Press Release

Ministry of Planning and Budget

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GOVT. HOLDS 1ST FISCAL MANAGEMENT STRATEGY COUNCIL MEETING

Proposing a new fiscal management framework to prepare for the future

1) **Establish a 'Future Fund' to proactively invest in youth, growth engines, regional development, and education, ensuring future fiscal stability**

2) **Reform Local Education Grants by shifting linkage from internal taxes to GDP growth and school-age population; Reinvest in early childhood, higher, and lifelong education**

The Ministry of Planning and Budget (MPB) held the inaugural meeting of the Fiscal Management Strategy Council at 10 a.m. on Friday, August 21, at the Government Complex Seoul. This council is a body where the government and the private sector gather to discuss and coordinate the direction of the national budget and major fiscal issues. The Minister of MPB presides over the meeting, with the ministers of agenda-related ministries serving as government members, and experts from academia, civil society, and industry participating as private-sector members.

At this inaugural meeting, the Minister of Education and the Vice Minister of the Interior and Safety, along with 14 private-sector members, sat down together. The discussion focused on two of today's most pressing topics: plans to promote the Future Fund, and plans to reform Local Education Financial Grants.

Why was this Council established? – "These are not problems to be solved alone."

In his opening remarks, Minister of MPB Park Hong-keun assessed that current fiscal issues involve complex and sharply conflicting interests. He, therefore, emphasized that "consultation" to gather diverse insights, and "coordination" to encompass differing perspectives are more critical than ever.

This implies that the government will not determine solutions based on its own judgment alone. As Minister Park explained, the Fiscal Management Strategy Council was established to serve as a 'platform for collective intelligence,' where experts from academia, civil society, and industry work together to find optimal solutions.

1) Future Fund: A Storehouse for Sowing the Fruits of the Economic Boom for the Future

Thanks to the semiconductor boom, more taxes were collected than expected this year. Tax revenues are projected to increase significantly next year as well. The government has decided to safeguard these resources by establishing a new Future Fund. This initiative will steadily accumulate additional tax revenues for strategic investment and fiscal stabilization.

First, intensive investments will be made in key areas that open up the future. The government has selected four priority investment targets that will serve as the core pillars for a rebound in potential growth: *Youth* (rebuilding a sturdy ladder of opportunity), *Growth Engines* (securing leadership in AI and advanced technologies), *Regional Development* (ensuring opportunities regardless of where one lives), and *Education & Talent* (the surest way to invest in people).

Next, the Fund will serve as a fiscal "reservoir." Until now, the national finances lacked an institutional mechanism to absorb tax revenue volatility. It was as if water washed away when it rained heavily, and no water was saved to use when a drought hit. This is why fiscal management was inevitably forced into a pattern of spending more when revenues increased and spending less when they decreased. The creation of the Future Fund will change this. Internal tax revenues that exceed the average trend of the past decade will be accumulated in the Fund. During periods of slowing revenue growth, the previously accumulated tax revenues can be used to quickly reinforce fiscal space. Both the stability and efficiency of the national finances will increase through this Fund.

The government plans to promptly prepare a legislative package for the Future Fund containing these details and submit it to the National Assembly in early September along with the 2027 budget proposal. Minister Park stated, "This additional tax revenue is precious ammunition for us standing at the forefront of the AI transformation. We will not waste it but invest it where it is needed most." He emphasized, "The next two to three years, during which we must redesign the entire national system in line with the full-scale spread of AI, is the ideal time for investment to reignite the growth engines of our economy." "We will thoroughly prepare so that the Future Fund can become a solid foundation for an *Irreplaceable Korea* where everyone grows and leaps forward together," he added.

2) Reforming the Local Education Financial Grants: Balancing Educational Investment

The Ministry of Education and the MPB are pushing for a reform of the local education grant system to rationalize the structure of educational finances and elevate the quality of education across all stages of life, from early childhood to adulthood. The purpose of this reform is to reflect the changing educational environment, such as the decline in the school-age population and shifts in economic and tax revenue conditions, while maintaining stable financial investment in elementary and secondary education and expanding investments into early childhood, higher, and lifelong education.

Currently, the grant system is linked to a fixed percentage of internal tax revenues, leading to significant fluctuations in fiscal size depending on tax revenue changes. It has been pointed out that the system has limitations* due to its failure to reflect the rapidly declining trend in the school-age population. In particular, this volatility has persisted and made it difficult for provincial and municipal offices of education to formulate medium- and long-term investment plans.

In addition, there has been a growing demand to resolve the investment imbalance** between education sectors; early childhood, higher, and lifelong education receive insufficient investment compared to elementary and secondary education. Meanwhile, local education finances have a high share of rigid expenses such as personnel costs, making it crucial to flexibly respond to the rapidly increasing demand for future education, such as the transition to AI-powered learning.

* *Trend in school-age population (ages 3-17, in millions): (2010) 8.8 → (2025) 5.91 (-2.88, -32.8%)*
Trend in grant size: (2010) 32.3 trillion won → (2025) 70.3 trillion won (+38 trillion won, +117.6%)

** *Public education expenditure per student ($1,000, Korea vs. OECD, 2022):*
(Elementary & Secondary) 22.5 vs. 13.5 (Higher Ed.) 14.7 vs. 21.4

To comprehensively reflect these changes in the educational environment and the demands of the field, the method of calculating education grants will be restructured for the first time in half a century since the grants were established. Going forward, local education grants will be stably expanded by reflecting national economic growth and inflation; however, to account for fixed expenses such as personnel costs, the decline in the school-age population will be considered only partially (35%)* to ensure that grants do not decrease. An additional safeguard is being added; if the total amount of grants falls below that of the previous year, the government will cover the difference. This is to prevent the education sector from experiencing sudden financial shocks.

* *Previous Year's Grants × (1 + 3-yr Annual Avg Nominal Growth Rate) × [1 + (3-yr Annual Avg Change in School-age Population × 0.35)]*

The funds secured through this reform will be accounted for as revenue in the Education & Talent Account within the Future Fund. These funds will be strategically invested in early childhood, higher, and lifelong education, as well as talent recruitment. By doing so, the government plans to continue the intent of the internal tax linkage, namely "steadfast investment in education," and promote balanced educational development across all stages of life.

Minister Park reiterated that he will integrate the feedback of the Council from today’s meeting and proceed with the enactment and amendment of the relevant legislation swiftly and meticulously in the coming weeks.