



Fiscal Normalization in the Post-pandemic Era : Korea's 2024 Budget Proposal

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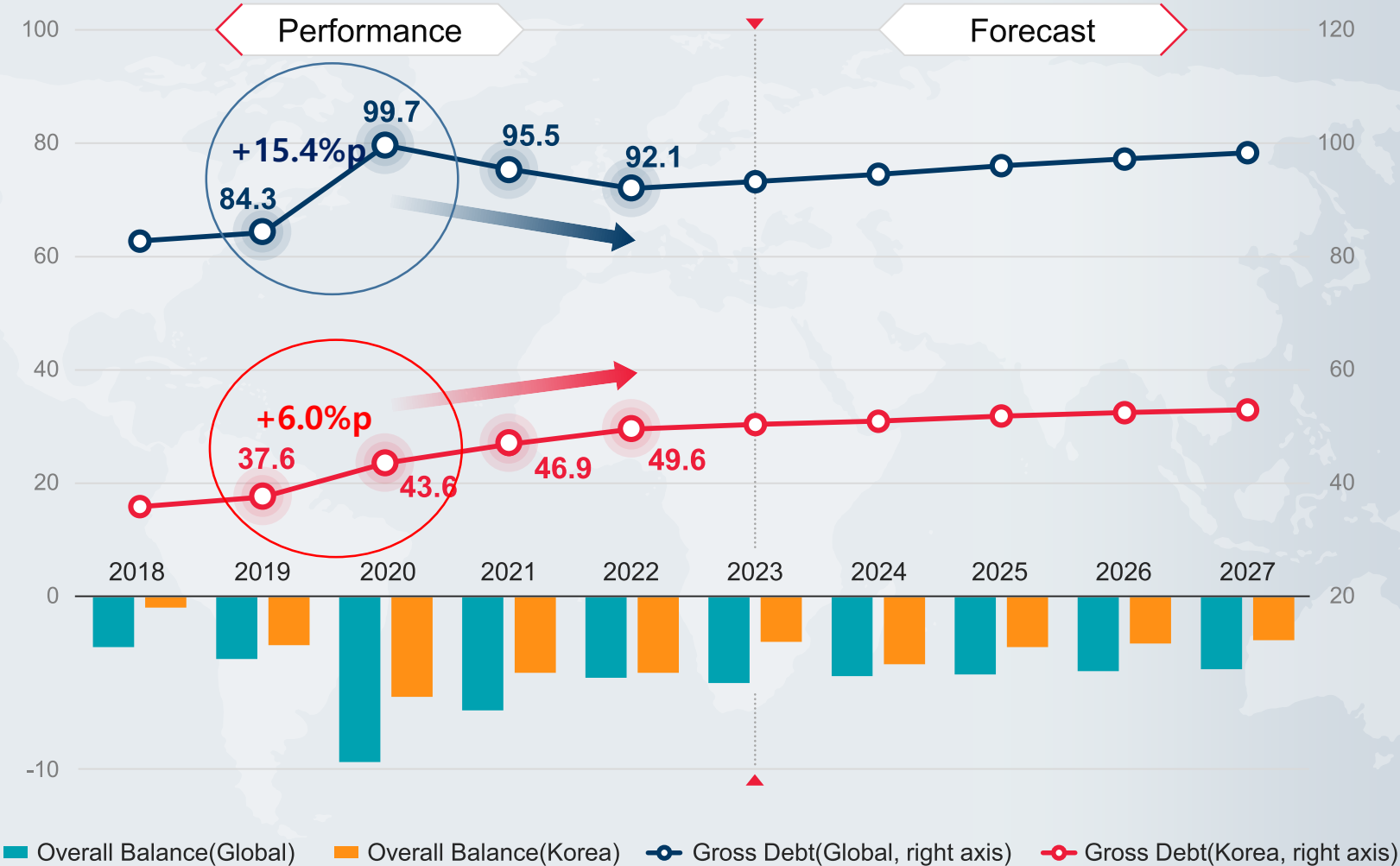


01

Fiscal Trends & Challenges

01 Fiscal Trends

Government's Overall Balance & Gross Debt (% of GDP)



2020

Global & Korea's Government Debt Surge

- ▶ Covid-19 emergency responses
- ▶ Economic recession, tax revenue drop

2021 - 22

Global Government Debt Decline

- ▶ End of Covid-19 responses
- ▶ Inflationary effects

2021 - 22

Korea's Government Debt incline

- ▶ Covid-19 responses
- ▶ Expansionary fiscal policies

01 Fiscal Challenges

1 Ageing population

- ▶ Increasing Mandatory Spending
- ▶ Health and Pension Expenditure



2 Climate Change

- ▶ Pandemic/Natural Disaster Responses Needed
- ▶ Increase in Energy Transition Cost for GHG Reduction



3 Interest Cost Rise Following Rate Hike

- ▶ Low yielding Debt Matures
- ▶ New Higher-yielding Issuance



4 Rise of Global Risk Factors

- ▶ Global Supply Chain Disruption
- ▶ Geo-political Crises



* Korea's Case

- ✔ Population aging at the fastest rate in the world
- ✔ Costs incurred by division, future reunification expenses needed



Securing Fiscal Space is Needed



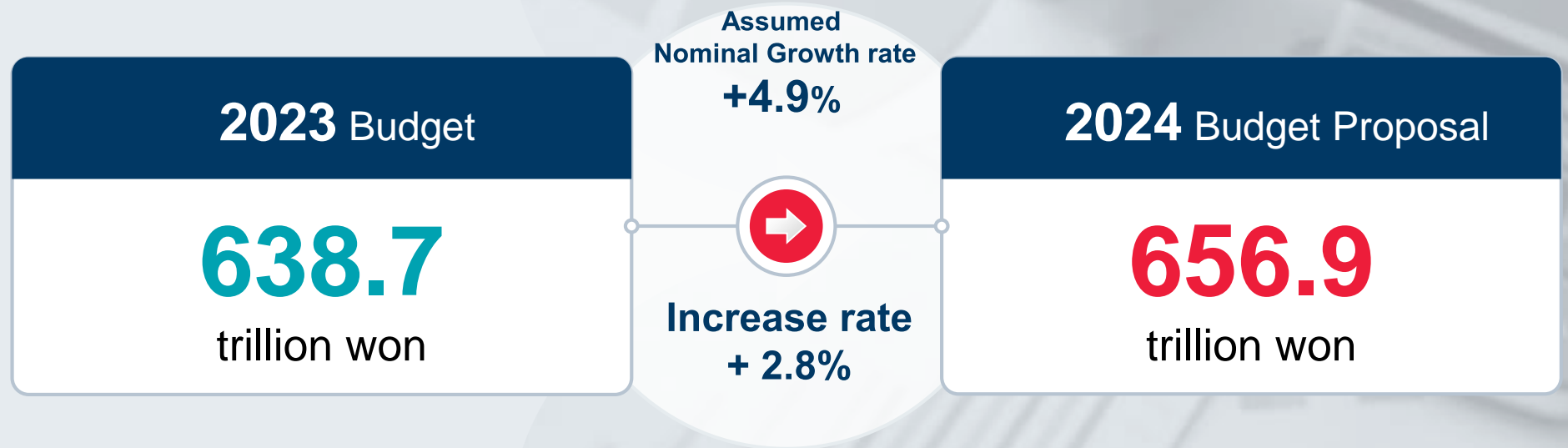
02

Direction of Korea's Fiscal Management : 2024 Budget Proposal

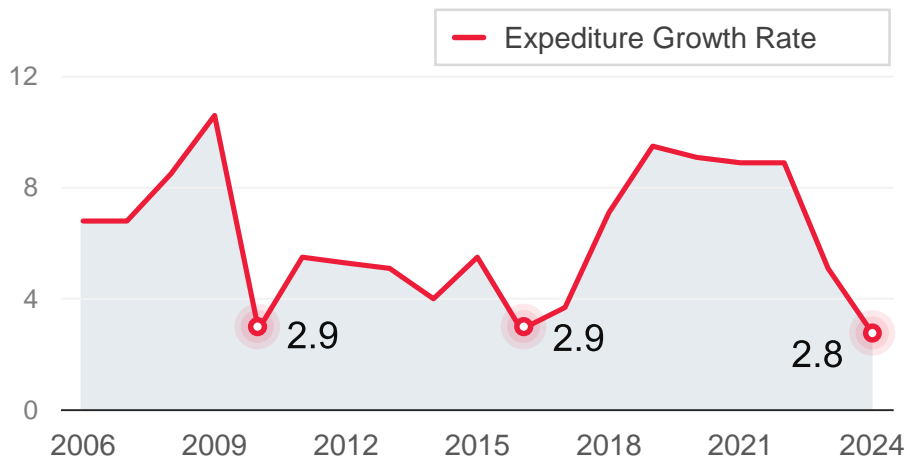
02 Overview of Korea's 2024 Budget Proposal



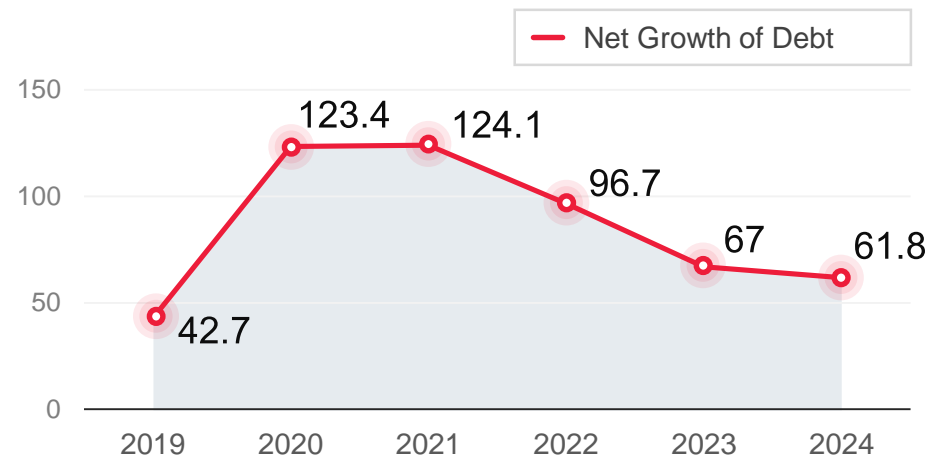
Total Expenditure



Expenditure Growth Rate (%)



Net Growth of Debt(tril won)



Sticking to Trend of Fiscal Soundness



Transition to fiscal soundness trend and Reforming the fundamental fiscal structure



Zero Based Budgeting & Eliminate Fiscal Leakages

- ▶ Reassess Validity and Effectiveness of All Projects, End/Reduce Wasteful Expenditure Projects
- ▶ Shut Down Habitual R&D Subsidies and Cartelized Subsidies, Overhaul Overlapping or Stagnating Projects
- ▶ **Saving 23 trillion won**(20% of Real Discretionary Expenditure)



Reinvest in Necessary Areas

- ▶ Welfare for the Vulnerable
- ▶ Future Preparation
- ▶ Create Quality Jobs
- ▶ Support Execution of Basic Functions of Government



2023 Budget Structure (639 Trillion won)

Mandatory Expenditure
(Transferred to Local Government,
Interest cost, MDB contribution etc)

Uncontrollable Expenditure
(Labor cost, ODA loan etc)

Real Discretionary Expenditure
(About 120 tril won)

02 Fiscal Balance and National Debt following 2024 Budget Proposal

Prevent Fiscal Balance and Debt level deterioration as much as possible



But, Tax revenue drop will increase debt-to-GDP ratio



| | 2023 Budget | 2024 Proposal | Increase & Decrease |
|-------------------------------|------------------|------------------|---------------------|
| Operational Balance to GDP | △ 58.2 △ 2.6% | △ 92.0 △ 3.9% | △ 33.8 △ 1.3%p |
| National Debt to GDP | 1,134.4 50.4% | 1,196.2 51.0% | + 61.8 + 0.6%p |

National Tax(400 → 367 trillion won, 8.3% ↓)

Weak corporate performance
from global economic slowdown



Corporate Tax Revenue **26%** ↓

Recession in asset market
including real estate









Capital Gain Tax Revenue **24.6%** ↓

02 2023 Tax Revenue Re-estimation





✓ 2023 National tax revenue expected to fall by 15%

| Category | '22 Performance(A) | '23 | | Year on Year | | Compared to budget | |
|-----------------------|--------------------|-----------|--------------|--------------|--------|--------------------|---------------|
| | | Budget(B) | Outlook(C) | (C-A) | Ratio | (C-B) | Ratio |
| Aggregate tax revenue | 395.9 | 400.5 | 341.4 | △ 54.5 | △ 13.8 | △ 59.1 | △ 14.8 |
| (Income tax) | 128.7 | 131.9 | 114.2 | △ 14.5 | △ 11.3 | △ 17.7 | △ 13.4 |
| (Corporate tax) | 103.6 | 105.0 | 79.6 | △ 24.0 | △ 23.1 | △ 25.4 | △ 24.2 |
| (Surtax) | 81.6 | 83.2 | 73.9 | △ 7.7 | △ 9.5 | △ 9.3 | △ 11.2 |

✓ Key Nation's Tax Revenue Estimation Error Rate

| (%) |  US |  Canada |  England |  Japan |  Germany |  Korea |
|-----|--|--|---|---|--|---|
| '20 | △7.5 | 6.0 | △12.5 | △4.4 | △14.1 | △2.3 |
| '21 | 4.1 | 15.1 | 12.9 | 14.5 | 4.8 | 17.8 |
| '22 | 15.3 | - | - | 8.3 | 3.4 | 13.3 |

✓ 2023 US, France, Japan saw tax revenue drop y-o-y

| Nation |  Korea (tril. Won) |  France (100 mil. Euro) |  US (100 mil. Dollar) |  Japan (100 bil. Yen) |
|----------------------------|--|---|---|---|
| Fiscal year | JAN~DEC | | OCT~SEP | APR~MAR |
| As of JUL '22 | 261.0 | 1,725 | 41,047 | 101.7 |
| As of JUL '23 (y-o-y) | 217.6 (△16.6%) | 1,666 (△3.4%) | 36,887 (△10.1%) | 96.1 (△5.5%) |

➔ Fiscal projects will be executed as scheduled by utilizing extra revenue and available fund resources



03

Going Forward

03 Adoption of Fiscal Rules

Simplicity

Flexibility

Enforceability

RULE TYPE



Balance rule



Debt rule as complementary

CEILING



Operational balance **-3%**



When debt exceeds **60%** of GDP

Operational balance **-2%**

Escape Clause



War, large scale disaster



Economic Condition Change, e.g recession

Legal Base

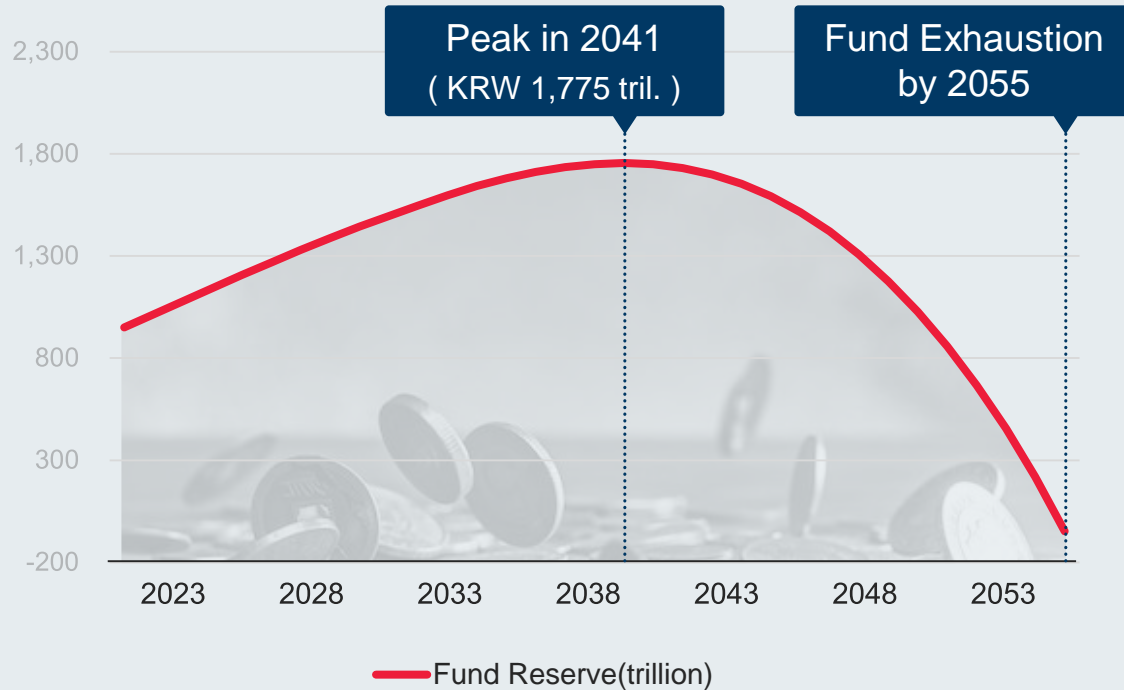


Based on National Finance Act

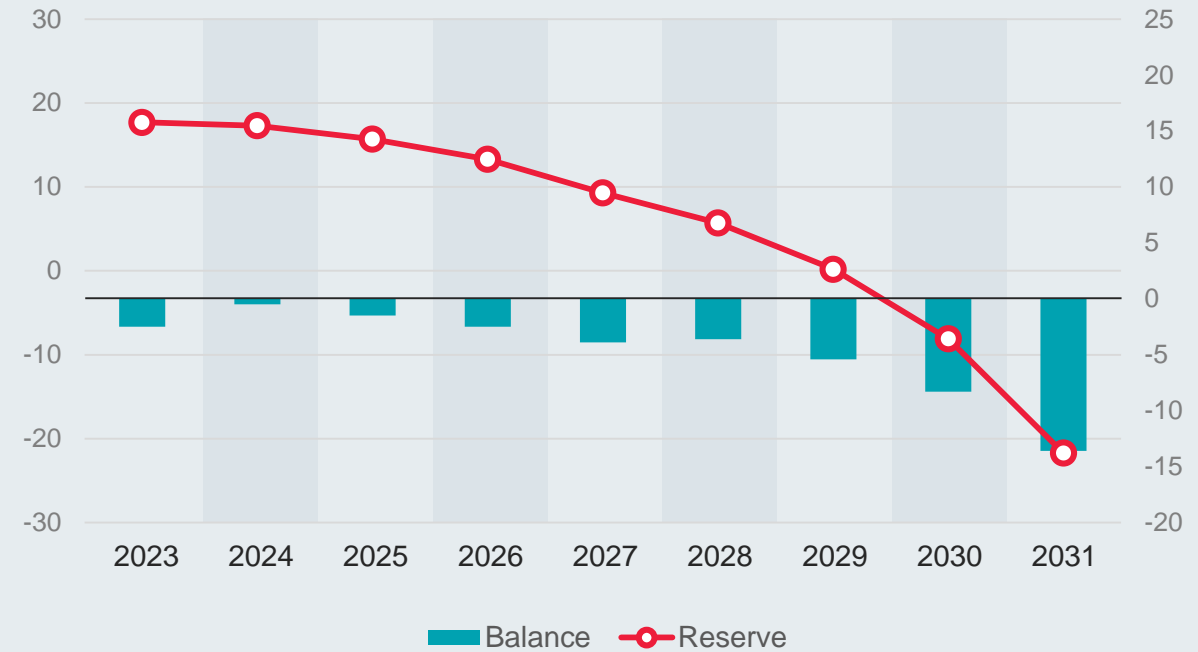
Submitting the Bill. Reviewing Now

03 National Pension & Health Insurance Reform

✓ National Pension Fund Reserve (National Pension Fund Financial Estimate Expert Committee, 2023)



✓ Health Insurance Fund Balance and Reserve Outlook (NABO, 2022)



✓ Fiscal estimation carried out in 2023

> Fiscal stabilization

- Adjustment in insurance rate, Pension age, Income replacement rate

✓ Opened social discussion on adequate insurance rate

> Making operations more efficient

- Re-examination of payment standards/categories
- Stricter management on excessive service usage

03 Fiscal Reform plans in the Mid to Long Term



Establish mid to long-term outlook (40 years)

- ▶ Reflect demographic changes, growth trends, and economic conditions
- ▶ Different Scenarios – 3rd release in 2025
- ➔ **Build virtuous cycle of sound budgeting and growth**



Build Management Systems on Fiscal Risks

- ▶ Manage leading indicators
- ➔ **Early Warning System**

(Unit: Trillion won, %)

| | '23 | '24 | '25 | '26 | '27 | Annual Growth Rate |
|--|-------|-------|-------|-------|-------|--------------------|
| Statutory Spending in Welfare | 154.7 | 172.7 | 180.7 | 190.6 | 199.6 | 6.6 |
| Resources Transferred to Other Regions | 155.4 | 139.8 | 154.7 | 163.0 | 171.4 | 2.5 |
| Interest Expenditure | 22.9 | 27.4 | 29.6 | 32.3 | 34.8 | 11.0 |

04

Questions

1

Fiscal Consolidation is hard and slow work. How did key nations manage to reduce debt-to-GDP ratio between 2021 and 2022?



2

Do other countries experience tax revenue estimation inaccuracy? If so, what are their response measures? What are some measures to deal with this in a more flexible way?



3

Reform in social insurance is critical in terms of fiscal sustainability. There are conflicting stances from different interest groups. Are there any successful cases of social insurance reform?



T H A N K Y O U