reduce 10 percent of discretionary spending

- Restructure 10 percent of discretionary spending and reinvest it in future growth engines, for example, budgets cut in pandemic reliefs and employment support are to be reinvested in venture support and high-tech workforce training
- Make an additional 1.7 percent cut following the 2021 budget in government officials' current expenses, as well as cut subsidies to private sector projects and operating costs of government owned institutions

2) Increase budgets for inter-ministerial cooperation

- Increase the inter-ministerial cooperation budget by over 40 percent to 14 trillion won to support 17 issues, such as vaccine development, labor market restructuring and space exploration
- Work for the cooperation budget to help avoid investment overlap and bring successful investment outcomes

3) Meet the needs of the citizens

- Budgets to meet the needs of the citizens: Funds to provide shelters for child abuse victims, adopt a teenage single parent package, replace old medical equipment in leprosy hospitals and improve the fresh food inspection system
- Budgets to meet local governments' demand: Funds to open infectious disease hospitals in their regions, make freshwater systems smart and build an autonomous vehicle testbed

II. 2021-2025 National Fiscal Management Plan

1. Mid-term Fiscal Management Goals and Fiscal Outlooks

- Mid-term fiscal management goals set taking into account faster-than-expected recovery and tax revenue increases that follow
- Fiscal resources management aimed at ensuring fiscal sustainability, as well as supporting inclusive growth, smooth transition to a post-pandemic economy and measures to address demographic challenges
- Fiscal policies to remain expansionary in 2022, normalization to start from 2023 and fiscal spending to be in harmony with real GDP growth in 2025
- Deficits in consolidated fiscal account expected to decline from between 4 to 5 percent to GDP in 2021 to 3 percent to GDP in 2025, government debt to reach over 58 percent in 2025
- The 2021-2025 outlook drawn up according to the fiscal rules⁶ announced in October 2020, compared with the 2020-2024 outlook projected last year, consolidated fiscal balance to improve 1.1 percentage points for 2022-2024 and government debt to GDP to improve 2.2 percentage points in 2024

⁶ Government debt to GDP not to exceed 60 percent of GDP and consolidated fiscal balance deficits not to exceed 3 percent of GDP

Mid-term Outlook for Government Revenues and Expenditures

(trillion won, %)

	2021		2022	2023	2024	2025	Annual growth (%)
	original	supplementary					
Total Government Revenues	482.6	514.6	548.8	570.2	593.9	618.5	4.7 ¹
- Tax Revenues	282.7	314.3	338.6	352.9	367.7	383.1	5.1 ²
Total Government Expenditures	558.0	604.9	604.4	634.7	663.2	691.1	5.5

1. From the 2021 supplementary budget (6.4 from the original budget)

2. From the 2021 supplementary budget (7.9 from the original budget)

Mid-term Outlook for Fiscal Balance and Government Debt

(trillion won, %)

	2021		2022	2023	2024	2025
	original	supplementary				
Consolidate Fiscal Balance minus Social Security (% to GDP)	-75.4 (-3.7)	-90.3 (-4.4)	-55.6 (-2.6)	-64.5 (-2.9)	-69.4 (-3.0)	-72.6 (-3.0)
Government Debt (% to GDP)	956.0 (47.3)	965.3 (47.3)	1,068.3 (50.2)	1,175.4 (53.1)	1,291.5 (56.1)	1,408.5 (58.8)

2. Key Policies

Continue to support inclusive growth, transition to a post-pandemic economy and solutions to demographic challenges

- Invest in recovery-boosting measures and improve support for pandemic-hit businesses and households
- Properly support transition to a digital and low-carbon economy, and promote strategic industries
- Finance policies to tackle demographic challenges arising from low birth and ageing population, as well as rural depopulation

Maintain fiscal sustainability

- Work to increase revenues by putting an end to tax support that proves ineffective, fixing tax loopholes and actively managing national properties
- Reset investment priorities according to changes in environment, ending unfruitful projects and promoting joint projects which require inter-ministerial cooperation
- Draw up spending plans taking into consideration GDP growth, make fiscal rules into law and strengthen fiscal resources management to guarantee social security benefits

Pursue fiscal innovation

- Work on project-based budget planning, instead of ministry-based budget planning
- Launch funds for climate change response, greenhouse gas emissions awareness and rural depopulation solutions
- Explore SOC projects appropriate for private investment, promote private participation in national properties development and seek ways to make the best use of national properties
- Improve the national contract system, including public procurement, to promote industrial innovation and new industries

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- Continue to run a platform for citizen participation in government budget planning
- Reform the government budget and accounting system for increased transparency

III. Future Plans

The 2022 budget proposal and the 2021-2025 National Fiscal Management Plan will be submitted to the National Assembly on September 3, after proceeding through the Cabinet Meeting on August 31.