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2014 BUDGET PROPOSAL REFLECTS PARK ADMINISTRATION CAMPAIGN PLEDGES AND DESIGNED TO PROMOTE ECONOMIC RECOVERY AND CREATE JOBS

The 2014 budget proposal promotes job creation and the economic recovery while minimizing the burden on the public.

I. The 2014 Budget Proposal

1. Economic and Fiscal Conditions in 2014

The Korean economy is expected to continue to recover owing to the gradually improving global economy and government policies to improve the domestic economy. The Korean economy is forecast to grow 2.7 percent in 2013 and 3.9 percent in 2014.* However, potential anxiety factors, such as increased financial market volatility due to tapering quantitative easing and the possibility of a slowdown in the growth rate of emerging economies, pose a risk to the Korean economy.

*Average 2014 growth rate forecast of major institutions: 3.8-3.9% (OECD, BOK, investment banks, among others)

The outlook for tax revenues continues to be poor due to the economic slowdown, and expenditures will continue to increase as welfare costs continue to rise and the central government continues to provide support to local governments. It is necessary for the government to stimulate the economy by promoting job creation, stimulating investment while maintaining fiscal expenditures at a reasonable level in order to strengthen the economic recovery.

The government will take care of its responsibilities by strategically managing public finances while at the same time taking into account the need to expand middle to long-term fiscal space to prepare for future risks.

2. The 2014 Budget Proposal

The 2014 budget proposal bears in mind the current troublesome tax revenue conditions, emphasizing the role public finance plays in stimulating the economy without hampering Korea's strong fiscal position.

Total government revenues are expected to drop to 370.7 trillion won, a 0.5 percent decrease from the original 2013 budget, due to a decrease in nontax receipts and a slowdown in the growth rate of national tax revenue. Total government expenditures will rise to 357.7 trillion won, an increase of 4.6 percent compared to the original 2013 budget, in order to promote economic recovery. The government will support the economic recovery by making the most of the increase in total

government expenditures in 2014, while holding the deficit in the fiscal balance in line with the 2013 budget.

The fiscal balance as a percentage of GDP is expected to post a deficit of 1.8 percent, the same level as the 2013 final budget. National debt as a percentage of GDP is expected to marginally rise compared to the 2013 final budget due to the poor tax revenue situation.

*National debt (%GDP, 2012): OECD average 108.8, USA 106.3, Japan 219.1, Germany 89.2, UK 103.9

(trillion won, %)

	2013 Budget				2014 Budget Proposal	Growth Rate	
	Budget	Growth Rate	Budget + Supplementary Budget	Growth Rate		Budget	Budget + Supplementary Budget
Total Government Revenues	372.6	8.5	360.8	5.0	370.7	-0.5	2.8
Total Government Expenditures	342.0	5.1	349.0	7.2	357.7	4.6	2.5
Consolidated Fiscal Balance minus Social Security (% GDP)	-4.7 (-0.3)		-23.4 (-1.8)		-25.9 (-1.8)		
National Debt (% GDP)	464.6 (34.3)		480.3 (36.2)		515.2 (36.5)		

Fiscal soundness will gradually improve over the middle to long-term. The fiscal balance will improve due to increased tax revenues, and a decrease in the growth rate of total government expenditures. The government will promote maintaining a strong fiscal position: tax expenditures will be reduced and the tax base will be widened, fiscal management systems will be tightened, and fiscal risk management systems will be improved.

The fiscal deficit will be reduced to just 0.4 percent in 2017, and national debt will stabilize in the 30 percent range (35.6% GDP in 2017).

Managing Korea's Fiscal Position

The government will tighten its middle to long-term fiscal principles. The growth rate of total government expenditures (3.5%) will be maintained at 1.5 percentage points below the growth rate of total government revenues (5.0%).

*Growth rate of total government expenditures (%): (2011-2015) 4.8, (2012-2016) 4.6, (2013-2017) 3.5

The government will review 'Paygo'* related legislation.

*Paygo is a system where any increases in mandatory spending or any costs incurred as a result of legislation are offset by other spending cuts or tax increases

Self-evaluations and in-depth evaluations for fiscal projects will be expanded, and fiscal evaluations for the majority of public institutions will be combined.

The government will work to decrease public sector expenditures, such as government operating costs, travel expenses, and event costs, and eliminate waste through long-lasting fiscal reforms by revising current legislation. The tax base will be broadened by modifying tax exemptions and deductions, and by legalizing the underground economy.

The government will strengthen its analysis and management of potential fiscal risk factors, such as public sector debt. The government will accurately calculate and manage all public sector debt (central government, local government and public enterprises) by 2014, and will also determine the long-term fiscal outlook and construct fiscal risk monitoring systems.

3. Key Policies for 2014 Budget Proposal

The 2014 budget will prioritize five initiatives: stimulating the economic recovery and boosting growth potential, creating jobs, supporting the working class, strengthening national security and realizing a safe society, and improving fiscal soundness and tightening fiscal management.

1) Stimulating the Economic Recovery and Boosting Growth Potential

The 2014 budget will focus on boosting domestic demand including investment, while increasing tailored support for exporters. To boost local economies, the government will increase subsidies to local governments and continue to invest in regional SOC projects. There will be increased support to foster a creative economy and develop future growth engines.

2) Creating Jobs

The 2014 budget will provide strengthened employment support, which is tailored to different age groups and women. The government will help ease mismatches between job openings and job seekers by promoting part time jobs and flexible work hours, and will increase support for job training and education programs which are tailored to specific industrial demand.

3) Supporting the Working Class

Working class families will receive strengthened welfare support, which are tailored to recipients' life cycles and their specific situations. Welfare recipients will be encouraged to work as they are provided with work-inducing incentives. Welfare for artists will be increased while vulnerable groups will receive expanded support for art appreciation.

4) Strengthening National Security and Realizing a Safe Society

The government will work on eliminating 4 major social evils, enhancing national security capabilities and diplomatic capabilities, and founding a basis for peaceful reunification. The government will continue to work on the Government 3.0 project, which is aimed at realizing a citizen-friendly government by sharing information and providing the most convenient administrative services.

5) Improving Fiscal Soundness and Tightening Fiscal Management

The government will continue to pursue fiscal soundness by cutting public sector spending and streamlining fiscal projects. Effective budget spending will be sought through inter-ministerial cooperation and citizen feedback about administrative services.

2014 Budget vs. 2013 Budget

The 2014 budget is on the basis of the administration's Campaign Pledge Funding Plan, and also focuses on preventing ineffective budget spending and minimizing the tax burden.

Budget change, 2013 → 2014	Supports
Stimulating the Economic Recovery	
R&D investment (16.9 trillion won → 17.5 trillion won)	R&D investment worth 5.0 percent of GDP by 2017
Rocket development (80 billion won → 240 billion won)	Planning to develop earlier than originally scheduled (2021)
Public housing construction (953.0 billion won for 46,000 houses)	Supplying 200,000 homes for 2013 – 2017
National disaster insurance for agricultural and fishery industries (0.2 trillion won → 0.3 trillion won)	Pear insurance to be expanded (3 regions to 12 regions)
Government scholarships (2.8 trillion won → 3.2 trillion won)	An increase of 225,000 won to 1.8 million won a year per person
Improving Welfare	
Reduced medical expenses for individuals with 4 critical diseases (940,000 won → 340,000 won)	National health insurance to cover anticancer medicines and MRI examinations
Support to be expanded for the vulnerable left out of existing welfare systems (120,000 recipients to be added)	Transferring social security system to individual entitlement system by October 2014
Adoption of social security pension (1.20 million won → up to 2.40 million won a year)	Social security pension to cover those in 7 th income percentile or lower by July 2014
College tuition support for the third child (122.5 billion won per freshmen)	College tuition support for third children to cover all college years
Increase in police forces by 4,000 (103.1 billion won)	Police forces to increase by 20,000 at the end of 2017
Promoting Culture	
Investment in culture (5.0 trillion won → 5.3 trillion won)	2.0 percent of GDP as of 2017
Investment in art & literature fund (0.1 trillion won → 0.2 trillion won)	Support for private sector performance teams to be increased
Welfare for artists (10 billion won → 20 billion won)	Artists to be made eligible for social security insurance support
Loans for tourism (0.3 trillion won → 0.5 trillion won)	Facility improvement support for middle-class hotels

Support for Pyeongchang Winter Olympics (1.1 trillion won → 1.2 trillion won)	Support for stadium and road construction
Founding a Basis for Reunification	
Pay increase for privates by 15 percent	Pay increase by two folds from 2012 by 2017
Veteran allowance to be increased (529.8 billion won → 543.6 billion won)	10,000 won monthly increase until 2017
ODA increase (2.1 trillion won → 2.3 trillion won)	Ratio of ODA to GNI to be increased from 0.15 to 0.16

Plans to Support Local Governments and Keep Campaign Pledges for Local Economies

A total of 3.3 trillion won will be spent for local economic development, an increase of 0.3 trillion won compared with the original plan set up in 2013. Local economic support will prioritize job creation, public safety and locally popular projects.

There will be some adjustment between the central government and local governments regarding the role of government and how local governments obtain fiscal resources. Local government tax systems will be revised to help support themselves. The central government will increase childcare subsidies by 10 percentage points and plug local governments' temporary revenue gaps, most of which have arisen due to acquisition tax cuts, by utilizing emergency funds. Starting 2015, the central government will take charge of public care facilities for the elderly, disabled and mentally ill.

Local government consumption taxes will be increased by 6 percentage points as of 2015, from the current 5 percent to 8 percent in 2014 and to 11 percent in 2015. Revenues from the tax increase will be utilized to supply welfare demand.

Taking into account increases in tax revenues and central government subsidies, which are expected to amount to an average of 1.1 trillion won a year and 0.4 trillion won, respectively, local governments will have an average annual revenue increase of 1.5 trillion won for the next 10 years.

There will be further discussion about adjustments in managing fiscal resources between the central and local governments. From 2015 when the adjustments are implemented, local government revenues are expected to increase by an annual average of 5.0 trillion won for the next 10 years.

4. Budget Proposal by Initiative

Stimulating Economic Recovery and Boosting Growth Potential, 2013→2014

Encouraging investment	Policy financing for SMEs (loans, guarantees, investment)	82 trillion won → 95 trillion won
	Investment funds for new growth engines (contents, medical services and etc.)	1.1 trillion won to be established
	Facility investment to revitalize industrial complexes	106.1 billion won → 171.4 billion on
	Support for facility investment by foreign investors	14 billion won → 24.5 billion won
Export supports	Loans available through Korea Exim Bank	96.6 trillion won → 102.8 trillion won

	Trade insurance takeover	211 trillion won → 215 trillion won
	Tailored support for SMEs and leading medium-sized enterprises	82.8 billion won → 100 billion won
	Promoting eco-friendly agricultural and fishery product exports	549.3 billion won → 647.9 billion won
Support for local economies	Local government consumption tax increase	5 % → 8% → 11% (2015)
	Childcare support	Up 10 percentage points
	Support for leading local industries	230 billion won → 252.8 billion won
	Number of universities providing the 'Leaders in Industry-university Cooperation' program	51 → 57
Boosting growth potential	Number of universities providing startup education programs	18 → 23
	Ratio of R&D support for SMEs and leading medium-sized enterprises to total R&D support	14.4 percent → 15.4 percent
	Number of National Competency Standards	833
	Number of job training modules	55 → 250
	Traditional market gift certificate issuance	500 billion won → 700 billion won

Creating Jobs, 2013→2014

Tailored employment support	Young adults: number of firms to adopt dual system (work & study)	1,050 (2014)
	Women: support for setting up new work place daycare centers	60 centers → 90 centers
	Adults: number of those attending the state-run employment support program	1,000 persons (2014)
	Elderly: Story Telling Grandma project participants	900 persons → 2,000 persons
Restructuring employment system and easing labor mismatches	Salary support for businesses with flexible work hour employees	600,000 won per month → 800,000 won
	Salary support for businesses which increase part time jobs	900,000 won per month for 2 years (2014)
	Support for establishing welfare facilities in SMEs	100 facilities (2014)
	Support for establishing entertainment facilities in industrial complexes	10 facilities (2014)
Job training centered on work places	Providing human resources management consultation to SMEs	65 SMEs → 1,300 SMEs
	Region- and industry-specific job training programs	Available at 2 institutions → 22 institutions
	Number of students attending Korea Polytechnics (state-run job training college)	Up 500 young adults, 700 baby boomers and 500 women (2014)
	SME job training support (% of total expenses)	50 percent → 60 percent
Public sector job creation	Number of jobs fiscal support creates	601 thousand → 646 thousand
	Social service jobs	174 thousand → 185 thousand

	Police forces added	4,000 (2014)
	Social welfare work force	1,177 (2014)

Tailored Welfare for Working and Vulnerable Groups, 2013→2014

Welfare tailored to life cycle	Infants and kids	Essential vaccination	50,000 won per year → free
		Public daycare centers	96 → 121
		Assessing private daycare centers	16,000 → 19,000
	Students	Afterschool centers	3,742 → 3,989
		National scholarships	Annual increase between 225,000 won and 1.8 million (2014)
		Third kid tuition support	4.5 million won per year (2014)
	Adults	Number of households receiving housing vouchers, and voucher amount	730,000 → 944,000, 80,000 won per month → 110,000 won
		Support for housing purchase and rent	7.7 trillion won → 9.4 trillion won
		Support for multi-unit rental home purchase	8.5 million won per unit → 9.0 million won
	Elderly	Basic social security pension (those aged 65 or older and below the 70 th percentile for income)	100,000 won a month → up to 200,000
		Jobs for the elderly	252,000 → 317,000
		Medical costs for 4 serious diseases	Down 600,000 won annually (2016)
		Support for dental implantation costs (those aged 75 or older)	50 percent of the total cost
Welfare tailored to specific vulnerable groups	Low income groups	Basic social security recipients	830,000 households → 1.1 million households
		Households eligible for the high interest rate 'Growing Hope Savings Account'	10,000 households (second poorest group) to be added (2014)
		Support for old house maintenance (installment of energy saving equipment)	41.1 billion won → 59.6 billion won
	Disabled	Disability pension (seriously disabled)	100,000 won per month → 200,000 won
		Number of disabled receiving support which helps them live regular lives	48,000 → 54,000
		Jobs for the disabled	12,000 → 15,000
	Farmers and fishermen	Number of agricultural and fishery products covered by disaster insurance	71 → 77
		Disaster insurance coverage for farmers and fishermen	Up to 100 million won (2014)
		Pension insurance premium support	Up to 427,000 won a year → 459,000 won
	Artists	Performance cost support (theater rent,	20 percent of total costs (2014)

		equipment costs and promotion fees)	
		Art performance theaters affordable to rent	3 theaters (2014)
		Passes issued for cultural or art events	100,000 (2014)

Realizing Safer Society, 2013→2014

Fighting against 4 major social evils	Support for victims of sexual harassment	Witness protection facilities	28 → 63
		Center for total support	33 → 37
	Support for victims of domestic violence	Family member protection facilities	13 → 19
		Housing facilities	156 → 196
	Improving safety in schools and school zones	Designating school zones	A radius of 200 meters around schools (2014)
		Installing high resolution CCTV cameras in schools	Cameras to be gradually installed beginning in 2014
	Improving food safety	Food service management center for school lunch	100 → 188
		Installing the information system to prevent harmful food sale	2,000 stores and markets (2014)
	Improving public safety	Kid zones receiving safety tests	2,000 → 3,000
		Removing old slate roofs	14.4 billion won → 28.8 billion won
		Forming a team to respond to accidents in industrial complexes	20.3 billion won (2014)
		Number of consultations on small business work place safety	1,000 (2014)

II. 2013-2017 National Fiscal Management Plan

The government has prepared a long-term fiscal management plan in order to ensure that Korea's fiscal soundness improves by 2017.

1. Key Policies

In the short-term, the government will strengthen the role fiscal spending plays in reviving the economy, and will restore the virtuous cycle between economic growth and fiscal soundness by increasing the economy's growth potential. The budget will return to balance in the middle to long-term in order to prepare for future risks by reducing tax expenditures and widening the tax base while managing potential fiscal risk factors.

Fiscal policy will be restructured, centered on the Park administration's national tasks, to stimulate the economy in ways that the public can feel in their everyday lives, such as job creation, tailored welfare, and public safety.

2. Mid-term Fiscal Outlook and Fiscal Management Goals

Total government revenues are expected to increase by an average of 5.0 percent per year from 2013 to 2017. The government will manage total government expenditures in order to ensure that they only increase by an average of 3.5 percent per year from 2013 to 2017. The consolidated fiscal balance minus social security will gradually improve from -1.8 percent in 2013 to the more balanced level of -0.4 percent in 2017. National debt as a percentage of GDP will be stabilized in the 30 percent range.

2013-2017 National Fiscal Management Plan

(trillion won, %)

	2013*		2014	2017	Average Yearly Growth Rate
	Budget	Budget + Supplementary Budget			
Total Government Revenues (% growth)	372.6 (8.5)	360.8 (5.0)	370.7 (-0.5/2.8)*	438.3 (6.1)	5.0
- National Taxes	216.4	210.4	218.5	270.7	
Total Government Expenditures (% growth)	342.0. (5.1)	349.0 (7.2)	357.7 (4.6/2.5)*	400.7 (4.3)	3.5
Fiscal Balance (% GDP)	-4.7 (-0.3)	-23.4 (-1.8)	-25.9 (-1.8)	-7.4 (-0.4)	
National Debt (% GDP)	464.6 (34.3)	480.3 (36.2)	515.2 (36.5)	610.0 (35.6)	

*2013 budget, 2014 y-o-y growth (budget / budget + supplementary budget)

3. Managing Korea's Fiscal Position

1) Increasing the Efficiency of Fiscal Expenditure

The growth of total government expenditures (3.5%) will trail the growth of total government revenues (5.0%) by 1.5 percentage points, bringing the budget back into balance in the middle to long-term.

The government will reduce tax expenditures in a long-lasting manner by revising existing legislation. Expenditures will be made more efficient by choosing and implementing fiscal reform projects for each ministry, combining overlapping or similar projects, modifying inefficient projects, and increasing private sector utilization.

2) Widening the Tax Base

Once tax exemptions and reductions have been allowed to sunset, they will be reinstated only if absolutely necessary, and even then, only after passing a strict review.

The government will push to legalize the underground economy focusing on areas that are highly suspected of tax evasion (chronic tax evasion, high-income self-employed, smuggling and offshore tax evasion, among others).

Taxes on financial products and financial transactions will also be gradually levied over time.

3) Strengthening Potential Fiscal Risk Management

Total public sector debt, including debt held by public enterprises, will be calculated and managed.

The number of public institutions that have to prepare middle to long-term financial management plans will be increased and the government will ensure that public institutions will adhere to the plan. Institutions with less than 2 trillion won in assets will have to prepare a financial management plan in the case that debts exceed assets, or there is a clause stipulating that the government will be held responsible for any losses that occur.

The government will determine the long-term fiscal outlook and will develop fiscal risk monitoring systems. Outside of existing management indicators (consolidated fiscal balance minus social security and national debt), the government has decided to monitor 4 additional areas: rollover risk, public enterprises, local governments and other areas, which include government guarantees.

4) Improving Fiscal Management Systems

The government will promote strengthening the connection between budgets/settlements with performance and establish evaluation functions.

The government will construct an ‘integrated fiscal information database’, and boost public accessibility by expanding information disclosure.

The government will develop an integrated government property management system; government properties will, in principle, be charged for usage and special exceptions (such as fees reductions and transfers) will be allowed to sunset.

4. Funding Allocation Plans by Ministry

Regarding social welfare, the government will work to make expenditures more efficient while at the same time expanding investment in order to improve the quality of life for Korean citizens. Wasteful welfare spending will be reduced by improving delivery systems, such as enhancing the integrated social welfare information system. Regarding education, the government will continue to promote the strengthening of college educational competency and educational restructuring.

Regarding the economy, the government will streamline fiscal investments, taking into account investment progress, and will boost private investment. With regards to SOC, the government will bring investments, which had ballooned in response to the economic crisis, back into line, and increased support will be provided to help firms enter overseas construction and plant markets. Relating to the industrial sector, the government will concentrate on increasing future growth engines, such as industrial convergence and software. With respect to agriculture and forestry, the government will strengthen the foundations of rural income creation by supporting the food industry.

III. Future Plans

The 2014 budget proposal and the 2013-2017 National Fiscal Management Plan will proceed through the Cabinet Meeting on September 26 and will be submitted to the National Assembly by October 2.