

# **MTEF Implementation in Korea**

## **- Top-down Allocation -**

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**Ministry of Planning and Budget**

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# **The Starting Point of Reform**

# Why did MPB embark on introducing a new resource allocation system?

***Fiscal Crisis***

***No***

- However, preventive measures regarding population ageing and unification are needed

***Efficiency of Public Expenditure***

***Yes***

- Rigidity of portfolio in macro and micro levels
  - Spending in the economic sector remains at the same level with that of 30 year ago
  - Performance of large spending in education and agriculture has not improved much

***Fiscal Transparency***

***Yes***

- 22 special accounts and over 60 public funds  
“highly fragmented and compartmentalized” (OECD)

# Weaknesses we researched in Korea's fiscal system

## ***Bottom-up Oriented Process***

- Too much work load on MPB (6,000 or more programs)
- Asymmetry of information on cost

## ***Yearly Budget***

- Lacks long-term perspectives
- Incremental budgeting with too many new programs

## ***Central Fiscal Authority-led***

- Insufficient role of line ministries
- Field expertise are not absorbed into the budgeting process

# **The Vision of MPB**

# Where do we want to go?

**Bottom-up Oriented  
Process**

**Top-down Allocation**

**Yearly Budget**

**MTEF**

**Central Fiscal  
Authority-led**

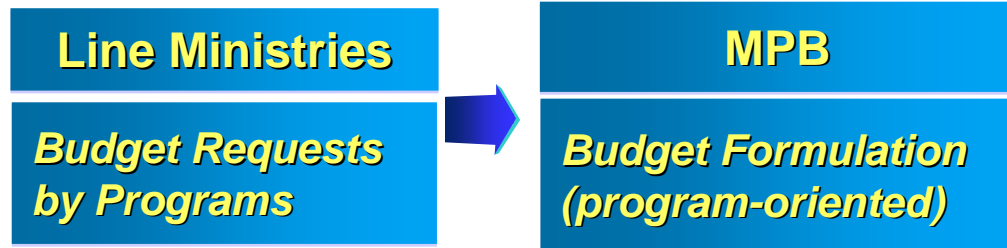
**Cooperation and Role Sharing**

# The Korean Model (still evolving...)

**As is**

April~March

June~September

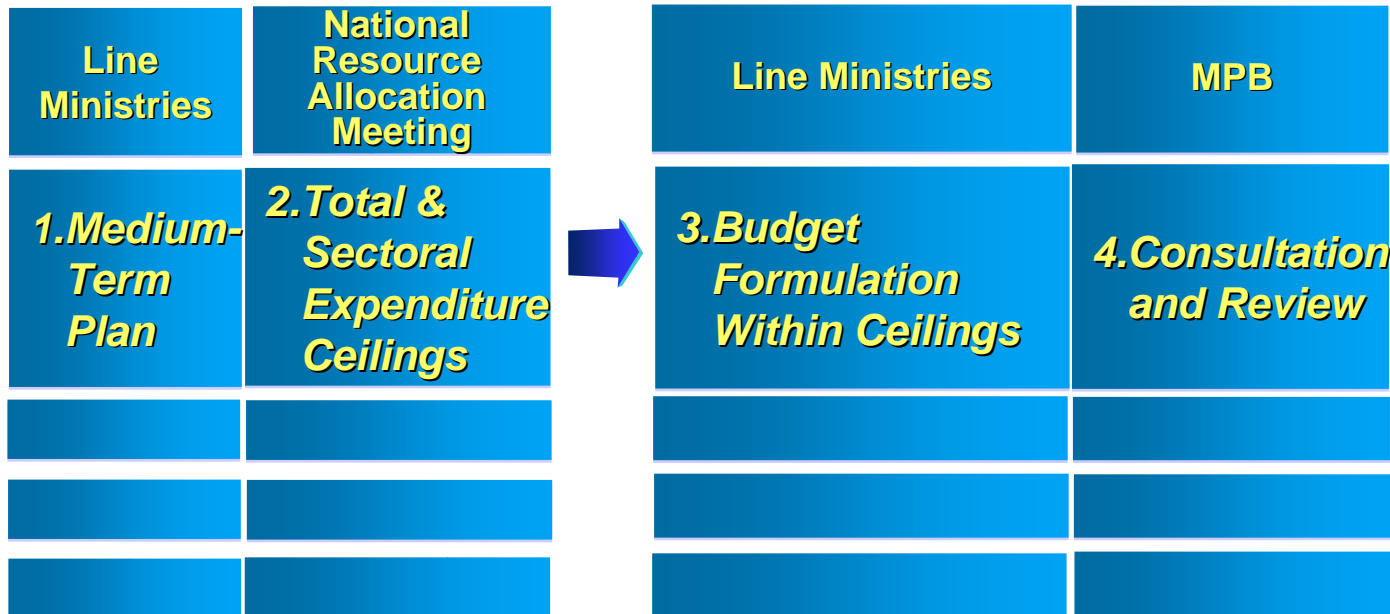


Nov~Jan

Feb~Mar

Apr~May

Jun~Sep



**To be**

# 1. Aspects of the Medium-Term Plan

- *National Policy Goals, Priorities and Major Projects*
- *5-year Fiscal Balance & Total Expenditure Levels*
- *Sectoral and Ministerial Ceilings*



**National Fiscal Management Plan**

## 2. Setting total & sectoral ceilings through National Resource Allocation Meeting

### *What*

- 5-year Fiscal Targeting → Total Expenditure Ceiling
- Resource Allocation by National Priorities → Sectoral and Ministerial Ceilings
- Major Project Plans

### *How*

- In-depth discussions chaired by the President
- Participated by all cabinet council members
- Discussions held based on MPB Proposal

### 3. Budget Formulation and Review:

#### *Line Ministries*

- Autonomous resource allocation within ceilings
- Own priorities by sectors
- Using field expertise in budgeting
- Yearly → 5 years



#### *MPB*

- Reviews spending plans of line ministries
- National priorities
- Conformity to the formulation manual
- Player → Coordinator

# What Lies Ahead

# What is the MPB expecting?



**Macro analysis →  
Strategic allocation of resources**



**Long-term perspective**

**(Korea may be the first country to prepare  
countermeasures against future invisible fiscal crises)**



**A new consolidated structure over special  
accounts and public funds**



**Enhancing the automatic fiscal stabilizer**

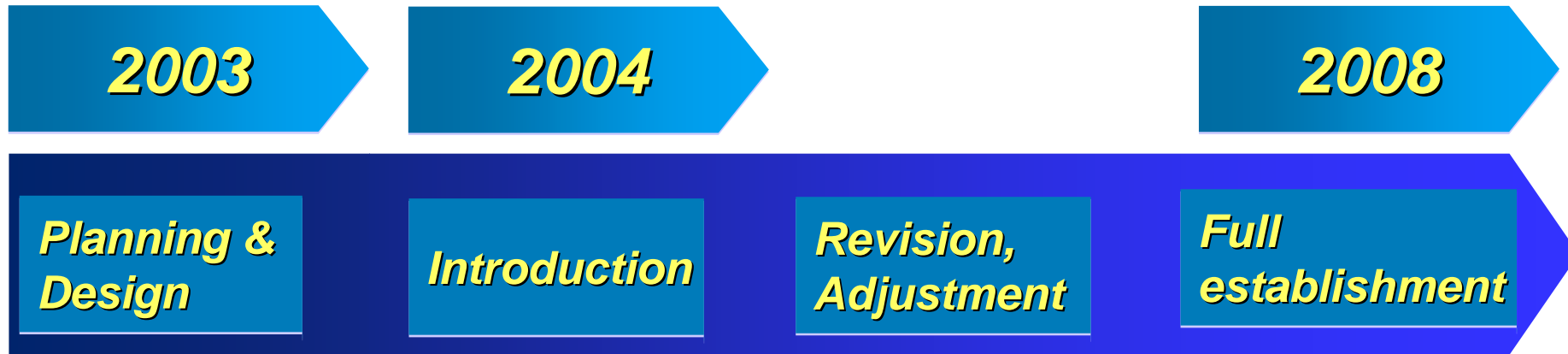
# The road ahead...

***1. Little experience in long-term fiscal forecasting***

***2. Performance Management System has yet to be fully established***

***3. Potential difficulties in gaining consensus of the National Assembly***

# Our roadmap...



- **Gradual introduction**
- **Maintaining strong fiscal discipline**
- **Surpassing global standards**

**Thank you**