

**Embargo:**

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## 2015 BUDGET PROPOSAL

### 2015 BUDGET PLANNED TO SUPPORT EXPANSIONARY FISCAL POLICIES

The 2015 budget proposal promotes expansionary policies as total budgets will be increased by 20 trillion won, or 5.7 percent compared with the 2014 budget. A total of 376 trillion won will be spent to help the economy build up recovery momentum, improve safety and support the working class. Deficits in fiscal balance and national debt are projected to temporarily increase from 1.7 percent to 2.1 percent and from 35.1 percent to 35.7 percent, respectively, but the government is confident that fiscal soundness will continue to improve in the mid- to long-term.

#### I. 2015 Budget Proposal

##### 1. Key Policies

The 2015 budget proposal supports expansionary fiscal policies, while emphasizing increased investment in job creation, domestic consumption and the creative economy in order to achieve sustainable growth. Investment to guarantee infrastructure safety will be increased, and supports for the working class will be strengthened.

Budgets will be more efficiently spent in 2015 by getting rid of wasteful spending on similar or overlapping projects and benefit fraud.

##### 2. The 2015 Budget Proposal

The government revenues are projected to increase 3.6 percent, which is smaller than a 6.2 percent increase forecast in the 2013-2017 national fiscal management plan.

The total government expenditures will rise 20 trillion won, or 5.7 percent, which is larger than a 3.5 percent increase projected in the 5 year national fiscal management plan. The increase is larger than the average supplementary budget of 5-6 trillion won in the past few years.

The 2015 budget proposal lays the foundations for creating a virtuous cycle of expansionary fiscal spending, increased consumption, economic recovery and increased revenues, while continues to pursue fiscal expenditure efficiency.

(trillion won, %)

	2014 Budget	2015 Budget Proposal
Total Government Revenues	369.3	382.7 (+3.6%)
Total Government Expenditures	355.8	376.0 (+5.7%)
Consolidated Fiscal Balance minus Social Security	-25.5	-33.6

(% to GDP)	(-1.7)	(-2.1)
Consolidated Fiscal Balance (% to GDP)	13.5 (0.9)	6.8 (0.4)
National Debt (% to GDP)	527.0 (35.1)	570.1 (35.7)

#### Budgets by area

*(trillion won)*

	2014 Budget (A)	2015 Budget Proposal (B)	Change	
			(B-A)	%
Total Expenditures	<b>355.8</b>	<b>376.0</b>	<b>20.2</b>	<b>5.7</b>
Social Security	106.4	115.5	9.1	8.5
Job Creation	13.2	14.3	1.1	7.6
Education	50.7	53.0	2.3	4.6
Sports, Tourism, Culture	5.4	6.0	0.6	10.4
Environment	6.5	6.7	0.3	4.0
R&D	17.8	18.8	1.0	5.9
Creative Economy	7.1	8.3	1.2	17.1
Industry, SME, Energy	15.4	16.5	1.1	7.0
SOC	23.7	24.4	0.7	3.0
Agriculture, Forestry, Fishery, Food	18.7	19.3	0.6	3.0
National Defense	35.7	37.6	1.9	5.2
Diplomacy, Reunification	4.2	4.5	0.3	6.9
Social order & Safety	15.8	16.9	1.1	7.1
Safety	12.4	14.6	2.2	17.9
Local Government	57.2	59.2	2.0	3.4

### **3. Budget Proposal by Initiative**

#### *Revitalizing the Economy*

##### **1) Create Jobs and Support Regional Economy**

- Increase the number of social workers from 199,000 to 206,000
- Raise employment support from 13.2 trillion won to 14.3 trillion won, which includes support for young adults' overseas employment, daycare support and flexible work hours for women
- Increase SOC investment from 23.7 trillion won to 24.4 trillion won

- Launch regional projects, such as those to fulfill regional campaign pledges and the establishment of the Happy Living Zone, an integrated area of cities and towns set up to improve living quality

## **2) Stimulate Corporate Investment and Promote Exports**

- Increase SME support funds by 5 trillion won to 97 trillion won
- Improve infrastructure in industrial complexes
- Foster exporters and help them enter foreign markets

## **3) Increase Support for Creative Economy, Promising Services and R&D Investment**

- Increase the creative economy support from 7.1 trillion won to 8.3 trillion won
- Develop a high-tech community in Pangyo, while increasing the number of the Creative Economy Centers
- Increase R&D investment to foster future growth engines including the 5<sup>th</sup> generation mobile communications technology, while maximizing research outcomes by promoting the trade of technologies and the work on industrial convergence
- Launch new funds for promising services while increasing the size of the existing funds
- Reform traditional industries, such as agricultural and fishery industries, to produce high added value

## ***Improving Public Safety***

### **1) Increase Investment in Public Infrastructure Safety**

- Greatly increase the safety budget from 12.4 trillion won to 14.6 trillion won
- Thoroughly overhaul public infrastructure, and increase repair and maintenance budget from 1.4 trillion won to 2.0 trillion won
- Provide 100 billion won support for firefighting equipment purchases
- Newly invest 50 billion won to integrate the current eight emergency communication systems into one in order to improve efficiency
- Foster safety experts and strengthen safety education

### **2) Improve Public Safety and Quality of Live**

- Increase the number of security cameras to 170,000 in and around schools, while more closely watching school meal safety
- Increase electric car subsidies from 800 cars to 3,000 cars, and introduce the hybrid car subsidies of 1 million won per car, for which 40,000 cars will be made eligible

### **3) Enhance National Defense Capabilities**

- Invest to enhance military capabilities
- Improve the safety and welfare of armed forces

## ***Strengthening Social Security***

### **1) Support Small Merchants**

- Increase small merchant funds from 1.2 trillion won to 2.0 trillion won, and provide low interest rate loans in order to help develop traditional markets
- Launch the Hope Return Package, a financial support for small business owners who want to close their businesses and return to paid employment jobs

## **2) Introduce 3 Packages of Vulnerable Class Support**

- Introduce the monthly regular employee wage support of up to 600,000 won per employee for up to 1 year from the time the employee was transferred from a non regular position to a regular position
- Introduce the Unemployment Credit, which will pay some of the National Pension Insurance payments for those temporarily losing jobs
- Launch SME retirement pension funds, which will provide the mount equivalent to 10 percent of the money saved by SME employees for the past three years and also pay 50 percent of fund management fees

## **3) Strengthen Tailored Welfare Programs**

- **Young adults:** Reduce tuition fees by half, promote starting business and provide vocational training
- **Women:** Increase the number of public daycare centers by 171 and part time jobs by two folds, of which the working hours are decided by woman employees
- **Elderly:** Increase the size of the basic old age pension from 5.2 trillion won to 7.6 trillion won
- **Farmers and Fishermen:** Provide low interest rate loans and increase the number of farm reverse mortgages

## **4) Increase Basic Living Expenses Support**

- Provide vaccination against hepatitis A to children and flu vaccination to the elderly
- Introduce an around 100,000 won energy voucher to 960,000 households in order to support heating expenses

# **II. 2014-2018 National Fiscal Management Plan**

## **1. Key Policies**

The government will adopt expansionary fiscal policies in the short-term to prop up the economic recovery and develop future growth engines, while the mid- to long-term fiscal management plans focus on improving fiscal soundness and strengthening fiscal fundamentals by developing a virtuous cycle of high growth and improved fiscal soundness.

The government will continue to work on fiscal restructuring, while increasing spending efficiency.

## **2. Mid-term Fiscal Outlook and Fiscal Management Goals**

- Total government revenues are projected to increase at an average of 5.1 percent every year in 2014-2018.
- Total government expenditures will increase at an average of 4.5 percent every year in 2014-2018.
- The consolidated fiscal balance minus social security will temporarily worsen as it will post a deficit of 1.7 percent to GDP, but will gradually improve to a deficit of 1.0 percent in 2018.
- National debt will be in the mid-30 percent range to GDP.

### 2014-2018 National Fiscal Management Plan

(trillion won, %)

	2014	2015	2016	2017	2018
Total Government Revenues	369.3	382.7	404.6	428.1	450.8
( % growth)	(-0.9)	(3.6)	(5.7)	(5.8)	(5.3)
- National Taxes	216.5	221.5	238.1	254.1	272.3
Total Government Expenditures	355.8	376.0	393.6	408.4	424.0
(% growth)	(4.0)	(5.7)	(4.7)	(3.8)	(3.8)
Fiscal Balance	-25.5	-33.6	-30.9	-24.0	-18.1
(% GDP)	(-1.7)	(-2.1)	(-1.8)	(-1.3)	(-1.0)
National Debt	527.0	570.1	615.5	659.4	691.6
(% GDP)	(35.1)	(35.7)	(36.4)	(36.7)	(36.3)

## **3. Fiscal Resources Management**

### **1) Reform Fiscal Management System**

The government will work on improving the fiscal management system on the basis of the following three directions.

- Redesign fiscal projects from the public perspective
- Reform fiscal structure
- Adopt private sector expertise

The government will continue to pursue reducing expenditures and increasing revenues by reforming the fiscal management system, and will adjust 600 fiscal projects, 10 percent of the total, by 2017, by combining overlapping or similar projects.

Funds which have been managed outside of the budget plan, such as revenues from sports lottery sales and the Korea Racing Authority's special reserve fund, will be managed according to the budget plan.

The government will strengthen the connection between budget allocation and project performance.

### **2) Broaden the Tax Base**

Tax reductions and exemptions that are evaluated to be no longer effective will be reformed, while tax breaks to support SMEs, working classes and middle-income households will be kept or gradually phase out.

The government will increase tax transparency by avoiding tax fraud, in particular strictly treating overseas tax evasion. The government will continue to work on revising and enacting laws to efficiently tackle tax evasion.

### **3) Strengthen Fiscal Risk Management**

The government will more tightly manage public sector debt by strengthening the monitoring and analysis of fiscal risk factors in public entities. The establishment of a public sector debt management system will be reviewed in the mid-term, and the government will produce a public sector fiscal risk report to do in-depth analyses of public sector debt, including debts in public enterprises, public pension funds and government guarantee programs.

Risk factors that may lead to a fiscal crisis will be more strictly monitored, which include risk factors in national debt, central government fiscal balance, public enterprises and local government fiscal conditions.

### **4) Budget Allocation Plan by Area**

Regarding social welfare, the government will build a welfare policy framework while at the same time making expenditures more efficient and expanding investment in income redistribution.

The government will continue to pursue establishing work-friendly welfare programs and a strong basic social security system, and will provide a better environment for research and higher education while at the same time strengthening job training programs and increasing lifelong learning opportunities.

Regarding the economy, the government will increase investment in 2015 to prop up the economic recovery. However, it will work on making fiscal investment more efficient in the mid-term.

The government will increase spending on public infrastructure safety and maintenance, and will continue to invest in SOC projects currently under construction. Support to stimulate corporate investment, exports and SMEs will continue to be strengthened, and at the same time R&D support for future growth engines, which includes fostering new industries and creating new markets, will be increased. With respect to agriculture and fishery, the government will strengthen the foundations of rural income creation by providing an improved social safety net and promoting the industries' competitiveness.

The government will continue to invest in public safety, and will found a basis for developing it into an industry.

## **III. Future Plans**

The 2015 budget proposal and the 2014-2018 National Fiscal Management Plan will proceed through the Cabinet Meeting on September 18, and will be submitted to the National Assembly by September 23.