Ministry of Planning and Budget

Policy Brief

The Future Fund:
A Fiscal Paradigm Shift for Strategic Investment and Fiscal Stabilization

Key Messages

- **The Future Fund:** Capitalizing on semiconductor-driven tax windfalls, the Korean government has made a strategic choice to channel temporary excess revenues into long-term growth foundations rather than dissipating them on short-term spending.
- **Baseline-Trend Revenue Structure:** The Fund captures tax revenues that exceed a 10-year baseline trend, accumulating USD 121.6 billion by 2027. Functioning as a counter-cyclical reserve buffer, the Fund absorbs excess revenue during economic upturns and deploys strategic capital during downturns to anchor macro-fiscal stability.
- **Strategic Investment Platform & Fiscal Stabilizer:** The Fund will deploy USD 34 billion in 2027 across four priority pillars: Youth, Growth Engines, Regional Development, and Education & Talent. Additionally, USD 9.4 billion is dedicated to curtailing net government bond issuance, while the remaining USD 78.2 billion is managed as a fiscal buffer.
- **Positive Response from International Institutions:** Major global institutions—including the IMF, OECD, World Bank Group, Fitch, and Moody's—have endorsed the Fund as a wise choice that balances long-term fiscal sustainability with decisive future growth investment.

Challenges: Slowing Growth and the Intensifying Global Race for AI Supremacy

Following rapid industrialization, Korea achieved advanced-economy status at an unprecedented pace. However, the Korean economy has recently faced structural challenges, with its potential growth rate sliding to 1.94% and projections warning of a drop to the 0% range by the 2040s.[1)]

Fortunately, through expansionary annual budgeting—complemented by two supplementary budgets under the current administration—growth momentum has successfully rebounded. Korea's potential growth rate is projected to rise for two consecutive years, reaching 2.14% in 2026 and 2.20% in 2027.[2)] Securing this rebound as sustained, long-term growth requires decisively overcoming these pressing structural bottlenecks.

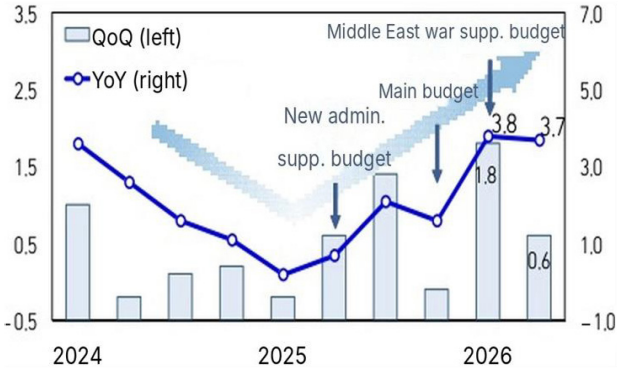
Specifically, the challenges are threefold:

- First, a rapid demographic shift driven by low birth rates and population aging: The total fertility rate remains stagnant at 0.80, the elderly population has surpassed 20% of the total, and the working-age population (aged 15-64) has steadily declined since 2018.
- Second, a lagging transition toward an AI and digital economy: Korea's core infrastructure investment for future industries remains slow, with the country ranking 32nd globally in the number of data centers and 12th in private AI investment.[3)]
- Third, persistent regional disparities between the capital metropolitan area and non-capital regions: The OECD highlighted a structural vicious cycle in which metropolitan concentration, regional decline, and low birth rates mutually reinforce one another, recommending the creation of vibrant regional innovation ecosystems.[4)]

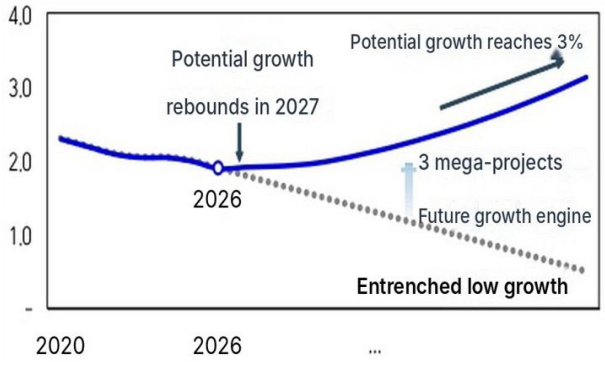
Externally, the competition for global AI supremacy has intensified. AI capital expenditure (CAPEX) by the five major global tech giants—Amazon, Alphabet, Microsoft, Meta, and Oracle—is on track to reach $900 billion in 2026 alone, surpassing their total cumulative spend since ChatGPT's launch in November 2022.[5)]

This profound AI transition transcends individual corporate capacities. It demands strategic public investments to build national-scale infrastructure—such as power grids, intelligent networks, and hyperscale data centers—while systematically nurturing talent pipelines and startup ecosystems.

Ultimately, Korea must accelerate its AI transition while addressing key structural challenges to secure global leadership. This requires targeted fiscal investments to build long-term foundations that the private sector cannot provide alone, while catalyzing private innovation and investment.



< GDP Growth Rates Pre- and Post-Inauguration(%) >



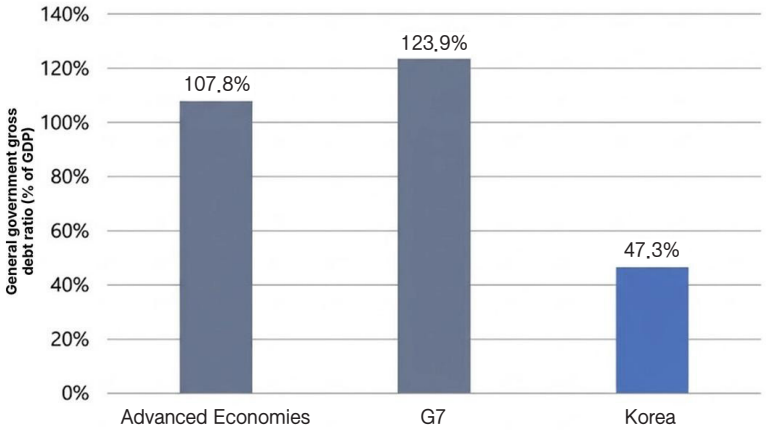
< Potential Growth Rate Outlook(%) >

Opportunities: Capitalizing on Robust Fiscal Space and Windfall Tax Revenues

Korea possesses robust fiscal capacity to address these pressing structural challenges. Backed by sustained fiscal discipline, Korea has maintained its general government debt ratio at a lower level than major advanced economies. Korea's debt-to-GDP ratio is projected to be 47.3% in 2026, remaining far below the advanced economy average of 107.8%.

Furthermore, a substantial surge in corporate and income tax receipts, driven by the global semiconductor boom, has expanded the investment capacity. Windfall tax revenues are projected to reach USD 42.1 billion in 2026, with national tax revenue in 2027 expected to rise by approximately 50% compared to the original 2026 budget. Consequently, the IMF revised Korea's 2026 debt-to-GDP ratio projection downward by 7.1 percentage points, from 54.4% in April 2026 to 47.3% in October 2026.

This ample fiscal headroom provides a solid foundation to finance large-scale strategic investments for long-term growth engines without compromising fiscal sustainability.



< 2026 General Government Debt Ratio (% of GDP, IMF) >

Crossroads: Short-term Consumption vs. Strategic Future Investments

AI is fundamentally transforming the socio-economic landscape—reshaping industrial structures, corporate decision-making, healthcare, education, culture, and national security. AI is diffusing at an unprecedented pace compared to previous general-purpose technologies, such as electricity and the internet, accelerating multi-sector innovation across global economies.[6)]

Amid this epochal transformation, Korea stands at a critical juncture: whether to consume the recent tax windfalls on short-term fiscal demands, or to channel them strategically into fortifying long-term growth foundations. This choice will determine how effectively current economic gains are transformed into sustainable growth and prosperity for future generations.

2. The Future Fund: Korea's Monumental Decision for the Next Era

A Bold Choice: Investing in Strategic Capital for Future Readiness

The Korean government has decided to channel its secured fiscal space into strategic capital designed to elevate national productivity and potential growth. Amid the global AI transformation, any delay in mobilizing investment for critical infrastructure and advanced human capital risks falling behind in key future industries. Ultimately, this bold choice aims to build a virtuous cycle between growth and fiscal health—where proactive investment drives economic expansion, which in turn structurally reinforces long-term fiscal stability.

This decisive initiative is anchored in three core policy considerations:

- First, the present moment represents the "golden opportunity" to secure global leadership amid shifting global supply chains and industrial realignments. The coming years will serve as a decisive period determining the nation's long-term trajectory. Bold and proactive public investments during this critical window are essential to enhance future-readiness, crowding in private investment and innovation to position Korea as a frontrunner in the global AI ecosystem.
- Second, Korea possesses immense potential that can be converted into core competitive advantages through strategic investment. In particular, Korea is highly competitive across advanced manufacturing, K-culture, healthcare, and finance. Building on these foundations, the AI transformation and digital infrastructure will deliver both productivity gains and new high-value-added industries.
- Third, Korea maintains ample fiscal capacity to support large-scale strategic investment for the AI transition. Korea's sufficient fiscal space and recent tax revenue windfalls provide strong financial backing to expand growth foundations while firmly safeguarding macro-fiscal sustainability.

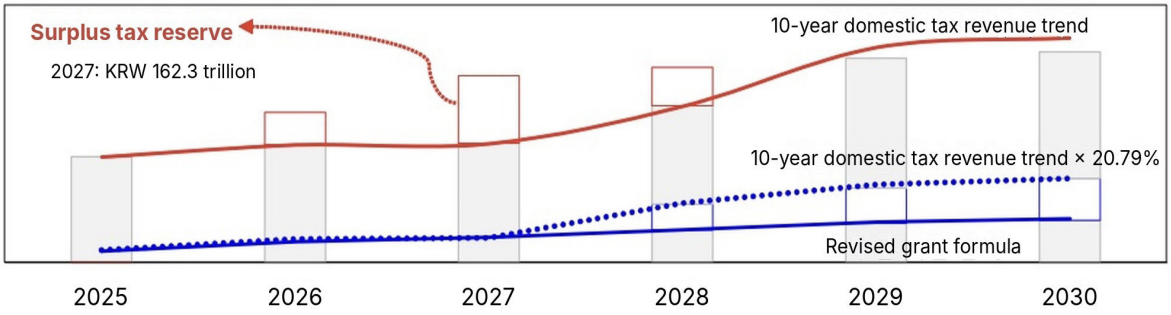
An Innovative Choice: Establishment of the Future Fund

The Korean government will establish the Future Fund as a dedicated financial platform to practically back these strategic decisions. One of the primary objectives of the Fund is to overcome the inherent limitations of the traditional annual budgeting system. Furthermore, it aims to systematically foster investments in future-readiness while simultaneously enhancing the flexibility and stability of macroeconomic and fiscal management.

Revenue Structure: Baseline-Trend Windfall Accumulation

The Fund's resources are accumulated by capturing windfall tax revenues that exceed the 10-year baseline trend of domestic tax receipts, totaling USD 121.6 billion as of 2027. The 10-year baseline trend was specifically chosen to integrate two to three full business cycles, accounting for the 3-to-5-year volatility cycle of the semiconductor sector. This structure allows for the accumulation of tax revenues into the Fund during economic booms and their timely utilization during downturns, thereby dampening medium-to-long-term revenue volatility and stabilizing national fiscal space.

2027 Trend Baseline = 2025 Settlement × (1+10-Yr CAGR (2015-2025))²



Expenditure Structure: the Fiscal Reserve Mechanism

On the expenditure side, accumulated resources will target investments in four priority pillars—Youth, Future Growth Engines, Regional Development, and Education & Talent—with allocations reaching USD 34 billion in 2027. Concurrently, USD 9.4 billion will be allocated toward curtailing net government bond issuances, reinforcing fiscal sustainability.

Unallocated capital remaining after these targeted expenditures will be managed as a "Fiscal Reserve" that buffers revenue volatility caused by macroeconomic fluctuations. As of 2027, surplus funds totaling USD 78.2 billion will be diversified into customized portfolios, including domestic and international stocks and bonds, in partnership with leading private asset managers. This will ensure both profitability and operational stability based on a rigorous risk management framework.

Transformation: A New Fiscal Management Paradigm

The Future Fund marks a fundamental paradigm shift in macro-fiscal governance, overcoming the structural limitations of the traditional annual budgeting system.

First, the Fund ensures policy responsiveness anchored in flexibility. Traditional annual budgeting frameworks suffer from inherent rigidity, as expenditures are strictly bound by the prior year's legislative authorizations from the National Assembly. Consequently, annual budgets struggle to respond promptly to rapid technological shifts and real-time industrial demands during the fast-paced AI transition. By contrast, the Future Fund empowers the government to flexibly reallocate resources within a 30% ceiling of pre-approved total expenditures, enabling swift and agile policy responses to emerging opportunities.

Second, the Future Fund ensures long-term policy continuity and fiscal predictability. Capable of deploying capital over consecutive years, the Fund acts as a steady catalyst for strategic investment. Consequently, it will effectively address long-term policy objectives, including human capital development and regional innovation ecosystems.

Third, the Fund anchors macro-fiscal stability. If large-scale revenue fluctuations are absorbed solely through the traditional single-year accounting framework, they risk causing excessive temporary expenditure—triggering inflation, amplifying pro-cyclicality, and heightening sovereign bond market volatility. Serving as a counter-cyclical reserve buffer, the Fund effectively absorbs excess tax revenues during economic expansions and channels them into strategic investment capital during downturns.

Investment Principles: The "NEXT" Framework

The Future Fund will deploy a total of USD 34 billion in 2027 across four strategic pillars—Youth, Growth Engines, Regional Development, and Education & Talent. This initiative ensures that the fruits of revenue windfalls, secured through collective national effort, are shared across society, thereby mitigating structural polarization and regional disparities. Investment programs will be selected pursuant to the NEXT Principle:

❶ **(N: New-Capital)** Projects investing in human and physical capital formation
❷ **(E: Enterprising)** Projects requiring bold, forward-looking investments
❸ **(X: fleXible)** Projects requiring flexible implementation
❹ **(T: Timely)** Projects requiring time-sensitive investments

3. Strategic Allocation: Four Priority Investment Sectors of the Future Fund

Targeted Investment in Four Strategic Accounts

First, the Youth Account focuses on resolving the challenges faced by the younger generation and supporting their independence and growth across all life stages. To address job market tightness induced by AI automation, the government will launch the "First-Job Support Program for Youth" and scale up financing for startups to usher in an "Era of National Entrepreneurship". To ensure housing stability, 106,000 public housing units for youth will be provided in 2027, and the "Youth Future Savings Program"—designed to support asset building—will be expanded to all youth regardless of income brackets. Furthermore, the "Marriage, Childbirth, and Childcare Package" will provide up to USD 56.2 thousand per child. Finally, cultural accessibility for youth will be significantly enhanced by expanding the "Youth Culture and Arts Pass" to cover live performances, exhibitions, film, and book purchases.

Second, the Growth Engine Account will focus investments on core infrastructure to advance industrial competitiveness. To build a robust AI ecosystem, this account concentrates resources on promoting three Mega-projects: Semiconductors, Physical AI, and AI Data Centers (AIDC). Alongside these initiatives, the government will invest in the Seven SEED Strategic Technologies—SMRs, nuclear fusion, renewable energy, quantum, aerospace, advanced biotechnology, and supply chain resilience. This includes funding pilot demonstrations, such as the 2030 lunar landing mission and Urban Air Mobility (UAM) commercialization.

Third, the Regional Development Account drives comprehensive regional innovation—ranging from income support to improvements in living conditions. Basic income support for agricultural and fisheries communities, alongside infrastructure expansion and "Multi-purpose Public Centers", will fundamentally improve rural quality of life. To boost the growth of major regional hubs, a new "Local Future Growth Subsidy"(USD 2.6 billion in 2027) will be established. In addition, regional administrative integration and the relocation of public institutions from the Seoul metropolitan area to provinces will create self-sustaining local living hubs and a vibrant economic ecosystem.

Fourth, the Education and Talent Account aims to cultivate elite technological leadership. Concurrently, it will elevate the global competitiveness of both specialized science and technology institutes, and regional flagship national universities. A newly established USD 524.1 million "Future Talent Development Fund" will provide targeted financial support for outstanding students and researchers. Additionally, the quality of early childhood education and care will be systematically elevated by lowering teacher-to-child ratios.

4. International Assessment and Implementation

Endorsement from International Institutions

Major international organizations and credit rating agencies have endorsed the rationale and structural design of the Future Fund. They view the Fund as an exemplary model of strategic capital allocation—transforming short-term revenue windfalls into long-term growth engines—while reinforcing fiscal sustainability. This recognition highlights the Fund as a pioneering model of macro-fiscal governance, bridging national risk management with long-term growth.

International institutions assessed the Fund as follows:

- **IMF:** A buffer against future economic shifts (Oct 18)
- **OECD:** A wise policy choice (Sep 30)
- **WBG:** The fiscally wise thing to do (Oct 20)
- **Fitch:** A core bridge to mitigating fiscal revenue volatility and boosting potential growth (Sep 9)
- **Moody's:** Seeks to strike a balance between fiscal soundness and fostering future growth engines (Sep 8)

Implementation

The Korean government plans to launch the Fund in early 2027, selecting professional private asset management institutions to run the investment portfolios. To meet this timeline, the government will expedite the legislative process to enact both the Future Fund Establishment Act and the annual Fund Operational Plan by the end of 2026.

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