

# Press Release



MINISTRY OF  
STRATEGY  
AND FINANCE

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## 2013 BUDGET PROPOSAL

### I. 2013 Budget Overview

#### 1. Economic and Fiscal Conditions

##### *Economic Conditions*

Due to strengthened policy responses by major countries, the global economy seemed to be gradually recovering, but with the persistence of the European fiscal crisis, uncertainties remain.

*\* The IMF forecast for the global economic growth rate as of July 2012 is 3.5% for 2012 and 3.9% for 2013.*

There are uncertainties with regards to internal and external conditions, but with a recovery in global demand and the gradual improvement in domestic consumption, the Korean economy is forecast to grow about 4 percent in 2013. Inflation is forecast to rise to about 3 percent, more than the 2.8% predicted for this year, due to the economic recovery and a rise in global grain prices. Employment continues to increase, but when compared to this year's increase of 400,000 jobs, the rate is expected to slow down somewhat due to a base effect as well as internal and external economic conditions.

*\*Due to developments in the European fiscal crisis and stimulus measures by key countries, the economy is fraught with upside and downside risks*

##### *Fiscal Conditions*

Total government revenue is forecast to slow down as the economy continues to struggle owing to worsening external conditions, such as the European fiscal crisis. Total government expenditures are forecast to increase, due to non-discretionary spending and the demand for the government to increase its role. Non-discretionary spending has increased mainly because of entitlements, including the 4 major entitlements, such as the public pension and health insurance. The demand for expanded government expenditure will continue in order to boost economic dynamism, ease gaps by sector and solve social anxiety problems.

## 2. 2013 Total Fiscal Amount

### *General*

Active fiscal management is required in this difficult time where it is impossible to increase fiscal spending as much as is needed due to worsening tax revenue conditions. Fiscal spending will be increased to the maximum possible within the basic scope of maintaining fiscal balance. By improving fiscal management methods, real spending can be increased.

Total government spending will increase in 2013 by 5.3 percent, which is a 2 basis point increase over the average spending rate increase forecast from 2011 to 2015 of 5.1 percent. In 2013, there will be a budget deficit of 0.3% GDP. However, the ratio of sovereign debt to GDP will fall compared to this year from 34% this year to 33.2% next year.

Improved fiscal management methods will be used to increase the effect of total government spending without worsening fiscal balance. The actual government total fiscal spending will be increased by 2.0 percent from 5.3 percent to 7.3 percent through financing from public and private financial institutions, and the government will pay the difference on the spread between government loans and these financial institutions' loans.

The public loans worth 3.5 trillion won secured thanks to this method will be used to invest in economic response measures, public welfare stability and regional support.

### *Total Revenue and Total Spending*

Total revenue for 2013 is forecast to be 373.1 trillion won, an increase of 8.6% over this year and total spending will be 342.5 trillion won, an increase of 5.3% over this year.

(Trillions of won, %)

	'12 Budget		'13 Budget Proposal	
		Growth		Growth
<b>Total Revenue</b>	<b>343.5</b>	<b>9.3</b>	<b>373.1</b>	<b>8.6</b>
Budget	234.0	10.3	253.8	8.4
(Nat'l Tax)	(205.8)	(9.7)	(216.4)	(5.2)
Funds	109.5	7.1	119.3	8.9
<b>Total Spending</b>	<b>325.4</b>	<b>5.3</b>	<b>342.5</b>	<b>5.3</b>
Budget	228.1	5.4	242.4	6.3
Funds	97.3	5.0	100.1	2.8
<b>Actual Spending*</b>	<b>325.4</b>	<b>5.3</b>	<b>349.2</b>	<b>7.3</b>

\* After including the public and private financing, real total spending increases from 5.3% to 7.3%

### *Fiscal Balance and Sovereign Debt*

There will be a small budget deficit of 0.3% GDP in 2013, which maintains a path towards fiscal balance. From the 2012 budget deficit of 1.1% GDP, it is an improvement of 0.8% GDP.

Sovereign debt will be reduced from 34% GDP in 2012 to 33.2% GDP.

	'12 Budget	'13 Budget Proposal	+/-
Fiscal balance*	△14.3	△4.8	9.5
(% GDP)	(△1.1)	(△0.3)	(0.8p)
※ Consolidated Fiscal Balance	18.1	30.6	12.5
Sovereign Debt	445.2	464.6	19.4
(% GDP)	(34.0)	(33.2)	(△0.1p)

\*The fiscal balance does not include social security funds.

### ***The Main Points of the 2013 Budget Proposal***

The 2013 budget proposal is a **vitalizing budget** for economic recovery. This budget supports a real economic recovery by strengthening export support and reinvigorating domestic consumption by promoting domestic and foreign corporate investment. Regional economies will be revitalized with enhanced regional SOC investment and fiscal support for local governments.

This is a **confident budget** that promotes jobs, welfare and safety. There will be tailored welfare support according to benefit class and the stage of one's life. Income and welfare will be promoted through measures such as increasing jobs and improving structural employment. Violence and natural disaster prevention investment will be expanded, and military core strategy investment will be strengthened.

This is a **strong budget** that transforms Korea's economic constitution. High-level domestic talent will be trained, and future growth engines will be nurtured by fostering the service industry and expanding investment in creative and leading R&D. Both sectors in which Korea has a core competency, such as steel, fabric and IT, and vulnerable industries, including small business, agricultural and fishery industries and household debt will receive enhanced support.

This is a **frugal budget** that sheds 'fiscal fat.' Fiscal management methods will be improved and expenditure restructuring will be promoted. This is a trimmed-down budget that invests in areas that need it, such as public welfare stability and economic response measures.

## **II. Main Tasks**

### **1. A Vitalizing Budget for Economic Recovery**

The 2013 budget proposal will energize the economy in the face of economic difficulties by growing the domestic economy, supporting exporters, and revitalizing regional economy.

#### ***Growing the Domestic Economy***

To support small- and medium-sized enterprises (SMEs), a total of 78 trillion won will be made available to SMEs from both the public sector and private sector. Aid for SMEs that

develop businesses customized to different consumer needs will increase from 30 billion won to 50 billion won. The government will make a 60 billion won investment in a facility investment fund that the government-owned Korea Development Bank and the Industrial Bank of Korea established to finance SMEs. Also, the government will give support to companies returning to Korea and actively attract foreign direct investment.

### ***Supporting Exporters***

Trade finance will be expanded by 30 trillion won to 300 trillion won, with finance for exporters increasing by 10 trillion won and government support for trade insurance rising by 20 trillion won. The government will help exporters open new markets and promote their products effectively by setting up new overseas offices to assist exporters. The government will spend 10 billion won in helping exporters supply products to large global retailers and 11 billion won to promote cooperation between small and large companies in international trade. To help companies increase exports through free trade agreements (FTAs), the government will provide consulting services and set up database to manage product origins. Also, the government will compile a list of international patent law cases, gather information about the related industry, and support exporters when they face international patent conflicts.

### ***Revitalizing Regional Economies***

The government will provide local governments with 1.3 trillion won, as the local governments saw their tax revenues decrease due to the acquisition tax cut in 2011 and 2012 and childcare benefits in 2012. The government will invest 1.2 trillion won in local infrastructure building to help grow regional industry. It will also promote regional economies by nurturing new growth engines and leading regional industries. The government will first prioritize infrastructures that need to be urgently completed and spend 23.9 trillion won on them. Investment in 30 major projects, which are expected to contribute substantially to regional economic growth, will also be increased.

#### **<Economic Revitalization Budget>**

*(billion won)*

	<b>2012 budgets</b>	<b>2013 proposals</b>	<b>Change</b>	<b>%</b>
SMEs	3,608.8	3,548.1	-60.7	-1.7
Facility investment	n/a	60	60	net increase
Support for returning companies	n/a	35.5	35.5	net increase
Investment in Kexim Bank	n/a	50.0	50.0	net increase
Investment in trade insurance fund	30.0	250.0	220.0	733.3
Financing local governments for their losses from acquisition tax cut	n/a	1,300.0	1,300.0	net increase
Tax allocated to local governments	33,029.5	35,538.5	2,509.0	7.6
Construction of roads to industrial complex	623.0	770.8	147.8	23.7
30 major projects	3,829.1	4,703.8	874.7	22.8
Investment in regional universities' facilities	251.2	353.1	101.9	40.6

## **2. Increasing Social Safety**

The social safety budget proposal covers job creation, employment-related entitlements, welfare services, violence and disaster prevention, food safety and national security,

### ***Job Creation and Employment Support***

25,000 new jobs will be created through government projects. There will be 100,000 new jobs for young adults and 20,000 for baby boomers. Those who participate in ‘the Employment Success Program’ will be paid a 25 percent increased attendance allowance of 400,000 won a month, which is designed to encourage working. Unemployment benefits and social security insurance will be made available to more people: People aged 65 or older and the self-employed will be eligible for unemployment entitlements and those earning less than 1.3 million won a month will be eligible to enroll in the national pension and employment insurance. There will be an increase in emergency unemployment support, along with extended support for job sharing programs.

### ***Customized Welfare***

The meningitis vaccination will be included in the national immunization program in addition to the current 11 vaccinations. Child-care benefits will now include families whose income falls between the 0 and 70 percentile. Public daycare centers will be increased by more than 50 percent, and more regional childcare centers and afterschool centers will be available. The total of 2.25 trillion won will be spent on college scholarships, and student loans will be expanded to 1.904 trillion won. Support for student housing will continue to increase.

For seniors and adults, there will be a 4 trillion won increase in housing support and 10,000 jobs for seniors will be added. Basic social security benefits will be expanded to cover 30,000 new recipients, back-to-work benefits will be expanded to 10,000 families, and emergency welfare support will be made available to more people for an extended period.

The disability benefits will be increased by 20,000 won, with relaxed requirements for the public personal care service for the disabled. The requirements applied to infants and children to determine disability will be relaxed, and disability rehabilitation support will apply less strict requirements. Aids for multicultural families will be increased by 9.4 percent, and consultation services will be offered to those families. Programs to help immigrants assimilate into Korean life will be enhanced, which will cover aid for learning the Korean language, interpretation services, mentoring courses and cultural activities. Financial aid given to North Korean defectors will be increased from 6 million per person to 7 million won.

Government support for the farm mortgage-backed retirement plan, which is available for farmers 65 years or older, will be increased from 19.0 billion won to 23.7 billion won. Various kinds of disaster insurance for agricultural and fishery industries will be introduced. The allowance given to mandatory service personnel will be increased 15 percent, and the veterans’ allowance will be increased, as well.

Programs to prevent sexual violence and end school violence will receive funding increases

of 54 percent and 60 percent, respectively. 5.8 trillion won will be allocated to natural disaster prevention, up 0.4 trillion won. R&D investment in nuclear safety, epidemic prevention and medicinal safety will also be increased from 236.5 billion won to 286.4 billion. The government will also increase investment in food and drinking water safety, transportation facility maintenance and transportation safety system development.

### <Social Safety Budget Allocation>

(billion won, %)

		2012 budget	2013 proposal	Change (%)
Job creation	Government projects	2,508.1	2,672.2	164.1 (6.5)
	Senior job creation	-	29.8	29.8
	Employment Success Program	268.6	347.6	79.0 (29.4)
	Social security insurance for low income class	265.4	479.7	214.3 (80.7)
Welfare	Child care	102.6	627.2	524.6
	College scholarship	1,750.0	2,250.0	(511.3)
	Senior employment	185.4	237.6	500.0 (28.6)
	Employment benefits for low income class	14.6	23.5	52.2 (28.2)
	Allowance for the disabled	294.6	344.0	8.9 (60.9)
	Allowance for the disabled	5.0	7.0	49.4 (16.8)
	College student mentoring program for multicultural families	19.0	23.7	2.0 (40.0)
	Farm mortgage-backed retirement plan	414.6	495.9	4.6 (24.3)
Safety	Veterans' allowance			81.3 (19.6)
	Crime reporting centers and CCTV installation	1.0	14.4	13.4
	Mental health care for youths	27.7	34.2	(1340.0)
	Natural disaster prevention	368.8	378.7	6.5 (23.5)
	ODA for green growth	196.7	273.5	9.9 (2.7)
				76.8 (39.0)

### 3. Promoting Sustainable Growth

The budget proposes to promote sustainable growth by developing future growth engines, increasing in quality human resources, reinvigorating Korea's core competencies and improving the vulnerable sectors of the economy.

#### *Future Growth Engine Development*

More than 50 percent of the R&D budget will be spent on scientific researches and source technology development. 3.5 trillion won will be invested in new growth engine R&D, and 2 billion won will be allocated to the commercialization of newly developed technologies. There will be a 21.3 trillion won investment made in green industry, along with an increased investment in energy resources development, which includes Shale gas and oil.

Special SME guarantees of 1.0 trillion won will be made available to service industries that generate more jobs, such as those related to environment protection, culture and logistics. There will be various kinds of support for the entertainment and performance industries. The government will invest 20 billion won in the pharmaceutical fund to be used for global pharmaceutical company M&A. Support for developing next-generation web technologies

will be increased from 9.1 billion won in 2012 to 25.2 billion.

### ***Nurturing Human Resources***

There will be 9.3 billion won more support to raise the academic competitiveness of universities, and 51 universities that are designated as ‘leaders in industry-university cooperation’ will receive increased support of 216.9 billion won. Support ‘the Pre-college Employment Program’ will be increased by 2.5 folds, which will enable more high school graduates to go to college.

### ***Improving Core Competency and Aiding Vulnerable Sectors***

To upgrade leading Korean industries, the government will invest in metal molding and welding technologies and facilities and increase support for clothing industries, such as fabric and design. Small enterprises will receive 1.1 trillion won, the largest of its kind, in 2013 through a new account for small enterprises. Support to help increase the competitiveness of the agricultural and fishery industries, which will face increases in domestic market competition due to FTAs, will be increased from 2.1 trillion won to 2.5 trillion won. The government will invest 120 billion won in the Korea Housing Finance Corporation to encourage a soft landing for household debt, and reduce mortgage interest rates by up to 1.0 percentage points for low income families.

#### **<Budget Allocation for Sustainable Growth>**

(billion won)

	<b>2012 budgets</b>	<b>2013 proposals</b>	<b>Change (%)</b>
WC 300 project*	30.0	55.0	25.0 (83.3)
Green technology R&D	3,008.8	3,629.5	620.7 (20.6)
Special guarantee for promising service industries	-	100.0	100.0
Raising competitive academics	15.6	21.6	6.0 (38.5)
Leaders in Industry-University Corporation	168.0	216.9	48.9 (29.1)
Raising competitiveness in vocational colleges	7.0	21.0	14.0 (200.0)
Fabric industries	17.5	48.4	30.9 (176.6)
Small enterprises financing	455.0	860.0	405.0 (89.0)
Support for agricultural and fishery industries in their preparation for FTAs	2,123.1	2,525.5	402.4 (19.0)
Investment in the Korea Housing Finance	-	120.0	120.0
Loan guarantee for low class households	120	120.0	-

\*World Class 300 projects, the government’s R&D project

## **4. Effective Spending**

In 2013, the government will finance borrowing with financial institutions rather than direct financing, and in this way fiscal resources are expected to be used more effectively. Only a small portion of the 3.5 trillion won assigned to government loans will be used to pay the borrowing cost difference between government loans and financial institutions’ loans. The

available loan amount will be 6.7 trillion won, 3.5 trillion won from public institutions and 3.2 trillion won from private institutions. The government will spend the amount made available through the method on Social Overhead Capital investment, SME support, job creation, social security improvement, and local governments.

The 2013 Budget Proposal is expected to save 3.7 trillion won through careful spending: 2.2 trillion won will be saved by cutting budgets for underperforming projects and 1.5 trillion won will be saved through adjustment made in R&D, subsidiary and national defense budgets.

### III. Total Budget Spending by Areas

(trillion won, %)

	2012	2013	2014	2015	2016	Average of 2012–2016 (%)
Total spending (Increase, %)	325.4 (5.3)	342.5 (5.3)	357.5 (4.4)	373.1 (4.4)	389.7 (4.4)	4.6
Welfare and employment	92.6	97.1	102.1	107.2	112.9	5.1
Education (Subsidies for local governments)	45.5 (38.4)	49.1 (41.0)	53.2 (45.3)	56.7 (49.1)	59.9 (53.1)	7.1 (8.4)
Culture, sports, tourism	4.6	4.8	4.8	4.9	5.1	2.5
Environment	5.9	6.3	6.4	6.5	6.6	2.5
R&D	16.0	16.9	17.5	18.2	19.5	5.0
Industry, SMEs, energy	15.1	15.7	15.3	15.3	15.4	0.5
Social Overhead Capital	23.1	23.9	23.0	22.7	22.7	-0.5
Agriculture, Fishery, Food	18.1	18.3	18.5	18.5	18.6	0.6
National Defense	33.0	34.6	36.2	37.8	39.4	4.5
Diplomacy and reunification	3.9	4.1	4.4	4.7	5.0	5.9
Public orders and social safety	14.5	15.0	15.7	16.5	17.3	4.5
Public administration (Subsidies for local governments)	55.1 (33.0)	57.3 (35.5)	61.6 (39.6)	65.7 (43.1)	70.0 (46.9)	6.1 (9.2)