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Contact Information: Park Cheol-kon (044-215-7111/ Budget Coordination Division)

2017 BUDGET PROPOSAL

2017 BUDGET TO FOCUS ON CREATING JOBS AND BOOSTING ECONOMY

The 2017 budget proposal promotes both expansionary policies and mid-term fiscal soundness. Total expenditures will be increased by 14.3 trillion won, or 3.7 percent, compared with the 2016 budget, and fiscal balance and national debt will improve compared with the 2015-2019 fiscal management plan. A total of 400.7 trillion won will be spent to successfully deal with economic and social changes and internal and external risks, improve people's livelihoods, increase birth rates, and enhance national security.

The 2016-2020 fiscal management plan is drawn up to bolster up growth and job creation, as well as to ensure fiscal soundness.

I. 2017 Budget Proposal

1. Key Policies

- Successfully deal with risks arising from internal and external uncertainties, and prepare for mid- to long-term changes, in particular demographic changes and industrial restructuring
- Help the economy add jobs and maintain growth momentum: The government will work to make its job creation investment most efficient, while helping exporters and SMEs¹ increase competitiveness, promoting local economies and supporting the development of future growth engines.
- Improve people's livelihoods and ensure national security: The government will strengthen support to raise birth rates and expand the welfare system tailored to specific needs, while working to make the society more secure
- Work to ensure fiscal sustainability: The government will increase budget spending efficiency by restructuring the current discretionary spending system and by getting rid of wasteful spending on overlapping or similar projects.
- Adopt national expenditure rules and require the public sector to draw up their own plans to improve financial soundness²

2. Key Features

(Total Revenues) The government revenues are projected to increase 6.0 percent compared with the previous year, backed by recovering consumption and lively asset markets.

¹ Small- and medium-sized enterprises

² The legislation of the act to require the public sector to work on improving fiscal soundness was announced in August 2016

(Total Expenditures) The total government expenditures will rise 3.7 percent from the previous year, the level at which the country can support economic recovery and job creation while maintaining fiscal soundness.

(trillion won, %)

	2016 Budget (A)	2017 Budget Proposal (B)	Changes	
			B-A	%
Total Government Revenues	391.2	414.5	23.3	6.0
- Tax Revenue	222.9	241.8	18.8	8.4
Total Government Expenditures	386.4	400.7	14.3	3.7

(Fiscal Balance) Deficits in the consolidated fiscal balance will improve by 0.3 percentage points compared with the 2015-2019 fiscal management plan, from 2.0 to GDP to 1.7 percent.

(Government Debt) Government debt is expected to decline by 0.6 percentage points compared with the 2015-2019 fiscal management plan, from 41.0 percent to GDP to 40.4 percent, as debt repayment will be made with increases in tax revenues and government budget surpluses.

(trillion won, %)

	2016 Budget (A)	2017		Changes (B-A)
		2015-2019 plan	Budget Proposal (B)	
Consolidated Fiscal Balance (% to GDP)	-36.9 (-2.3) ¹	-33.1 (-2.0)	-28.0 (-1.7)	8.8 (-0.3%p)
Government Debt (% to GDP)	644.9 (40.1) ²	692.9 (41.0)	682.7 (40.4)	37.8 (-0.6%p)

1. -2.4 percent to GDP according to the supplementary budget

2. 39.3 percent to GDP according to the supplementary budget

Social expenditures in 2017 will focus on raising birthrates and improving people's livelihood, while industrial expenditures will focus on developing future growth engines and implementing performance-based spending to increase efficiency.

Budgets by area

(trillion won)

	2016 Budget (A)	2017 Budget Proposal (B)	Change	
			(B-A)	%
Total Expenditures	386.4	400.7	14.3	3.7
1. Health, Welfare, Employment	123.4	130.0	6.6	5.3
- Job creation	15.8	17.5	1.7	10.7
2. Education	53.2	56.4	3.3	6.1
- grant to local education governments	41.2	45.9	4.7	11.4
3. Culture, Sports, Tourism	6.6	7.1	0.5	6.9
4. Environment	6.9	6.9	0.0	0.1
5. R&D	19.1	19.4	0.3	1.8
6. Industry, SME,	16.3	15.9	-0.3	-2.0

Energy				
7. SOC	23.7	21.8	-1.9	-8.2
8. Agriculture, Forestry, Fishery, Food	19.4	19.5	0.1	0.6
9. National defense	38.8	40.3	1.5	4.0
10. Diplomacy, Reunification	4.7	4.6	-0.1	-1.5
11. Social order, Safety	17.5	18.0	0.5	3.1
12. Public administration, Local governments	59.5	63.9	4.4	7.4
- Grant to local government	36.1	40.6	4.5	12.5

3. Budget Proposal by Initiative

Creating Jobs for the Future Generation

1) Increase Investment in Job Creation while Enhancing Spending Efficiency

- Increase job creation budgets by 10.7 percent from 15.8 trillion won to 17.5 trillion won, while maximizing spending efficiency through performance-based budgeting, using KDI³'s assessment of the current job creation projects

2) Create Jobs for Young Adults

- Promote job creation in industries favored by young adults, such as game, VR and technology convergence in IoT⁴
- Launch a startup package worth 50 billion won as well as university startup funds worth 15 billion won, while increasing the number of universities providing startup programs from 34 to 40, to encourage young adults to establish their own businesses.
- Newly provide support for university education programs designed to meet demand from industries, worth 96.8 billion won, while increasing the number of companies with work-study programs from 6,300 to 10,000

3) Increase Employment Support Tailored to Women and the Elderly

- Increase employment support given to companies for retaining female employees returning from maternity leave from 200,000 won per employee to 300,000 won, and increase support for substitute jobs that fill maternity leaves from 7,000 jobs to 10,000
- Work with companies to increase jobs for the elderly by 50,000

³ Korea Development Institute

⁴ Budget increases (billion won): Game (45.1 → 63.5), VR (19.2, newly allocated), IoT (12.0 → 27.6)

4) Strengthen Public Employment Services

- Increase the number of government employment centers from 70 to 100, and build an employment portal

Developing New Growth Engines

1) Increase Investment in Developing New Growth Engines

- Launch 9 R&D projects, worth 30 billion won, which require government-wide cooperation and are critical to further developing the nation's core technologies
- Invest in region-specific industries, a total of 3.1 trillion won in 2017-2019, in order to foster new and high value added industries
- Increase the number of smart factories from 1,245 to 1,750, and expand high-risk investment in pharmaceutical R&Ds from 215.4 billion won to 247.1 billion won
- Strengthen support for clean energy development, including fuel cells, from 453.6 billion won to 5844.4 billion won, as well as support for the development of the agricultural and fishery industries into a high value added one, the 6th industrialization

2) Foster Culture

- Build infrastructure to promote Korean culture, such as a large culture park and an arena for K-pop performance
- Promote the creation of cultural contents, in particular operas or ballets that use Korean stories
- Develop packaged tours to promote local tourism

Increasing Competitiveness of SMEs, Startups and Local Economies

1) Foster Exporters

- Newly invest 12 billion won in order to find exporters with excellent potential for exploring new markets
- Newly invest 9.2 trillion won to help diversify export markets for agricultural products

2) Support SMEs and Small Merchants

- Expand investment in the Tech Incubator Program for Startups from 56 billion won to 77 billion won
- Launch new R&D projects to help globally renowned Korean medium-sized enterprises, and expand World Class 300, a project to grow SMEs and medium-sized leading enterprises to be global players, from 85.3 billion won to 113.7 billion won
- Expand financial support for small merchants such as through guarantees and loans

3) Boost Local Economies

- Increase SOC investments and refurbish fresh water infrastructure
- Increase education grants to local governments

Raising Birthrates and Strengthening the Welfare Programs Tailored to Specific Needs

1) Raise Birthrates

- Increase affordable housing for the newly married and young adults
- Abolish income ceilings for fertility treatment support and increase the amount of the support for low income families
- Strengthen daycare support for working couples: expand support for all day daycare to kids younger than 2 years, increase support for opening daycare centers at SME work places
- Increase childcare support for single parents, and expand the coverage of the support to children younger than 15 years by 2019

2) Strengthen Tailored Welfare Programs

- **Kids, Students:** Invest to prevent child-abuse and expand educational opportunities, job training and consultation
Extend the third-child-and-onwards education support to 4th graders and increase the work and study scholarship given to university students
- **Middle Aged:** Increase the supply of rental housing affordable to low income families and continue to ease the burden of medical costs not covered by the national health insurance system
- **Elderly:** Increase the number of basic old age pension recipients from 4.80 million to 4.98 million, while expanding senior care service recipients by 7,000
- **Veterans:** Increase veterans allowance and construct more veteran sanatoriums

Enhancing National Defense Capabilities and Improve Public Safety

1) Enhance National Defense Capabilities and Improve the Welfare of Armed Forces

- Invest to enhance military capabilities: Support the establishment of KAMD and the development of Korean fighter planes.
- Invest to improve the welfare of armed forces: Soldiers to be paid 195,000 won a month in 2017, an increase from 98,000 in 2012, while budgets are increased for better meals and improved living conditions

2) Improve Public Safety and Quality of Life

- Build up a system for transmitting images real-time, increase safety patrols, replace old vehicles used for public safety purposes
- Increase investment from 82.4 billion won to 180.2 billion won to ensure that public facilities are earthquake proof
- Help reduce fine dust by increasing electric car subsidies, from 8,000 cars to 15,000 cars, hybrid car subsidies, from 33,000 cars to 60,000 cars and scrapped gasoline vehicle subsidies, from 38,000 cars to 60,000 cars, as well as by improving the air quality observation system

Improving Spending Efficiency

1) Reform Discretionary Spending System

- Have ministries to voluntarily reduce their discretionary spending by about 10 percent in order to prepare for the future, including low birth and an aged society
- Resources saved by the discretionary spending cut to be invested in creating jobs, developing future growth engines and operating new projects

2) Merge overlapping and similar projects

- A total of 689 projects have been merged, reaching more than 600, a target in the 3 Year Plan for Economic Innovation
- Additionally merge 205 projects in 2017, which are under initiatives such as multicultural family support, university R&D support, SME support and job creation

3) Thoroughly Evaluate Fiscal Programs

- Require new support programs, if they are worth more than 10 billion won, to go through a screening process, while requiring existing programs, if they last more than for 3 years, to go through evaluation for extension
- Restructure underperforming fiscal programs

II. 2016-2020 National Fiscal Management Plan

1. Key Policies

Fiscal resources management will be focused on growth and jobs in order to prepare for demographic changes, rising welfare spending and industrial restructuring.

- Prepare for structural changes in the economy due to demographic changes, the 4th industrial revolution and restructuring
- Restructure spending and reinvest saved resources in developing future growth engines
- Promote job creation by increasing investment, and reform employment support to better reflect demand

Mid- to long-term fiscal soundness will be improved to be well prepared for future fiscal risks.

- Enact a Fiscal Soundness Act to require all public entities to work on improving fiscal soundness
- Establish rules which regulate government debt and fiscal balance to effectively manage fiscal resources
- Pursue financial soundness in social insurance programs by integrating systems that estimate the financial balance of social insurance programs

The government will continue to improve spending efficiency.

- Increase local government spending efficiency and responsibility for fiscal soundness

- Avoid wasteful spending by carrying out thorough screening and comprehensive assessment, as well as by establishing an integrated system to efficiently manage government support programs
- Restructure public institutions: Adjust overlapping or similar functions between public firms and open markets to the private sector in line with changes in the economy and social demand, while continuing to improve the management efficiency of public institutions

2. Mid-term Fiscal Outlook and Fiscal Management Goals

- Total government revenues are projected to increase at an average of 5.0 percent every year in 2016-2020.
- Total government expenditures will be managed to increase at an average of 3.5 percent every year in 2016-2020.

Mid-term Outlook for Government Revenues and Expenditures

(trillion won, %)

	2016	2017	2018	2019	2020	Annual Growth (%)
Total Government Revenues	391.2	414.5	436.0	456.3	476.4	5.0
- Tax Revenues	222.9	241.8	252.1	264.5	277.2	5.6
Total Government Expenditures (growth, %)	386.4 (2.9)	400.7 (3.7)	414.3 (3.4)	428.4 (3.4)	443.0 (3.4)	3.5

- The consolidated fiscal balance minus social security funds will gradually improve in 2016-2020.
- Government debt will be managed at around 40 percent to GDP.

Mid-term Outlook for Fiscal Balance and Government Debt

(trillion won, %)

	2016 ¹	2017	2018	2019	2020
Consolidate Fiscal Balance minus Social Security (% to GDP)	-39.1 (-2.4)	-28.1 (-1.7)	-25.0 (-1.4)	-23.2 (-1.2)	-20.4 (-1.0)
Government Debt (% to GDP)	637.8 (39.3)	682.7 (40.4)	722.5 (40.9)	756.8 (40.7)	793.5 (40.7)

1. The 2016 figures involve the supplementary budget

3. Managing Korea's Fiscal Position

1) Enact Laws to Improve Fiscal Soundness

- Adopt laws to found a basis for improving fiscal soundness, such as rules regulating the management of government debt and consolidated fiscal balance minus social security funds
- Found a legal basis to require public sector entities, including local governments, to draw up plans for improving fiscal soundness
- Set up rules regulating how to estimate a long-term fiscal outlook, including rules concerning procedures, methods and terms

2) Increase Spending Efficiency

- Carefully examine the effect of fiscal projects before launching, thoroughly assess the performance of projects, and decide on the extension of support programs based on detailed assessment of spending efficiency
- Continue to work on merging overlapping or similar projects, and assess the outcomes of the mergers
- Encourage the private sector to participate in public infrastructure projects by reducing risks taken by the private sector

3) Ensure Revenue Increase

- Reform tax reductions and exemptions that are evaluated to be no longer effective, while tax breaks will be limited to those aimed at promoting job creation, boosting the economy and supporting working classes if they are approved through a screening process
- Broaden the tax base: Avoid tax fraud by tightly regulating the issuance of cash payment receipts and the imposing of VAT on buyers, work on broadening the capital gains tax base and revising VAT exemption

4) Strengthen Fiscal Management

- Improve the management of the 7 social insurance programs: Run a Policy Committee on the 7 Social Insurance Programs to increase the financial soundness of the programs and regularly examine their management efficiency
- Continue to work on the restructuring of public institutions, focusing on boosting productivity: Measures to restructure public institutions in the areas of healthcare, policy financing and industrial development will be prepared by the first half of 2017.
- Avoid benefit fraud by building an integrated management system to efficiently manage treasury grants-in-aid
- Carry out a comprehensive assessment of fiscal projects, instead of assessing by sector, such as the general account, R&D and regional projects, and reflect the outcome in the budget

2016-2020 Budget Allocation Plans by area

(trillion won, %)

	2016	2017	2018	2019	2020	Annual Increase
Total Expenditures (growth, %)	386.4 (2.9)	400.7 (3.7)	414.3 (3.4)	428.4 (3.4)	443.0 (3.4)	3.5
Health, Welfare, Employment	123.4	130.0	135.8	141.6	147.7	4.6
Education	53.2	56.4	58.8	61.0	63.4	4.5
Culture, Sports, Tourism	6.6	7.1	8.1	8.4	8.6	6.8
Environment	6.9	6.9	6.8	6.7	6.7	-0.6
R&D	19.1	19.4	19.7	19.9	20.2	1.5
Industry, SME, Energy	16.3	15.9	15.7	15.4	15.2	-1.7
SOC	23.7	21.8	20.3	19.3	18.5	-6.0
Agriculture, Forestry, Fishery, Food	19.4	19.5	19.4	19.3	19.3	-0.2
National defense	38.8	40.3	41.8	43.2	44.7	3.6
Diplomacy, Reunification	4.7	4.6	4.7	4.9	5.0	1.7
Social order, Safety	17.5	18.0	18.7	19.4	20.1	3.5
Public administration, Local governments	59.5	63.9	66.9	69.6	73.5	5.4

III. Future Plans

The 2017 budget proposal and the 2016-2020 National Fiscal Management Plan will be submitted to the National Assembly on September 2, after proceeding through the Cabinet Meeting on August 30.