

KOREA

UNITARY COUNTRY

ASIA PACIFIC

BASIC SOCIO-ECONOMIC INDICATORS

Income group - **HIGH INCOME: OECD** Local currency - **South Korean Won (KRW)**

POPULATION AND GEOGRAPHY

AREA: **99 461** km²

POPULATION: **50.424** million inhabitants (2014),
an increase of 0.5% per year (2010-14)

DENSITY: **507** inhabitants/km²

URBAN POPULATION: **82.4%** of national population

CAPITAL CITY: **Seoul** (19.7% of national population)

Sources: OECD, World Bank, UNDP, ILO

ECONOMIC DATA

GDP: **1 683.9** billion (current PPP international dollars)
i.e. 33 395 dollars per inhabitant (2014)

REAL GDP GROWTH: **3.3%** (2014 vs 2013)

UNEMPLOYMENT RATE: **3.5%** (2014)

FOREIGN DIRECT INVESTMENT, NET INFLOWS (FDI): **9 899** (BoP, current USD millions, 2014)

GROSS FIXED CAPITAL FORMATION (GFCF): **29%** of GDP (2014)

HUMAN DEVELOPMENT INDEX: **0.898** (very high), **rank 17**

TERRITORIAL ORGANISATION AND SUBNATIONAL GOVERNMENT RESPONSIBILITIES

MUNICIPAL LEVEL	INTERMEDIATE LEVEL	REGIONAL OR STATE LEVEL	TOTAL NUMBER OF SNGs
228 1 718 MUNICIPALITIES AVERAGE MUNICIPAL SIZE: 224 440 INHABITANTS	-	17 REGIONAL ENTITIES	245

MAIN FEATURES OF TERRITORIAL ORGANISATION. Korea has a two-tier local government system with no hierarchical link, and a very diverse and complex structure. The regional level consists of nine provinces (*do*), six metropolitan cities (*gwangyeoksi*), Sejong Self-governing City and Seoul capital city (*teukbyeolsi*) which have a special status. The municipal level includes cities (*si*), counties (*gun* mostly rural) and autonomous districts (*gu*), an organisation which resulted from a "municipal annexation" process which took place in 1995. The municipal level is further divided into 3 496 sub-municipal localities: 218 *eup* (urban division of the country), 1 195 *myeon* (rural division of the country), and 2 083 *dong* (within autonomous districts and lower-tier cities). The local government sector also comprises 17 educational offices which are independent elected entities according to the Local Education Government Act. The decentralisation process is relatively recent having, started in 1987 with the "Declaration for Democratisation". It gained momentum in 1988 with the Local Autonomy Act and the Local Finance Act, and with the first local elections held in 1991 for local councillors and then in 1995 for local executives.

MAIN SUBNATIONAL GOVERNMENTS RESPONSIBILITIES. The functions of SNGs are not clearly defined by law. The Local Autonomy Act (Article 9) distinguishes SNG functions between those delegated by the central government and those which are local by nature. The Act identifies six categories of SNG functions: administrative and management functions; welfare, economic development (promotion of industry, agriculture, trade, etc.); regional development and environmental protection; education (however, this falls under the responsibility of independent educational offices), sport and culture; public order and safety (firefighting). The Act stipulates that the central government can use its own power and control over any function. In addition, both SNG levels have the same functions but at different scales. Regions are also responsible for vertical co-ordination between the national government and lower level of government. As a result, there is a large degree of overlap in the division of responsibilities across levels of government.

SUBNATIONAL GOVERNMENT FINANCE

EXPENDITURE	% GDP	% GENERAL GOVERNMENT (same expenditure category)	% SUBNATIONAL GOVERNMENT
TOTAL EXPENDITURE (2013)	13.7%	43.1%	100%
CURRENT EXPENDITURE	9.8%	-	71.3%
STAFF EXPENDITURE	3.7%	55.0%	27.1%
INVESTMENT	3.1%	57.4%	22.9%

SNG expenditure as a share of public spending is above the OECD average (40%), especially the OECD average for unitary countries (29%). As a share of GDP, SNG spending has increased from 9.8% in 1995 to almost 14% in 2013, reflecting transfers of spending responsibilities. SNGs represent more than half of public staff spending (10 points above the OECD unitary country average) which results partly from the payment of teacher salaries (educational offices). SNG investment is particularly high in GDP (3.1% vs 1.9% in the OECD) and in local expenditure while the share in overall public investment is in line with the OECD average (58.5% in 2013).

EXPENDITURE BY FUNCTION

% SUBNATIONAL GOVERNMENT EXPENDITURE



SNGs' main categories of spending include education (by educational offices), economic affairs and transport, general public services and social protection. SNGs are responsible for the large majority of total public spending in the areas of housing and community amenities and environmental protection, despite their small share in local spending.

REVENUE BY TYPE	% GDP	% GENERAL GOVERNMENT (same revenue category)	% SUBNATIONAL GOVERNMENT
TOTAL REVENUE (2013)	13.9%	42.1%	100%
TAX REVENUE	3.9%	21.4%	27.9%
GRANTS AND SUBSIDIES	8.6%	-	61.6%
OTHER REVENUES	1.5%	-	10.4%

The 1988 Local Finance Act, which determines SNG financing, has been amended several times in 2005, 2009 and 2011, in order to increase fiscal decentralisation and reform the tax and grants systems. In 2013, SNGs still depended heavily on central government transfers whose share in total SNG revenue is well above the OECD average (61.6% vs 37.3%). There is a special account for educational offices separate from that of other SNGs.

TAX REVENUE. The tax system for Korean SNGs was reformed in 2011, in order to simplify the tax mix. The number of taxes allocated to local authorities declined from 16 to 11, 9 of which are ordinary taxes and 2 are earmarked (a Regional Resource & Facilities tax and a Local Education tax). Most rates are determined by the central government. The highest taxes are the acquisition tax levied on persons acquiring real estate, motor vehicles, heavy equipment, boats, etc. either through purchase or inheritance (it benefits only the upper level and represent 26% of all SNG tax revenue), the local income tax (both levels, 19%), the property tax (mainly for the lower level, 15%), the automobile tax (both levels, 12%) and a local consumption tax. Metropolitan cities can levy both provincial and municipal own taxes. Taxes on properties represent in total 30% of SNG tax and 1.2% of GDP.

GRANTS AND SUBSIDIES. Transfers from the central government to local authorities mostly include transfers from revenue sharing between levels of government and categorical grants. Revenue sharing is divided between *Regular Revenue Sharing* (RRS) and *Revenue Sharing for Decentralisation* (RSD). The RRS consists of 18.3% of national tax revenue. 96% of receipts are non-earmarked allocated to SNGs according to an equalising formula based on assessment of standard fiscal needs and revenues. The remaining 4% is earmarked (natural disaster recovery, construction of public facilities, national project, etc.). The RSD system, financed through a decentralisation tax, was introduced in 2006 in order to finance the decentralisation of administrative functions. Categorical grants are very diverse and are aimed at helping local governments to provided services otherwise too costly, finance delegated tasks and policy projects, provide financial assistance and compensation, etc.

OTHER REVENUES. Other revenues include user charges and fees (8% of revenue) and revenue from property (sales of assets, leasing, dividends, etc.).

OUTSTANDING DEBT	% GDP	% GENERAL GOVERNMENT
OUTSTANDING DEBT (2013)	1.1%	3.2%

According to the Local Autonomy Act, SNGs must maintain a balanced budget. They are free to borrow to fund investment projects (golden rule). Since 2006, they have been able to issue bonds without prior approval from the central government if their debt levels are under debt ratios (Total Debt Limits). SNG debt is well below OECD averages, especially that of unitary countries (5.1% of GDP and 12% of public debt). In 2013, a large majority of outstanding debt (62%) was made up of "other accounts payable" while financial debt accounted for 38% of debt (29% of loans and 9% of bonds).

A joint- study of:



Sources: OECD National Accounts Statistics • OECD (2015 and 2016) Subnational Governments in OECD Countries: Key data • Chatry I., Hulbert C. (2016) "Multi-level governance reforms: Overview of OECD country experiences" OECD publishing • Ahn Y. (2015) Local Autonomy And Local Finance in Korea, Korea Domestic Economic Situation and Government's Effort, Korea Research Institute for Local Administration (Krila) • Local Government Officials Development Institute (2013) Local Government and Public Administration in Korea • Ministry of Strategy and Finance of Korea (2014) the Budget System of Korea • OECD/Korea Institute of Public Finance (2012) Institutional and Financial Relations across Levels of Government, OECD Fiscal Federalism Studies.