



Korea's Capital Budget Process and PIM

C O N T E N T S



- I. Introduction**
- II. MTEF and Capital Budgeting**
- III. Review by the National Assembly**
- IV. Policy Tools of MoEF**
- V. Lessons Learnt**

Part-01

Introduction

KDI

Issues of capital budgeting

1. Fiscal resource allocation to public investment

2. Balance between new projects and continuing projects

- Policy makers need to prevent projects from being 'parachuted' into the budget without first having been appraised.
- When continuing projects are starved of the necessary fund for efficient implementation, this leads to higher costs and delayed benefit realization.

Advantages of MTEF for capital budget and PIM

- Allows the planning of expenditure for efficient implementation of multi-year projects.
- Assists in estimating the sustainable level for new projects.
- Allows capital budgeting consistent with strategic fiscal stance.

Questions

Review capital budgeting process in Korea and discusses policy implications to EMDEs

- 1. What process is the amount of capital budget determined?**
- 2. How are fiscal resources distributed between new and continuing projects under the Medium-Term Expenditure Framework (MTEF)?**
- 3. What is the parliamentary deliberation process with respect to the capital budget?**
- 4. What are policy tools for efficient allocation of the capital budget?**

Capital Budget



Capital budget, formation and maintenance of infrastructure, are mostly allocated to the MoLIT and MoOF.

Capital Budget

(Unit: Billion KRW)

	2017			2018		
	Central Government (A)	MoLIT (B)	B/A	Central Government (A)	MoLIT (B)	B/A
Total	22,135	19,058	0.86	17,716	14,698	0.83
<input type="checkbox"/> Transport and Logistics	18,624	15,979	0.86	14,186	11,640	0.82
- Road	7,409	7,353	0.99	5,442	5,417	1.00
- Rail	7,144	7,144	1.00	4,714	4,714	1.00
- Marine and Port	1,761	-	-	1,702	-	-
- Aviation and Airport	144	144	1.00	126	126	1.00
- Logistics and Others	2,167	1,338	0.62	2,201	1,383	0.63
<input type="checkbox"/> Land and Local Development	3,511	3,080	0.88	3,530	3,057	0.87
- Water	1,811	1,811	1.00	1,676	1,676	1.00
- Urban and Rural	1,203	771	0.64	1,554	1,081	0.70
- Industrial Complex	498	498	1.00	300	300	1.00

Part-02

MTEF and Capital Budget



MTEF Process

MTEF is basically interaction process between budget authority and line ministries.

Month	Fiscal Year	Action
Dec	t-1	Guidelines for Medium-Term Expenditure Framework by the MoEF
Jan	t	Submission of Medium-Term Project Plan by line ministries
Feb ~ Apr	t	Drafting of MTEF
Mar	t	Guidelines for forthcoming Fiscal Budget Compilation
Apr	t	Fiscal Strategy Meeting of the Cabinet
May	t	Submission of budget request by line ministries
Jun ~ Aug	t	Drafting of the budget proposal
Sep 2	t	Submission of the MTEF and the Budget to the National Assembly
Dec 2	t	Review and vote at plenary session in the National Assembly
Jan 1	t+1	Start budget execution

Note. t is current fiscal year, and $t+1$ is the fiscal year in preparation. Then MTEF covers up to over the next four year following current fiscal years' budget.
Source: Ministry of Economy and Finance (2017b).

Capital Budget Ceiling in Guidelines



MoEF sets capital budget ceiling based on previous years MTEF.

- This ceiling is regarded as a soft budget until ceiling of each ministry and aggregate expenditure are determined at the Fiscal Strategy Meeting.
- The line ministry reallocates its budget among sub-sectors within its ceiling.

Capital Budget Ceiling Guidelines for 2018~22 MTEF

(Unit: Billion KRW, %)

Budget	2017	2018	2019	2020	2021	2022	Average annual growth
2017~21 MTEF (Old)	22,315	17,716	17,009	16,515	16,218		- 7.5
		↓	↓	↓	↓		
2018~22 MTEF (New)		19,000	17,009	16,515	16,218	15,002	

Note 1. Budget amounts including in ceilings are expressed in current prices in Korea's budget system, meaning that budgets are eroded by inflation.

Note 2. Capital budget for 2018 (KRW 17,716 billion) in 2017-21 MTEF shows the amount in the budget bill submitted to the National Assembly in September 2017, while that for 2018 in 2018-22 MTEF (KRW 19,000 billion) reflects the final budget determined by the National Assembly deliberation.

Note 3. Capital budget for 2022 in 2018-22 MTEF is calculated on basis of budget for 2021 and average annual growth of minus 7.5 percent in 2017-21 MTEF.

Source: Ministry of Economy and Finance (2017b).

National Development Plan

MoLIT selects new projects as a part of MTEF, based on the National Development Plan.



List of New Projects

MoLIT makes a list of new projects and indicates whether a new project is confirmed as eligible in the PFS or is exempted from PFS.

List of New Projects

	2017	2018	2019 budget			Note
			Plan	Request	Review	
<input type="checkbox"/> Total						
<input type="radio"/> General Account						
- Project A						Ongoing PFS (expected in Dec 2018)
- Project B						AHP: 0.625 (Sep 2017)
- ...						
<input type="radio"/> Special Account A'						
- Project C						Ongoing PFS (expected in July 2018)
- Project D						PFS exemption
- ...						
...						
<input type="radio"/> Fund A''						
- Project E						PFS exemption
- Project F						AHP: 0.712 (Aug 2017)
- ...						
....						

Drafting MTEF

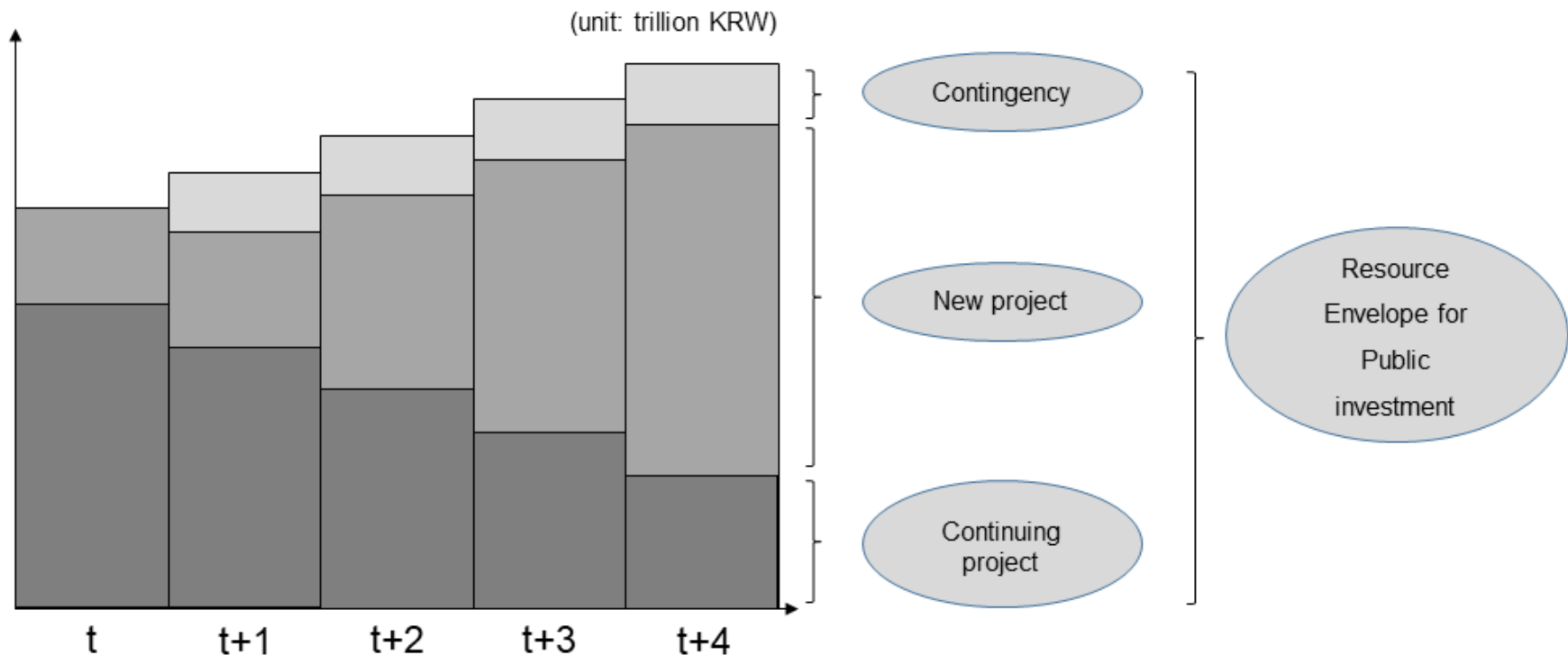
Based on the Medium-Term Project Plans submitted by line ministries, the MoEF prepares the draft MTEF covering fiscal expenditure over the next four years.

1. Update the medium-term macroeconomic forecasts, and review the long-term national development agenda and sectoral expenditure demands
2. Determine fiscal targeting and policy direction.
3. The Budget Office reviews the Medium-Term Project Plans submitted by the line ministries.
4. The MoEF sets the size of aggregate expenditure and budget ceilings by sector and ministry, based on macroeconomic conditions, revenue forecasting, fiscal targets, and the findings of MTEF working groups.

Capital Budget Expenditure Plan

MTEF for capital budget consists of expenditures on continuing projects, new projects, and contingency.

Capital Budget Expenditure Plan



Part-03

**Review and Approval by
National Assembly**



Review and Approval by National Assembly

- 1. Preliminary review by Standing Committee for Land, Infrastructure and Transport.**
- 2. Comprehensive Review by Special Committee on Budget and accounts**
- 3. Plenary Session Vote**

Standing Committee

National Assembly Act requires the SCBA to generally respect budget reduction proposals and to receive approval of the standing committees (the SCITC for public investment) before undoing them.

- **Budget cuts: mostly determined by review of experts group with objective ground.**
- **Budget increases: positively reflect additional public investment proposed by the line ministry and stakeholders. => "wish list".**
- **In general, budget increases > budget cuts**
- **The proposals for any budget increase have no binding force!**
- **Budget cuts is highly likely to be reflected during the comprehensive review process.**

Comprehensive Review

The Constitution prohibits the National Assembly from increasing any budget component in a proposed project or from creating a new budget component without agreement of the budgetary authority.

- **An implicit rule is that the amount of budget increase should not deviate substantially from the size of the budget reduction.**
- **the adjusted total amount of budget typically changes little compared to the initial budget bill proposed by the MoEF.**

Plenary Session Vote

The Constitution requires the National Assembly to vote on the budget proposal by December 2, 30 days before the next fiscal year.

- The budget proposal approved by the SCBA is introduced to the plenary session, goes through review and discussion, and is then approved as the budget of next fiscal year.

Expenditure of the Fiscal Years

(Unit: trillion KRW)

	2017 (A)	2018		Change by the National Assembly's deliberation (C-B)
		Budget Bill by the MoEF (B)	Final Budget (C)	
<input type="checkbox"/> Total Expenditure	400.5	429.0	428.8	-0.1
• Capital Budget (SOC)	22.1	17.7	19.0	1.3

Part-04

Policy tools of MoEF, Gatekeeper



Carryover Provisions of Unused Budget



The carryover of unused expenditure appropriations is allowed, if several conditions defined in the National Finance Act are satisfied.

- It is not easy to measure the optimal amount of carryover budget.
- Instead, it is more important for the budget authority to know where carryover budget is accumulated, why it is happening, and whether it is recognized in the government financial accounts or not.

Carryover Budget in MoLIT

(Unit: Billion KRW)

	Budget for 2017	Carry over budget	
		Total	Unexecuted budget in MoLIT
Total	19,141	2,817	438
- Road	7,353	330	330
- Rail	7,211	2,379	
- Aviation and Airport	143	25	25
- Logistics and Others	1,349	-	-
- Water	1,813	23	23
- Urban and Rural	774	-	-
- Industrial Complex	498	60	60

Multi-Annual Commitment Appropriations **KDI**

MACA are managed as a part of TPCM system in order to secure timely progress and efficient implementations.

- If specified conditions are satisfied, the project cost and annual disbursements over the implementation period can be determined in advance with the framework of MACA.**

Project of multi-year commitment appropriations

(Unit: Billion KRW)

Project (Number of sub-project)	Total Amount	Project Period	Multiyear commitment Appropriations		
			2018	2019	2020
Total (39)	17,921		564	294	123
Road (33)	13,128		439	171	-
Local highway 5 th Construction (5)	4,615	'09-'18	33	-	-
Logistic highway 1 th Construction (1)	2,981	'09-'18	112	-	-
Local highway 6 th Construction (9)	2,203	'10-'19	118	39	-
Local highway 7 th Construction (4)	1,784	'12-'18	672	11	-
Local highway Construction (13)	1,545	'13-'19	210	121	-
Railroad (6)	4,793		125	123	123
Igsan-Daeya Double Track	380	'15-'20	13	58	58
GunJang Industrial Complex	495	'15-'20	8	65	65
Ulsan New Port Railroad	186	'15-'18	46	-	-
Pohang-Youngil New Port Railroad	151	'15-'18	26	-	-
WonJu-Gangrung Double Track	2,417	'15-'18	-	-	-
Suwon-Incheon Double Track	1,163	'09-'18	552	-	-

Part-05

Lessons Learnt



Lessons from Korea's Capital Budgeting.

- 1. Give incentives to use asymmetric information of the line ministry that enforces to choose more efficient and necessary projects by itself.**
- 2. Carryover of unused budget and multi-year budgeting as main tools to guarantee discretionary room of the line ministry.**
- 3. Control the number of new projects in advance at a proper level.**
- 4. Importance of relevant experts to complement the information asymmetry compared to the line ministries and to ensure objectivity and transparency.**

Thank you.

Korea's Leading Think Tank

