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Fiscal Consolidation and Budget Reform in Korea
The Role of the National Assembly

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Summary

The Korean government has had a budget deficit nearly every year since 1997. Korea’s fiscal responses to the financial crises of 1997–1998 and 2007–2010 led to a rapid accumulation of budget deficits and national debt. As a result, the size of the national debt has increased dramatically, from 11.9 percent of gross domestic product (GDP) in 1997 to 33.4 percent in 2010 (Figure S.1). The growing debt-to-GDP ratio, coupled with structural factors that will continue to put pressure on government budgets—a declining fertility rate and a rapidly aging population—jeopardizes South Korea’s fiscal situation over the medium- to long-term.

The Korean National Assembly (NA) is poorly structured for managing the deteriorating fiscal situation. Constitutional and resource constraints limit the budgetary power of the NA. Its total budget deliberation time is limited to three months, and the NA has neither sufficient staff nor its own auditing agency.

Figure S.1
Korean Government Balance and Debt as a Percentage of GDP, 1997–2010

SOURCES: Ministry of Strategy and Finance, 2010b, 2011a, 2011b; personal communication from the ministry.
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The Korean government needs to take preemptive measures to retain room for countercyclical policies. Korea’s export-dependent economy remains vulnerable to external shocks, and future shocks will likely impose a fiscal burden on the Korean economy.

This paper argues that the NA should enact legislation to establish a new parliamentary budget process centered on a fiscally constrained budget resolution, which would be scheduled for adoption prior to consideration of revenue or spending bills. This legislation should be buttressed by a combination of legislative tools to enhance Korea’s capacity to enforce budget constraints. Budget enforcement procedures employed by the U.S. Congress could be applied to the Korean parliament if tailored to the NA’s unique constitutional constraints and budgetary processes. Enforcement tools available to the NA include (1) the allocations of spending by the Special Committee on Budget and Accounts (SCBA) to the 16 standing committees; (2) points of order; (3) the reconciliation process; and (4) limits on discretionary spending and a pay-as-you-go (PAYGO) process enforced by sequestration.

To allow sufficient time for budget deliberation, new legislation should mandate that the president submit the medium-term fiscal consolidation plan to the NA by the end of April, rather than October 2.

This paper makes three additional policy recommendations to achieve mid- to long-term fiscal consolidation in Korea:

- Enhance the National Assembly Budget Office’s (NABO’s) mid- to long-term estimating capability by augmenting its manpower resources. This will enable NABO to help the chairperson of the SCBA develop statements regarding the budgetary effects of PAYGO measures by preparing cost estimates for proposed legislation.
- Take further steps to enhance transparency regarding contingent liabilities, and develop a means of systematically valuing the potential losses from contingent liabilities.
- Pass an amendment to the Korean constitution to transfer the Board of Audit and Inspection (BAI) from the executive branch to the NA. If a constitutional amendment proves infeasible, the NA should establish its own specialized support agency, modeled after the U.S. Government Accountability Office (GAO), to identify and reduce duplicative executive programs.