

Embargo:

Release Date: May 13, 2015

Contact Information: Kim Hyun-ik (044-215-5721/ Fiscal Policy and Coordination Division)

2015-2019 FISCAL MANAGEMENT POLICIES

GOVERNMENT TO FOCUS ON FISCAL SPENDING EFFICIENCY

On Wednesday May 13, President Park Geun-hye presided over the “2015 National Fiscal Policy Meeting” with cabinet members and experts from the private sector participating.

At the meeting, fiscal policies for the next five years were discussed, focusing on stimulating the economy and at the same time ensuring mid- to long-term fiscal soundness. Based on the discussions at the meeting, the budget for 2016 and the national fiscal management plan for 2015-2019 will be drawn up.

The central and local governments as well as public institutions will pursue fiscal reforms in order to strengthen support for key areas. In particular, the meeting discussed ‘fiscal reform tasks’ in 10 areas¹, including local government fiscal management, local government education subsidies, R&D support, social welfare expenditures, and public institution business area adjustment.

I. 2015-2019 Fiscal Management Policies

1) Fiscal Management Policies

1. Stimulating the Economy

The government will use its financial resources to stimulate the economy, while continuing to pursue aggressive fiscal reforms to improve soundness. The government will spend its frontloaded budget as planned in the first half of the year.

2. Improving Fiscal Soundness

The government will keep total expenditure increase below total revenue increase for the 2015 to 2019 period when drawing up its budget, while reviewing tax exemptions and reductions to increase total revenue. The government will also expand non-tax revenue, and will incorporate other revenue into the budget, which was previously not included in government finances.

The government will improve spending efficiency by re-examining all fiscal projects, and will utilize private sector capital by promoting public-private partnership (PPP) and allowing public property to be used by the private sector.

3. Securing Mid- to Long-term Fiscal Soundness

¹ Local governments, local government education subsidies, R&D support, welfare expenditures, cultural expenditures, national defense projects, SOC investment, job creation projects, fiscal project evaluation, public institution reform

The government will draft mid-term tax policies, which will be submitted to the national assembly in September. The government will publish, for the first time, a long-term financial outlook covering the period up to 2060 by June of this year, and update this outlook every two years. The government will also push for the institutionalization of fiscal rules based on this long term outlook.²

2) Resource Allocation by Area

The government will raise the quality of life and overall safety of the Korean people by expanding investment related to cultural activities, social welfare, safety and job creation. The government will create a safer society by regularly inspecting areas susceptible to disasters and strengthening response measures for new types of disasters, including avian influenza and Ebola.

The government will expand private sector participation in SOC projects and other areas where the private sector has expertise, while refocusing its investment towards strengthening key public sector functions. The government will promote new types of PPP designed to share risks with the private sector.

The government will support small- and medium-sized enterprises (SMEs) in making inroads into new overseas markets through FTAs, and strengthen the agriculture and fishing industries by supporting the development of high-value-added products from these industries.

II. Fiscal Spending Reform

The fiscal spending reform will include local governments and public institutions as well as the central government, and the government will promote public-private partnership to utilize private sector resources.

1) Central Government

2016 budget

- Introduce zero-based budgeting for all fiscal projects and reviewing all support projects
- Control the total number of fiscal projects by using the One-out and One-in approach, reduce the number of support projects by 10 percent, merge overlapping projects and discontinue unnecessary projects
- Merge or discontinue 600 overlapping or similar projects in the 2016 budget

Tightly control spending on fiscal projects

- Tightly control spending on fiscal projects by scrutinizing budgets for existing and new projects
- Improve the fiscal project budget spending system to efficiently deliver funds, and form a public-private joint investigation team to correct inefficient spending
- Revise the evaluation system to help discontinue inappropriate projects

Increase spending transparency

- Develop measures to prevent unfair bidding and contract practices

²Fiscal rules may include: the Pay-go rule, which requires new spending to be paid for by cuts to other projects or by raising new revenue, and limits on both discretionary spending and tax reductions

- Prepare subsidy management guidelines and build a fiscal management information system in order to increase fiscal spending efficiency
- Build a subsidy management information system in order to prevent subsidy fraud

Improve public fund management efficiency

- Outsource small-scale public fund management to professional asset management institutions
- Increase expertise and transparency in managing the National Pension Fund and Post Office deposits and insurance funds

2) Local Governments

Revise local government subsidies

- Revise the local government subsidy system to better reflect local situations
- Revise the local government education support system to take into account the number of students

Reform public institutions governed by local governments

- Implement the Local Government Reform Measures announced in March of this year, which focus on enhancing management efficiency and financial soundness

3) Public Institutions

Adjust areas of business

- Focus the adjustment on the 3 areas of SOC, art and culture, as well as agriculture, forest and fishing industries
- Merge similar or overlapping businesses, discourage competition with the private sector and promote the sales of subsidiaries

Introduce labor market reform measures

- Introduce labor market reform measures to public institutions, such as the peak wage system and performance-based salaries

4) PPP

Promote PPP

- Implement the PPP promotion measures announced in April 2015 as planned, which include sharing investment risks with the government, making regulatory exceptions such as excluding special purpose companies for PPP projects from being counted as subsidiaries, and streamlining regulatory procedures by introducing a fast track program
- Examine how profitable a project is and how well it fits private companies in order to give opportunities to the private sector

Improve public property management

- Aggressively manage public properties in order to attract private investment and create jobs

III. Subsequent schedules

On the basis of these policies, the government will draft the 2016 budget bill and the 2015-2019 fiscal management plan by the end of September.