Long-term Fiscal Projections in Korea

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- Published *2012–2060 Long-term Economic Outlook and Fiscal Analysis* in Sept, 2012.

2012–2060 LEOFA contains

- Population projections
- Macro economic outlook
- Baseline projections on revenue, expenditure, fiscal balance and government debt
- Analysis on fiscal sustainability and generational net tax burden
- Analysis on alternative scenarios

Population Projections

- Population Projections from Statistics Korea (2012)
  - total population will be decreased from 2031
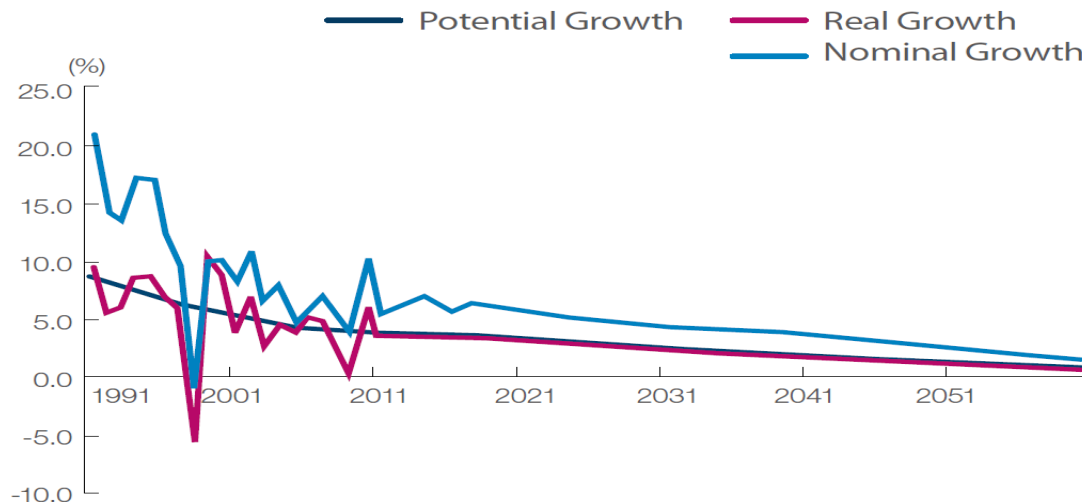 - working age(15-64) population will be decreased from 2016

Figure: The projections of Total population and Working age population (1970–2060)
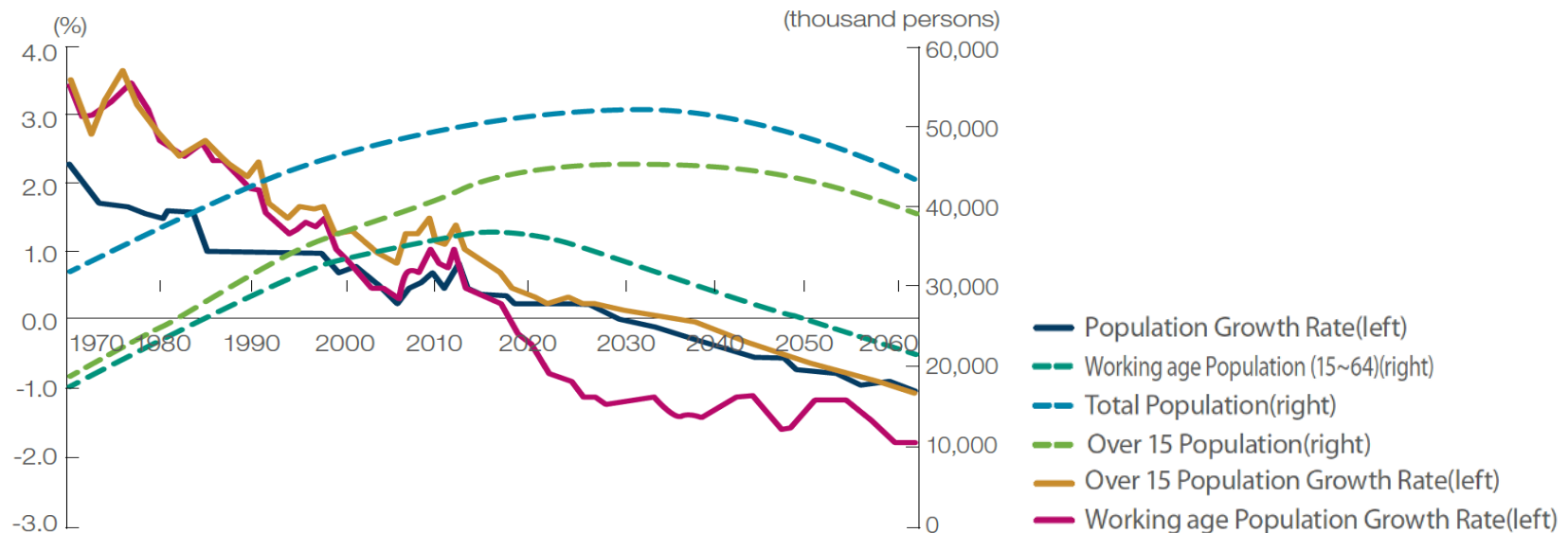
Macro-economic outlook

- to reflect the effect of demographic structure changes
- real GDP growth rate
  - 3.4% (2016-2020) ⟶ 0.9% (2056-2060)

Figure: Real and Nominal GDP Forecasts

Note: Potential GDP Growth before 2011 is estimated by HP(Hodrick prescott)filter
Real GDP Growth forecasts after 2012 is the same as the potential GDP Growth

Projections on Fiscal Baseline

- revenue : taxes, social security contributions, non-tax revenue

- expenditure : mandatory, discretionary

- fiscal deficit reaches over 13% of GDP in 2060

Figure: Total Revenue, Expenditure and Consolidated Fiscal Balance
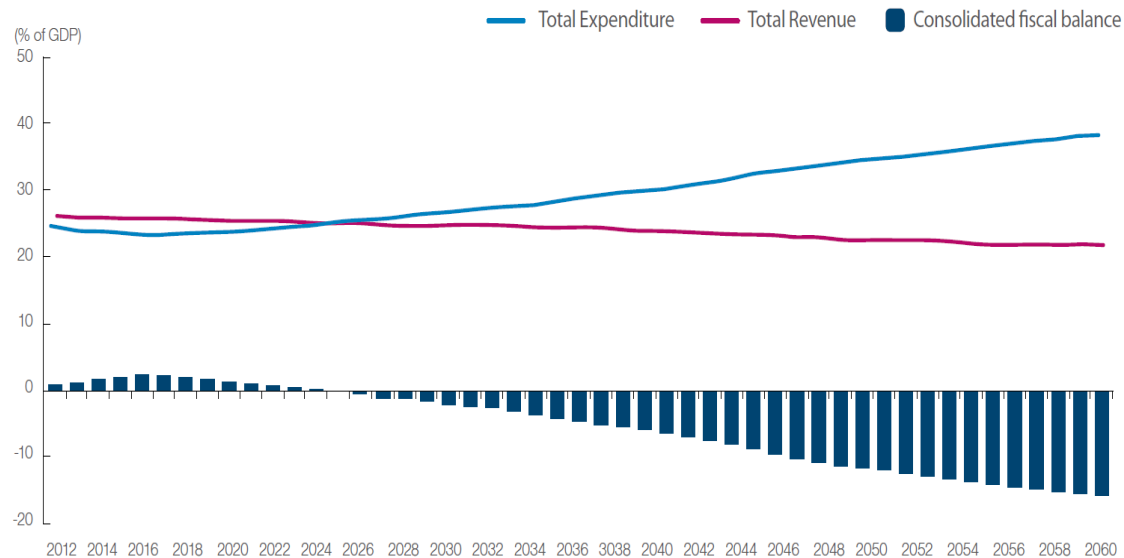
Projections on Fiscal Baseline

- explosive path of government debt (218.6% of GDP in 2060)
- Inequality of net tax burden among generations
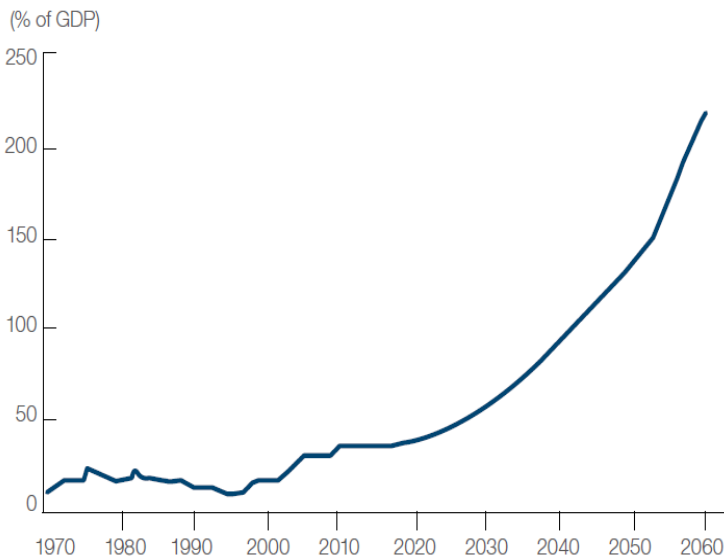
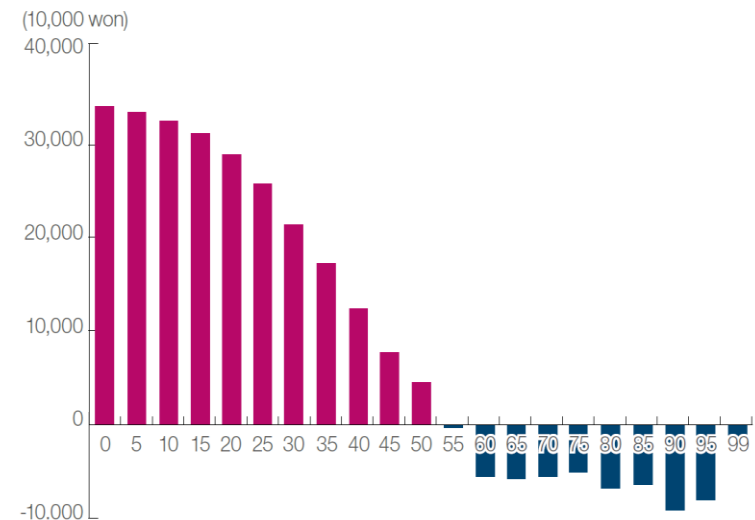**Figure:** Trend and Projection of Government Debt

(% of GDP)

Figure: Net Tax Burden on Age Groups

(10,000 won)

Note: Negative number is net benefits, and positive number is net burden.

Projections on Fiscal Baseline

- Fiscal sustainability test
  - Bohn's Test : sustainable until 2033
  - Blanchard et al. (1990) Test
    - Sustainable until 2028 according to Short-term gap
    - Sustainable until 2033 according to Mid-term gap
- Government debt (% of GDP)

	2012	2020	2030	2035	2040	2050	2060
Government Debt	34.2	38.7	58.6	73.4	91.3	136.3	218.6

Alternative Scenario Analysis

- Preparation for aging population scenario
  - National pension : contribution rate, pension age
  - Tax reform : tax expenditure, financial income tax, liquor tax, V.A.T.

Figure: Government Debt under Baseline and Preparation for Aging Population Scenario
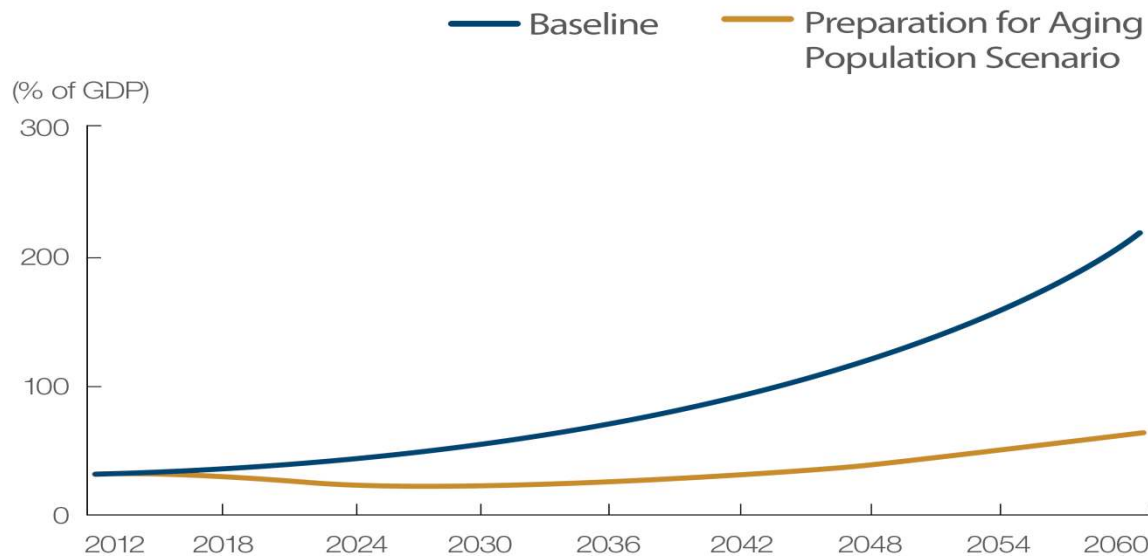
- **What types of fiscal indicators are used, and are these compared against previous projections?**
  - Government debt (% of GDP)
    - Trend, Compare with other countries
  - Sustainability test
    - Bohn's Test, Blanchard et al. (1990) Test
- **Is Alternative Scenarios of the projection presented to reflect different underlying assumptions?**
  - Preparation for Aging Population Scenario
    - National pension and Tax reform
  - Increasing Interest rate Scenario
  - Sustainable Scenario

- **Do projections highlight the long-term fiscal cost of past and possible future policy change?**
  - Baseline projection
  - Scenario analysis
- **Are fiscal projections presented to the legislature together with the annual budget?**
  - According to The Finance Act in Korea, The executive have to submit medium and long-term fiscal plan to Congress with annual budget proposal.
  - But, it has not been done until last year.
  - The executive have a plan to announce the long-term projection in this year.

- **Is consideration given to the long-term cost of new programs or reforms?**
  - Taxes, Pension and Health Care Insurance reform
- **Do projections trigger adjustments to expenditures or revenues, or to fiscal rules in the medium term?**
  - While the National Assembly reviewing of the annual budget in last year, these projections are frequently quoted and discussed.
  - We do believe this influenced on lawmakers' awareness of long term fiscal sustainability.
  - But, there is no explicit change in figures of budget according to these projections.

Thank you

Q & A