

Keynote Speech

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I. Introduction

Dr. Choong-Soo Kim, President of KDI,
Mr. Bill Dorotinsky, Lead Public Sector Specialist of the World Bank, and distinguished guests from around the world!

It is my great honor to have this opportunity to be the keynote speaker at today's joint conference of the World Bank and KDI, and talk about fiscal reform in Korea.

I would like to begin by extending my compliments to the staff of the World Bank and KDI for their devoted research on Reforming the Public Expenditure Management System, initiated by the Korean Government last year.

In addition, it is my pleasure to welcome the participants from various countries and international organizations such as the World Bank and IMF, who have travelled a long way to be here today.

Thank you for your participation.

II. Korea's Efforts to Enhance the Public Expenditure Management System

A. Changes in Korea's Fiscal Management Environment

One of the recent global trends is that the role of public finance as a policy tool is becoming increasingly important, as the scope of government intervention in the economy becomes smaller.

In addition, budget deficits and national debt can have direct effects on the national economy under the open economic system, and are important factors in deciding national credit ratings. Therefore, in reality, the influence of public finance on national economy is significant.

Under such circumstances, Korea's fiscal management environment is changing rapidly.

Internally, economic and social structures are changing and the demand of the citizens is becoming more diverse.

Externally, the security situation in the Korean Peninsula is changing, and the world economy is shifting into bloc economies such as FTAs, constantly giving rise to new demands for public expenditure.

In the short-term, there are demands for building a Northeast Asian Economic Hub, and R&D for the development of new growth-driving forces. Moreover, the need for additional spending in the agricultural sector restructuring is rising, to meet international standards including the opening of the agricultural market.

In the long-term, public expenditure in the areas of public pension, health insurance, and welfare for the aged population is expected to increase substantially due to rapid population ageing.

On the other hand, the revenue situation is expected to become more difficult, as the Korean economy gradually turns into a stable low-growth economy.

In response to such changes in the fiscal management environment, it is time to make substantial changes in the public expenditure management system to enhance the productivity of public finance.

B. The Participatory Government's Efforts to reform the public expenditure system and management practices

The Korean government is implementing 3 fiscal reform tasks since the inauguration of the Participatory Government, to enhance the efficiency of public spending while maintaining fiscal soundness.

Firstly, in contrast to previous medium-term fiscal plans that were formulated irregularly, a National Fiscal Management Plan was formulated last year, to be revised and updated every year, allowing the efficient allocation of national resources from a mid to long-term perspective.

The Plan sets aggregate objectives of national fiscal management based on a 5-year macroeconomic outlook and projected public expenditure requirements, and presents sectoral resource allocation priorities and spending size by budgetary programs.

Furthermore, a Top-down budgeting system will be introduced this year. Accordingly, expenditure ceilings will be set using the total budget size and sectoral and ministerial resource allocation sizes presented in the National Fiscal Management Plan.

After an agreement on sectoral and ministerial ceilings has been reached, each line ministry will autonomously formulate their respective budgets within the expenditure ceilings. The budget will be finalized after a final consultation with the Ministry of Planning and Budget.

In response to such changes in the fiscal management system, a Performance Management System is being introduced at the same time, to ensure accountability against expanded autonomy of the line ministries.

Last year, performance goals and indicators have been developed for some of the budgetary programs in 22 line ministries. Beginning this year, the system will be gradually expanded to encompass more ministries and programs, with its full introduction scheduled for the year 2008.

C. Revising the Coverage of Public Finance to meet International Standards

Turning to the issue of the coverage of public finance and fiscal transparency,

Korea's coverage of public finance has been rather limited compared to international standards. This gave rise to the problem of making it difficult to perform international comparisons in fiscal size and balance, expenditure by areas, and national debt.

The Korean government has formulated a plan to revise the coverage of public finance, and will begin implementing the plan this year. As a result, it will be possible to assess and analyze budgetary activities in accordance to international standards.

In this process, detailed reviews of international standards and country cases will be of great help.

I would like to take this opportunity to request the valuable advice and information from the international experts here at the conference.

III. Conclusion

This international conference will offer an opportunity to discuss a variety of policy recommendations and proposals. I trust that these will provide momentum for reforming the public expenditure management system in Korea, and serve as references for fiscal reform in other countries as well.

Distinguished guests from around the world!

Thank you again for your participation.

Although your stay in Seoul will only be a week long, I hope you will take time to enjoy the beautiful atmosphere of spring in Korea.

May your stay in the Land of the Morning Calm leave you with pleasant and unforgettable memories of the Korean culture.

Thank you.