

Welcoming Remarks

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(President, Korea Development Institute)

Honorable Minister,
Distinguished participants from the World Bank and other organizations,
Ladies and gentlemen,

On behalf of the Korea Development Institute, it is my pleasure to welcome you all to the Joint Conference of the World Bank and KDI on "Reforming the Public Expenditure Management System." I would like to give a special welcome to Minister Byungil Kim of the Ministry of Planning and Budget who sponsored this Conference.

I want to start by thanking the organizers from the World Bank, Ministry of Planning and Budget, and KDI for their dedicated efforts. I am pleased to see so many leading experts from the international community who came here to share knowledge and experience.

Ladies and gentlemen,

KDI was established in 1971 as the first government-funded research institute in social science. At the time of its inception, KDI focused on policy issues related to the Five-Year Economic Development Plans, which served as a basis for economic management in those days. As Korea made a democratic transition in the 1980s, social issues such as welfare and balanced regional growth came to the fore, and were accorded a greater weight in KDI's research agenda. This change was consistent with its mission as a policy-oriented research institution devoted to the "development" in the broad sense of the term. In fact, KDI is distinguished from other government-funded research institutions for its extensive coverage of research areas and its comprehensive approach.

An important area of research throughout this period has been fiscal policy. Fiscal policy addresses both macroeconomic and microeconomic issues. It is an important determinant of the macroeconomic stability of a nation in the long and the short term; a prudent management of government liabilities is critical for the long-term price stability and economic growth, and a flexible management of budget balances is essential to dampen the short-term cyclical fluctuations.

From a microeconomic perspective, fiscal policy is concerned about reallocating national resources across different sectors. Government policies are implemented in most part through expenditures on education, defense, infrastructure investment, income security, health, environmental protection, and others. These sectoral policies are collated against each other and prioritized in the annual budget process. In this way, fiscal policy works as a disciplining mechanism to impose an overall resource constraint on sectoral demands and maximize the efficiency of public expenditure.

Ladies and gentlemen,

The recent economic crisis that hit the Korean economy at the end of 1997 left an unmistakable mark in every policy area, including the fiscal policy. The budget balance deteriorated substantially, and government liabilities doubled in a matter of two years. However, the rapid recovery in 1999 and 2000 contributed to the regained tranquility in public finance, with the balance showing surpluses and the debt-to-GDP ratio stabilizing

at around 20 percent in the following years.

But challenges still remain. Revenue growth is expected to slow down as the potential growth rate of the Korean economy declines. At the same time, pressures for increased spending are building up to prepare the Korean economy for the intensifying global competition, support the financial-sector restructuring, and finance the expanding welfare programs. In addition, public demand for a transparent management of tax money is increasing.

Faced with these challenges, we found that a thorough reexamination of the public expenditure management system was called for. We need a system that enables us to implement fiscal policy in a strategic way to fulfill all of its promises; contributing to the long- and short-term macroeconomic stability and maximizing the allocative and operational efficiency of public expenditure.

Three issues were selected for our study; (1) medium-term expenditure framework, (2) performance management, and (3) fiscal transparency. Each of them represents a significant departure from the past mode of expenditure management. They are complementary to and interdependent on each other.

The Ministry of Planning and Budget has already made some progress in introducing elements of the needed reforms in these areas. Our study builds on these efforts and aims to provide directions for further improvement. It began early last year and has been carried out in collaboration with the World Bank, with the financial support from the Ministry of Planning and Budget.

This Conference was organized to present our major findings and gather a broad range of inputs from many sources. It will provide a forum for debating policy options for reforming the public expenditure management system. I hope at the end of the Conference, we can have a better understanding on this matter. Any contribution toward providing new thoughts and insights will prove to be both important and meaningful, and will be incorporated into our final report to the Ministry of Planning and Budget. The report will be published next month in Korean.

Ladies and gentlemen,

Now with my welcoming remarks complete, let me turn the floor over to Minister Byungil Kim of the Ministry of Planning and Budget.

I wish you all an informative and productive conference.

Thank you.