



## Fiscal Policies and Soundness of Korea

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After the 2008 global financial crisis, each country's interest in fiscal soundness has been increasing. Since the establishment of the Korean Government, the government has been promoting economic and social development by allocating resources to National defense, Education, Social Overhead Capital (SOC) and other important sectors under a principle of Choice and Focus with keeping a scale of the government budget low. The government strived to ensure fiscal soundness through tightening fiscal policy when the country was in transition from government-driven economy to market-driven economy as the size of economy increased after 1980.

Due to the 1997 Asian financial crisis, the Korean economy faced a serious economic downturn. The government propelled financial restructuring and continued to work hard to enhance social safety net programs through bearing accumulated deficit and debt. Consequently, the government debt has increased continuously until 2007, when Korea fully amortized the IMF global financial stability fund, because social welfare costs has been increasing rapidly after the country recovered from the crisis.

As the Korean government responded to the 2008 global financial economic turmoil implementing expansionary fiscal policies, the budget deficit and the government debt temporarily increased. However, the increasing tendency has been mitigated by fiscal consolidation policies implemented since the second half of 2009, and the current government debt as a percentage of GDP is 36.5% which is relatively low compared to the world standard in 2013.

However, the social security expenditures is expeditiously increasing due to rapid increases of low-birth rate and an aging society and a increase in the demand for social welfare, populistic election pledges, and the fiscal soundness is also concerned by financial risks and unification costs. It is certain that welfare expenditures increase due to population aging and an enlargement of social welfare policies, the occurrence of financial risks and unification costs and their scales are nonetheless uncertain. Thus, it is essential to identify uncertain expenditures and needed for proper resource plans in order to stabilize the fiscal policies.

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