



# Online Series

2021. 01. 22. | CO 21-04

## Analysis of the 4<sup>th</sup> Session of the 14<sup>th</sup> Supreme People's Assembly in North Korea: A Focus on Budget and Accounts

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Following the 8<sup>th</sup> Party Congress, the 14<sup>th</sup> Supreme People's Assembly (SPA) reported the gist of last year's budget execution and announced this year's budget plan. North Korea's recent budget plan has partially affirmed worsening finances and economic difficulties facing the North Korean economy marred by the prolonged sanctions. This year's increasing rate of budget revenue and expenditure hit the lowest after Chairman Kim's ascending to power. A rise in investment spending for economic construction has also stagnated. This year's plan for the entire state budget revenue and expenditure appears to have focused on maintaining the status quo in the same context as the economic construction goals in the 8th Party Congress, which focused on reality and practicality.

North Korea held the 4<sup>th</sup> Session of the 14<sup>th</sup> Supreme People's Assembly (SPA) on January 17, 2021. Following the 8<sup>th</sup> Party Congress, the 14<sup>th</sup> SPA, too, showed the criticism and revealed an analysis of the causes behind a lack of achievements of the five-year national economic development strategy (2016~2020). As if acknowledged the failure of the existing economic policy, major cabinet officials have been replaced in large numbers. The primary direction of this year's economic

projects revealed at the SPA was not much different from the approach announced at the 8<sup>th</sup> Party Congress.

Besides, similar to last year, this SPA's plan for budget revenue and expenditures also partially affirmed worsening finances and difficulties facing the North Korean economy marred by the prolonged sanctions, health crisis, and natural disasters. This paper seeks to analyze the characteristics of the budget and accounts announced at this year's SPA and drive implications from it.

### **Evaluation on the Execution of National Budget in 2020**

The SPA generally reports the settlement of the execution of last year's national budget and announces a plan for this year's budget revenue and expenditure. The announced budget and accounts are only limited to minimum figures, such as the year-on-year increase, and generally do not provide detailed information about the scale and structure of North Korea's public finance. Nevertheless, the SPA has a high value in analyzing North Korea's primary policy goals and the basic direction of its fiscal policy, whether it be expansionary or contractionary.

The execution of last year's national budget did not show a distinct change. The increase of budget revenue planned for this year was similar to the previous year's plan of budget revenue. The budget revenue has also been generally on the decline ever since a large increase in the early rule of Chairman Kim Jong-un. Moreover, the execution rate of budget revenue and expenditure did not substantially change compared to the initial plan. In general, budget revenue slightly surpasses the planned amount, and the budget expenditure is executed similarly according to a plan.

Though not a noticeable change, this year's actual execution rate of budget revenue recorded an all-time-low (100.1%) since 2012. A reporting session of the national budget usage at SPA pointed out that 'some units failed to meet the goal of budget revenue plan ... thereby causing a chaos in the state's ability to secure the finance needed for economic development.' It indicates that fulfilling the goal of planned budget revenue was quite challenging compared to last year due to a combination

of sanctions, unprecedented health crisis, subsequent contraction in economic activities, and natural disasters. The proportion of people's economy, which refers to the investment among the expenditures, has reduced by 2.4%p to 45.3%. Given that the ratio of the people's economy had generally maintained at the range of 47~48% after 2016 (during an implementation period of the five-year national economic development strategy), last year's investment has mainly been contracted.

<Table 1> Report of Account of Settlement: Budget Revenue and Expenditure  
(Unit: %)

	Year-on-year Rate of Revenue Increase	Execution Rate vis-à-vis the Plan		Proportion of Budget Expenditure		
		Revenue	Expenditure	Budget for People's Economy	Budget for People's Livelihood	Budget for National Defense
2012	10.1	101.3	99.6	44.8	38.9	
2013	6.0	101.8	99.7	45.2	38.8	16.0
2014	6.0	101.6	99.9	46.7	37.2	15.9
2015	5.0	101.3	99.9	47.5	36.6	15.9
2016	6.3	102.1	99.9	48.3	35.7	15.8
2017	4.9	101.7	99.8	47.7	36.3	15.8
2018	4.6	101.4	99.9	47.6	36.4	15.8
2019	5.3	101.5	99.8	47.7	36.3	15.8
2020	4.3	100.1	99.9	45.3	36.5	15.9

Source: Rodong Sinmun (SPA's reporting of year-by-year national budget)

What stood out is that investment for the construction sector was separately mentioned while the proportion for the people's economy budget was reduced among last year's budget expenditure. This year's SPA session announced that 19.1% of budget expenditure last year was invested in the construction sector, detailing that the budget was spent on essential construction projects, such as Suncheon Phosphatic Fertilizer Factor and Myohyangsan Medical Appliances Factory, the restoration of the damage caused by floods and typhoons, and the construction of installing oxygen separator of major steel mills. Last year's investment, a period of ending the five-year economic development strategy, seemed to have focused mainly on the construction sector. The 8<sup>th</sup> Party Congress laid out detailed numeric goals for the construction sector, such as housing construction, the judgment of which may

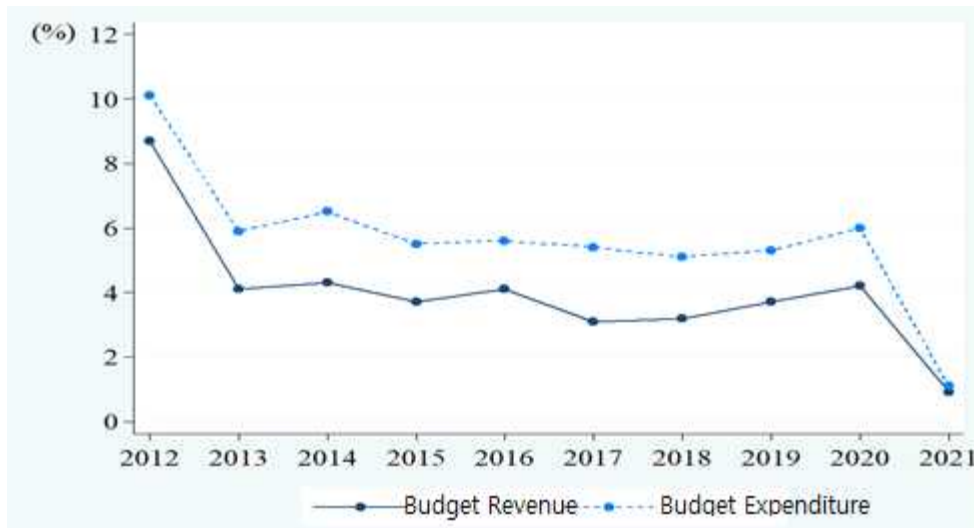
indicate that it may be relatively easy to meet the goals in the construction sector amid the prolonged sanctions and ongoing health crisis.

Aside from the mentioning of an investment in the construction sector, an analysis of last year's execution of the state budget suggests a contraction of economic activities. This SPA session's increase in the budget revenue and expenditure was stagnated, which could be interpreted as a realistic reflection of last year's budget execution.

### **Increase of 2021's Budget Plan for Revenue and Expenditure Stagnated by a Large Margin**

This year's increase of North Korea's budget revenue and expenditure was set at 0.9% and 1.1%, respectively, the scale of which does not show a vast difference from last year. An increase of budget within the 1%-range hit the lowest not just after Chairman Kim's ascending to power but also after 2002 (See <Picture 1>). Post-2012 changes in North Korea's budget plan for revenue and expenditure point to a large increase in finance in 2012, the early days of Chairman Kim's rule, and a yearly rise of 3~4% in budget revenue and 5~6% in budget expenditure in 2013~2020. Therefore, a contraction of increase in budget revenue and expenditure within the 1%-range for 2021 was a relatively noticeable change. This contraction is a testament to the North Korean economy's dismal situation and a lack of capacity to expand the finance scale.

&lt;Picture 1&gt; Budget Plan's Increase of Revenue and Expenditure (2012~2021)



Source: Rodong Sinmun (Each year's announcement of national budget at the SPA)

The overall deterioration of North Korea's public finance was spotted at last year's reporting of the budget plan of SPA. North Korea, marred by full-blown COVID-19-originated health crisis, planned an increase of 4.2% and 6%, respectively, for budget revenue and expenditure—the highest increase of finance scale ever since the toughening of sanctions imposed on North Korea. The scale of the entire finance had been increased on a large margin. In contrast, an increase in turnover revenue and deductions from state-owned enterprises' profits, a significant source of the state budget, were reduced by 1.1% and 1.2%, respectively. Turnover revenue was a sort of indirect tax imposed in the distribution process of consumer goods. Simultaneously, deductions from state-owned enterprises' profits are a direct tax for the production unit's profits. Last year's marginal increase of both turnover revenue and deductions from state-owned enterprises' profits is viewed as a measure to brace for the overall worsening economic situation amid the double whammy of sanctions and health crisis. Subsequently, turnover revenue and deductions from state-owned enterprises' profits, which only made up about 85.3~85.7% of 2018~2019's budget revenue, were reduced to 83.2% in 2020.

Instead, an institutional change was announced, through which ‘the depreciation expense for state investment-incurred fixed assets,’ which used to be retained within the enterprise and used as a fund for expanding production in the company, will be mobilized for state budget revenue. It is assumed that the stagnated increase of central budget revenue-generating items may give rise to the need for compensating with another source of budget revenue. ‘The depreciation expense for state investment-incurred fixed assets’ is accrued on enterprises after reflecting the depreciation of fixed assets, such as machinery, and is a budget item that will brace for the future replacement or investments in the facilities. The history of institutional change in North Korea illustrates that ‘the depreciation expense for state investment-incurred fixed assets’ was retained within the enterprise when reform was conducted in a way that expanded the autonomy of businesses. By contrast, it was mobilized for state budget revenue when fiscal control was strengthened. After Chairman Kim came to power, an institution was changed to allow its retention within the enterprise in 2014 but was again changed to mobilizing it for the state budget in 2020.

<Table 2> Increase of National Budget Revenue Plan (Per Item)  
(Unit: %)

	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Total budget revenue	8.7	4.1	4.3	3.7	4.1	3.1	3.2	3.7	4.2	0.9
Turnover revenue	7.5	3.5	4.5	2.6	3.3	2.4	2.5	4.1	1.1	0.8
Deductions from state-owned enterprises' profits	10.7	6.0	7.9	4.3	4.5	3.5	3.6	4.3	1.2	1.1
Profits deducted by the state from cooperatives	5.3	5.3	4.8	3.2	1.5	1.6	0.9	1.1	0.4	0.4
Depreciation expense for state investment-incurred fixed assets	2.3	2.8								0.1
Fees for properties	1.9	3.4	9.5	0.7	4.0	2.0	1.8	0.3	0.1	0.0

Social security insurance	1.7	5.1	2.8	1.1	1.2	1.2	0.2	0.0	0.3
Profits earned by selling state property and enterprises' profits deducted by the state from the price increase		2.4	1.4	2.5	1.1	0.5	0.0	0.3	0.1
Other revenues		1.7	0.8	1.3	1.2	0.8	0.5	0.2	0.6
Profits deducted by the state from the special economic zone		5.1	3.6	4.1	1.2	2.5	1.6	0.3	0.2

Source: Rodong Sinmun (SPA's reporting of year-by-year state budget)

An increase of turnover revenue and deductions from enterprise profits this year was 0.8% and 1.1%, respectively, similar to a rise of the entire budget revenue at 0.9%. It could be interpreted as a lack of capacity to expand the finance through a new revenue source this year. This interpretation is backed by the proportion of turnover revenue and deductions from enterprise profits among the entire budget revenue at 83.4%, a similar level to last year (83.2% in 2020).

The increase of budget in each unit turns out to be significantly stagnated. A growth of budget for people's economy, the expenditure intended for the development of people's economy, was planned at 0.6%, which was reduced by a significant margin compared to last year's 6.2%. When the expenditure of the people's economy is broken down by the sector, an investment for crucial industry, agriculture, and light industry was planned at an increase of 0.9%. At the same time, an investment in science technology was planned at a rise of 1.6%. It is in stark contrast to last year's planned budget increase of 7.2% for crucial industry, agriculture, and fishery, and 9.5% for science technology. In particular, investment in science technology turned out to have hovered around 5% compared to last year during the implementation

period of the five-year economic development strategy. The 8<sup>th</sup> Party Congress pointed out a failure of science technology not sufficiently driving the economic growth as the reasons behind the failed five-year economic development plan. Although the expenditure for science technology got significantly expanded by 9.5% in 2020, last year recorded a lack of performance. North Korea, subsequently, appeared to have adjusted an investment plan for science technology reflecting the the reality.

An increase of the budget for people's livelihood, which is the state expenditure given to the society and culture, was relatively reduced from last year, similar to the budget expenditure for people's economy. The spending in the health care sector among the budget for people's livelihood has risen by 2.5% from last year, a stagnated increase given the previous year's 7.4% increase. An increase in the health care budget plan of last year is interpreted as a measure to brace for the spread of COVID-19. It should be accounted for that the budget increase in the health care sector was relatively higher compared to other sectors and that there exists a base effect stemmed from last year's growth. However, the increase in health care expenditure was not significant given the ongoing situation of the COVID-19 pandemic. In the meantime, the education expenditure has increased by 3.5% from last year, which recorded a relatively modest increase rate compared to other sectors.

<Table 3> Increase of Plan for State Budget Expenditure (per detailed item)  
(Unit: %)

	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Entire Budget Expenditure	10.1	5.9	6.5	5.5	5.6	5.4	5.1	5.3	6.0	1.1
Development of People's Economy							4.9	5.4	6.2	0.6
-Industry (Priority)	9.4	5.1	5.2	5.1	4.8	4.5				0.9
-Agriculture	~1	~7.2	5.1	4.2	4.3	4.4	5.5	5.7	7.2	
-Fishery	2.1			6.8	6.9	6.8				-
-Science Technology	10.9	6.7	3.6	5.0	5.2	8.5	7.3	8.7	9.5	1.6



-Forestry				9.6	7.5	7.2				
-Basic Construction	12.2	5.8	4.3	8.7	13.7	2.6	4.9	6.6		
people-centered policy										
-Education	9.2	6.8	5.6	6.3	8.1	9.1	5.9	5.5	5.1	3.5
-Health	8.9	5.4	2.2	4.1	3.8	13.3	6.0	5.8	7.4	2.5
-Sports	6.9	6.1	17.1	6.9	4.1	6.3	5.1	4.5	4.3	1.6
-Culture	6.8	2.2	1.3	6.2	7.4	4.6	3.0	4.1	5.8	2.7

Rodong Sinmun (SPA's reporting of year-by-year national budget)

### Alternative Aside from Maintaining the Status Quo and the Spirit of Self-reliance?

What was reported at this year's SPA indicated an overall stagnation of North Korea's public finance. This year's plan for entire state budget revenue and expenditure appears to have focused on maintaining the status quo considering the possibility that sanctions and corona-originated health crisis would stay for the long haul. This phenomenon can be viewed in the same context as the economic construction goals in the 8<sup>th</sup> Party Congress, which focused on reality and practicality.

Recently North Korean authorities started to lay out a series of economic policies that consider their feasibility while candidly acknowledging the financial difficulties facing North Korea. This tendency is also shown in the reporting of budget and accounts at this year's SPA. Although it is difficult to entirely grasp North Korea's economic situation with limited North Korea's official announcement, laying out economic policies that reflect the state's objective recognition of economic reality and feasibility of policies can be viewed as mitigating the uncertainty in North Korea's economy.

Nevertheless, there are not many alternatives to choose for North Korean authorities to improve its economic conditions. North Korea had no other option but to focus on the self-reliant economy at the 8<sup>th</sup> Party Congress. The least North Korea could expect at this moment is to secure a source of foreign currency through

tourism cooperation within the range that does not violate sanctions, followed by the early eradication of COVID-19. The mentioning of developing the Mt. Geumgang Tourism Project can be interpreted in this context. However, North Korea might face some limits in unilaterally developing Mt. Geumgang as a tourist zone amid the overall deteriorating finance. The government of the Republic of Korea, while taking into account the COVID-19 situation and UN sanctions, should do a thorough review of the primary conditions of the North Korean economy in a way that assesses the demands of inter-Korean exchange and cooperation, including humanitarian cooperation. ©KINU 2021

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