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2023 BUDGET PROPOSAL

2023 BUDGET DRAWN UP TO PROTECT THE VULNERABLE, BOOST THE ECONOMY AND SECURE FISCAL SOUNDNESS

The government drew up the first budget under the current administration in a way that reflects its national policy objectives with a budget of 639.0 trillion won for 2023. The total expenditure records a 5.2 percent increase from the previous year, which is a 60 percent level compared to the average government expenditures increase (8.7 percent) during the past 5 years from 2018 to 2022. Available resources of the central government excluding local subsidies and local education subsidies of 22 trillion won amount to 9 trillion won. The direction for the 2023 budget is to make a shift toward tightening fiscal spending by working on fiscal reforms through expenditure restructuring worth around 24 trillion won. The government will work towards expanding the protection of low-income and vulnerable households, buttressing the private sector-led economy and improving national safety and security as well as international status.

The 2022-2026 fiscal management plan to increase fiscal sustainability has been drawn up to reduce fiscal deficits and normalize the pace of growth of government debt.

I . 2023 Budget Proposal

Key Features

(Total Revenues) The government revenues will be 625.9 trillion won, an increase of 13.1 percent compared with the 2022 original budget.

(Total Expenditures) The government expenditures are projected to be 639.0 trillion won, an increase of 5.2 percent compared with the 2022 original budget.

	2022		2023 Budget Proposal
	Original	2 nd Supplementary	
Total Government Revenues (y-o-y, %)	553.6 (14.7)	609.1 (26.2)	625.9 (13.1)
Total Government Expenditure (y-o-y, %)	607.7 (8.9)	679.5 (21.8)	639.0 (5.2)

(Fiscal Balance) Deficits in the consolidated fiscal balance will decline by 1.9 percentage points compared with the 2022 original budget to 0.6 percent to GDP from 2.5 percent.

(Government Debt) Government debt is expected to fall by 0.2 percentage points compared with the 2022 original budget to 49.8 percent to GDP from 50.0 percent.

(trillion won, %)

	2022		2023 Budget Proposal
	Original	2 nd Supplementary	
Consolidated Fiscal Balance (% to GDP)	-54.1 (-2.5)	-70.4 (-3.3)	-13.1 (-0.6)
Managed Fiscal Balance ¹ (% to GDP)	-94.1 (-4.4)	-110.8 (-5.1)	-58.2 (-2.6)
Government Debt (% to GDP)	1,064.4 (50.0)	1,068.8 (49.7)	1,134.8 (49.8)

1. Consolidate fiscal balance excluding social security funds balance

Budgets by Sector

(trillion won, %)

	2022 Budget (A)	2022 Budget Proposal (B)	Changes	
			B-A	B-A (%)
Total Expenditures (excluding local subsidies and local education subsidies)	607.7	639.0	31.4 (8.9)	5.2 (1.5)
1. Health, Welfare, Employment	217.7	226.6	8.9	4.1
2. Education (excluding local education subsidies)	84.2 (19.1)	96.1 (18.9)	12.0 (-0.2)	14.2 (-1.3)
3. Culture, Sports, Tourism	9.1	8.5	-0.6	-6.5
4. Environment	11.9	12.4	0.5	3.9
5. R&D	29.8	30.7	0.9	3.0
6. Industry, SME, Energy	31.3	25.7	-5.6	-18.0
7. SOC	28.0	25.1	-2.8	-10.2
8. Agriculture & Forestry, Fishery, Food	23.7	24.2	0.6	2.4
9. National defense	54.6	57.1	2.5	4.6
10. Diplomacy, Reunification	6.0	6.4	0.4	7.3
11. Social order, Safety	22.3	22.9	0.5	2.4
12. Public administration, Local governments (excluding local subsidies)	98.1 (33.0)	111.7 (36.4)	13.6 (3.4)	13.9 (10.3)

II. Budget Proposal by Initiative**Expand protection of low-income and vulnerable households***Build safety nets*

- Raise standard median income by a record high of 5.47% and livelihood benefits for 4 person households to a maximum of 1.62 million won from 1.54 million
- Provide additional support for about 48,000 households who may be excluded from the basic livelihood security program due to the sharp rise in real estate prices for asset test
- Relax criteria for social security insurance premiums support for low-income workers to those who receive 130 percent of the minimum wages to additionally support about 278,000 workers

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- Launch a scheme offering interest-free loans for a mortgage deposit to 15,000 households who live in vulnerable residential conditions and provide up to 50 million won to those who move to private rental housings
- Improve work environment for janitors and cleaners by supporting the installation of resting places at around 7,000 businesses with less than 50 employees

Provide tailored support for vulnerable groups

- Spend 72.6 billion won to increase monthly disability benefits by 50 percent to 60,000 won from the current 40,000 won for the first time since 2015
- Spend 32.7 billion won to extend hours of day-time disability care services to up to 8 hours a day and 154 hours a month
- Increase monthly employment support benefits by 50,000 won for a person with minor disabilities and by 100,000 won for a person with severe disabilities to a range from 350,000 won to 900,000 won
- Provide monthly mobility allowances of 50,000 won with all people with severe disabilities living below 50% of median income, initiate financial support for operating taxi call centers for disabled people and add 2,000 low-floor buses
- Increase monthly allowances for the youth transitioning from institutional care to independent living to 400,000 won from the current 300,000 won for 5 years after the institutional care has ended
- Relax criteria for single-parent families receiving national child care subsidies to 60 percent of median income from the current 52 percent, and increase the subsidy amount to 200,000 won a month
- Substantially increase the number of trainees in vocational training programs led by large companies to 36,000 from the current 28,000 to foster talents
- Initiate the transit-friendly youth housing programs that are aimed to provide young people with 54,000 new homes and provide guarantee fees for repayment of *Jeonse* (lump-sum deposits with no monthly payments)

Stabilize prices and people's livelihood

- Increase the government stockpile of wheat and fishery to 20,000 tons (from 14,000 tons) and 32,000 tons (from 13,000 tons) respectively, and build an e-commerce platform designed to trade wholesale agricultural produce and ingredients to reduce logistics costs
- Increase the energy vouchers amount to 185,000 won (from 127,000 won) and discount coupons for purchasing agriculture and livestock products to 169 billion won (from 59 billion won)
- Increase vocational training budget to 2.7 trillion won (from 2.5 trillion won) including grants for taking training courses related to high-tech, key and strategic industries paid via Naeil Baeum Cards¹, and invest 35.6 billion won in expanding job creation projects tailored to local needs
- Eliminate blind spots of direct payment for small farms, which are applicable for 560,000 households, and increase the amount of special local grant to address local areas' extinction risks due to population decline
- Introduce parent pay (0.35-0.7 million won in 2023 → 0.5-1 million won in 2024) to those who raise infants (up to 12 months), increase the number of recipients for extended hours

¹ Occupational capacity development account

subsidies for children who require care outside regular hours to 480,000, and extend the childcare hours to 960 hours annually

Buttress the private sector-led economy

Foster future-oriented industry

- Spend 1 trillion won on the semiconductor industry to foster about 26,000 workers who are specialized in semiconductors and to support R&D
- Invest 700 billion won in restoring the nuclear power industry
- Invest 4.5 trillion won in strengthening key strategic technologies and 0.4 trillion won in exploring uncharted fields to take the lead in the industries and maintain economic security²

Pursue digital innovation and carbon neutrality

- Implement 18 projects that are aimed to advance practical public services including the introduction of mobile ID cards and three-dimensional addresses
- Ensure evidence-based policy-making by developing AI-based data analysis models
- Achieve a just transition by providing support for companies subject to emission trading and expand green finance to 9.4 trillion won

Enhance response capability for global supply chain

- Double the amount of special financing support for private companies that explore and develop overseas resources
- Increase the budget for stockpiling key non-ferrous metals such as nickel and aluminum, and coal and petroleum to 500 billion won

Strengthen support for small businesses

- Increase the number of promising venture companies that are eligible for policy supports to 1,600 from the current 1,100
- Expand investment in small-sized enterprises and startups to 3.6 trillion won by providing support for digitalization, R&D and export logistics with a view to raising their competitiveness
- Invest 1 trillion won in helping microbusinesses through debt restructuring and supporting self-reliance and competitiveness

Improve national safety and security as well as international status

Strengthen defense capabilities

- Capitalize on the national defense budget worth 57.1 trillion won to develop defense science and technology by advancing the three-pillar military system and boosting morale in the military

² The 7 key strategic technologies include semiconductors, 5G, 6G and quantum technology, future mobility, space exploration, advanced biologics, secondary batteries, and artificial intelligence and the 6 uncharted fields include future energy (ex. Nuclear fusion), incurable diseases, living safety (ex. Food crisis), daily innovation (ex. Robots), mobility innovation (ex. Hyperloop), supports for promising basic research.

Raise international status

- Increase the budget spent for ODA by 14.2 percent to 4.5 trillion won from the current 3.9 trillion won by expanding humanitarian aid to help Ukraine and address the global food crisis, contribution to global healthcare improvement, and small scale grant assistance that is aimed at winning the bid to host the World Expo 2030

Improve benefits for patriots and veterans

- Raise veterans' benefits by 5.5 percent, the largest increase since 2008, and selectively increase the benefits to narrow the gaps between beneficiaries
- Increase monthly honorary allowances for participating in a war to 380,000 won in 2023 and to 500,000 won by 2027

Control infectious disease and Enhance disaster response capability

- Improve Covid-19 treatment with additional purchases of 150 million doses of Covid-19 vaccines, quarterly assessment of the Covid-19 seropositivity for 40,000 people, additional purchases of 400,000 courses of oral antiviral treatments for Covid-19, and installation of 1,700 hospital wards for emergency treatment
- Reinforce disaster prevention systems by helping install 3 deep underground rainwater tunnels in response to increasingly frequent natural disasters and by introducing smart forecasting systems
- Invest 300 billion won in purchasing 8 more helicopters and rapidly distributing personal protective equipment (PPE) for emergency responders at high risk such as and militaries, police officers and firefighters

III. 2022-2026 National Fiscal Management Plan

1. Mid-term Fiscal Management Goals and Fiscal Outlooks

- Focus on normalizing the pace of government debt growth and improving fiscal sustainability as expansionary fiscal policies taken in recent years have led to rapid government debt growth
- Strictly manage the total government expenditure by making utmost efforts to attain fiscal management efficiency, and work to achieve national objectives, protect the vulnerable and promote investment in key and strategic projects by capitalizing on available resources secured through budget reduction
- The average annual growth rate of total government revenue for 2022-2026 is expected to be 6.6 percent due to a sharp growth in national tax revenue during the Covid-19 recovery, economic growth, and various efforts to secure government revenue
- The annual growth of total government expenditure for 2023 is revised down to 5.2 percent, which is far lower than that of the 2022 original budget of 8.9% and is expected to gradually fall to the level of the nominal growth rate of a low 4 percent range by 2026
- Deficits in the managed fiscal balance are expected to decline to mid-2 percent range to GDP in 2026 from 4.4 percent to GDP in 2022, and government debt will be managed to record within a low to mid-50 percent range
- Compared to the 2021-2025 outlook, the managed fiscal balance for the average value between 2023 and 2025 in the 2022-2026 outlook improves by 2.2 percentage points, and government debt to GDP for 2025 declines by 7.4 percentage points

Mid-term Outlook for Government Revenues and Expenditure

(trillion won, %)

	2022 ¹		2023	2024	2025	2026	Annual growth (%)
	Original	Supplementary ²					
Total Government Revenue	553.6	609.1	625.9	655.7	685.6	715.2	6.6
- Tax Revenue	343.4	396.6	400.5	418.8	439.2	459.9	7.6
Total Government Expenditure	607.7	679.5	639.0	669.7	699.2	728.6	4.6

1. The figure passed at the National Assembly

2. The figure of the second supplementary budget

Mid-term Outlook for Fiscal Balance and Government Debt

(trillion won, %)

	2022 ¹		2023	2024	2025	2026
	Original	Supplementary ²				
Consolidated Fiscal Balance (% to GDP)	-54.1 (-2.5)	-70.4 (-3.3)	-13.1 (-0.6)	-14.0 (-0.6)	-13.7 (-0.6)	-13.4 (-0.5)
Managed Fiscal Balance ³ (% to GDP)	-94.1 (-4.4)	-110.8 (-5.1)	-58.2 (-2.6)	-58.6 (-2.5)	-57.4 (-2.3)	-56.6 (-2.2)
Government Debt (% to GDP)	1,064.4 (50.0)	1,068.8 (49.7)	1,134.8 (49.8)	1,201.2 (50.6)	1,271.9 (51.4)	1,343.9 (52.2)

1. The figure passed at the National Assembly

2. The figure of the second supplementary budget

3. The Consolidate fiscal balance excluding social security funds balance

2. Directions for Fiscal Innovation

Maintain fiscal sustainability

- Redesign and legislate fiscal rules to improve mid-term fiscal sustainability
- Work on preemptive regulatory reforms of social insurance revenue and expenditure to maintain the mid-term fiscal sustainability and properly manage people's burden of social insurance premiums
- Develop "Fiscal Strategy Vision for 2050" with the aim of solving structural problems that the Korean economy is expected to face as well as ensuring fiscal stability from a long-term perspective

Improve the efficiency of government expenditure

- Push for the largest expenditure restructuring of its kind in 2023
- Suspend or reduce unnecessary private assistance projects based on thorough examinations
- Reexamine and reassess 68 public funds in terms of purpose, overlapping functions, resource stability, etc.

Reform fiscal institutions

- Revise the financial grants system for local education considering the reduction in the school-age population and investment cost for fostering future human resources
- Revise the preliminary feasibility study system by specifying and tightening the requirements for exemption, introducing the new procedures for rapid process, and raising the amount standard for SOC and R&D projects that require preliminary feasibility studies to 100 billion won from the current 50 billion won
- Upgrade the national contract system by ensuring innovative growth, strengthening social responsibility, and raising fairness in the contract system

Secure tax revenue and diversify financing sources

- Work to secure tax revenue by revamping unnecessary non-taxation and tax exemption schemes and reinforcing prevention and control of tax evasion
- Boost private sector investment
- Improve utilization of unused and underused government-owned properties
- Sell off unnecessary assets held by public institutions and use the money recollected through the sell-off to raise fiscal soundness and protect vulnerable groups

Reinforce the fiscal performance management system

- Enhance project performance assessment procedures to increase efficiency in the implementation of fiscal projects and reflect project performances in the budget allocation
- Work to revise “National Statement of Accounts” to increase the utilization and public understanding of the settlement of accounts

Seek fiscal operation based on data and AI

- Establish a fiscal big data management system by integrating fiscal data that are stored in different systems of different institutions such as dBrain (central government), e-hojo (local government) and e-edufine (local office of education)
- Closely monitor about 8,000 policy indicators in real-time to increase the effectiveness of policies

IV. Future Plans

The 2023 budget proposal and 2022-2026 National Fiscal Management Plan will be submitted to the National Assembly on September 2 after proceeding through the Cabinet Meeting on August 30.