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The Budget System of Korea

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MINISTRY OF STRATEGY AND FINANCE

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Part 1

Fiscal System of Korea

Part 1. Fiscal System of Korea

1. Definition and Function of the Budget

A government budget—a plan of a nation's revenues and expenditures within a given period—is a blueprint for national management, a distribution process for scarce resources, and a core means to reflect and meet political demands that vary among countries and time periods. Public finance encompasses a wide array of activities within the treasury—including not only the budget but also taxes in relation to revenues, settlements, and management of state assets—but these activities are mostly associated with the budget.

Public finance has three main functions: efficient allocation of resources, redistribution of income, and stabilization of the national economy. In a market economy, efficient allocation of resources is naturally achieved. As for public goods, however, its externality and non-excludability prevent efficient supply and allocation if left alone in the market, which is why the government is required to intervene. In addition, because efficient allocation of resources does not guarantee an equitable distribution of income among the citizens, the government redistributes income through public finance. Public finance also utilizes the monetary and fiscal policies to stabilize the economy.

2. Fiscal Structure of the Central Government

Korea's central government draws its finances from the budget and a variety of funds. As of December, 2013, the budget of the central government consisted of 1 general account, 18 special accounts, and 64 funds.

The general account, which is made up of tax revenues, performs unique governmental functions such as national defense, public safety, and social welfare. General account revenues are comprised of taxes— such as personal and corporate income taxes, value-added tax, customs duties—and non-tax revenues—such as proceeds from the sale of shares of state-owned enterprises and a variety of commissions. General account expenditures are used to maintain public order and safety via national defense and diplomacy; as investments in education, housing, and social infrastructures; and for general government functions such as social welfare and healthcare.

<Structure of the Public Finance>

(Based on Total Spending of the 2014 Budget; Unit in trillion won)

- National Economy
  - Public Sector
    - General Government
      - Central Government 355.8
        - General Account 201.6 in 1 Account
        - Special Accounts 49.2 in 18 Accounts
        - Funds 105.0 in 64 Funds
      - Local Governments
      - Non-profit Public Organizations
    - Public Corporation
      - Non-financial Public Entities
      - Financial Public Entities
  - Private Sector

General Account 201.6 in 1 Account

Expenditures	
Personnel	26.9
General Expenses	2.2
Operating Costs	172.6
(Subsidies)	(76.7)
(Reserve Funds)	(3.5)

Special Accounts 49.2 in 18 Accounts

Enterprise Special Accounts 8.2 in 5 Accounts	
Grain Mgmt	1.5
Agencies for Government	0.8
Government Procurement	0.1
Postal Programs	3.3
Postal Savings	2.6

Other Special Accounts 41.0 in 13 Accounts	
Rural Structuring	6.6
Transportation Facilities	14.8
Registration	0.2
Prison Operation	0.04
Energy/Resources	2.8
Environmental Improvement	4.5
Postal Insurance	0.3
Regional Development	9.4
Relocation of US-FK	0.6
Construction of Multi-functional Administrative City	0.7
Relocation of Defense Military Facilities	0.2
Construction of Innovative City	0.8
Construction of Asia Cultural Hub	0.2

Funds 105.0 in 64 Funds

Budget-type Funds 105.0 in 54 Funds	
National Housing	18.0
Public Capital Management	11.9
Gov't Employee Pension	14.6
National Pension	15.2
Industrial Worker's Accident Compensation Insurance and Prevention	4.7
SME Start-up/Promotion	5.1
Military Pension	2.8
Agricultural Product Price Stabilization	2.5
Lottery	2.5
Electric Power Industry	1.7
Miscellaneous	26.0

Capital / Foreign Exchange Stabilization 10.5 in 10 Funds	
Deposit Insurance Fund Bond Repayment	0.8
Credit Guarantee	2.8
Foreign Exg Stabilization	3.0
Trade Insurance	1.0
Technical Credit Guarantee	1.3
Miscellaneous	1.5

*Not included in total spending

Special accounts are different from the general account, established to raise revenues for a specific project or other designated purposes. Special accounts are financed by two sources: tax revenues—such as the liquor tax and special tax for rural development—and non-tax revenues—such as charges and loan repayments. Special account revenues can only be spent on the designated areas determined by each applicable act.

Funds, established according to provisions of legislations, are flexibly used for specific purposes and are operated independently of the budget. Funds are similar to the special accounts in that they also show strong correlation between revenue and expenditure as funds are used for projects with specific purposes and use contributions and charges, instead of tax revenues, as main sources of revenue. Funds and the budget also play similar roles in fiscal management in that they both require approval from the National Assembly. However, more flexibility is allowed in the execution and revision processes of funds than in those of the general and special accounts of the budget.

<Comparison of the Budget and the Funds>

<table>
<tr><th rowspan="2"></th><th colspan="2">Budget</th><th rowspan="2">Funds</th></tr>
<tr><th>General Account</th><th>Special Accounts</th></tr>
<tr><td>Uses</td><td>General fiscal activities unique to the state</td><td>- Operation of specific projects
- Disbursement of specific revenues for specific expenditures</td><td>Operation of specific funds for specific purposes</td></tr>
<tr><td>Source of Revenue & Mgmt Structure</td><td>Free of charge projects with tax revenues</td><td>Free of charge projects and loans with taxes and copayment revenues</td><td>Loans and other specific projects with copayment and contribution revenues</td></tr>
<tr><td>Approval Process</td><td colspan="2">- Budget requests by line ministries
- Formulation of the budget proposal by the Ministry of Strategy and Finance
- Review and approval by the National Assembly</td><td>- Plan development by the fund managing entity
- Consultation and adjustment with the Minister of Strategy and Finance
- Review and approval by the National Assembly</td></tr>
<tr><td>Execution Process</td><td colspan="2">Strict legal regulations (prohibition of disbursement for any purpose other than prescribed in the budget)</td><td>Independent and flexible based on appropriateness</td></tr>
<tr><td>Link between Revenue & Expenditure</td><td>No link between revenue and expenditure</td><td colspan="2">Specific revenues linked with specific expenditure</td></tr>
<tr><td>Revision</td><td colspan="2">Through supplementary budget</td><td>Requires approval of the National Assembly if the extent of expenditure revision exceeds 20%</td></tr>
<tr><td>Settlement</td><td colspan="3">Review and approval by the National Assembly</td></tr>
</table>

3. Fiscal Structure of the Local Governments

Local governments consist of 244 general offices (17 metropolitan units and 227 basic units) and 17 educational offices.

The finances of general local government offices are made up of general accounts, special accounts, and funds. Their revenues consist of local government bonds, independent sources—such as local taxes and non-tax revenues— and dependent sources—such as local subsidies and subsidies from the national treasury. The 2013 expenditure budget by function such as social security, environmental protection, and transportation accounted for large shares at 22.6%, 10.0%, and 9.6% respectively. On the other hand, industry and Small & Medium Enterprises(SME's), public order & safety, and science & technology accounted for mere 2.6%, 1.8%, and 0.4%, respectively.

<Budget of Local Governments by Revenue Sources>

(Unit in 100 million won)

Classification		2012 Budget	Ratio(%)	2013 Budget	Ratio(%)	Rate of Increase(%)
Independent Sources	Local Taxes	537,953	35.6	537,470	34.3	△0.1
	Non-tax Revenue	320,960	21.3	334,124	21.3	4.1
Local Government Bond		39,396	2.6	40,960	2.6	4.0
Dependent Sources	Local Subsidy	292,159	19.3	314,600	20.0	7.7
	Subsidy from Nat'l Treasury	320,482	21.2	341,732	21.8	6.6
Total		1,510,950	100.0	1,568,887	100.0	3.8

*Source: Overview of the Total Finance of the Local Governments 2013 by the Ministry of Security and Public Administration

In accordance with the principle of autonomy of education, local education is financed by the special account for educational expenses, established under the Local Education Government Act, separate from general local finance. The revenue source consists of transfers from the central government (local education subsidies and subsidies from the national treasury), transfers from higher-tier local governments (local education tax, tobacco consumption tax, and city & province taxes), and independent revenue sources (tuition and admission fees). Each city and provincial office of education relies on the special account for educational expenses to support infant, elementary, and secondary education as it sees fit. Expenditure is divided by nature into personnel costs for school teachers and other staff, assistance towards educational projects, and acquisition cost which accounted for 59.3%, 23.6% and 10.4% respectively in the 2012 budget.

<Special Accounts for Education Expenses by Revenue Sources>

(Unit: 100 million won)

Classification	2011 Settlement	Ratio (%)	2012 Settlement	Ratio (%)	Rate of Increase(%)
Transfer from Central Gov't	363,092	70.2	393,985	71.7	8.5
Transfer from Local Gov'ts	85,223	16.5	90,633	16.5	6.3
Independent Revenues, Local Education Debt, etc	68,715	13.3	64,723	11.8	△5.8
Total	517,030	100.0	549,341	100.0	6.2

*Source: 2012 Settlement of the Special Account on Local Education Expenses, Ministry of Education

Note 1 Local Finance Equalization Scheme

Objectives

Korea's Local Finance Equalization Scheme allows the central government or higher tier local governments to transfer financial resources to local governments with weak revenue base. It has been established to divide the roles and responsibilities among the central and local governments in an efficient manner, to help supply public goods in adequate quantities by addressing the externalities among regions, and to redress disparities in fiscal strength among local governments.

The current Local Finance Equalization Scheme consists of the transfer of resources between the central and local governments and transfers between metropolitan units and basic units of local governments. The fiscal adjustment system between the central and local governments deals with resource allocation (local subsidy and local education subsidy) and subsidy from the national treasury. The system between local governments of metropolitan units and basic units deals with subsidies for cities and provinces, adjusted resource allocation, and financial coverage.

Local Subsidy

The central government provides local governments with subsidies composed of 19.24% of internal taxes and comprehensive real estate taxes. Currently local subsidies consist of general subsidies, special subsidies, decentralization subsidies, and real estate subsidies.

General subsidies guarantee fiscal resource necessary for the maintenance of administrative activities of local governments to a certain degree. These take up 17.751% of internal taxes, and are provided to local governments whose standard fiscal income falls below the standard fiscal demand. Special subsidies, which amount for 0.549% of the internal taxes, are granted for unpredicted fiscal demands such as restoration of a disaster, establishment of public welfare facilities, and special projects promoted by the state.

The decentralization subsidy, amounting to 0.94% of internal taxes, was established to steadily hand over social welfare projects to local governments. From 2015, the decentralization subsidy will be included as a part of the general subsidy. The real-estate subsidy receives its resources from the total amount of Comprehensive Real Estate Tax, and is distributed in accordance with the fiscal condition of each local government.

Local Education Subsidy

The central government grants the local education authorities local subsidies for education, which is composed of 20.27% of internal taxes and education taxes. Local subsidies for education are divided into general and special subsidies. General subsidies are provided to education units of local governments whose standard fiscal income falls below the standard fiscal demand. The amount of general subsidies is based on the extent of such deficiencies. Total general subsidies consist of education taxes and 96% of the 20.27% of internal taxes. Special subsidies are made up of 4% of the 20.27% of internal taxes, and are granted for special fiscal demands such as a national policy, pending demands for local education policy, or a decrease in revenue.

Subsidy from the National Treasury

Subsidies from the national treasury for local governments are designed to subsidize parts or all of the costs related to projects commissioned by the state. These are granted by the state, and are distinguished from local taxes or non-tax revenues, which are independent resources accrued by local governments. These also differ from other local subsidies, which are used as general financial resources of local governments, in that these have specific predetermined purposes.

<Overview of the Local Finance Equalization Scheme>

	Local Subsidy	Local Education Subsidy	Subsidy from National Treasury
Applicable Acts	Local Subsidy Act	Local Education Subsidy Act	Act on Budgeting and Management of Subsidy
Purpose	Provision of revenues to local governments and mitigation of imbalanced finances	Balanced development of education	Support for specific projects of the local governments
Source of Revenue	19.24% of internal taxes + Total amount of comprehensive real estate taxes	20.27% of internal taxes + Total amount of education taxes	General or special accounts of the central government
Nature of Revenue Source	General Revenue Source	General Revenue Source	Limited to designated projects
Amount in 2014	35.7 trillion won	40.9 trillion won	37.1 trillion won

<Size of the Local Finance Equalization Scheme>

(in trillion won, %)

	2005	2006	2007	2008	2009	2010	2011	2012	2013	Average Increase	
										05~13	08~13
Transferred Resources	60.6	67.0	73.0	84.8	88.9	91.3	97.8	105.7	114.1	8.2	6.4
Total Spending	209.6	224.1	237.1	262.8	301.8	292.8	309.1	325.4	349.0	6.6	3.7
Ratio	28.9	29.9	30.8	32.3	29.5	31.2	31.6	32.5	32.7		

4. Size of Public Finance, Fiscal Balance, and Government Debt

1 Size of Public Finance

The size of public finance can be explained based on the expenditure scale of the central or general government. The expenditure size of the central government is described as total spending, which includes both the budget and the funds. Total expenditures are calculated by deducting inter-account transaction expenditures, inter-fund transaction expenditures, expenditures from internal transfers between accounts and funds, and expenditures for financing from each account and fund from the sum of the general account, special accounts, and funds. The concept of total revenues concept corresponds to total expenditures. Total revenues are calculated by subtracting inter-account transaction revenues, inter-fund transaction revenues, revenues from internal transfers between accounts and funds, and revenues for financing from each account and fund from the sum of the general account, special accounts, and funds.

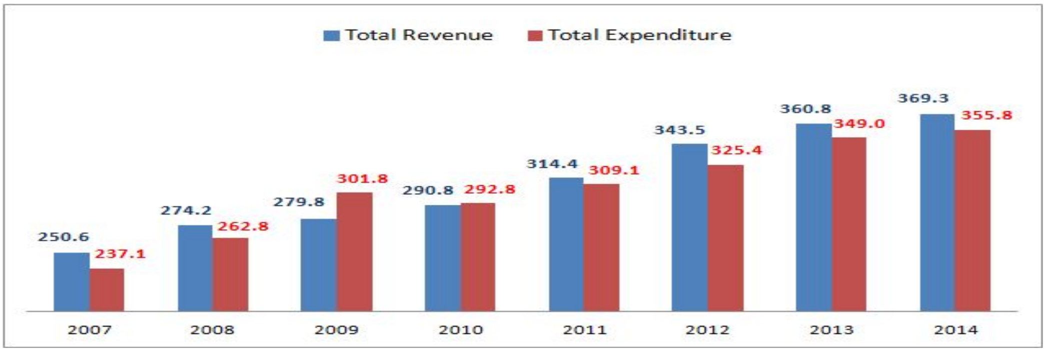
<Budget of the Central Government>

(in trillion won)

	2011 Budget	2012 Budget	2013 Budget	2014 Budget
Total Revenue	314.4	343.5	360.8	369.3
Budget	212.1	234.0	241.5	243.7
Tax	187.6	205.8	210.4	216.5
Non-tax	24.5	28.3	31.1	27.2
Funds	102.2	109.5	119.3	125.6
Total Expenditure	309.1	325.4	349.0	355.8
Budget	216.3	228.1	247.6	250.8
Funds	92.7	97.3	101.4	105.0

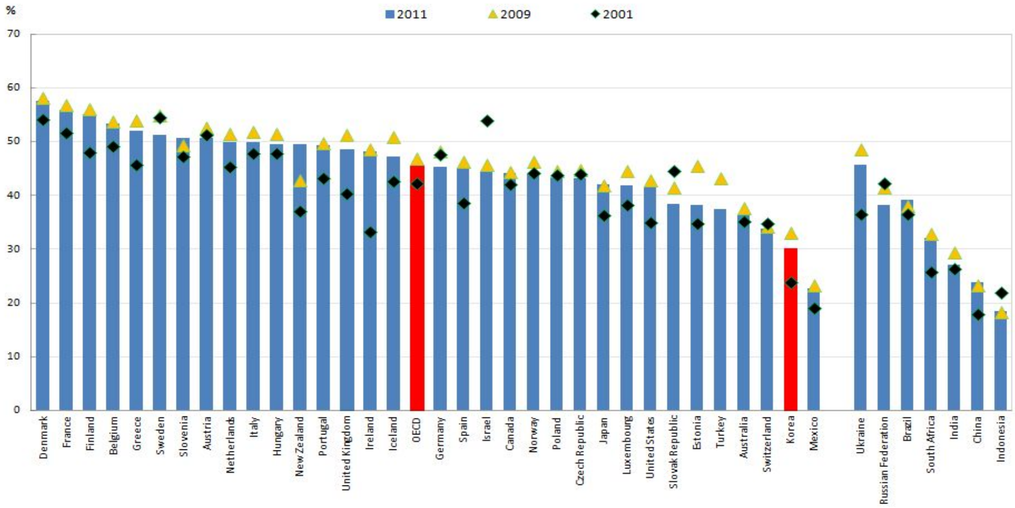
<Size of the Central Government Budget>

(in trillion won)



The size of the general government expenditure, expressed under the general government expenditure section in accordance with the UN's System of National Account, is drawn up by the Bank of Korea and submitted to the OECD. A general government is defined as an institution with political authority that imposes economic regulations, provides non-market services for individual as well as collective consumption, and redistributes earnings and wealth. A general government includes the central and local governments, as well as social security organizations. The central and local governments include accounts, funds and public non-profit organizations, while the social security organization includes organizations such as the National Pension Fund.

<General Government Spendings of OECD Countries>

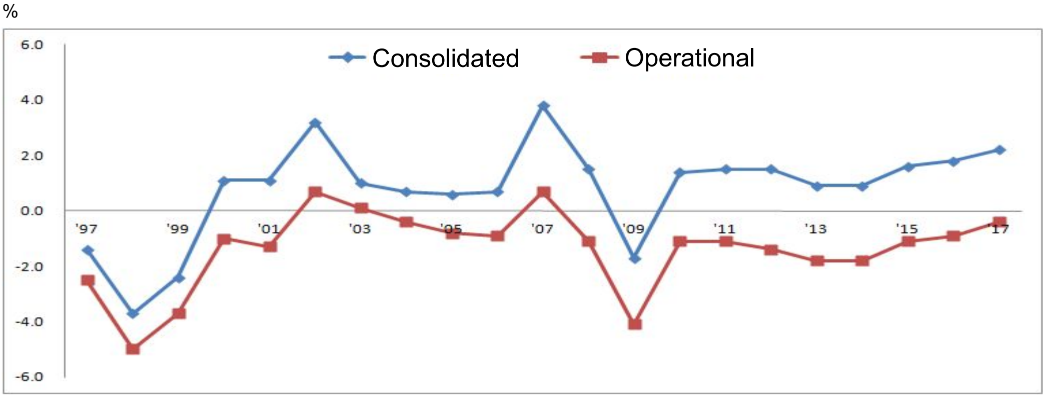


*Source: Government at a Glance 2013 (OECD)

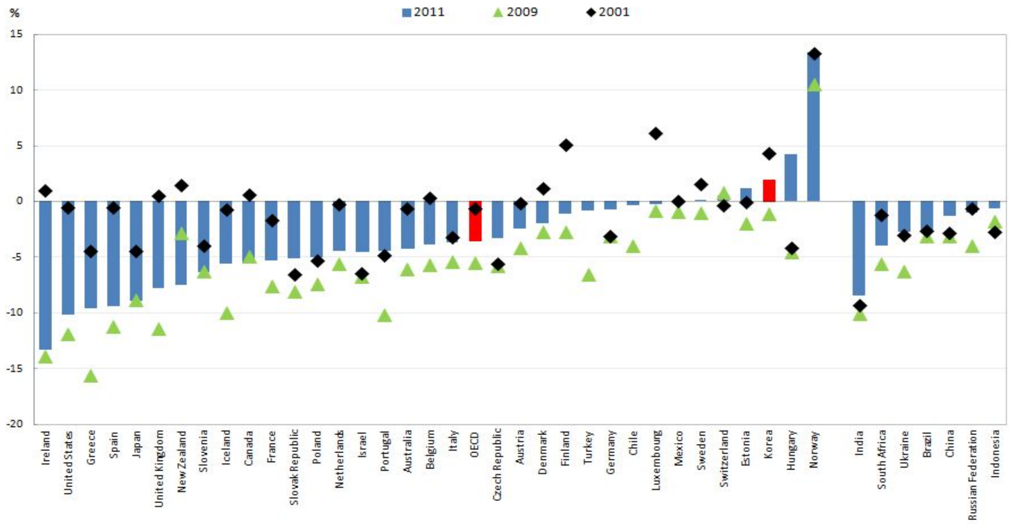
2 Fiscal Balance

Fiscal balance, resulting from subtracting the fiscal spending from the fiscal revenue of a given year, serves as a soundness indicator of fiscal operations for the year. There are two types of fiscal balances: the consolidated balance, and the operational balance. The consolidated balance includes general account, special accounts as well as funds, and represents the real value between the earnings and expenditure, excluding the internal transactions between the accounts and funds, and the preservation transactions such as loans, and repayment of debt. The consolidated balance can be represented by deducting total expenditure from the total revenues. Operational balance, on the other hand, is the consolidated balance minus the balance of social security related funds (National Pension Fund, Private School Staff Pension Fund, Unemployment Insurance Fund, Industrial Accident Compensation and Prevention Fund). The reasons for excluding social security related revenues and expenditure are twofold, the first being that the earnings of these funds are generally for medium to long-term future expenditure and are, therefore, do not appropriately represent the outcome of the current year’s fiscal operations. Also, these funds are an ineffective figure for evaluating this year's fiscal operations because as large scale surplus or deficit can be occurred depending on the maturity rate of the funds.

<Consolidated Fiscal Balance and Operational Fiscal Balance to GDP>



<General Government Consolidated Fiscal Balance of OECD Countries>



*Source: Government at a Glance 2013 (OECD)

3 Government Debt

According to the National Finance Act, government debt is comprised of national debt, loans, and commitments to assume a treasury obligation. The statistics regarding government debt include the debt of the central government as well as that of the local governments, in accordance with the cash basis set by the National Finance Act and the IMF’s 1986 Fiscal Statistics Manual. The IMF’s 1986 Fiscal Statistics Manual defines government debt as a determinate obligation in which the government directly takes the burden of the repayment obligation. According to this definition, both the central and local government debts are included in the government debt, but the debts of public enterprises and the central bank are not. Additionally, the guaranteed obligations, pensions, contingent liabilities of the social security system, and BTL’s (Build-Transfer-Lease) are not considered determinate obligations and are, therefore, excluded from government debt. The government debt statistics are used in the National Fiscal Management Plan and the National Debt Management Plan.

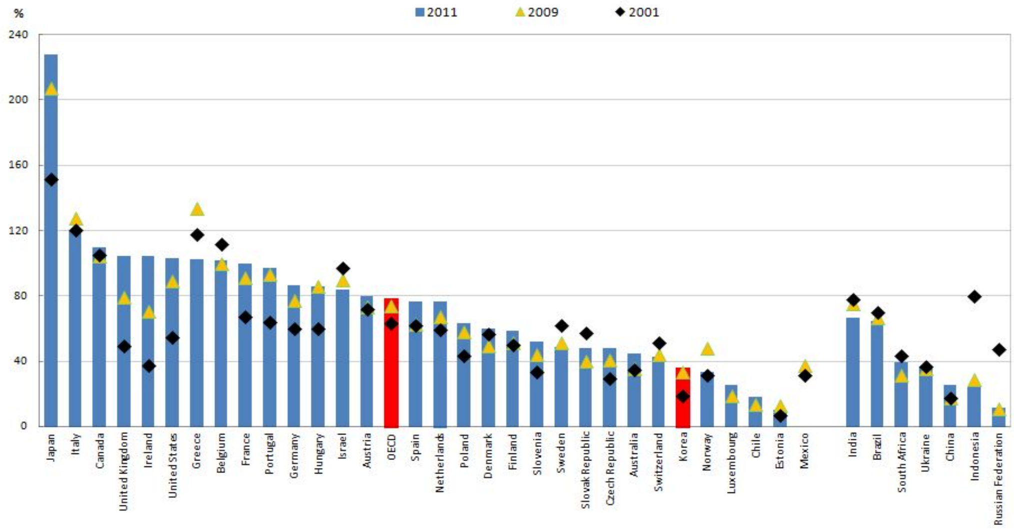
<Government Debt of Korea>

(Unit : trillion won)

	2009	2010	2011	2012	2013	2014
Government Debt	359.6	392.2	420.5	443.1	480.3	514.8
(% of GDP)	(33.8)	(33.4)	(34.0)	(34.8)	(36.2)	(36.4)
Central Government	346.1	373.8	402.8	425.1	461.9	496.8
-Government Bond	337.5	367.2	397.1	420.0	457.1	491.3
-Borrowing	5.4	3.6	2.5	2.4	1.9	2.6
-Commitment to Assume Treasury Obligation	3.2	3.1	3.3	2.8	2.8	2.9
Local Governments	13.5	18.4	17.6	18.0	18.4	18.0

The government provides the general government debt statistics on accrual basis, following the latest international standard, the IMF’s 2001 Fiscal Statistics Manual. The target organizations from which to collect statistics have been expanded to include the non-profit public organizations of the central and local governments, as well as other accrual basis debt items such as deposits received and accounts payables. The general government debt statistics is useful in comparing Korea’s fiscal soundness internationally, as it is a tool used by various international organizations such as the IMF and the OECD to compare fiscal soundness between countries.

<OECD Countries: General Government Gross Debt Ratio>



*Source: Government at a Glance 2013 (OECD)

Additionally, the government prepares national financial statements using accrual basis accounting, as stated in the government accounting system, to be submitted to the National Assembly. The debt section of the financial statements can be used as an active indicator of financial risk management, as it recognizes items that may incur future expenditure, such as the military and public service pension appropriation debt, and other potential debt items.

<Comparison of 3 Types of Debt>

(based on end of 2012 data)

		Government Debt (based on 1986 GFS)	General Government Debt (based on 2001 GFS)	Debt on Financial Statement
Basis		Article 91 of the National Finance Act	International Standards	Article 14 of the National Accounting Act
Accounting Method		Cash Basis	Accrual Basis	Accrual Basis
Scope	Central Government	· General Account · 18 Special Accounts · 41 Gov't-Managed Funds	· General Account · 18 Special Accounts · 41 Gov't-Managed Funds · 24 Funds Managed by Public Institutions · 165 Non-profit Public Organizations * Cost-reimbursement Rate of 50% or less, etc.	· General Account · 18 Special Accounts · 41 Gov't Managed Funds · 24 Funds Managed by Public Institutions
	Local Governments (and Educational Offices)	· 244 General Accounts · 2,178 Special Accounts · 2,395 Funds · 17 Special Account for Educational Expenses	· 244 General Accounts · 2,178 Special Accounts · 2,395 Funds · 17 Special Accounts for Educational Expenses · 87 Non-profit Public Organizations * Cost-reimbursement Rate of 50% or less, etc.	Excluded
Classification	State Bonds	Included	Included	Included
	Loan	Included	Included	Included
	Public Institution Management Fund Liabilities	Excluded	Included	Included
	Occupational Pension Appropriation (Public Service and Military Pension)	Excluded	Excluded[1]	Included
	Social Security Fund Liability Reserve (Workers Comp, Employment Insurance)	Excluded	Excluded[1]	Included
	Other Accrual Basis Liabilities[2]	Excluded	Included	Included
	Public Pension Fund, etc.	Included	Excluded	Excluded
Size (% of GDP)		443.1 trillion won (34.8%)	504.6 trillion won (39.7%)	902.1 trillion won (70.9%)

1」 Excluded in consideration of International Standard and Foreign Case Studies

2」 Accrued Expense, Advance Received, etc.

5. Managing Fiscal Soundness

1 Strengthening of Fiscal Rules

In response to the recent economic slowdown and the consequent weakening of fiscal soundness, the government will gradually rebuild the basis for sound finances through strengthening of fiscal rules and management of total finances. This will be done through maintaining the increase rate of spending lower than that of revenue until a balanced financial state is achieved.

Fiscal rules are fiscal management methods that either impose a certain goal for fiscal balance, government debt and total spending, or that assign constraints on a new spending item. Each country has in place different form of fiscal rules, from legal rules and medium-term plans to internal regulations, that best fits their own economic conditions and political structure. In Korea, the National Fiscal Management Plan, which includes a 5-year outlook of the fiscal size, fiscal balance, government debt, sectoral resource distribution plan and investment goals, is drafted and submitted to the National Assembly as a part of its fiscal rules. Another part of its fiscal rules includes regulations on tax exemption. The ratio of reduction in national tax is maintained within 0.5%p of the average reduction rate of national tax over past 3 years. A new tax exemption item is required to be accompanied by methods to alter an existing tax exemption or to reduce an existing spending item in order to offset the differences.

With the possible future rigidity in fiscal management, as a consequence of the recent increase in the mandatory spending, Korea plans to review the PAYGO method which mandates new laws that require an increase in mandatory spending or a reduction in revenue to be accompanied by a method to secure the required resources.

2 Efficient Spending through Overall Fiscal Reforms

Additional spending reforms through legislation and policy reforms are planned. First, projects that require policy reforms will be selected, and then with participation from related government agencies and private experts, reforms of medium to long-term and interagency perspectives will take place. Spending items that have similar objectives and beneficiary will be thoroughly inspected and revised. Also, through activation of private investment projects and continuous conversion of government financing projects into the interest subsidy programs*, ideas of the private sector will be better utilized, and fiscal investment will be supplemented.

*Interest subsidy program: Instead of the government directly financing the people, the government subsidizes the interest rate differences for banks and other financial institutions that provide loans to the people at rates lower than the commercial rate.

Note 2 Public-Private Partnership Program

Objectives

The Public-Private Partnership(PPP) Program aims at utilizing creativity and efficiency of the private sector by allowing it to finance, build, and operate social infrastructure facilities such as roads, ports, railways, schools, and the environmental facilities that have traditionally been constructed and operated by the government. After the Promotion of Private Capital into Social Overhead Capital Investment Act was enacted in 1994, Korea's PPP programs have been implemented according to organized processes based on legal systems that have continued to develop.

In the early stage, investment was made mainly in transport facilities, such as roads, railways, and ports. After the act was amended into the Act on Private Participation in Infrastructure in 2005, however, the target of investments has been expanded into community infrastructure closely related to people's lives, including facilities for education, health and welfare, culture and the environment. With appropriate policies, the government continues to support efficiency and innovation in private businesses.

Target Facilities

The Act on Private Participation in Infrastructure designates 15 sectors and 49 types of facilities as target facilities. They include roads, railways, ports, airports, water resources, information and communications, energy, environment, distribution, culture and tourism, education, national defense, housing, health and welfare, and mountains and forests.

Types of PPP Programs

PPP programs are classified into Build-Transfer-Operate (BTO) and Build-Transfer-Lease (BTL) programs. In the BTO program, the private sector prepares the resources needed to build the facilities. The facility is then transferred to the government. The private sector receives the rights to operate the facility from the government and receives the usage fees to collect the invested money. The facility is also built by the private sector and donated to the government in the BTL program. However, in the BTL program, private sector collects its investment via regular rental fees from the government. The BTL program is highly regulated by the National Assembly because the government's commitment to the lease burden may restrict future fiscal management of the government. Total cost of BTL programs for the next fiscal year must be submitted to National Assembly to receive its approval.

<Comparison of the 2 Types of PPP Programs>

	BTO Programs	BTL Programs
Collection of Investment Cost	via user fees	via facility rental fees from the government
Major Facilities	Roads, railways, ports, etc.	Schools, military official residence buildings, sewer system, welfare facilities, etc.
Project Risk	Relatively high (rate of return fluctuates according to demand)	Relatively low
Return on Investment	Relatively high	Relatively low
Project Period	Long-term (typically 30 years for roads and 50 years for ports)	Relatively short-term (typically 20 years)

Government Support

For smooth management of the PPP facilities, the government may provide necessary assistance such as maintaining an appropriate level of lease or usage fee, reducing an excessive land acquisition fee, and preserving the foreign-exchange loss. In the BTO system, support may be in form of land acquisition fee in exchange for the ownership of the facility, maintenance of an appropriate level of usage fee, and construction subsidy to secure an appropriate level of revenue. The Minimum Revenue Guarantee(MRG) program, since its introduction in 1998, makes up for a portion of the income when it falls below the expected amount. It has played a role in activating the private sector by relieving the risk of the PPP programs. However, as the contractors started over estimating the demand to receive more funding, it became a moral issue as well as a huge burden on the national finance, and has been discontinued since October of 2009. In the case of the BTL program, government supports the program via lease fee and operating expenses during its use of the facility.

Results

As of the end of 2012, 480 PPP programs (327 BTL programs and 153 BTO programs), at 56.0 trillion won, were completed and were in operation; 120 programs (85 BTL and 35 BTO) were in construction at 27.0 trillion won; and 33 programs (11 BTL and 22 BTO) were being prepared for construction at 8.3 trillion won. Infrastructures of PPP programs raise competitiveness of the country and the quality of people's life. It also improves the efficiency of public investment because it abides by the terms of the original contract, and finishes the work within the time period and budget as initially planned. Also, the quality and safety of the facility is guaranteed throughout its lifetime as the private sector takes charge of its overall design, construction, and management.

3 Transparency and Stability in Tax Revenue

Tax reduction and exemption clauses are to expire at the end of their terms as a principle of the sunset rule, but if necessary, they may be reintroduced after a careful investigation of the necessity and effectiveness. However, a careful consideration will be given in this process to not increase the tax burden on the small and medium enterprises and the low to middle income classes, and to expand tax support in core areas such as employment.

To legalize the underground economy under the basic principle of 'tax on income,' we will continue to focus on the areas of large tax evasion such as chronic tax evasions, high-earning businessmen, and offshore tax evasions. Its effect on honest businesses and businessmen, however, will be minimized. Also, we will gradually expand taxation on financial earnings, which have previously been exempt in order to promote growth of the financial market.

4 Management of Public Sector Debt and Potential Fiscal Risks

As the recent fiscal crisis can be attributed to various reasons such as deterioration of fiscal balance, the government plans to better manage the potential fiscal risks henceforth, and improve its medium to long-term sustainability.

In order to achieve this, we have studied methods to comprehensively and systematically manage the fiscal soundness of the entire public sector including the public enterprise by calculating and making public the size of its debt. In February, 2014, we calculated and announced the size of our public sector debt, using the Public Sector Debt Statistics Guide for Compilers and Users, which was co-announced by the IMF, WB, and OECD. Based on the end of 2012 standards, the public sector debt, including the general government and the non-financial public enterprises, came out to be 821.1 trillion won. Public organizations that are required to complete a medium to long-term financial management plan will be expanded from the original criterion of those with assets of 2 trillion won or more to those that may have less than 2 trillion won in assets but with debts that exceed their assets, or to those that are included in the loss conservation clause of the government. Reflecting the performance results of the plan into the public enterprise evaluations will enhance the effectiveness of the plan.

On the other hand, in order to systematically respond to medium to long-term fiscal risks, potential risk factors such as the local governments, public enterprises, rollover risks, and guarantees, in addition to the existing management indicators (fiscal balance, government debt, etc.) will be analyzed and managed. Also, we will perform a long-term fiscal prospect of pension, medical, education, and other sectors, where the fiscal burden is likely to increase as a result of the demographic change caused by low birthrate and aging population. This will strengthen the tie between long-term and medium to short-term fiscal management.

6. Budgetary Organizations and its Legal Structure

1 The Budget Office, Ministry of Strategy and Finance

Ministry of Strategy and Finance(MoSF) is in charge of works related to the drafting, execution and performance management of the budget and the funds. The structure and responsibilities of the Budget Office at MoSF are as follows:

<The Budget Office: Organization>

The Budget Office (Deputy Minister)

Budget Coordination	Social Affairs Budget	Economic Affairs Budget	Administrative Budget
-Budget Coordination Division -Budget Policy Division -Budget Standards Division -Budget Management Division -Public Fund Management Division	-Welfare Budget Division -Employment & Environment Budget Division -Education Budget Division -Cultural Affairs Budget Division	-Land & Transport Budget Division -Industry & Information Budget Division -Agriculture, Forestry & Maritime Budget Division -Project Budget Management Division	-National Defense Budget Division -Judicial Affairs Budget Division -Administrative Affairs Budget Division -Development Budget Division

<The Budget Office: Responsibilities>

Budget Coordination Bureau

- Determine goals based on national priorities regarding the budget and funds
- Plan and coordinate national policies that attends to the budget and funds
- Coordinate the overall making process of National Fiscal Management Plan
- Works related to allocation of resources based on National Fiscal Management Plan
- Works related to medium-term fiscal strategy and national financial structure
- Works related to the management of National Finance Act
- Manage the overall coordination of medium to long-term spending plans
- Oversee works related to coordination and revision of fund management plan
- Prepare tax income and outcome budget
- Prepare and coordinate budget documents and fund management plans that are submitted to the National Assembly for review
- Manage Reserve Funds and
- Prepare a budget and fund management plan for wartimes

- Make basic policies for fund management
- Prepare and notify the guidelines for budgeting and fund management plan
- Operate Advisory Council on Fiscal Policy
- Estimate and analyze fiscal income
- Adjust budget items and set the specifics of fund classifications
- Prepare and operate execution plan for the budget and funds
- Coordinate the budget to reflect the increase in number of public officers
- Review and decide budget related to personnel expenses
- Set the standards and unit cost for the budget and fund management plan
- Manage Agency Special Account
- Promote major fiscal projects to increase public awareness
- Collect and analyze public opinion on budget and Funds policies
- Manage the performance of execution of government subsidies
- Provide required cooperation for international organizations and countries
- Manage the overall policies that affect budgeting system
- Educate the public about public finance

Social Affairs Budget Bureau

- Determine medium to long-term goals for welfare, employment, environment, education and culture; propose and execute the related budget
- Discuss, revise and manage the performance of the fund management plan
- Collect and revise national job-creating policies that needs financial support from the budget and Funds.

Economic Affairs Budget Bureau

- Set medium to long-term goals for industry and information, land and transportation, agriculture and fisheries, and research and development; propose and execute the national budget for the economic sector
- Discuss and revise the fund management plan and their performance management
- Manage and coordinate total project cost

Administrative Budget Bureau

- Determine medium to long-term goals administrative affairs, national defense, judicial affairs, regional development; propose and execute the related budget, discuss, revise and manage the performance of the fund management plan
- Coordinate the budget and funds related to regional development policies
- Coordinate resource allocation between national and local governments
- Manage special account for metropolitan and regional development
- Prepare and analyze the medium to long-term financial support plan related to the regional development plan and basic settlement area development plan
- Coordinate and manage the performance of investment plans related to regional development projects and metropolitan development projects

2 Major Budget Laws

The Constitution

The Constitution is at the top of the Korean legal system. Chapter 54 of the Constitution gives the government(administration) the power to draft the national budget and the National Assembly the deliberation and approval of the national budget. As part of the checks and balance system between the administration and the National Assembly, Chapter 57 restricts the National Assembly from increasing the budget or from creating a new budget item without the agreement of the government.

National Finance Act

National Finance Act sets the guidelines for the budget, funds, closing accounts, performance management and government debt. It aims at an efficient, performance-oriented and transparent management of the public finance.

Local Finance Act

Local Finance Act sets the basic principles for the finances and accounting of the local governments. Its purpose is to guarantee the autonomy, transparency and soundness in local finances.

National Assembly Act

Its purpose is to maintain a democratic and efficient National Assembly, a representative body for the People, by regulating its structure, agenda and other necessary items. It administers the standing committees, Special Committee on Budget and Accounts, and other groups related to the budget and settlement processes, as well as the deliberation process itself.

Other Budgetary Legislations

Additional legislations related to budgeting include: Act on Management of Subsidies, Tax Act, Framework Act on Management of Charges, Act on Public-Private Partnership in Infrastructure, and etc.

Part 2

Budgeting Process and System

Part 2. Budgeting Process and System

<Fiscal Management Process>

Steps	Main Tasks
① Budget Formation by the Administration (Y-1)	▪ Guidelines for National Fiscal Management Plan (DEC before the fiscal year) ▪ Submission of Medium-term Project Plan (End of JAN) ▪ Drafting of National Fiscal Plan (FEB-APR) ▪ Guidelines for Budgeting and Spending Ceilings (End of APR) ▪ Fiscal Strategy Meeting of the Cabinet (End of APR) ▪ Budget Request and Performance Plan (MAY-JUN) ▪ Submission of Budget Request (End of JUN) ▪ Drafting of the Budget Proposal (JUL-SEP) ▪ Advisory Council on Fiscal Policy and Meeting between the cabinet and the ruling party (SEP) ▪ Submission to National Assembly (OCT 2)
② Deliberation by the National Assembly (Y-1)	▪ Speech on Administrative Policy ▪ Pre-evaluation of each Standing Committee ▪ Comprehensive Review by the Special Committee on Budget and Accounts (Public hearing - proposal enunciation - review report by a head expert - comprehensive interpellation - review by departments - review by subcommittee on adjustment of figures - general meeting vote) ▪ Review and vote at plenary session (DEC 2)
③ Execution (Y)	▪ Budget Allocation and Re-allocation ▪ Expenditure-incurring Acts ▪ Fund Allocation ▪ Maintenance of flexibility in execution of the budget(reserve fund, continuing expenditure, etc.) and the funds
④ Settlement and Evaluation (Y+1)	▪ Statement of Accounts submission to MoSF (End of FEB) ▪ National Statement of Accounts submission to Board of Audit and Inspection (APR 10) ▪ Review of Board of Audit and Inspection(APR 10 - MAY 20) ▪ National Statement of Accounts submission to the National Assembly (End of MAY) ▪ Self assessment of fiscal projects, in-depth evaluations of fiscal projects, performance goal management

1. Budget Proposal and Deliberation

1 (End of DEC) Guidelines for National Fiscal Management Plan

The Ministry of Strategy and Finance notifies the heads of central government agencies of the guidelines for drafting of the National Fiscal Management Plan. The guidelines include future conditions for fiscal management, medium-term directions for fiscal policies, and fiscal investment priorities. It serves as a tool for MoSF to support each agencies in preparing the Medium Term Project Plan.

Note 3 National Fiscal Management Plan (NFMP)

Objectives

The NFMP is a fiscal management plan for the time period of more than 5 fiscal years following the current fiscal year for promoting efficiency and soundness in fiscal management. Because the annual budget is prepared in line with five-year fiscal management plans, fiscal soundness and predictability of fiscal management are guaranteed.

Background

As fiscal management continued to be focused on one-year budgeting, there was a lack of strategic fiscal resource allocation able to support national development strategies, leading to the extent that the national fiscal resource allocation could not reflect changes in socio-economic conditions and future demands.

One-year budgeting inevitably had its limits in implementing long-term plans and national development strategies because it only focused on one-year fiscal resource management. Furthermore, there was a possibility that investment for the future society such as welfare spending would not be effectively implemented due to its lack of direction for strategic fiscal resource allocation required in the face of changes in the function of the state.

For these reasons, the government has formulated and submitted the five-year NFMP since 2004 to the National Assembly to systematically present medium and long-term national development strategies and fiscal support plans of those strategies.

Main Points

The National Fiscal Management Plan is made up of 3 major parts: outline & evaluations, contents, and reform of the fiscal management system. First, the outline and evaluations section includes the purpose and process of the plan, and estimates and evaluations of fiscal managements. This category provides a clear and comprehensive description of national fiscal management so far.

The second category covers socio-economic changes, national visions, fiscal management environment, the size of fiscal expenditure, resource allocation directions, and policy directions and investment plans by sector for the following 5 years. To this end, not only ambiguous general investment directions but also detailed fiscal resource allocation plans by project and annual target related to fiscal aggregates such as fiscal balance and government debt are presented. Budget and fund management plan for the following year are drawn up based on directions and goals of fiscal resource allocation and expenditure ceiling for each agency that are prepared under the NFMP.

The last category includes systematic reform efforts that the fiscal authority has made in order to enhance the efficiency and soundness of public finance, mainly focused on the actual performance of the previous year. So far, it has covered content and evaluation of fiscal management reform including the top-down budgeting, the performance management system, launching of the Digital Budgeting and Accounting (d-Brain) system, establishment of the National Finance Act, implementation of Build-Transfer-Lease(BTL) programs, and actions against budgetary waste.

Results

The onset of NFMP's has been offering deeper insight into fiscal management and enhancement of fiscal resource allocation. Owing to the plan, the fiscal management shifted from microscopic one-year budgeting, which was focused on control, toward strategic fiscal resource allocation based on priorities according to long-term national visions. In addition, predictable and stable policy implementation became possible because macro-fiscal management directions, such as fiscal balance, government debt, and public burden, were suggested in advance.

2 (End of JAN) Submission of Medium Term Project Plan

Each line ministry prepares and submits a Medium Term Project Plan by January 31. This plan includes a 5-year plan for new projects and other continuing projects that are prioritized by the Ministry of Strategy and Finance.

3 (FEB to APR) National Fiscal Management Plan(NFMP) Draft

From February, National Fiscal Management Plan working groups of experts from the government offices, schools, research institutes and other public sectors are formed and continually operated. Major issues regarding public finances, investment goals, and policy reforms are discussed by the working groups. In 2013, 15 working groups, including fiscal aggregates group, health and welfare group, employment group, R&D group, and local finances group, were formed. An open discussion is held to further discuss the results of the working groups, and to collect different opinions from various people.

Until April, the fiscal authorities reflect these results from the two discussion sessions onto the Medium Term Project Plan to prepare a National Fiscal Management Plan. The spending ceilings of the line ministries and sectoral projects are determined based on the macro-economic outlook, medium to long-term fiscal demand, national priorities, and investment plans for major projects.

Note 4 Top-down Budgeting

Objectives

Under the top-down budgeting, total spending is set first, followed by the expenditure ceiling of each sector and agency for the strategic allocation of fiscal resources, and then fiscal resources are allocated by each government agency to each project below the ceiling.

The system was introduced in 2004 as the result of adjustment of decision-making rights on fiscal resource allocation in order to support autonomous and responsible administration by each government agency.

Background

With the traditional method of budget formulation, each ministry requested budget by project and the fiscal authority budgeted by examining every single project and expenditure item. In the past, when the scale of public finance was small and there were fewer ongoing projects, the traditional method was an effective way of allocating fiscal resources, based on its swift decision-making.

However, since Korea began to experience the tides of economic growth and democratization in the late 1980s, the scale of public finance rapidly expanded and projects funded by public finance became complicated and specialized. Considering the circumstances, it became difficult for a select number of personnel from the fiscal authority to budget over every project of each ministry. Furthermore, greater asymmetry of information between the officials of the fiscal authority and each government agency led to a vicious circle of excessive budget request by line ministries and deep budget cuts by the fiscal authority. In the process, fiscal resource allocation was distorted while medium and long-term fiscal resource management and strategic fiscal management at the national level became difficult.

It became apparent that a new budgeting method which vitalized the macroeconomic fiscal policy functions of the fiscal authority, and utilized expertise, autonomy, and creativity of the line ministries was needed. Korea also adopted the top-down method, which was being used by some of the OECD nations at the time.

<Bottom-up vs. Top-down Methods>

	Bottom-up Method	Top-down Method
Order of Resource Allocation	Total Spending ↑ Budget Size by Sector and Agency ↑ Budget Size by Project	Total Spending (Ceiling) ↓ Budget Size by Sector and Agency ↓ Budget Size by Project
Budgeting Period	4 Months (June to September)	9 Months (January to September)
Main Characteristics	Fiscal authority-led budgeting Analysis based on individual projects One-year fiscal management Fiscal expenditure control through budgeting	Collaboration between the MoSF and each agency Macro and strategic resource allocation analysis Medium-term fiscal management Promotes autonomy of agencies in the budgeting process and enhances ex-post performance management

Main Points

Under the top-down method, the Ministry of Strategy and Finance notifies each government agency of the expenditure ceiling, and each government agency conducts fiscal resource allocation for each project below the ceiling.

Between January and April every year, the Ministry of Strategy and Finance determines total spending by agency and project costs by sector, considering the macroeconomic outlook, medium and long-term fiscal needs, national priorities, and major project investment plans.

Finally, expenditures are settled at the Fiscal Strategy Meeting attended by all Cabinet members, in order of total spending, ceilings by sectors, and ceiling by agencies. The ceilings are then notified to each government agency commonly between late April and early May.

As the expenditure ceiling is settled through logical and strategic allocation of national fiscal resources from medium and long-term perspectives, each government agency must request its budget by setting the size of each project budget below the ceiling. For that reason, the fiscal authority imposes a penalty for noncompliance to promote the effectiveness of the ceiling.

Results

With the introduction of the top-down method, each government agency now requests their budget within the expenditure ceiling, which in turn results in the considerable alleviation of the chronic problem of excessive budget requests by government agencies and deep budget cuts by the fiscal authority. Since 2004, when top-down budgeting was introduced, the increase rate in budget requests by the government agencies has reduced dramatically.

<Increase Rates in Budget(General & Special Accounts) Requests by Government Agencies>

4 (End of APR) Fiscal Strategy Meeting and Expenditure Ceilings

The Fiscal Strategy Meeting of cabinet members, chaired by the President, is held late April to finalize the expenditure ceilings(overall total spending, and total spending by sectors and government agencies). Determined spending ceilings are notified to the agencies along with the guidelines for budgeting, and the head of each agency must make their budget requests for next fiscal year within this ceiling.

Note 5 Fiscal Strategy Meeting

The Fiscal Strategy Meeting was initiated with the introduction of the top-down system in 2004. All Cabinet members, putting their ministries' interests aside, discuss national development strategies and priorities of fiscal resource allocation at the meeting. The meeting had been called the Fiscal Resource Allocation Meeting until 2008, when it was renamed the Fiscal Strategy Meeting because the meeting did not simply cover fiscal expenditures but dealt with overall issues concerning national finance such as growth rates, the outlook for tax revenues, and government debt.

At the meeting, unlike other general ministerial meetings, the President, the chief secretary, and Ministers without attendees hold intense and profound consultation on fiscal management directions, major fiscal issues, etc. Through the consultation, consensus is achieved on the NFMP and the expenditure ceiling of each sector and agency. In addition, the meeting offers major decision-making opportunities on various fiscal issues and encourages government agencies to reach a consensus on the promotion of fiscal soundness.

Note 6 Guidelines for Budgeting & Fund Management Plans

The Minister of Strategy and Finance must notify the guidelines for budget preparation and fund management for the following fiscal year to the head of each line ministry. The guidelines are approved by the Cabinet and signed by the President by April 30 of each year.

The guidelines include basic goals of fiscal management for the following year, priorities of fiscal management and direction for resource allocation, fiscal rules for ministries, budget request guidelines for each expenditure, required documents and forms to fill out when submitting budget requests.

5 (End of JUN) Budget Requests

After the ceilings are notified, the head of each government agency has until end of June to finalize their budget requests to submit to Ministry of Strategy and Finance. During this time, they survey the demands of organizations and people concerned, and prepare a budget request that reflects the objectives, major policies and performance goals of the organization.

These budget requests must stay within the spending ceilings, and reflect the results of the self and in-depth evaluations of fiscal projects. The performance plans are also submitted along with these requests, as required by the Performance Management System.

With introduction of the top-down method, the focus on managing limited fiscal resources has shifted from the traditional input-led management to performance management. The top-down method maximized the autonomy of the government agencies in the budget formulation and execution process, while maintaining an efficient fiscal management through the Performance Management System, which reflects the performance outcome in the budget process of the following year.

Note 7 Performance Management System

Objectives

The system sets goals and performance indicators for fiscal projects and reflects indicator-based evaluation results onto the fiscal management. The system was introduced in 2003 to convert the traditional input-oriented fiscal management into the fiscal management focused on performance and responsibility. It is a 3-step system comprised of the performance goal management, self assessment of fiscal projects, and the in-depth fiscal project evaluation system.

<Performance Management System of Fiscal Projects>

Performance Goal Management System (2003~) (1st Step, Monitoring)	➡	Self Assessment of Fiscal Projects (2005~) (2nd Step, Review)	➡	In-depth Fiscal Project Evaluation System (2006~) (3rd Stage, Evaluation)
Management of performance goals and indicators of fiscal projects of all government agencies		Annual evaluation of one third of major fiscal projects		Annual in-depth evaluation of about 10 projects and systemic reform

Background

Because Korea's traditional fiscal management was focused on budgeting, an input stage of fiscal management, the ex-post performance management and the feedback was insufficient. Concerns were raised that a fiscal management focused on control by each budget item could effectively prevent unreasonable budget use and corruption and simplify budgeting and operation, but it could bring about a lax and inefficient expenditure structure because it was difficult to analyze the effectiveness of expenditures.

Under the circumstances, since the mid-2000s, the Korean government had made efforts to establish a performance management system for performance-based fiscal management. As part of the effort, the government adopted the performance goal management system in 2003, the self assessment of fiscal project in 2005, and then the in-depth fiscal project evaluation system in 2006. In January 2007, with the enforcement of the National Finance Act, a full-fledged legal and institutional foundation of the systems was prepared. These systems also ensure that each government agency are responsible for the result of their autonomous fiscal management according to the newly adopted top-down budgeting system.

Main Points

① Performance Goal Management

The system sets in advance performance goals of fiscal projects, performance indicators and targets to assess achievement of goals in performance plans; compares results of projects and performance targets after execution of fiscal projects in performance reports; and reflects the results on ensuing fiscal management.

In a 3 year cycle, performance goal management is conducted in order of: drafting of performance plans; execution of projects of the current fiscal year; and preparation of performance reports. In the first year (Y-1), performance plans mainly focused on performance goals and indicators are formulated. In the second year (Y), the budget is executed. In the last year (Y+1), performance reports on execution results are prepared.

The performance plan is drafted starting from missions for government agencies, followed by strategic goals, performance goals, and management tasks. Missions for government agencies are their intrinsic roles, while strategic goals refer to directions of main policies that are carried out to complete their missions in the medium and long-term. Performance goals are established through analysis of the missions and strategic goals, becoming detailed goals pursued through individual fiscal projects (management tasks). Therefore, the performance indicator, a measuring tool, is set respectively for performance goals and management tasks to determine whether performance goals are achieved.

The performance report system assesses whether goals set by performance plans are achieved after budget execution and reports the results. Since the report offers the analysis of whether performance goals are achieved, how much each management task has contributed to achievement of goals, and what causes success or failure, it can be used as a reference material in formulating performance plans for the following year.

② Self Assessment of Fiscal Projects

The self assessment of fiscal projects ensures that government agencies responsible for implementing projects voluntarily evaluate fiscal projects, and both the agencies and the fiscal authority reflect the results onto budget formulation. At present, each government agency is obliged to voluntarily evaluate one third of all fiscal projects on an annual basis in accordance with evaluation criteria and standards provided by the fiscal authority. The Ministry of Strategy and Finance presents evaluation guidelines in advance and each related agency evaluates their own fiscal projects. This is followed by confirmation and review by the fiscal authority.

Evaluation criteria are comprised of planning, execution, and performance. In the planning stage, the accuracy of project goals, the similarity or overlap among projects, etc. are reviewed and the suitability of performance indicators and goals is evaluated. In the execution stage, projects are evaluated on whether the current stage of the project implementation is being regularly monitored and budget execution is performed in accordance with plans. In the performance stage, whether target performance is achieved and whether evaluation results are reflected on the fiscal management are evaluated.

Each program is graded from “excellent,” “good,” “average,” “inadequate” to “poor” according to evaluation results. In principle, budget for “excellent” or “good” programs are raised, while “inadequate” or “poor” programs, will face budget cuts or be suspended entirely to connect evaluation results with budgeting. In addition, evaluation results are submitted to the National Assembly for use in the deliberation of budget and settlements and released to the public through the Internet, etc. to improve transparency of the fiscal management process and encourage government agencies to be more responsible for fiscal management.

Through these processes, the system makes it possible for each government agency to efficiently manage performance and to formulate budgets, and it has contributed to budget-saving by using evaluation results of budget restructuring.

③ In-depth Evaluation of Fiscal Projects

The system ensures that after the initial self assessment, a more specialized and in-depth evaluation is performed to boost project performance by finding matters to be improved, such as project implementation methods, in projects that are considered to require further evaluation. Unlike the self assessment conducted by related government agencies, in-depth evaluation is conducted mainly by the Korea Development Institute (KDI), an external expert institution, in order to guarantee objectivity, neutrality, and expertise.

Based on the self assessment result, the Ministry of Strategy and Finance annually selects projects subject to initial evaluation and then the Advisory Meeting on Fiscal Project Evaluation confirms about ten projects. Then the KDI examines the selected projects for effectiveness, efficiency, justifiability, usefulness, sustainability, etc. to release evaluation results and matters to be improved. These results are notified to related government agencies and reflected on the budget for the following year by eliminating, reducing, or integrating projects. With regard to systemic reform, related agencies establish and examine implementation plans to assure effectiveness.

Results

As the fiscal project performance management system has been shaped, efficient budgeting has become available through better understanding of fiscal projects among the personnel in charge. The system has also contributed to the efficiency of fiscal management through budget cuts for projects that are graded as “inadequate” or “poor” as a result of the self assessment of fiscal projects.

Increasing spotlight on performance also put emphasis on an efficient management of large scale investment projects. as a result, preliminary feasibility study and total project cost management system have been established.

While the line ministries prepare their budget requests, the Ministry of Strategy and Finance collects a nationwide perspective and prepares a budget. People voice their opinions through online idea contests and open discussions for the public. The government uses these ideas of the "people on the field" to seek policies that might benefit the people most. Through the meetings with local governments and field trips, the government learns of what the local residents need. National Fiscal Management Plan is updated based on these collected information, continuous consultation with line ministries, and the changing economic conditions, in addition to major issues discussed at the Fiscal Strategy Meeting of cabinet members.

Note 8 Preliminary Feasibility Study

Objectives

The fiscal authority conducts the preliminary feasibility study before budgeting for a large-scale project in order to objectively verify its feasibility and then decide whether the project will be implemented. The system aims at improving the efficiency of fiscal management and preventing budgetary waste through a careful decision on whether a large-scale fiscal project will be implemented. Article 38 of the current National Finance Act prescribes that a new project that costs more than 50 billion won and falls under specific conditions is subject to the preliminary feasibility study before budgeting.

Background

In the past, as investment in the social infrastructure such as roads, railways, and airports, surged, some large-scale investment projects were politically motivated or unreasonably implemented based on the related agency's excessive expectation for demand without objective verification of feasibility. After the Asian financial crisis in the late 1990s, when various social and economic reforms were conducted, the necessity of restructuring fiscal investments based on thorough priority verification was raised.

Under the circumstances, the preliminary feasibility study into large-scale fiscal investment projects was initiated in 1999. The conventional feasibility study led by related government agencies was converted to the study led by the fiscal authority that thoroughly verified the necessity and feasibility of a project before budgeting. Since the National Finance Act was established and enforced in 2007, the study system has taken root as a legal system. The range of projects subject to the study, which was confined to only construction work such as civil engineering and architecture in the early stage, has been expanded into the R&D and information industries. The new projects that are reflected in the 2010 budget, non-investment fiscal sectors, such as social welfare, labor, and the environment, are also subject to the study.

Main Points

① Target Project and Exemptions

The preliminary feasibility study is done on a new project whose total project costs are more than 50 billion won, out of which the financial aid by the central government amounts to more than 30 billion won, and which falls under any of the following:

1. Projects in which construction work is included;
2. Information projects under the National Information Act;
3. National research and development projects under the Science and Technology Framework Act; and
4. Projects in the field of social welfare, health, education, labor, culture and tourism, environmental protection, agriculture, forestry, ocean, fishery, industry, and small and medium enterprises (hereinafter referred

to as “other non-investment fiscal sector”), of which fiscal expenditures occurred by the medium-term project plan are 50 billion won and over.

However, a project that is subject to the study in terms of total project costs but is to be implemented in accordance with Acts and subordinated statutes or has no practical need for the study is exempt from the preliminary feasibility study under the provision of the National Finance Act. A construction project of public office buildings or facilities for elementary and secondary education, a project for the restoration of cultural heritage, a project related to national defense, a project in accordance with the treaty with other countries, or a project related to the inter-Korean exchange and cooperation are examples of those exempt from the preliminary feasibility study.

② Procedures

Each government agency implementing projects shall conduct an internal review of urgency and priorities and then submit the list of projects that are subject to the preliminary feasibility study to the Ministry of Strategy and Finance. Considering the time required in conducting the study, each agency should request the study at least 2 years prior to the commencement date of the project so that the budget can be reflected in a timely manner.

The Ministry of Strategy and Finance selects projects subject to the study by comprehensively reviewing:

1. Solidity of project plans;
2. Urgency of project implementation;
3. Whether a project meets requirements for government funding; and
4. Factors concerning regionally balanced development, etc.

In the process, R&D projects and information projects are subject to a preliminary review by the National Science & Technology Council and the Presidential Council on Information Society, respectively. In addition, if the Minister of Strategy and Finance acknowledges the necessity of the study regarding to budgeting or formulation of the fund management plan, he or she can conduct the preliminary feasibility study without request by the head of each government agency.

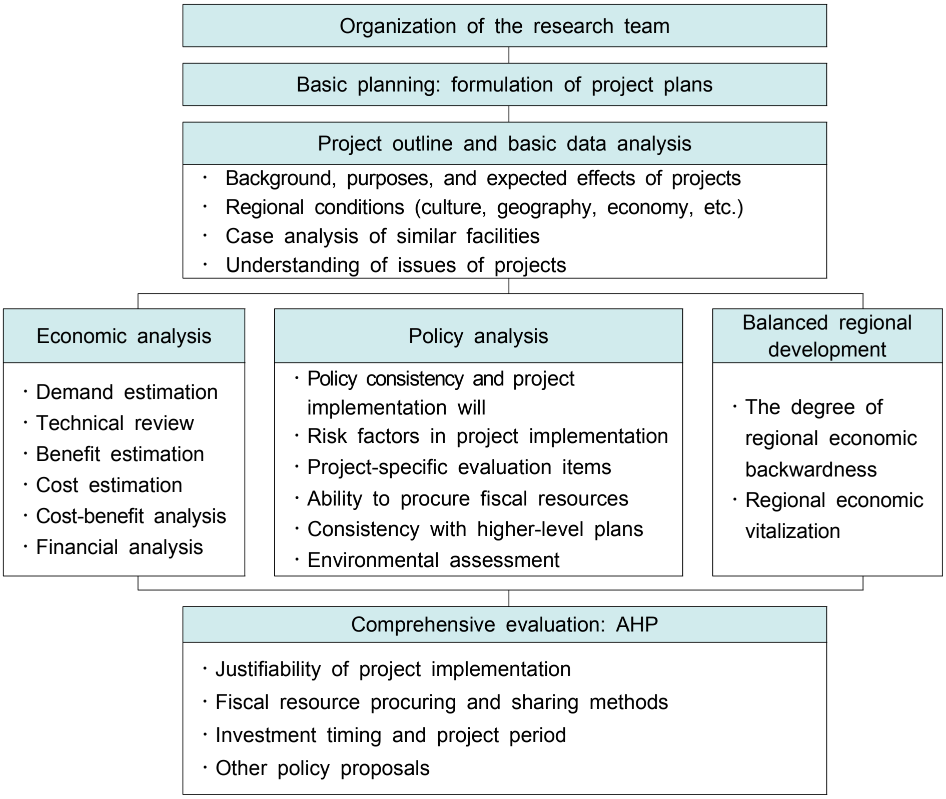
As for selected projects, the research team under the direction of the

Public & Private Infrastructure Investment Management Center (PIMAC) of the KDI, comprised of various experts from the academic circle, research institutes, private engineering companies, etc., performs the preliminary feasibility study, which takes about 6 months. As for projects that are purely R&D-based, the study is conducted under the direction of the Korea Institute of Science & Technology Evaluation and Planning (KISTEP). Each government agency may request the study twice a year in July and November to promote efficiency of the preliminary feasibility study system.

③ Analysis Methods

Analysis of the preliminary feasibility study is carried out using the Analytic Hierarchy Process (AHP), one of the multi-criteria analysis methods, through a comprehensive review of factors such as economic efficiency, policy matters, technical analysis, and balanced regional development.

<Structure of Analytic Hierarchy Process>



In the analysis of economic efficiency, the cost-benefit analysis compares the social benefits and costs caused by implementation of a project. If the method is inappropriate for a project as in projects such as non-investment fiscal sector projects including social welfare or purely R&D-based projects, the cost-effectiveness analysis can be performed.

In the analysis of policy matters, quantitative or qualitative analysis is conducted on evaluation items, such as policy consistency, implementation will, and risk factors in project implementation, etc. The technical analysis evaluates the suitability of technology development plans, possibility of success in technology development, and overlap between a new technology or project and existing technologies or projects. The analysis of balanced regional development, which aims at preventing the aggravation of interregional imbalances and raising interregional equality, analyzes the influence of a project on regional development, such as induced employment effects, ripple effect on the local economies, and alleviation of regional economic backwardness.

The evaluation team, which includes the preliminary feasibility study research team, uses a weighted score to determine whether a project is appropriate. Generally, the AHP score of more than 0.5 means that a project is feasible.

Results

Since its inception in 1999, the preliminary feasibility study has solidified its position as a verification process for the preliminary feasibility of large-scale projects through continued systemic improvement such as expansion of the applied range of projects. Between 1999 and 2013, the study was conducted on 665 projects worth 303 trillion won on the basis of project costs. Among them 243 projects worth 128.7 trillion won proved unjustified and were suspended. For 5 years between 1994 and 1998 before the introduction of the study only one in the total of 33 projects was deemed to be unjustified as the result of internal preliminary inquiries by related government agencies, which suggests that the preliminary feasibility study system has been playing a significant role in promoting the efficiency of large-scale public project investments.

Note 9 Total Project Cost Management System

Objectives

It refers to the system aimed at improving the efficiency of fiscal spending through reasonable adjustment and management of total project costs of large-scale investment projects funded by the National Treasury, such as the budget and funds, according to each stage of project implementation.

At present, for projects that take more than 2 years and cost more than 50 billion won (or construction work that costs more than 20 billion won), the head of each central government agency shall determine the size of the project, total project costs, and the project period, and negotiate with the fiscal authority. Any ex-post alterations are strictly controlled.

Background

As for large-scale fiscal investment projects, excessive increase in project costs caused by various reasons such as frequent change in design during the project implementation has resulted in the waste of the national budget. As the necessity for the systematic management of public investment projects has emerged since the 1990s, related systemic tools have begun to take shape. The total project cost management system, one of the foremost tools, was introduced in 1994 to prevent the practical increase in total project costs caused by reckless changes in plans of large-scale investment projects.

Thanks to the preliminary feasibility study, introduced in 1999, the implementation of a project can be determined in advance through a detailed feasibility study, which leaves little room for unreasonable increases in total project costs caused by post-initiation alterations in the project plan. In 2004 requirements and methods of feasibility retest were specified in the guidelines on the total project cost management. Since the introduction of the demand estimation retest system in 2006, changes in demand of projects that take a long time to complete have been managed by each stage of project implementation. As a series of public investment project management systems were prescribed in 2006 in the National Finance Act as the provision of “Control of Total Project Costs,” total project costs have been managed under strict procedures and principles.

Main Points

① Projects Subject to Total Project Cost Control

Article 50 of the National Finance Act defines projects subject to total project cost control as a project with a total project cost of 50 billion won (or construction work that costs more than 20 billion won) that takes two years or longer, excluding the following: a project for which a fixed amount is subsidized from the national treasury; a loan program; and a project with investments from private sector under the Act on Public-Private Partnership in Infrastructure.

② Management Process and its Principles

Large-scale investment projects are implemented in order of project planning, preliminary feasibility study, feasibility study, basic and working designs, contracting and construction, etc. When each stage is finished, changes in the details of projects and total project costs shall be reviewed to avoid increases in the volume of construction or in project size that were not specified in the original plan. In addition to the total project cost, the project costs by type of construction work and by detail items of the project are also managed separately. This makes it impossible for a contractor to unreasonably raise project costs by arbitrarily adjusting project costs, among types of construction work or projects details.

Furthermore, in order to prevent the increase in project costs through the arbitrary addition of unnecessary tasks during the stage of designing or implementation, the addition of details unspecified in the original plan is, by principle, prohibited. Likewise, changes in total project costs caused by changes in design after initiating a project are, by principle, not permitted, except for unavoidable cases such as where it is necessary for a safe construction, etc.

Projects whose demand decreases by more than 30% or total project costs increase by more than 20% as a result of re-survey for demand estimation in the process of the establishment of master plans, feasibility study, basic designs, and working designs are subject to feasibility retests. In this case, project implementation is reviewed altogether. In addition, penalties, such as budget cuts, are imposed for the violation of the guidelines on the total project cost management so that adjustment of total project costs can be performed under consistent principles and criteria.

<Management of Total Project Cost>

General Process	Contents
Planning	▪ Line ministries refer to examples of similar projects to appropriately set project size, total project cost and its duration.
⬇	
Preliminary Feasibility Study	▪ The line ministries request the MoSF a preliminary feasibility study on projects with estimated total cost of 50 billion won or more.
⬇	
Feasibility Study and Master Plans	▪ The line ministries perform feasibility study in consideration of all necessary elements such as the environment, transport, finances, etc. ▪ If the results of the basic design, derived from related laws, differ from the preliminary feasibility study, or the feasibility study, then the total project cost must be revised with the MoSF before the basic design is announced.
⬇	
Basic Design	▪ The line ministries must allot enough time and money to carry out the basic design. When the basic design is completed, ministries consult with MoSF first before requesting service of working designs ▪ Any changes in the size of the project must be consulted with MoSF
⬇	
Working Designs	▪ The line ministries perform at least one expert review of the design details, which reflect the results of local government meetings, and environmental and transportation effects evaluations. ▪ The appropriateness of the unit price as a result of the design is reviewed by the Public Procurement Office(PPO). ▪ Project duration, size, and total cost is consulted with the MoSF.
⬇	
Ordering and Contracting	▪ Line ministries prepare detailed statement of the total project cost in consultation with the MoSF and request contracting to the PPO. ▪ Line ministries may adjust the differences of the bids within 90 days of contact date.
⬇	
Construction	▪ If revision is necessary, the line ministries must consult with MoSF to modify the total project cost such as construction, compensation and installation unit expenses.

Results

Until now, the total project cost management has been enhanced by broadening the scope of projects subject to the total project cost management and correcting imperfections of the system. The average growth rate of total project costs has been over 10% in the 1990s when the total project cost management was introduced, but after the implementation of the preliminary feasibility study in 1999, the average increase rate in total project costs has been kept around 1%. This indicates that the total project cost management is considered to have been playing a key role in keeping the total project costs steady.

6 (JUL-SEP) Discussion of budget proposal by line ministries & MoSF

Budgeting of the specific details by projects and by sectors officially begin when each government agency submits their budget request by end of June. Before the top-down method was introduced in 2004, each government agency requested excessive amounts because it was obviously bound to be cut. After implementation of the top-down method, however, the increase rate in budget requests have been kept within one digit, putting end to the chronic problem of excessive budget requests by the government agencies and deep budget cuts by the fiscal authority. Each government agency prepares a budget request using the budgeting guidelines and spending ceilings. When these requests are submitted, the Ministry of Strategy and Finance reviews and revises them using budgeting guidelines, such as fiscal rules and a common standard. In this process, the Ministry of Strategy and Finance makes sure that the requests stay within the spending ceilings, and takes into consideration the sectoral resource allocation directions.

Budget review and revision take multiple steps: before specific projects are reviewed, a budget official first makes sure that the requests are kept under the ceilings, and checks their past performances and their redundancy to other similar projects. This is to make sure that the budget requests were prepared following the budgeting guidelines notified late April. When reviewing each of the specific projects, the results of the self assessment, whether the project wastes any budget, whether it reflects the opinions of external organizations, such as the Board of Audit and Inspection, the National Assembly, and the civic organizations, and other overall fiscal standards are considered.

Budget review is done within the budget office by budget officials. Each division of the budget office reviews the submitted budget requests and presents this information to the second budget review council. At this budget review council, the validity of each project is reviewed. Until final budget proposal is prepared by the Ministry of Strategy and Finance late September, it goes through about 2 to 3 review sessions, along with continual discussions with government agencies.

On the other hand, the political and social impacts of the budget cannot be ignored. This is why the Ministry of Strategy and Finance must collect wide range of opinions and review the budget proposal multiple times. The advisory council on fiscal policy is the official advisory organization by the current National Finance Act. The heads of each government agency, and local governments, and public experts participate in this meeting, which is a necessary step before the budget proposal is submitted to the National Assembly. Open discussion with local governments was first held in 1998 at the Governor's Association. It provides an opportunity for the central government to explain its objectives of the budget and national fiscal conditions while allowing the local governments to explain their fiscal conditions and to appeal their projects one more time.

7 (OCT 2) Submission of the Budget Proposal to National Assembly

The government prepares the budget proposal and the fund management plan every fiscal year. These go through a cabinet meeting, followed by the approval of the President, before they are sent to National Assembly by October 2, 90 days before beginning of the next fiscal year. Tables of total and net revenue and expenditure budget, project explanation by projects, explanation of commitment to assume a Treasury obligation, performance plans of each line ministry, and gender sensitive budget are included as supplementary documents to the budget proposal. Fund-raising plans, estimated balance sheet and income statement, tables of total and net revenue and expenditure plans, performance plans, and gender sensitive budget are included in the fund management plans.

Note 10 Gender Sensitive Budget

Gender sensitive budget, a system to efficiently distribute the budget that is fair to both genders, has been required since 2010. Article 26 of the National Finance Act requires the government to prepare a report on the impact that the budget is likely to have on the two genders and include its results in the national budget.

The budget and the fund management plan both include the analysis of the effect that it will have on each gender, and the settlement reports of the budget and the funds analyzes whether the two gender received fair benefits.

Along with the budget, the National Fiscal Management Plan from the current fiscal year to at least next 5 fiscal years is prepared and submitted to the National Assembly. A draft of the National Fiscal Management Plan includes basic goals and directions of fiscal management, medium to long-term fiscal outlook, resource allocation plan by sectors and level of tax burden are all included.

National Finance Act, as amended in April 2013, requires the budget proposal to be submitted 90 days before the fiscal year in 2013, 100 days in 2014, 110 days in 2015, and 120 days from 2016.

<Changes in the Budgeting Timeline from 2014>

	2013	2014	2015	2016
Guidelines for Budgeting Notified (MoSF to Line Ministry)	April 30	April 20	April 10	March 31
Submission of Budget Requests (Line Ministry to MoSF)	June 30	June 20	June 10	May 31
Submission of Budget Draft (Gov't to Nat'l Assembly)	October 2 (90 days before the fiscal year)	September 23 (100 days before the fiscal year)	September 13 (110days before the fiscal year)	September 3 (120 days before the fiscal year)

8 (OCT-NOV) National Assembly Review → (DEC 2) Approval

The National Assembly must come to a resolution on deliberating and confirming the budget proposal completed by the administration 30 days before the beginning of the new fiscal year. The National Assembly's deliberation of the budget is comprised of 3 steps:

1. Preliminary review by the Standing Committee
2. Comprehensive review by the Special Committee on Budget & Accounts
3. Plenary session vote.

Of the three, the Comprehensive Review by the Special Committee plays a pivotal role. The budget deliberation process is set to take less than 60 days in 16 of the 30 OECD nations (Sweden, Spain, Japan, etc.). Korea's deliberation process is set to increase in intervals from 60 days to 90 days by 2016.

① Administrative Policy Speech and the Preliminary Review by the Standing Committee

The President gives an administrative policy speech regarding the budget proposal to the National Assembly at the general meeting. The main points and direction of the next year's budget are prepared in consideration of the overall government philosophy and the national development strategy.

In the preliminary review by standing committee, the minister of each sector suggests and explains the budget, first. This is then followed by a briefing session by an expert member of the National Assembly. During this briefing session, the expert member informs the rest of the committee the summary of the budget proposal, major issues, independent opinions on the budget cuts, and a viewpoint on the budget. This is followed by an interpellation process, then the evaluation of the budget. The evaluation is generally carried out by a subcommittee and the result is handled by the standing committee. Each standing committee is generally comprised by each government department and tends to evaluate the budget from its own department's point of view, which results in an increased budget.

Note 11 National Assembly Budget Office

National Assembly Budget Office(NABO) is an institution, attached to the chairman of the National Assembly, that supports legislative activity of the National Assembly by analyzing and evaluating issues related to the national budget, funds and other fiscal operations. It allows the National Assembly to exert control over the government's fiscal activities by implementing non-partisan research and analysis from an independent point of view.

Its main responsibilities include: regular reports on the budget and settlement; cost estimates for bills; analyses and prospects on national fiscal operations and macroeconomic trend; evaluation of major projects; analyses on medium to long-term fiscal demands; and analyses on specific policy and program issues at the request of a committee or an individual member of the National Assembly.

② Comprehensive Review by Special Committee on Budget & Accounts

After passing through each standing committee, the budget undergoes a comprehensive review by the Special Committee on Budget and Accounts. Until 1999, this special committee was a temporary organization that only existed until the account settlement of the previous year was finished, and the budget of the following year was decided at the plenary session. However, since 2000, it became a permanent special committee of 50 members. While the term of standing committee members, such as that of the Strategy and Finance Committee and the State Affairs Committee, is two years, the term of a Special Committee of Budget and Accounts member is limited to one year.

On the first day of the special committee meeting, the Minister of Strategy and Finance explains the budget proposal, where he covers its background, its emphasis points, the future direction of financial resource distribution, and the overall structure of the budget. This is followed by a review and briefing session by the head expert member of the National Assembly, where he presents an independent viewpoint. During this process, the expert member's office publishes an executive examination briefing report in order to aid the committee members in the evaluation process. The committee then carries out a comprehensive policy questioning session in the presence of the ministers and officers concerned, followed by a more thorough departmental evaluation process of the inner details of the budget with each of the economic and non-economic departments.

On the last day of the committee meeting, the committee forms the budget adjustment subcommittee comprised of about 10 people in order to adjust the figures of the budget. In the 2014 budget deliberation process, the subcommittee was comprised of 8 members from the ruling party, including the chairperson of the committee, and 7 members from the opposing party to a total of 15 members. The chairperson of the subcommittee position is customarily assumed by the chairperson of the Special Committee on Budget and Accounts, and the rest of the members are picked in proportion to the party make up of the committee. In order to take the government's opinions into consideration, the subcommittee is also attended by the deputy minister of the budget office at Ministry of Strategy and Finance, director generals in the budget office, and each department's officials.

The subcommittee then adjusts the budget taking into consideration the results from the preliminary evaluations of the budget by each standing committee, the comprehensive policy questioning session, as well as the departmental evaluations. The adjusted budget is then introduced and finalized in the general meeting of the Special Committee on Budget and Accounts.

<The Relationship between Standing Committees and the Special Committee on Budget & Accounts>

Deliberation by National Assembly is carried out in the following order: pre-evaluation of each standing committee, comprehensive review by the Special Committee on Budget and Accounts, plenary session deliberation, and approval. The Special Committee on Budget and Accounts is becoming the body in control of the virtual review process. The pre-evaluation by the standing committees is a preliminary step before the comprehensive review, but has no binding force. In order to make up for this, the National Assembly Act requires the Special Committee of Budget and Accounts to generally respect the results of the standing committee pre-evaluations and to receive approval of the standing committees when undoing their action of budget reduction.

*Source: National Finance of the Republic of Korea 2013, NABO

③ Plenary Session Vote

Budget proposal approved by the Special Committee on Budget and Accounts is introduced to the plenary session, goes through review and discussion and is approved as the budget of next fiscal year.

Article 57 of the Constitution restricts the National Assembly from increasing an existing budget item or from creating a new budget item. This is not only to emphasize the importance of soundness in national finance, but also to ensure checks and balance system between the administration and the National Assembly. Also, the Constitution requires the National Assembly to vote on the budget proposal by December 2, 30 days before the next fiscal year. This is because after the budget is finalized, about a month is required to prepare for the execution process which includes budget allocation, notice and conclusion of contracts, fund allocation, etc.

However, if the budget is not finalized before the commencement of the fiscal year, a provisional budget, which conforms to the budget of previous year, is prepared and put into effect in order to maintain and manage institutions established by law, and to carry out necessary expenditure tasks.

The budget proposal that has been resolved by the plenary session becomes the national budget of next fiscal year. Supplementary opinions can be proposed in addition to the official resolution during the process.

<Supplementary Opinion>

Supplementary opinion refers to the opinion that is added to the finalized budget. With the recent tightening of National Assembly's control of the administration in budgeting, cases of supplementary opinions have also increased in number. Statistics by the Special Committee on Budget and Accounts show that there were 12 supplementary opinions in 2011, 27 in 2012, and 33 in 2013 where as there were only 2 in 2001.

The supplementary opinions that were made so far usually take the following forms: Recommendations for the administration, specific requests made to the government, and suggestion of conditions on execution of certain budget items. Supplementary opinions are not legally binding, but the government abides by these in consideration of their actual effect during the budget deliberation and vote processes.

2. Budget Execution

Budget execution refers to all acts that carryout national revenue and expenditure. It's not only carrying out the intact budget approved by the National Assembly, but also various acts to counter the situation that were unexpected during the budgeting and its deliberation processes. It is necessary to allow certain flexibility to adapt to changing economic condition, while strictly adhering to the fiscal limits and the original intent of the legislative.

1 Budget Execution Process

Execution of the budget refers to fiscal activities such as obtaining revenue and spending public expenses during the fiscal year. It is carried out in the following order after the budget is finalized: budget allocation, budget re-allocation, expenditure-incurring acts, fund allocation, and fund execution. Head of the government agency submits to Ministry of Strategy and Finance the budget allocation request(prepared in accordance with the project management plan). Then, Ministry of Strategy and Finance uses this request as the basis to prepare the budget allocation plan and presents it at Cabinet meeting. The determined budget is then allocated to the head of a central government agency for it to be executed as planned and to be subsequently reallocated to subordinate organizations.

For an efficient management of the execution process, the National Finance Act regulates different types of budget allocation: early allocation before the commencement of the fiscal year, occasional allocation, and withholding of the budget allocation.

Early allocation of the budget is when the fiscal authority allocates the budget prior to the commencement of the fiscal year, allowing line ministries to swiftly implement expenditure-incurring acts, such as notice for contracts. These early allocation of the budget are limited to: expenses that are incurred abroad, expenses involved in the sailing of ships, expenses incurred in which traffic and communication are inconvenient, travel expenses, public work project costs which requires early disbursement due to a macroeconomic policy, and expenses for disaster recovery projects.

Occasional allocation of the budget allows an efficient control over the execution process. When necessary, the Ministry of Strategy and Finance may review an individual project plan, and allocate the budget according to its results, regardless of the quarterly budget allocation plan.

In addition, for a proper management of fiscal balance of revenue and expenditure, as well as an efficient control over the execution of budgetary activities, allocation of the budget may be withheld. The Ministry of Strategy and Finance may adjust the quarterly budget allocation plan, withhold the allocation of a budget, or take measures to withhold the execution of any budget allocated.

Once budget is allocated, the central or local governments may carryout their expenditure-incurring acts, which include public notice and conclusion of a contract. Although there are different types of expenditure-incurring acts, these acts generally take about 5 to 35 days for public listing of the project and to finalize the contract.

Budget allocation grants the authority to spend money, and fund allocation is the actual act of transferring into the bank the money to be spent. National Assembly Act requires the government agencies to request fund allocation seven days prior to actual fund allocation. The fiscal authority allocates the fund following the fund allocation plan, which is based on the requests of the government agencies.

2 Flexibility in Budget Execution

The National Finance Act prescribes the Principle of Independence of Fiscal Years, and prohibits the use of the budget for any purpose other than prescribed. However, the Act contains exceptional provisions to secure flexibility in budget execution in order to respond effectively to unexpected changes or to enhance the effectiveness of fiscal management.

Transferred use of the budget refers to transferring of budget between legislative budget items (chapter, section, or paragraph). Transferred use may be permitted with the approval of the Minister of Strategy and Finance or within the extent authorized by the Minister of Strategy and Finance, if it was approved as part of the budget in advance by the National Assembly.

Re-appropriation refers to the transferring of budget between administrative budget items (subparagraph or item). The head of each line ministry is required to receive the approval of the Minister of Strategy and Finance to re-appropriate an amount from any subparagraph or item, but in some exceptional cases, may re-appropriate at his/her discretion within the authorized limit set by the Minister of Strategy and Finance. In this case, consideration should be given to determine whether there are any project overlaps, whether the current situation is an emergency that is equivalent to a disaster or calamity, and whether funds are used to cover the expenses for the operation of agencies.

If the responsibility or authority of any line ministry changes as a consequence of enactment, amendment, or repeal of any Act concerning government organizations, etc., the Ministry of Strategy and Finance may make a transfer of the budget between ministries upon the request of the head of the relevant ministry. The ministry accepting these new responsibilities and authority as a result of the organizational shift shall request a budget transfer to the ministry handing over the responsibilities and authority.

In principle, any unspent expenditures of each fiscal year may not be carried over to the following fiscal year. The current National Finance Act allows specified carryovers and unplanned carryovers as an exception to the Principle of Independence of Fiscal Years. Specified carryovers refer to a system in which expenses can be carried over and spent in the following year with prior approval from the National Assembly. It must be clearly stated in the budget proposal that the expenses may be carried forward and used in the following fiscal year if it is expected that the expenses will not be used up within the fiscal year due to the nature of expense.

Unplanned carryovers refer to a system in which unspent expenses can be carried forward to the following fiscal year when an act of incurring expenditure took place in the current year but the actual disbursement has not been made during that year due to unavoidable circumstances (Article 48 of the National Finance Act). Meanwhile, to prevent budget waste as a result of unnecessary or unimportant budget execution at the end of a year, a certain amount of current outlays may be carried over for the operation and maintenance of agencies or facilities. With the amendment of the Enforcement Decree of the National Finance Act in 2009, the ceiling on the amount of carryovers has been expanded from 5% to 10 %. As carryover is an exceptional system, National Finance Act states that any expenses carried over cannot be spent for any other use but for the original intent and that unplanned carryovers cannot be carried over any further.

Continuing expenditure, an exception to the Principle of Annuality, is an expenditure on multi-year projects that may be disbursed over the course of a maximum of 5 years as approved in advance by the National Assembly. Such approval in advance enables stable disbursement of project budgets, preventing delay of projects or an increase in expenses. Multi-year projects are selected among long-term continuing projects through an overall consideration of priority, urgency and effectiveness, remaining period of the project, and size of project budget.

3 Flexibility in the Execution of Funds

Funds are established by law, when the government needs to manage a specific fund for a specific purpose in a flexible manner. As funds guarantee discretion and elasticity, they are executed in a more flexible way than the budget. Under National Finance Act, each fund managing entity shall, when it intends to revise the amount of expenditure within a main category of the fund management plan, consult with the Minister of Strategy and Finance to prepare a revised fund management plan. This plan is reviewed by the Cabinet and approved by the President, to be submitted to the National Assembly for approval. Like the budget, any revision of a main category within the fund management plan needs to be reviewed by the National Assembly.

However, the amount of expenditures in a main category may be revised without approval of the National Assembly, if the amount does not exceed a certain range. Each line ministry (each fund managing entity) consults with the Ministry of Strategy and Finance to revise its main category(chapter, section, and paragraph) expenditure plan for capital funds within 30% and up to 20% for other funds. If each fund managing entity revises an amount of expenditure in a main category beyond the prescribed extent, it shall go through the review and approval process by the National Assembly.

4 Reserve Funds

Reserve funds are spent to cover unpredicted expenditures or expenditure demands that exceed the budget. The current National Finance Act limits its size to be less than 1% of the total budget of the general account to be appropriated in the revenue and expenditure budgets (i.e., general reserve funds), but the reserve funds whose purpose for use is specified in accordance with budgetary general provisions (i.e., specified reserve funds) can be appropriated separately in the revenue and expenditure budgets.

General reserve funds are spent on new fiscal demands and unanticipated projects, while specified reserve funds are spent on disaster relief, compensation of foreign-exchange losses, and other specific purposes. However, personnel costs to cover pay raise for government employees may not be classified as a specified reserve fund.

To use reserve funds, each line ministry must make a request to the Ministry of Strategy and Finance. The Ministry of Strategy and Finance examines and revises the requests, which in turn are subject to review by the Cabinet and approval of the President. The line ministries are required to submit a statement on the use of reserve funds and receive the approval of the National Assembly in the following year.

3. Settlement of Accounts

Revenues and expenditures of the current year are executed based on the budget approved by the National Assembly. The results of budget execution, finalized by inspection of the Board of Audit and Inspection (BAI), and review of the National Assembly, are reflected in the budget preparation process for the following fiscal year. The settlement of accounts refers to a process in which the government compiles its actual revenues and expenditures of the current fiscal year and presents an statement of accounts to the Board of Audit and Inspection for an audit in order to scrutinize the legitimacy of budget execution. The audited statement of accounts is then submitted to the National Assembly for approval. The results of the account settlement is reflected onto the budget of the following fiscal year. In addition, if any illegal or unjust activity is found during the review process, the National Assembly is to request corrective actions such as compensation from or disciplinary of the corresponding agency after the plenary session vote. The government or the corresponding agency is to carryout the corrective action without delay and to report the results to the National Assembly. National Assembly may also request an inspection by the Board of Audit and Inspection on a specific issue.

The settlement process is as follows: Each year, each line ministry prepares its statement of accounts, composed of an overview, settlement of revenue and expenditure accounts, financial statement, and performance report, under the National Accounting Act. The National Finance Act requires these reports to be submitted to the Minister of Strategy and Finance before end of February of the following year. The Minister of Strategy and Finance compiles annual revenues and expenditures to prepare a national statement of accounts, sends it to the Cabinet and the President for review and approval, and submits the report to the BAI by April 10. The BAI must conduct an audit of the submitted statement and return the results to the Minister of Strategy and Finance by May 20. The government then submits this audited statement of accounts to the National Assembly by end of May.

Like the budget proposal, the national statement of accounts is submitted to the National Assembly and passes through the examination of standing committees and of the Special Committee on Budget and Accounts, and the vote of the National Assembly plenary session. The amendments made to National Finance Act and National Accounting Act now requires performance report from 2009 and on, and financial statements of 2011 and on to be included in the national statement of accounts. This has turned the National Assembly review on settlement of accounts into a performance-based review instead of a review based on execution results.

Surplus in Tax Accounts is defined by National Finance Act as the balance of the surplus in the settlement of the revenue and expenditure accounts for each fiscal year after deducting the amount carried over. Its use is prioritized for settlement of subsidies, as stated in National Finance Act. Leftover surplus in Tax Accounts shall be then used as contributions for Public Capital Redemption Fund, then for repayment of state bonds, and then carried over to the revenue for the following year.

Note 12 Accrual Basis and Double-Entry Bookkeeping

Objectives

Accrual basis accounting focuses on the changes made to the economic resources by recognizing earned economic resources as revenue, and consumed resources as expenses. Double-entry bookkeeping is an accounting method that records each transaction as both a credit and a debit in a ledger to measure changes in assets, liabilities, and net assets.

Background

The national accounting system remained on a cash basis and single-entry bookkeeping because the traditional accounting system clearly showed the results of budget execution and therefore played a key role in controlling the national budget. However, since the mid-1990s, the increasing autonomy in budget execution, the sudden increase in fiscal demand and other rapid changes in fiscal environment made it apparent that a new advanced fiscal management system was needed to examine fiscal soundness and to evaluate performance. In 2009, the accounting methods of the private sector, accrual basis and double-entry bookkeeping, were adopted for a comprehensive and systematic fiscal management and to enhance transparency and credibility of the national finance. As a result, all accounting entities belonging to the state have been required to be prepare the financial statements using the accrual basis and double-entry bookkeeping methods. These statements have been required to be submitted to the National Assembly since settlement of fiscal year 2011.

Main Points

① Financial Statements

Financial statements are prepared for all general accounts, special accounts, and funds in accordance with the National Finance Act so that accounting treatment for all accounting entities of the State (national accounting entities) can be performed consistently under the same principles and criteria. Financial statements are made up of financial condition statement (i.e., balance sheet), financial operation statement (i.e., income statement), statement of changes in net asset and annotations.

The financial condition statement shows fiscal positions such as details of assets and debts and the relationship between the two. The financial operation statement shows the results of the fiscal management such as the unit cost of the policy or project executed during the fiscal year, and cost recollection details of a project while the statement of changes in net asset shows the changes in net asset during the fiscal year. The annotations includes any additional financial information, including the selected accounting policies, that may help further understanding of the reader. Other documents attached to the financial statement are required supplementary information, which includes information necessary to clarify and to supplement the financial statement; and supplementary schedules, which clarifies a specific accounting item in the financial statement.

② Statement of Accounts

By end of February, each central government agency prepares and submits a statement of accounts that includes the general account, special accounts and funds to the Minister of Strategy and Finance. A fund-managing entity that is not a central government agency prepares and submits a statement of accounts of funds to the agency to which the entity belongs. The Ministry of Strategy and Finance combines these statements to prepare the annual national statement of accounts. This statement is then inspected by the Board of Audit and Inspection, and reviewed by the cabinet, before it is submitted to the National Assembly by end of May. Statement of accounts is made up of an outline of account settlements, settlement of budget revenue and expenditure, financial statements, and performance reports.

<Structure of the Statement of Accounts>

Statement of Accounts

I. Outline of account settlement	II. Settlement of budget revenue & expenditures	III. Financial statements	IV. Performance reports
▪General status ▪Settlement of budget revenues and expenditures analysis ▪Financial statements analysis ▪Report on performance	▪Settlement of budget revenues and expenditures ▪Settlement of income and expense	▪Financial statements ▪Notes ▪Required supplemental information ▪Supplementary schedules ▪Supplementary documents	▪General status ▪Strategic objectives ▪Policy management directions ▪Report on performance

Results

With the accrual basis and double-entry bookkeeping adopted into public finance, comprehensive understanding and management of public finance has become easier; the foundation is provided for a performance-based fiscal management through the calculation of costs by project; and transparent and quality information of public finance is offered through standardized financial statements.

Note 13 Digital Budget and Accounting System

Objectives

The d-Brain System was initiated in January 2007 after 3 years of preparatory period as an integrated national fiscal information system that supports the on-line processing of the entire fiscal activities of the central government, such as budgeting, budget execution, settlement of accounts and performance management. It integrates and manages the generated information based on the program budgeting system, the accrual basis and double-entry bookkeeping.

Background

On the basis of the general account, the national finance has grown 3,200 times from 45.9 billion won in 1961, when the Budget and Accounting Act was enacted, to 147 trillion won in 2006. This is an astronomical growth when also considering the size of funds and special accounts.

As public finance has dramatically expanded and its activities have become complicated, the fiscal information system at the time made it difficult for the fiscal authority to properly understand the current state of public finance management, to set directions for future fiscal management, or to obtain necessary statistics and information.

In addition, a new system was necessary to overcome the limitations of the conventional fiscal information system in supporting fiscal systemic reforms including establishment of NFMP, performance management system for fiscal projects, and the top-down budgeting.

Main Points

Budgeting, execution and settlement of accounts are processed by this single system that integrates relevant systems such as budgeting, execution and settlement systems. Transparent and fast decision making is made possible through electronic approval within this system. Furthermore, the entire process from initiation to completion of all fiscal projects is recorded in the system. As a result, the current state of fiscal projects such as the results of execution and performance is clearly displayed and the effect of introducing a program budgeting system focused on projects is maximized.

In addition, d-Brain system makes real-time fiscal management possible. For example, as for transactions accompanied by the execution of fiscal funds, journal entries are automatically created according to the accrual basis and double-entry bookkeeping and costs for each program are calculated.

Thanks to the connection of information offered by tax collection institutes, such as the National Tax Service and the Korea Customs Service, and the traditional fiscal system of the public sector, such as local fiscal systems and those of public institutions, fiscal information of the entire public sector, including the central government, local governments, affiliated organizations, and state-owned enterprises (SOEs), is transparently managed. In addition, the national finance is clearly displayed and comprehensively managed by the d-Brain system.

Results

The system has contributed to the efficiency of work and ease of information management because work related to public finance is processed in a single system. Due to the integration and use of diverse fiscal information, the fiscal authority became able to more effectively implement fiscal policies by improving abilities to evaluate, analyze, and forecast fiscal activities.

The National Assembly also became able to conduct deliberation on the budget and settlement more efficiently, while the public also became able to have greater opportunities of monitoring and participation in public finance. The d-Brain system has also significantly contributed to the convenience of the public through improvement in the process of paying taxes or receiving fees.

Part 3

The 2014 Budget

Part 3. The 2014 Budget

1. Economic and Fiscal Conditions of 2014

1 Economic Conditions

Internationally, a gradual recovery of the world economy is expected along with the economic recovery in advanced nations such as the US. However, uncertainty also exists with the Quantitative Easing tapering in the US, growth slowdown in rising nations, and Abenomics in Japan.

< Global Economic Growth Outlook(IMF, Jan 2014), % >

	World	Advanced Economies	US	Euro	Japan	Emerging Market Economies	China	India
2013	3.0	1.3	1.9	△0.4	1.7	4.7	7.7	4.4
2014	3.7	2.2	2.8	1.0	1.7	5.1	7.5	5.4

Domestic growth rate in 2013 is anticipated to be 2.8% and in 2014 around 3.9%. Although major economic indicators such as growth and employment rates seem to be rebounding, recovery of the actual economic sentiment of small and medium enterprises and common citizens is slow due to the accumulated low domestic demand and delay in normalization of the real estate market. There is also other potential risk factors such as the possibility of increasing variability in the foreign exchange market, and household debts. In order to solidify growth, continuous efforts must be made to vitalize the economy by creating more jobs, activating investment, and maintaining an appropriate level of expenditure.

2 Fiscal Conditions

Due to the recent economic slowdown, tax revenue will continue to suffer from instability in 2014. It will also be difficult to secure the expected amount of non-tax revenue because of the changes in sales plans of the government-owned stocks. The total revenue for 2014 is expected to be less than that of this year(based on the numbers in the 2013 budget).

On the other hand, spending is on a continual increasing trend due to many reasons such as the increasing demand for welfare, and expansion of the potential for growth. Mandatory spending, such as the 4 major pensions, is also increasing as well. In order to stimulate domestic demand and export, to come up with future industries, to increase financial support for local governments through conversion rate for local consumption tax and through childcare support.

With the uniqueness of the Korea's small open economy and its relations with the North Korea, fiscal soundness is the ultimate safety valve. This is why the national budget will focus on doing 'what is necessary' while expanding fiscal capacity for the medium to long-term to be prepared for potential risks. A budget that appropriately balances between maintaining fiscal soundness and properly countering the changing economic environments is to be made deliberately.

2. The 2014 Budget Overview

1 Fiscal Aggregates

Despite the difficulty in tax collection, the 2014 budget will focus on properly countering the economy without jeopardizing the basis for fiscal soundness.

Total revenues for 2014 are expected to be 369.3 trillion won, which is down by 0.9 percent from the 2013 main budget and up by 2.4 percent from the 2013 supplementary budget. In effect of the recent economic slowdown, the tax revenue has increased only 0.1 trillion won, compared to the 2013 main budget. Non-tax revenue, in contrast, has decreased from 36.9 of the 2013 main budget to 27.2 trillion won, because of the changes in plans for government-owned stocks and realization of the revenue estimation.

Total expenditures for 2014 stand at 355.8 trillion won, which is a 4.0 percent increase from the 2013 main budget and 2.0 percent increase from the 2013 supplementary budget. Instead of largely reducing increase rate of fiscal spendings in consequence of the reduction in revenue, an appropriate level of spending will be maintained in order to stimulate the economy.

Fiscal balance, however, will be maintained at the same level as the 2013 supplementary budget, at △1.8% to GDP, to support economic recovery by increasing the total spending of 2014.

<Comparison of the Budgets: 2013 and 2014>

(trillion won, %)

	2013 Budget				2014 Budget	Ratio to 2013	
	Main Budget	*Increase Rate*	Supplementary Budget(SB)	*Increase Rate*		*Main Budget*	*SB*
Total Revenue	**372.6**	***8.5***	**360.8**	***5.0***	**369.3**	***△0.9***	***2.4***
▪ Budget	253.3	*8.2*	241.5	*3.2*	243.7	*△3.8*	*0.9*
(Tax)	216.4	*5.2*	210.4	*2.3*	216.5	-	*2.9*
▪ Fund	119.3	*8.9*	119.3	*8.9*	125.6	*5.3*	*5.3*
Total Spending	**342.0**	***5.1***	**349.0**	***7.2***	**355.8**	***4.0***	***2.0***
▪ Budget	243.6	*6.8*	247.6	*8.5*	250.8	*2.9*	*1.3*
▪ Fund	98.3	*1.0*	101.4	*4.2*	105.0	*6.8*	*3.6*

Government debt of 2014 is expected to increase a little compared to the 2013 supplementary budget, due to cumulative poor tax revenue.

* Ratio of National Debt of major countries (Based on 2012 data, %): OECD average 108.8; U.S. 106.3; Japan 219.1; Germany 89.2; UK 103.9

<Fiscal Soundness of 2013 and 2014>

(trillion won, %)

	2013		**2014 Budget**
	Main Budget	**Supplementary Budget**	
Operational Budget Balance*	△4.7	△23.4	△25.5
(ratio to GDP)	(△0.4)	(△1.8)	(△1.8)
※ Consolidated fiscal balance	30.6	11.8	13.5
(ratio to GDP)	(2.3)	(0.9)	(1.0)
Government Debt	464.6	480.3	514.8
(ratio to GDP)	(35.0)	(36.2)	(36.4)

* Consolidated fiscal balance minus the surplus of Social Guarantee Funds (National, Private School, Employment, Worker's Compensation)

Fiscal soundness will be recovered through medium to long-term measures: increase in tax revenue through growth recovery, and downward adjustments on the increase rate of spending. Both an overall spending cut and legalization of the black economy are to be implemented. By strengthening the fiscal rules, and improving the management of fiscal risks, the government will improve its fiscal balance to a balanced level of △0.4% step by step by 2017. Government debt will also be stabilized at mid 30% (35.6% by 2017).

2 Main Points of the 2014 Budget

1 Economic Vitalization, Potential Growth, and Job Creation

- Recovery of the real economy through investment and export stimulation, and preparation of the future industries by developing new markets in art, culture, and medical industries
- Stimulation of the local economy through expansion of local finance, and investments in local SOC
- Job creation through customized employment support, improvement of the working conditions and employee-oriented job training

2 Stability and Quality of Life

- Alleviation of the burdens of life in not only the vulnerable social groups, but also the ordinary citizens, through customized welfare support
- Prevention of welfare budget waste by reforming its delivery system
- Increased support for arts and enjoyment of cultural activities

3 National Safety and Reliable Government

- Protection from the 4 major social crimes(sex crimes, domestic violence, school violence, junk food), natural disasters, harmful substances and other dangers of life
- Realization of a reliable government through the Government 3.0 project, and by strengthening diplomacy and national security.

4 Communication with Citizens and within Government Sectors

- Correct management of the national finance by revising wasteful budget projects and by combining similar or redundant projects
- Improvement in communications between the people and the government, and within the government agencies
- Government administration from the people's perspectives

Economic Vitalization & Job-centered Budget

Happiness of the People	Faith in the Government
▪ Revitalization of the economy ▪ Growth-leading welfare system	▪ National agenda support ▪ Execution of local pledges

Economic Recovery & Growth	▪Investment stimulation and customized support for export ▪Activate local economy by expanding local finance and by investing in local SOC projects ▪Foster basis for creative economy and future industries
Job Creation	▪Customized employment support ▪Improvement in the working conditions and the mismatch between employers and employees ▪"On-the-job" training that teaches actual skills needed for the job
Stability & Quality of Life	▪Customized welfare support for the ordinary people, and vulnerable social groups ▪Financial independence of the people through linkage between employment with welfare ▪Expansion of welfare for artists and promotion of cultural activities ▪Improved delivery process of welfare
Safety and Security	▪Protection from the 4 major social crimes and other dangers of life ▪Basis for peaceful reunification ▪Improvement in national security and diplomacy ▪Government 3.0 Project

Fiscal Soundness	Fiscal Management
▪Fiscal Management with Right Principles ▪Prevention of Budget Waste ▪Expansion of Tax Base	▪Fiscal Management from the People's Perspectives ▪Improvement in Communication with the People and within the Government

3 Resource Allocation by Sectors

■Investments in welfare, education, and cultural activities sectors will be focused on improving the quality of the people's life and spending efficiency.

■Size of the SOC and industry investments will be determined in consideration of the economic conditions and of the previous investments, while activation of investment in the private sector and increased policy funds are to increase the actual size of investment.

(trillion won, %)

Sectors	2013		2014 Budget	Increase Rate
	Main Budget	Suppl'ary Budget		
◇ **Total Spending**	**342.0**	**349.0**	**355.8**	***4.0***
Health/Welfare/Employment	97.4	99.3	106.4	*9.3*
※ *Job Creation*	*11.0*	*11.2*	*11.8*	*7.8*
Education	49.8	49.9	50.7	*1.9*
(Excludes Education Grants)	(8.7)	(8.8)	(9.8)	*(12.9)*
Culture/Sports/Tourism	5.0	5.1	5.4	*7.7*
Environment	6.3	6.5	6.5	*2.5*
R&D	16.9	17.1	17.7	*5.1*
Industries/SMEs/Energy	15.5	16.7	15.4	*Δ0.9*
(SMEs)	(6.6)	(7.9)	(7.0)	*(5.9)*
SOC	24.3	25.0	23.7	*Δ2.5*
Agriculture/Forestry/Fishery/Food	18.4	18.9	18.7	*2.0*
National Defense	34.3	34.5	35.7	*4.0*
Foreign Affairs/Nat'l Unification	4.1	4.1	4.2	*2.3*
Public Order & Safety	15.0	15.2	15.8	*5.1*
General Public Administration	55.8	56.2	57.2	*2.6*

3. 5 Major Projects

1 Economic Recovery & Potential Growth

- □ Expansion of investment and export support
- □ Economic recovery through activation of local economy
- □ Investment to discover new future industries

Investment and Export

- ▪13 trillion won increase in support for SME's and small businesses
- ▪10.2 trillion won increase for export financing
- ▪1.1 trillion won of investment in new growth industry

- ▪Refurbishment of obsolete industrial complex and expansion of facilities for community and cultural activities
- ▪Increase in direct investment fund support for foreign investment companies

- ▪Customized support for export-promising businesses
- ▪Bridgehead for SME's advancement into the international market
- ▪Support for foreign expansion of food, agriculture, fisheries, construction and industrial plant sectors.

Local Economy

- ▪6%p increase in conversion rate for local consumption tax (5→11%)
- ▪15%p increase in state support for childcare benefits

- ▪Support for the regional key industries and the nurturing of regional talents

- ▪Prioritized investments in projects that will stimulate local economy
- ▪Phased support for long-desired local projects

Future Growth

- ▪Increase in support for personal startup businesses
- ▪Support for industrialization of creative ideas and promising technologies

- ▪Support for MICE, medical, and cruise tourism industries
- ▪6th industrialization through increase in value of agriculture and fisheries

- ▪Improvement in quality of research and education
- ▪Expansion of specialized colleges and entrepreneurship-leading colleges

2 Job Creation

- □ Improve employment rate with customized employment support
- □ Implement employment reform in working conditions
- □ Expansion of employee-oriented job training

Customized Employment Support

Youth	▪Study-work programs for students ▪Employment mentor programs
Women	▪At-work childcare services ▪Employment of mothers with career gaps
Middle aged	▪Retirement postponement fund ▪Employment academy for middle aged
Seniors	▪Jobs to utilize senior workforce ▪"Grandma's Story Time" program

Employment Reform

▪Selectable part-time work program
(Allows shorter and flexible working hours for mothers)
▪Consulting programs for improving working conditions and structure
▪Reform of the shift work system by funding labor and investment costs
▪Flexible working styles such as Smart Work Centers, etc.
▪Employee facilities(i.e., recreational areas) for SME's
▪An integrated website for employment information: "Work-net"

Job Training

▪"On-the-job" training tailored to the specific field and industry
▪Support for small and medium enterprises in training employees in the field
▪More support for public institutions for job training

Public Sector Jobs

▪Larger public workforce
(police, teachers, fire fighters, and social welfare workers)
▪Fiscally-supported employment centered around social service

3 Stability and Quality of Citizen's Lives

- □ Welfare spending of over 100 trillion won for the first time
- □ Stable life for the ordinary people and the vulnerable social groups with customized welfare programs and reform of its delivery system
- □ Expansion of support for culture and arts activities

Customized Welfare Programs

Infants	▪Health care for pregnant mothers and newborns ▪Completely free mandatory vaccinations ▪Public childcare institutions
Students	▪Increase in local after-school care programs ▪Expansion of national scholarship program ▪Tuition support for the third child of the family
Middle-aged	▪Reduction in medical cost for 4 major illnesses ▪Introduction of housing vouchers ▪Increased funding for purchasing and renting a house
Seniors	▪Basic pension plan ▪Expansion of the long-term care insurance program ▪Expansion of the senior care services

Link between Work and Welfare

- ▪Expansion of the rehabilitation project for the low income class
- ▪Asset building funding for 10,000 lower income class
- ▪30,000 additional "Successful Employment Packages"
- ▪Lower qualifications for national pension and employment insurance

Welfare Delivery System

- ▪Efficiency in delivery of welfare with 1,177 additional public officials for public welfare
- ▪Development of delivery system tailored to the specific area
- ▪Utilization of private welfare resources via Private Public Partnership
- ▪A system to manage expiration dates of donated food

Artists and Cultural Activities

- ▪Social insurance support for artists
- ▪Improvement in art and cultural support system
- ▪Integrated ticket for cultural activities for vulnerable social groups
- ▪Availability of public lectures and enjoyment of the humanities

Major Welfare Benefits by Recipients

(unit: in thousand wons)

Recipients/ Program	2013		2014	Note
Children:				
Vaccination	350/year (for a child of age 0)	⇒	Zero out-of-pocket	△350/year
Institutionalized Childcare	2,640 ~ 9,060/year/person			Stable free childcare by easing the burden of local governments
At-home Childcare	1,200 ~ 2,400/year/person			
College Students:				
3rd Child of the Family	-	⇒	4,500/year	From 1st year in College
Tuition Support	675 ~ 4,500/year	⇒	675 ~ 4,500/year	+225 ~ +1,800/year (Annual income of 70,000 or below)
Patients:				
4 Severe Illness	940/year Out-of-pocket	⇒	Maximum 340/year Out-of-pocket *At completion of the system reform in 2016	△600/year (reduction in medical expenses)
Implant	1,500~3,000/each Out-of-pocket	⇒	750~1,500/each Out-of-pocket	△750~△1,500/each (75 or older)
Out-of-pocket Cap	2,000~3,000 Out-of-pocket	⇒	1,200~2,500 Out-of-pocket	△500 ~ △800/year (Annual income of 38,000 or below)
Others:				
Housing Voucher	960/year (Housing Allowance)	⇒	1,300/year (Housing Voucher)	+340/year (from Oct, 2014)
Soldier Pay	1,400/year	⇒	1,620/year	+220/year (At corporal standards)
Basic Pension	1,200/year	⇒	Maximum of 2,400/year	Maximum +1,200/year (65 or older, Bottom 70% Income)
Disabled Pension	1,200/year	⇒	2,400/year	+1,200/year (Severely handicapped, Bottom 70% Income)

4 Safety of Citizens and Reliable Government

- □ Protection from 4 major social crimes and harmful substances
- □ Reliable government with improved diplomacy and with the Government 3.0 project

Safety against Dangers of Life

- ▪Support for victims of sex/domestic crimes
- ▪Foster a safe environment at school and personality education
- ▪Investment increase to control safety of food

- ▪Support for removal of waste slate roofs in farming and fishing regions
- ▪Improvement of old train facilities and strengthen aviation safety

National Security, Diplomacy & Peaceful Reunification

- ▪Securement of core military strength to fortify defense readiness
- ▪15% salary increase for soldiers to improve conditions in service
- ▪Reinforcement of Logistics supportability for strong combat power

- ▪Improvement in diplomacy via increased ODA support (2.1 to 2.3 trillion won)
- ▪DMZ World Peace Park as a basis for peaceful reunification of the nation

Government 3.0 Project

- ▪Publication of more open data (from 3,112 to 5,707)
- ▪Publication of more original documents (from 800,000 to 1,200,000)

- ▪Integrated service system for civil complaints information
- ▪Integrated system for payment of utility bills

5 Fiscal Soundness and Fiscal Management

□ Prevent wastage of the Budget by combining similar or redundant projects, and by modify conventional leakage of projects

□ Communication with the people and among the government agencies

Fiscal Management with Right Principles

▪Improve management of electricity demand (from subsidy programs to regulation system)

▪Improve welfare delivery method to prevent leakage and blind spots

▪Tighter regulations on attracting international events

▪Transfer the control R&D/ICT projects that involve multiple government agencies to one agency or combine projects

▪Structural reform of the social welfare projects

▪Government subsidy and loans are excluded from tax deduction

▪Pursue comprehensive performance evaluation of tax expenditure and budget projects

Public Sector

▪Pay freeze for high-rank public officials

▪Reduction in operating expenses and travel expenses of public officials

Strengthen Cooperation

▪A public idea contest for public finances for tighter relationship between the government and the people

▪In-depth interviews of the recipients of policy benefits

▪Meetings with local government and field visit

▪Open discussions for citizens for the National Fiscal Management Plan

▪Better cooperation between government agencies through modification of the R&D/ICT budget and creation of collaborating organizations

▪Opinion collection of structural reforms in collaboration projects

Appendix

National Finance Act

NATIONAL FINANCE ACT

CHAPTER I GENERAL PROVISIONS

Article 1 (Purpose) The purpose of this Act is to provide for the matters concerning national finance, including the management of the State's budget, funds, settlement of accounts, and performance along with the State's obligations, with the aim of establishing the framework for efficient, performance-focused and transparent financial management and sound fiscal operations.

Article 2 (Fiscal Year) The State's fiscal year commences on January 1 of each year, and ends on December 31 of each year.

Article 3 (Principle of Independence of Fiscal Years) The expenses for each fiscal year shall be covered by the revenue or income generated during the corresponding year.

Article 4 (Classification of Accounts) (1) The State's accounts shall be classified as general accounts and special accounts. (2) General accounts shall be established for appropriating major revenues, including tax revenues, to the State's general expenditures. (3) A special account shall be established only by an Act when the State plans to operate a specific project, when it plans to hold a specific fund for management, when there is a need to manage an account of certain revenue separately from general accounts to appropriate such revenue to certain expenditure: *Provided*, That no special account may be established, except as authorized by any of the Acts specified in attached Table 1.

Article 5 (Establishment of Funds) (1) A fund may be established by an authority granted by an Act, only when the State needs to manage a specific fund for a specific purpose, in a flexible manner: *Provided*, That no fund may be established with financial resources raised by the Government's contribution or the private sector's contribution or charges received pursuant to an Act, unless there is due authorization by any of the Acts specified in attached Table 2. (2) Any fund established pursuant to paragraph (1) may be operated independently of the revenue and expenditure budgets.

Article 6 (Independent Government Bodies and Central Government Agencies) (1) The term "independent government body" in this Act means the National Assembly, the Supreme Court, the Constitutional Court, and the National Election Commission. (2) The term "central government agency" in this Act means any central administrative agency established pursuant to the Constitution of the Republic of Korea, the Government Organization Act, or any other Act. (3) The Secretary General of the National Assembly, the Minister of Court Administration, the Secretary General of the Constitutional Court, or the Secretary General of the National Election Commission shall be deemed the head of a central government agency for the purposes of applying this Act.

Article 7 (Establishment of National Financial Management Plan, etc.) (1) The Government shall establish a financial management plan for the period covering at least five fiscal years following each fiscal year (hereinafter referred to as "national financial management plan") for promoting efficiency and soundness in financial management, and shall submit it to the National Assembly by no later than 90 days before the beginning of a new fiscal year.

(2) National financial management plans shall include the following matters: *<Amended by Act No. 10288, May 17, 2010>* 1. Basic direction and goals of financial management;

2. Long- and medium-term financial forecasts; 3. Plan for allocation of resources for each area and direction of investment; 4. Rate of increase in scale of finances and grounds therefor; 4-2. Rate of increase

in mandatory expenditure (referring to legal expenditure and interest expenditure, the obligation of which arises according to Acts, and the scale of expenditure of which is decided according to Acts and subordinate statutes, among Treasury expenditures and the scope thereof shall be prescribed by Presidential Decree) and its details of computation; 4-3. Forecast and ground, for each area, of the rate of increase in discretionary expenditure (referring to expenditure excluding mandatory expenditure from Treasury expenditure) and management plan thereof; 4-4. Rate of increase in Treasury revenue, such as revenue, non-tax revenue or fund revenue, and grounds therefor; 5. Forecasted tax burden ratio and per-capita burden ratio; 6. Forecast and ground for consolidated fiscal balance of revenues and management plan thereof; 7. Deleted; *<by Act No. 10288, May 17, 2010>* 8. Other matters prescribed by Presidential Decree.

(3) A national financial management plan submitted to the National Assembly pursuant to paragraph (1) shall be accompanied by the following documents: *<Newly Inserted by Act No. 10288, May 17, 2010>* 1. An evaluation and analysis report on changes in the national financial management plan compared to that established in the previous year, reasons behind the changes, and management plan, etc.; 2. A medium- and long-term fund financial management plan under Article 73-3. 3. A State obligation management plan under Article 91.

(4) The Minister of Strategy and Finance may request the head of relevant State agency or public organization to submit data concerning forecasts for long- and medium-term macro domestic or overseas economy and financial forecasts, or consult on such matters with the head of relevant State agency or public organization, whenever necessary for establishing a national financial management plan. *<Amended by Act No. 8852, Feb. 29, 2008>*

(5) The Minister of Strategy and Finance shall consult with the head of the relevant central government agency, when he/she prepares a national financial management plan. *<Amended by Act No. 8852, Feb. 29, 2008>*

(6) Necessary matters concerning preparation of national financial management plans, in addition to the matters specified in paragraphs (1) through (5), shall be prescribed by Presidential Decree. *<Amended by Act No. 10288, May 17, 2010>*

(7) When the revised budget Bill under Article 35 and the supplementary revised budget Bill under Article 89 are submitted, the Minister of Strategy and Finance shall report to the National Assembly their effects on the total amount of finances of the national financial management plan, including fiscal balance of revenues and State obligations, and the measures to manage them. *<Newly Inserted by Act No. 10288, May 17, 2010>*

(8) Before submitting the national financial management plan to the National Assembly, the Minister of Strategy and Finance shall report to the competent Standing Committee of the National Assembly the direction of establishment, such as the size of finances, fiscal balance of revenues, and allocation of resources. *<Newly Inserted by Act No. 10288, May 17, 2010>*

(9) The head of each central government agency shall consult with the Minister of Strategy and Finance in advance, whenever he/she prepares a long- and medium-term plan that entails Treasury expenditures. *<Amended by Act No. 8852, Feb. 29, 2008>*

(10) The head of each local government shall consult in advance with the head of the relevant central government agency, when he/she prepares a plan for a project equivalent to or exceeding the scale prescribed by Presidential Decree to be executed with national financial funding. In such cases, the head of the central government agency shall consult with the Minister of Strategy and Finance. *<Amended by Act*

No. 8852, Feb. 29, 2008>

Article 8 (Performance-Focused Financial Management) (1) The head of each central government agency and each person responsible for management and investment of a fund under a relevant Act (excluding persons to whom affairs of management and investment of a fund have been entrusted; hereinafter referred to as "fund managing entity") shall establish a system for performance management pertaining to fiscal activities.

(2) The head of each central government agency shall, when submitting a budget request pursuant to Article 31 (1), also submit to the Minister of Strategy and Finance the performance plan pertaining to the budget for the following year, with the performance report on the budget (referring to the performance report under subparagraph 4 of Article 14 of the National Accounting Act hereafter the same shall apply in this Article) for the preceding year, while the fund managing entity shall, when submitting the draft fund management plan pursuant to Article 66 (5), also submit to the Minister of Strategy and Finance the performance plan pertaining to the fund for the following year, with the performance report on the fund for the preceding year. *<Amended by Act No. 8852, Feb. 29, 2008; Act No. 9278, Dec. 31, 2008>*

(3) The head of each central government agency and each fund managing entity shall prepare performance reports on the budget and fund, as prescribed by the National Accounting Act. *<Amended by Act No. 9278, Dec. 31, 2008>*

(4) Deleted. *<by Act No. 9278, Dec. 31, 2008>*

(5) The Minister of Strategy and Finance shall prepare guidelines concerning the performance plan, etc. under paragraph (2) and then notify the head of each central government agency and each fund managing entity thereof, respectively. *<Amended by Act No. 8852, Feb. 29, 2008; Act No. 9278, Dec. 31, 2008>*

(6) The Minister of Strategy and Finance may, as prescribed by Presidential Decree, conduct an evaluation of major fiscal projects and reflect the results therefrom in financial management. *<Amended by Act No. 8852, Feb. 29, 2008>*

(7) The Minister of Strategy and Finance may entrust specialized survey, research, etc. with a competent specialized institution, etc. in connection with the evaluation under the provisions of paragraph (6), if such survey, research, etc. is necessary. *<Amended by Act No. 8852, Feb. 29, 2008>*

(8) The Minister of Strategy and Finance may request the head of the relevant administrative agency, etc. to submit an opinion or data pertaining to the evaluation, if considered necessary for conducting the evaluation under paragraph (6). In such cases, the head of the relevant administrative agency, etc. shall comply with such request, unless any extraordinary circumstances exist otherwise. *<Amended by Act No. 8852, Feb. 29, 2008>*

(9) Effort shall be made so that budget Bills under Article 33, revised budget Bills under Article 35, draft fund management plans under Article 68 (1), draft revised fund management plan under Article 70 (2), supplementary revised budget Bills under Article 89 (1) and performance plans formulated thereunder, shall be consistent with each other in terms of project details, project costs, etc. *<Newly Inserted by Act No. 9712, May 27, 2009>*

Article 9 (Publication of Fiscal Information) (1) The Government shall publish important matters pertaining to the budget, funds, settlement of accounts, State bonds, loan funds borrowed, present value of the State-owned assets, consolidated fiscal balance, and other important matters prescribed by Presidential Decree concerning finances of the State and local governments, by appropriate means, including information communication media and printed materials, at least once a year transparently and in a manner easy to understand.

(2) The Minister of Strategy and Finance may request the head of each central government agency to submit data necessary for publication of the fiscal information under paragraph (1). *<Amended by Act No. 8852, Feb. 29, 2008>*

Article 9-2 (Submission of Data related to Finances) The Minister of Strategy and Finance shall submit each year the following documents to the National Assembly by no later than 90 days before the beginning of the pertinent fiscal year:

1. State guarantee obligation management plan under Article 92
2. Medium- and long-term financial management plan under Article 39-2 of the Act on the Management of Public Institutions
3. Estimation of government disbursement for build-transfer-lease projects under Article 24-2 of the Act on Public-Private Partnerships in Infrastructure. *[This Article Newly Inserted by Act No. 10288, May 17, 2010]*

Article 10 (Gathering of Opinions about Financial Management) (1) The Minister of Strategy and Finance shall operate an Advisory Council on Fiscal Policy (hereinafter referred to as the "Advisory Council") comprised of public officials from each central government agency and local government as well as civilian experts, etc. to gather their opinions about financial management. *<Amended by Act No. 8852, Feb. 29, 2008; Act No. 9278, Dec. 31, 2008>*

(2) The Minister of Strategy and Finance shall, whenever preparing a national financial management plan, formulating a budget Bill for each fiscal year, or preparing a draft fund management plan, conduct in advance the process of gathering opinions from the Advisory Council. *<Amended by Act No. 8852, Feb. 29, 2008; Act No. 9278, Dec. 31, 2008>*

(3) Necessary matters concerning organization, functions, management, etc. of the Advisory Council shall be prescribed by Presidential Decree. *<Amended by Act No. 9278, Dec. 31, 2008>*

Article 11 (Allotted Control of Administrative Affairs) (1) Administrative affairs concerning budget, settlement of accounts and funds shall be controlled by the Minister of Strategy and Finance. *<Amended by Act No. 8852, Feb. 29, 2008>*

(2) The head of each central government agency shall, whenever he/she seeks enactment of, amendment to, or repeal of legislation related to the administrative affairs under the provisions of paragraph (1) or intends to have a matter pertaining to the administrative affairs under the provisions of paragraph (1) prescribed by another legislation, consult with the Minister of Strategy and Finance. *<Amended by Act No. 8852, Feb. 29, 2008>*

Article 12 (Contributions) The State may grant contributions to a pertinent institution, if it has been empowered by legislation to do so, in order to accomplish a specific objective, including conducting national research and development projects and managing an institution that serves for public benefit purposes.

Article 13 (Transfer of Surplus Financial Resources between Accounts and Funds) (1) Notwithstanding any provisions in any other Act, the Government may, if necessary for efficient management of national finance, make the best comprehensive use of surplus financial resources by transferring the resources between an account and a fund or between accounts or funds to the extent this does not interfere with execution of the intended purpose of such account and fund: *Provided*, That the foregoing shall not apply to the following special accounts and funds: *<Amended by Act No. 9016, Mar. 28, 2008>*

1. A special account for post office insurance;
2. The national pension fund;
3. The pension fund for public officials;
4. The pension fund for teaching staff of private schools;

5. The veterans' pension fund;
6. The employment insurance fund;
7. The industrial accident compensation insurance and prevention fund;
8. The fund for guarantee of wage claims;
9. The radioactive wastes control fund;
10. Other special accounts and funds prescribed by Presidential Decree among the special accounts and funds with loans, charges under Article 2 of the Framework Act on the Management of Charges as major financial sources.

(2) The Minister of Strategy and Finance shall, whenever he/she intends to make a transfer in accordance with the provisions of paragraph (1), consult with the head of the central government agency and the fund managing entity concerned, and shall reflect the results thereof in the budget Bill or the draft fund management plan. *<Amended by Act No. 8852, Feb. 29, 2008>*

Article 14 (Examination of Establishment of Special Accounts and Funds) (1) The head of a central government agency, who intends to establish a new special account or fund in connection with his/her assigned administrative affairs, shall submit to the Minister of Strategy and Finance a plan for establishment of such special account or fund (hereafter referred to as "plan" in this Article) before making the prior announcement of legislation for the Bill of the pertinent Act, and shall request the Minister to examine the feasibility of such establishment. *<Amended by Act No. 8852, Feb. 29, 2008>*

(2) The Minister of Strategy and Finance shall, upon receiving the request for examination under the provisions of paragraph (1), examine whether the fund meets the guidelines under subparagraphs 1 through 4 below or whether the special account meets the guidelines under subparagraphs 4 and 5 below. In such cases, the Minister shall seek advice from the Advisory Council in advance: *<Amended by Act No. 8852, Feb. 29, 2008; Act No. 9278, Dec. 31, 2008>* 1. The financial resources of the fund, including charges, are required to have a close connection with the purported project; 2. It is required to promote the project in a flexible manner due to the characteristics of the project; 3. It is possible to raise financial resources and promote the project in a stable manner in the long and medium term; 4. It is more effective to execute the project with a new special account or fund than with the general accounts or the existing special account or fund; 5. It is necessary to separate it from the general accounts for accounting purpose by running it as specific project or appropriating specific revenue to specific expenditure.

(3) The Minister of Strategy and Finance may, if the Minister concludes as a result of the examination under paragraph (2) that the proposed establishment of a new special account or fund fails to meet the guidelines for examination under paragraph (2), request the head of the central government agency who submitted the plan to review or revise such plan. *<Amended by Act No. 8852, Feb. 29, 2008>*

Article 15 (Consolidation and Closure of Special Accounts and Funds) A special account or fund may, if it falls under any of the following subparagraphs, be closed or consolidated into another special account or fund: 1. If the objectives of its establishment have been achieved; 2. If it is found impossible to achieve the objectives of its establishment; 3. If the special account or fund as established is similar to, or overlaps with another special account or fund; 4. If it is determined desirable in any other aspect to consolidate it into the general accounts for management in order to enhance the efficiency and transparency of financial management.

CHAPTER II BUDGET

SECTION 1 General Provisions

Article 16 (Budgeting Principles) The Government shall comply with the following principles for formulation and execution of its budget: *<Amended by Act No. 10288, May 17, 2010>*

1. The Government shall make every effort to secure financial soundness;
2. The Government shall make every effort to minimize the burdens of people;
3. The Government shall improve the outcome of Treasury expenditures and tax expenditures under Article 27 (1) in conducting financial management;
4. The Government shall strive to enhance transparency and citizens' participation in the budgetary process;
5. The Government shall evaluate the impacts of the budget on both females and males, and shall strive to reflect the results thereof in the formulation of its budget.

Article 17 (Principle of Comprehensiveness of Budget) (1) The budget revenue shall include all receipts during a fiscal year, while the budget expenditure shall include all spendings.

(2) Except as provided for in Article 53, all revenues and expenditure shall be included in the budget.

Article 18 (Financial Resources for State Expenditure) The financial resources for State expenditure shall be the revenues other than State bonds or loan funds borrowed (including loan funds borrowed from foreign governments, international cooperative organizations and foreign corporations; hereinafter the same shall apply): *Provided*, That funds raised through State bonds and loan funds borrowed may, if unavoidable, be appropriated to expenditure within the limit of the amount approved by a resolution of the National Assembly.

Article 19 (Composition of Budget) The term "budget" refers collectively to the budgetary general provisions, revenue and expenditure budgets, continuing expenditure, specified carryover funds, and commitments to take a Treasury obligation.

Article 20 (Budgetary General Provisions) (1) The budgetary general provisions shall provide for the following matters in addition to comprehensive provisions concerning revenue and expenditure budgets, continuing expenditure, specified carryover funds, and commitments to take a Treasury obligation: *<Amended by Act No. 9278, Dec. 31, 2008>* 1. Ceilings on State bonds and loan funds borrowed under the proviso to Article 18 (including ceilings on the issuance of State bonds and borrowing of loan funds reflected in the draft fund management plan for a fund managed by the head of a central government agency); 2. Maximum amount of issuance of treasury bills and temporary loan funds borrowed under Article 32 of the Management of the National Funds Act. 3. Other necessary matters concerning budget execution.

(2) Where necessary to substitute existing State bonds with new State bonds, the Government may issue State bonds in excess of the ceilings referred to in paragraph (1) 1. In such cases, the Government shall report the fact to the National Assembly in advance. *<Newly Inserted by Act No. 9278, Dec. 31, 2008>*

Article 21 (Classification of Revenue and Expenditure Budgets) (1) Revenue and expenditure budgets may be divided into accounts as required.

(2) Revenue and expenditure budgets shall be classified by the affairs assigned to each independent government body and central government agency, and then divided into general accounts and special accounts.

(3) The contents of the revenue budget shall be subdivided by nature into sections and paragraphs in accordance with the division under the provisions of paragraph (2), while the contents of the expenditure budget shall be subdivided by function, nature, or agency accountable into chapters, sections, and

paragraphs in accordance with the division under the provisions of paragraph (2).
(4) More specific budget classification standards and classification into subparagraphs and items by nature of expense shall be prescribed by the Minister of Strategy and Finance. *<Amended by Act No. 8852, Feb. 29, 2008>*

Article 22 (Reserve Fund) (1) The Government may appropriate the amount equivalent to or less than 1/100 of the total budget of the general accounts to the reserve fund so that it can be spent for expenditure not reflected in the budget or expenditure exceeding the budget: *Provided*, That the reserve funds designated in advance for use in accordance with the budgetary general provisions may be reflected in the revenue and expenditure budgets, notwithstanding the provisions of the main sentence above.
(2) Notwithstanding the proviso to paragraph (1), the purpose of spending reserve funds may not be designated for appropriation to personnel expenditure for raising remuneration for public officials.

Article 23 (Continuing Expenditure) (1) Expenditure on the projects for construction works, manufacturing, research and development, which take several years for completion, may be disbursed over the course of several years within the ceiling on the total amount of the expenditure and annual installment disbursements as fixed and approved in advance by the National Assembly.
(2) The length of time during which the State may disburse the expenditure in accordance with the provisions of paragraph (1) shall not exceed five years from the pertinent fiscal year: *Provided*, That the length of time may be extended by a resolution of the National Assembly, if deemed necessary.

Article 24 (Specified Carryover Fund) (1) When it is anticipated that a certain expenditure in the expenditure budget will not be completely disbursed during the relevant year, such expenditure may be transferred to and used in the following year with the prior approval of the National Assembly by clearly stating the purport of the expenditure in the revenue and expenditure budgets.
(2) When there is an unavoidable circumstance in budget execution for the specified funds carried over under the provisions of paragraph (1), the head of the relevant central government agency may incur the expenditure that shall be disbursed over the course of the following year within the limit approved by the Minister of Strategy and Finance, clearly stating such circumstance and the amount for each case. *<Amended by Act No. 8852, Feb. 29, 2008>*
(3) When the Minister of Strategy and Finance approves the incurring of the expenditure that shall be disbursed over the course of the following year in accordance with the provisions of paragraph (2), he/she shall notify the Board of Audit and Inspection thereof. *<Amended by Act No. 8852, Feb. 29, 2008>*

Article 25 (Commitments to Assume Treasury Obligations) (1) The State shall, when it intends to make a commitment to assume a Treasury obligation in addition to those made pursuant to a pertinent Act or those within the limits of the expenditure budget or the total continuing expenditure, obtain a prior resolution of the National Assembly as part of such budget.
(2) The State may, if necessary for recovery from disasters and calamities in addition to those provided for in paragraph (1), make a commitment to assume a Treasury obligation within the extent resolved by the National Assembly each fiscal year. In such cases, such commitment shall be executed in accordance with the procedure for spending reserve funds in general accounts, which shall apply *mutatis mutandis*.
(3) The reason for the commitment to assume a Treasury obligation is required shall be clearly stated for each case, and the year during which related action shall be taken, the year of repayment, and the amount of the obligation borne shall be also stated.

Article 26 (Preparation of Gender-Sensitive Budget) (1) The Government shall prepare a report on analysis conducted in advance on the impact that the budget is likely to have on females and males, alike (hereinafter referred to as "gender-sensitive budget").(2) The gender-sensitive budget shall include the expected effects of gender equality, performance objectives, benefit analysis by gender, etc. <*Newly Inserted by Act No. 10288, May 17, 2010*> (3) Detailed matters concerning preparation of the gender-sensitive budget shall be prescribed by Presidential Decree.

Article 27 (Preparation of Tax Expenditure Budget) (1) The Minister of Strategy and Finance shall prepare a report on analysis conducted on the results of financial support (hereinafter referred to as "tax expenditure") granted by special treatment in taxation, including tax rebates or reduction, taxation exemption, income deductions, tax deductions, application of preferential tax rates, or tax deferral during the immediately preceding fiscal year and the estimated amounts of those for the current fiscal year and the following fiscal year by function and by tax item (hereinafter referred to as "tax expenditure budget"). <*Amended by Act No. 8852, Feb. 29, 2008; Act No. 10288, May 17, 2010*>

(2) The Minister of Strategy and Finance may, if necessary for preparation of the tax expenditure budget, request a person specified by Presidential Decree, including the head of the relevant central government agency, to submit data. <*Amended by Act No. 8852, Feb. 29, 2008*>

(3) The preparation method, etc. for the tax expenditure budget shall be prescribed by Presidential Decree in further detail.

SECTION 2 Formulation of Budget Bills

Article 28 (Submission of Medium-Term Project Plan) The head of each central government agency shall submit to the Minister of Strategy and Finance a medium term project plan covering new projects that shall be executed over five fiscal years beginning on the current fiscal year or longer and the major continuing projects prescribed by the Minister of Strategy and Finance by January 31 of each year. <*Amended by Act No. 8852, Feb. 29, 2008*>

Article 29 (Notice of Guidelines for Formulation of Budget Bill) (1) The Minister of Strategy and Finance shall notify the head of each central government agency of the guidelines for formulation of a budget Bill for the following year, subject to prior deliberation by the State Council and approval of the President, by no later than April 30 of each year. <*Amended by Act No. 8852, Feb. 29, 2008*>

(2) The Minister of Strategy and Finance may include the ceilings on the expenditure of each central government agency in the notice of the guidelines for formulation of the budget Bill under the provisions of paragraph (1), in order to ensure compatibility between the national financial management plan under the provisions of Article 7 and the budget, as formulated. <*Amended by Act No. 8852, Feb. 29, 2008*>

Article 30 (Report to National Assembly on Guidelines for Formulation of Budget Bills) The Minister of Strategy and Finance shall report to the Special Committee on Budget and Accounts of the National Assembly the guidelines for formulation of the budget Bill as notified to the head of each central government agency pursuant to the provisions of Article 29 (1). <*Amended by Act No. 8852, Feb. 29, 2008*>

Article 31 (Submission of Budget Request) (1) The head of each central government agency shall, in accordance with the guidelines for formulation of the budget Bills under Article 29, prepare a request for the revenue and expenditure budgets, continuing expenditure, specified carryover funds, and commitments to assume Treasury obligations under his/her control (hereinafter referred to as "budget request") for the following year, and submit it to the Minister of Strategy and Finance by no later than June 30 of each year. <*Amended by Act No. 8852, Feb. 29, 2008*>

(2) Each budget request shall be accompanied by documents necessary for budget formulation and

application of the budget management process, as prescribed by Presidential Decree.
(3) If a budget request submitted pursuant to the provisions of paragraph (1) does not conform to the guidelines for formulation of budget Bills under the provisions of Article 29, the Minister of Strategy and Finance may request modification or supplementation thereof within a prescribed time period. *<Amended by Act No. 8852, Feb. 29, 2008>*

Article 32 (Formulation of Budget Bills) The Minister of Strategy and Finance shall formulate the budget Bill in accordance with the budget requests submitted pursuant to the provisions of Article 31 (1), and shall obtain approval of the President after undergoing deliberation by the State Council. *<Amended by Act No. 8852, Feb. 29, 2008>*

Article 33 (Submission of Budget Bills to National Assembly) The Government shall submit budget Bills, as approved by the President pursuant to the provisions of Article 32, to the National Assembly by no later than 90 days before the beginning of the pertinent fiscal year.

Article 34 (Documents Accompanying Budget Bills) Each budget bill that shall be submitted to the National Assembly pursuant to the provisions of Article 33 shall be accompanied by the following documents: *<Amended by Act No. 10484, Mar. 30, 2011>*

1. The gross and net accounts of revenue and expenditure budgets;
2. An explanatory statement on each project in the revenue and expenditure budgets;
3. As regards continuing expenditures, a statement on the payments or estimated payments up to the end of the preceding year, predetermined payments to be disbursed after the relevant year, overall project plan and details on the status of progress thereof;
4. An explanatory statement on acts of burdening the National Treasury with liabilities;
5. As regards the acts of burdening the National Treasury with liabilities to be executed consecutively over the subsequent years, a statement on the payments or the estimated payments until the end of the preceding year and predetermined payments to be disbursed after the relevant year;
6. The table of budgetary employment ceiling and unit base prices for formulation of the budget bill;
7. The statement on the present value of the State-owned property as of the end of the year before the preceding year, and on its estimated present values as of the end of the preceding year and of relevant year;
8. The performance plan under the provisions of Article 8 (2);
9. The gender-sensitive budget;
10. The tax expenditure budget;
11. When the Government intends to reduce the amount demanded by an independent government body or the Board of Audit and Inspection in accordance with the provisions of Article 40 (2) or 41, a statement on opinions about the size of and reasons for such reduction, and the amount thereof from the relevant body or board;
12. Deleted; *<by Act No. 10288, May 17, 2010>*
13. The statements on transfers of surplus financial resources between an account and a fund or between accounts, and other documents that clearly show the financial status and the contents of the budget bill.
14. The expenditure budget for special cases of State property pursuant to Article 10 (1) of the Act on Regulation of Special Cases of State Property.

Article 35 (Revision to Budget Bill Pending in National Assembly)
The Government may, if it is inevitable due to any unavoidable cause or event, to revise, modify, or correct part of the contents of the budget Bill already submitted to the National Assembly, submit a revised budget Bill to the National Assembly as approved by the President, after undergoing deliberation by the

State Council.

Article 36 (Omission of Documents Accompanying Budget Bill)

Where the Government submits a revised budget Bill under Article 35 or a supplementary revised budget Bill under Article 89 to the National Assembly after formulating them, some of the accompanying documents specified in each subparagraph of Article 34 may be omitted: *Provided*, That where the submission of a performance plan under Article 8 (2) is omitted, such plan shall be submitted *ex post facto*. *<Amended by Act No. 9712, May 27, 2009>*

Article 37 (Lump-Sum Allocation) (1) If it is difficult to predetermine the details of the projects prescribed by Presidential Decree, the Minister of Strategy and Finance may apportion the budget for the projects in a lump sum. *<Amended by Act No. 8852, Feb. 29, 2008>*

(2) The overall size of the projects for which the budget is allocated in a lump sum in accordance with the provisions of paragraph (1) shall not exceed the ratio prescribed by Presidential Decree based on the net total budget for each fiscal year.

(3) As regards projects for which the budget is allocated in a lump sum in accordance with the provisions of paragraph (1), the head of each central government agency shall prepare a detailed project execution plan for budget apportionment for consultation with the Minister of Strategy and Finance before such budget allocation is initiated, and shall submit a detailed report on the results of execution thereof to the Minister of Strategy and Finance within three months after the end of the current fiscal year. *<Amended by Act No. 8852, Feb. 29, 2008>*

(4) The head of each central government agency shall submit to the Special Committee on Budget and Accounts of the National Assembly a detailed project execution plan and a detailed report on the results of execution thereof for the projects for which the budget is allocated in a lump sum in accordance with paragraph (3).

Article 38 (Preliminary Feasibility Survey) (1) The Minister of Strategy and Finance shall conduct a preliminary feasibility survey in advance to formulate the budget for a large-scale project prescribed by Presidential Decree, summarize the results, and submit them to the competent Standing Committees and the Special Committee on Budget and Accounts of the National Assembly. *<Amended by Act No. 8852, Feb. 29, 2008; Act No. 10288, May 17, 2010>*

(2) Projects subject to preliminary feasibility survey pursuant to the provisions of paragraph (1) may be selected by the Minister of Strategy and Finance upon application by the head of a central government agency or at the discretion of the Minister. *<Amended by Act No. 8852, Feb. 29, 2008>*

(3) The Minister of Strategy and Finance shall conduct a preliminary feasibility survey on the project upon demand issued by resolution of the National Assembly. *<Amended by Act No. 8852, Feb. 29, 2008>*

(4) The Minister of Strategy and Finance shall prepare guidelines for the criteria for selection of projects subject to the preliminary feasibility survey under paragraph (1), the institution that shall carry out the survey, the methods, procedures, etc. for the survey, and shall notify the head of each central government agency thereof. *<Amended by Act No. 8852, Feb. 29, 2008>*

Article 39 (Budget Formulation for Large-Scale Development Projects by Stage) (1) As regards large-scale development projects prescribed by Presidential Decree, the head of each central government agency shall include the cost and expenses, in whole or in part, required for one of its stages in order of feasibility survey, basic plan, working plans, compensation (excluding compensation for an area submerged under water by dam construction or compensation for damages and losses to fishery rights surviving after completion of a construction project) in its budget request for the current year: *Provided*, That it is allowed to request the budget for two or more stages simultaneously for the project, if the Minister of Strategy and Finance deems it inevitable to promote the project efficiently on the grounds that it is possible to use the facilities after partial completion, etc. *<Amended by Act No. 8852, Feb. 29, 2008>*

(2) As regards the large-scale development projects under the provisions of paragraph (1), the Minister of Strategy and Finance shall prepare the budget Bill required for the current year by stage according to the request under the provisions of the said paragraph. In such cases, the budget Bill shall be formulated appropriately for the projects for which the working plans for the entire work process have been completed and total project cost is finally fixed to prevent any delay in the project. *<Amended by Act No. 8852, Feb. 29, 2008>*

Article 40 (Budget for Independent Government Bodies) (1) In formulating the budget for an independent government body, the Government shall respect the opinion of the head of the independent government body the fullest extent practicable, and shall consult with the head of the independent government body in advance when it is necessary to make an adjustment according to the financial situation of the State.

(2) Notwithstanding the consultation under the provisions of paragraph (1), the Government shall, when it intends to reduce the amount demanded by an independent government body for its expenditure budget, seek the opinion of the independent government body during a meeting of the State Council, and the Government shall submit to the National Assembly the opinion of the head of the independent government body on the size of and reasons for reduction, and the reduction itself, when it reduces the expenditure budget demanded by the independent government body.

Article 41 (Budget of Board of Audit and Inspection) The Government shall, when it intends to reduce the expenditure budget demanded by the Board of Audit and Inspection, seek an opinion of the Chairperson of the Board of Audit and Inspection during a meeting of the State Council.

SECTION 3 Budget Execution

Article 42 (Submission of Budget Allocation Request) The head of each central government agency shall, after the budget is finally fixed, submit to the Minister of Strategy and Finance an activity management plan and a budget allocation request containing revenue and expenditure budgets, continuing expenditures, and commitments to assume Treasury obligations according to such plan. *<Amended by Act No. 8852, Feb. 29, 2008>*

Article 43 (Budget Allocation) (1) The Minister of Strategy and Finance shall prepare the quarterly budget allocation plan based on the budget allocation request under the provisions of Article 42 for deliberation by the State Council and approval of the President. *<Amended by Act No. 8852, Feb. 29, 2008>*

(2) The Minister of Strategy and Finance shall, when allocating the budget to the head of each central government agency, notify the Board of Audit and Inspection thereof. *<Amended by Act No. 8852, Feb. 29, 2008>*

(3) The Minister of Strategy and Finance may, if necessary, allocate the budget before the commencement of a fiscal year, as prescribed by Presidential Decree. *<Amended by Act No. 8852, Feb. 29, 2008>*

(4) The Minister of Strategy and Finance may, where necessary for efficient control over budget execution, review an individual project plan and allocate the budget according to the results therefrom, notwithstanding the quarterly budget allocation plan under the provisions of paragraph (1). *<Amended by Act No. 8852, Feb. 29, 2008>*

(5) The Minister of Strategy and Finance may, where necessary for proper management of financial balance of revenue and expenditure, efficient control of execution of budgetary activities, etc., adjust the

quarterly budget allocation plan under the provisions of paragraph (1), withhold the allocation of a budget, or take measures to withhold the execution of any budget allocated. <*Amended by Act No. 8852, Feb. 29, 2008*>

Article 44 (Notice of Guidelines for Budget Execution) The Minister of Strategy and Finance shall prepare the guidelines for budget execution each year to enhance the efficiency in budget execution, and notify the head of each central government agency thereof. <*Amended by Act No. 8852, Feb. 29, 2008*>

Article 45 (Prohibition of Use of Budget for Any Purpose other Than Prescribed Purpose) No head of any central government agency shall use any expenditure budget for any purpose other than that prescribed by the budget.

Article 46 (Re-appropriation of Budget) (1) The head of each central government agency may, within the intended purpose of the budget, reappropriate an amount in any subparagraph or item to any other purpose with the approval of the Minister of Strategy and Finance, as prescribed by Presidential Decree, for efficient utilization of financial resources. In such cases, comprehensive consideration shall be given to whether there is any overlap between activities, whether such funds are urgently required to be used as funds for countermeasures against disasters and calamities, whether the expenses are to be appropriated for operation of the agency, etc. <*Amended by Act No. 8852, Feb. 29, 2008*>

(2) The head of each central governmental agency may, at his/her discretion, notwithstanding the provisions of paragraph (1), re-appropriate an amount in any subparagraph or item within the extent authorized by the Minister of Strategy and Finance each fiscal year. <*Amended by Act No. 8852, Feb. 29, 2008*>

(3) The Minister of Strategy and Finance shall, when granting approval for re-appropriation pursuant to the provisions of paragraph (1), issue a statement of re-appropriation to the head of the relevant central government agency and the Board of Audit and Inspection respectively, while the head of each central government agency shall, when implementing the re-appropriation pursuant to the provisions of paragraph (2), issue a statement describing the amount of each item re-appropriated and the reasons for such re-appropriation to the Minister of Strategy and Finance and the Board of Audit and Inspection, respectively. <*Amended by Act No. 8852, Feb. 29, 2008*>

(4) The head of each central government agency shall, when he/she has re-appropriated an amount under paragraph (1) or (2), submit the details of such re-appropriation to the competent standing committees and the Special Committee on Budget and Accounts of the National Assembly by no later than the end of the following month after a month to which a date on which a quarter expires belongs, in each quarter. <*Newly Inserted by Act No. 9486, Mar. 18, 2009*>

(5) The amount of expenses re-appropriated in accordance with the provisions of paragraph (1) or (2) shall be clearly recorded, along with the grounds therefor in the report on the settlement of the revenue and expenditure budgets.

Article 47 (Transferred Use and Transfer of Budget) (1) No head of any central government agency shall transfer the budget already appropriated for an institution, or in a chapter, section, or paragraph to another institution, chapter, section, or paragraph for use: *Provided*, That such transferred use may be permitted with the approval of the Minister of Strategy and Finance or within the extent authorized by the Minister of Strategy and Finance, if it was approved in advance as part of the budget by a resolution of the National Assembly as required for budget execution. <*Amended by Act No. 8852, Feb. 29, 2008*>

(2) If there is a change in duties and power of any central government agency as a consequence of the enactment, amendment, or repeal of any Act and subordinate statute concerning government organization, etc., the Minister of Strategy and Finance may allow transferred use, or make a transfer, of the budget

between agencies upon the request of the head of the relevant central government agency. *<Amended by Act No. 8852, Feb. 29, 2008>*

(3) The head of each central government agency shall, when the budget has been transferred for use at his/her discretion in accordance with the proviso to paragraph (1), notify the Minister of Strategy and Finance and the Board of Audit and Inspection thereof, respectively. Meanwhile the Minister of Strategy and Finance shall, when the Minister approves a transferred use in accordance with the proviso to paragraph (1), or allows transferred use, or makes such transfer in accordance with the provisions of paragraph (2), notify the head of the relevant central government agency and the Board of Audit and Inspection thereof, respectively. *<Amended by Act No. 8852, Feb. 29, 2008>*

(4) The head of each central government agency shall, when he/she has made use of or made a transfer of the budget under paragraph (1) or (2), submit the details of such use or transfer to the competent standing committees and the Special Committee on Budget and Accounts of the National Assembly by no later than the end of the following month after a month to which a date on which a quarter expires belongs, in each quarter. *<Newly Inserted by Act No. 9486, Mar. 18, 2009>*

Article 48 (Carryover of Expenditure Budget) (1) The expenditure budget for each fiscal year may not be carried over for spending during the following fiscal year.

(2) Notwithstanding the provisions of paragraph (1), the amount of an expense specified in any of the following subparagraphs may be carried over for spending during the following fiscal year. In such cases, the amount carried-over may not be spent for any purpose other than the intended purpose, and the amount of an expense specified in subparagraph 2 may not be carried over any further: 1. A specified carryover fund; 2. An expense for which an act of incurring expenditure took place in the current year, but the disbursement thereof has not been made during that year due to an unavoidable cause or event, and the expenses incidental thereto for which no act of incurring expenditure took place; 3. An expense prescribed by Presidential Decree for which a public bid notice was made in order to initiate an act of incurring an expenditure, but it takes a long time until the act of incurring the expenditure takes place after the public bid notice; 4. An expense prescribed by Presidential Decree as necessary for compensation for losses in execution of a public benefit activity; 5. An expense in the nature of ordinary expenditure, as prescribed by Presidential Decree.

(3) Notwithstanding the provisions of paragraph (1), the amount not disbursed during the current year out of the annual installments of continuing expenditure for the year may be carried over and spent subsequently until the year for completion of the project subject to such continuing expenditure.

(4) The head of each central government agency shall, when carrying over some of the budget in accordance with the provisions of paragraphs (2) and (3), prepare a carryover statement, as prescribed by Presidential Decree, and shall submit it to the Minister of Strategy and Finance and the Board of Audit and Inspection, respectively, by January 31 of the following year. *<Amended by Act No. 8852, Feb. 29, 2008>*

(5) The amount of each item carried over by the head of a central government agency in accordance with the provisions of paragraphs (2) and (3) shall be deemed to have been allocated as budget carried over to the following year.

(6) When a surplus fund accrues in the settlement of the revenue and expenditure budgets for each fiscal year, the amount equivalent to the amount of the expenditure budget carried over pursuant to the provisions of paragraphs (2) and (3) shall be transferred first, among other things, to the revenue for the following year.

(7) The Minister of Strategy and Finance may take measures, if deemed necessary in consideration of the

state of collection of revenue, etc., to restrict the carried-over spending of the expenditure budget in accordance with the provisions of paragraphs (2) and (3). *<Amended by Act No. 8852, Feb. 29, 2008>*

Article 49 (Payment of Budgetary Incentive, etc.) (1) If the revenue has increased or the expenditure has been curtailed by an improvement of the method or system for budget execution or otherwise, the head of the central government agency involved may provide an incentive to the person who has contributed to such achievement, and may spend the saved budget for any other activity or project.

(2) The head of each central government agency shall, when he/she intends to pay an incentive or spend the saved budget pursuant to the provisions of paragraph (1), refer the matter to the examination committee on budgetary incentives for examination.

(3) Necessary matters concerning payment of such incentives, spending of the saved budget to another project or activity, organization and management of the examination committee on budgetary incentives, etc. in accordance with the provisions of paragraphs (1) and (2) shall be prescribed by Presidential Decree.

Article 50 (Control of Total Project Costs) (1) As regards a large-scale project prescribed by Presidential Decree, for which it takes two years or longer for completion, the head of each central government agency shall determine the scale of the project, the total project cost, and the project period, and shall consult with the Minister of Strategy and Finance in advance. The foregoing shall apply to the modification or change of the scale of the project, the total project cost, or the project period already consulted. *<Amended by Act No. 8852, Feb. 29, 2008>*

(2) As regards a project that falls under the criteria prescribed by Presidential Decree, such as an increase in total project cost to a certain scale among the projects under the provisions of paragraph (1) and a project requested by the Board of Audit and Inspection in accordance with the results of its audit, the Minister of Strategy and Finance shall conduct a review on the feasibility of the project, and report results of the review to the National Assembly. *<Amended by Act No. 8852, Feb. 29, 2008; Act No. 9486, Mar. 18, 2009>*

(3) The Minister of Strategy and Finance shall conduct a review on the feasibility of a project upon a demand of the National Assembly for such a review by its resolution, and report results of the review to the National Assembly. *<Amended by Act No. 8852, Feb. 29, 2008; Act No. 9486, Mar. 18, 2009>*

(4) The Minister of Strategy and Finance shall prepare guidelines for management of total project costs, and shall notify the head of each central government agency thereof. *<Amended by Act No. 8852, Feb. 29, 2008>*

Article 51 (Management and Use of Reserve Funds) (1) The reserve fund shall be placed under the control of the Minister of Strategy and Finance. *<Amended by Act No. 8852, Feb. 29, 2008>*

(2) The head of each central government agency shall, whenever spending of the reserve fund is necessary, prepare a statement that clearly describes the grounds for such spending, the amount thereof, and the basis of estimation and submit it to the Minister of Strategy and Finance: *Provided*, That if necessary for prompt restoration from a large-scale natural disaster, the amount required for the urgent relief and restoration from the disaster may be approximately estimated for applying for such reserve funds, based on the damage status report under Article 20 of the Framework Act on the Management of Disasters and Safety. *<Amended by Act No. 8852, Feb. 29, 2008>* (3) The Minister of Strategy and Finance shall make an adjustment, if deemed necessary as a result of the examination on the application for the reserve fund under the provisions of paragraph (2), and shall prepare a statement on the reserve fund spending plan for deliberation by the State Council and approval of the President. *<Amended by Act No. 8852, Feb. 29, 2008>* (4) A special account transferred from the general accounts may, if necessary,

have the reserve funds of general accounts transferred for the expenditure of the special account.

Article 52 (Preparation of Reserve Funds Spending Statement and Submission thereof to National Assembly) (1) The head of each central government agency shall prepare a statement on the amount spent out of the reserve funds, and shall submit it to the Minister of Strategy and Finance by no later than the end of February of the following year. *<Amended by Act No. 8852, Feb. 29, 2008>*

(2) The Minister of Strategy and Finance shall prepare a comprehensive statement on the amount spent out of the reserve fund according to the statements submitted in accordance with the provisions of paragraph (1), and submit it to the State Council for deliberation and then to the President for approval. *<Amended by Act No. 8852, Feb. 29, 2008>*

(3) The Minister of Strategy and Finance shall submit to the Board of Audit and Inspection the comprehensive statement approved by the President pursuant to the provisions of paragraph (2). *<Amended by Act No. 8852, Feb. 29, 2008>*

(4) The Government shall submit to the National Assembly for approval, a comprehensive statement on the amount spent out of the reserve funds by no later than May 31 of the following year.

Article 53 (Exception to Principle of Comprehensiveness of Budget) (1) As regards expenses related to revenue generated from the provision of service or facility, which exceed or are expected to exceed the budget (hereinafter referred to as "revenue substitution expenses") and are prescribed by Presidential Decree, the excess revenue may be expended for the expenses directly related to the excess revenue and the expenses incidental thereto exceeding the budget pursuant to Presidential Decree.

(2) The State's investment in kind and lending of loans from funds raised by borrowing a loan from a foreign lender may be treated as activities independent of the revenue and expenditure budgets.

(3) Where an in-kind loan financed with a loan from a foreign lender is involved, if the revenue therefrom exceeds the revenue budget due to an unavoidable carryover of expenditure expected to be disbursed during the preceding year or due to fluctuations in applicable foreign exchange rates or interest rates, the expenditure may be disbursed in excess of the expenditure budget.

(4) When a loan borrowed from a foreign lender for relending is repaid, if the repayment of the principal and interest exceeds the expenditure budget due to fluctuations in applicable foreign exchange rates or interest rates or early repayment before maturity, the repayment of such loan may exceed the expenditure budget to the extent of such excess.

(5) The head of each central government agency may, independent of the revenue and expenditure budgets, expend the revenue received as consideration for use of products developed from a national research and development project to which certain amounts of contributions or investments have been granted in accordance with the provisions of Article 12 after undergoing the consultation with the Minister of Strategy and Finance. In such cases, the details of such revenue and expenditure shall be reported to the Special Committee on Budget and Accounts of the National Assembly. *<Amended by Act No. 8852, Feb. 29, 2008>*

(6) Necessary matters concerning exceptions to the principle of comprehensiveness of budget, including revenue substitution expenses, shall be prescribed by Presidential Decree.

Article 54 (Management of Subsidies) The head of each central government agency shall submit the results of granting subsidies of the National Treasury to local governments and the private sector, and results of executing the subsidies of the relevant subsidized entity to the Minister of Strategy and Finance, the competent Standing Committees and the Special Committee on Budget and Accounts of the National Assembly, respectively. *[This Article Wholly Amended by Act No. 10288, May 17, 2010]*

Article 55 (Budget Execution with Budget Resolution Pending) (1) The Government shall execute the budget in compliance with Article 54 (3) of the Constitution of the Republic of Korea, if the National Assembly fails to adopt a resolution on a budget Bill due to any unavoidable circumstance before and until the current fiscal year commences.
(2) The budget executed in accordance with the provisions of paragraph (1) shall, when the budget for the current year is finally resolved, be deemed to have been executed in accordance with the budget finally resolved.

CHAPTER III SETTLEMENT OF ACCOUNTS

Article 56 (Principle for Settlement of Accounts) The Government shall ensure that the settlement of accounts is processed fairly in accordance with objective data and evidence so that it can provide useful and adequate information about finance in accordance with the National Accounting Act. *<Amended by Act No. 9278, Dec. 31, 2008>*

Article 57 (Preparation of Gender-Sensitive Settlement of Accounts) (1) The Government shall prepare a statement to evaluate whether females and males have equally benefited from the budget and whether the budget has been executed towards addressing gender discrimination (hereinafter referred to as "gender-sensitive settlement of accounts").
(2) The gender-sensitive settlement of accounts shall include results of execution, effect analysis on and evaluation of gender equality, etc. *<Newly Inserted by Act No. 10288, May 17, 2010>*

Article 58 (Preparation and Submission of Statement of Accounts by Central Government Agency) (1) The head of each central government agency shall submit a statement of accounts prepared for each fiscal year as prescribed by the National Accounting Act (hereinafter referred to as "statement of accounts of central government agency") to the Minister of Strategy and Finance by no later than the end of February of the following year. *<Amended by Act No. 9278, Dec. 31, 2008>*
(2) The Secretary General of the National Assembly, the Minister of Court Administration, the Secretary General of the Constitutional Court, and the Secretary General of the National Election Commission shall prepare a statement on the use of reserve funds for each fiscal year, and shall submit it to the Minister of Strategy and Finance by no later than the end of February of the following year. *<Amended by Act No. 8852, Feb. 29, 2008>*
(3) and (4) Deleted. *<by Act No. 9278, Dec. 31, 2008>*

Article 59 (Preparation and Submission of National Statement of Accounts) The Minister of Strategy and Finance shall submit a national statement of accounts prepared for each fiscal year as prescribed by the National Accounting Act and approved by the President to the Board of Audit and Inspection by April 10 of the following year. *[This Article Wholly Amended by Act No. 9278, Dec. 31, 2008]*

Article 60 (Inspection of Settlement of Accounts) The Board of Audit and Inspection shall conduct an audit of the national statement of accounts submitted according to Article 59, and shall dispatch the statement to the Minister of Strategy and Finance by May 20 of the following year. *<Amended by Act No. 8852, Feb. 29, 2008; Act No. 9278, Dec. 31, 2008>*

Article 61 (Submission of National Statement of Accounts to National Assembly) The Government shall submit the national statement of accounts audited by the Board of Audit and Inspection pursuant to Article 60 to the National Assembly by May 31 of the following year. *<Amended by Act No. 9278, Dec. 31, 2008>*

CHAPTER IV FUNDS

Article 62 (Principle for Administration and Management of Funds) (1) Each fund managing entity shall administer and manage its funds to meet the purposes of the establishment of such funds and public interests. (2) Deleted. *<by Act No. 9278, Dec. 31, 2008>*

Article 63 (Principles for Fund Asset Management) (1) Each fund managing entity shall manage the assets of fund in a transparent and efficient manner, considering stability, liquidity, profitability and public benefits.

(2) Each fund managing entity shall manage the assets in compliance with the guidelines for asset management prepared in accordance with Article 79.

(3) No fund managing entity shall act as a general partner of a private equity fund as defined in the Financial Investment Services and Capital Markets Act. *<Amended by Act No. 9278, Dec. 31, 2008>*

Article 64 (Principle for Exercise of Voting Rights) Each fund managing entity shall exercise in good faith its voting rights of the stocks held by the fund for the interests of the fund, and shall disclose to the public details about how such voting rights have been exercised.

Article 65 (Relations to other Acts) Articles 66 through 68, 68-2, and 69 through 72 shall apply to the preparation and submission of draft fund management plans, notwithstanding any express provisions to the contrary in any other Act: *Provided*, That the provisions concerning the deadline for submission under Article 66 (5) and the former part of Article 68 (1) shall not apply where a draft fund management plan is prepared during the current year due to the establishment of a new fund. *<Amended by Act No. 9278, Dec. 31, 2008; Act No. 10288, May 17, 2010>*

Article 66 (Preparation of Draft Fund Management Plan) (1) Each fund managing entity shall submit to the Minister of Strategy and Finance, by no later than January 31 of each year, a medium-term project plan for new projects during the period of five fiscal years from the current fiscal year and the major continuing projects prescribed by the Minister of Strategy and Finance. *<Amended by Act No. 8852, Feb. 29, 2008>*

(2) The Minister of Strategy and Finance shall notify the fund managing entities of the guidelines for preparation of the draft fund management plan for the following year by April 30 of each year after consultation with the Advisory Council and deliberation of the State Council and approval of the President. *<Amended by Act No. 8852, Feb. 29, 2008; Act No. 9278, Dec. 31, 2008>*

(3) The Minister of Strategy and Finance may include the limitations to the expenditure of each fund in the guidelines for preparation of the draft fund management plan that shall be notified pursuant to the provisions of paragraph (2), in order to ensure compatibility between the national financial management plan under the provisions of Article 7 and the fund management plan, as established. *<Amended by Act No. 8852, Feb. 29, 2008>*

(4) The Minister of Strategy and Finance shall report to the Special Committee on Budget and Accounts of the National Assembly the guidelines for preparation of draft fund management plans as notified to the fund managing entities pursuant to the provisions of paragraph (2). *<Amended by Act No. 8852, Feb. 29, 2008>*

(5) Each fund managing entity shall prepare a draft fund management plan for the following year in compliance with the guidelines for preparation of draft fund management plans under the provisions of paragraph (2), and shall submit it to the Minister of Strategy and Finance by no later than June 30 of each year. *<Amended by Act No. 8852, Feb. 29, 2008>*

(6) The Minister of Strategy and Finance shall prepare draft fund management plans through negotiations and adjustments with the fund managing entity on the draft fund management plan submitted pursuant to the provisions of paragraph (5), subject to deliberation by the State Council and approval of the President. *<Amended by Act No. 8852, Feb. 29, 2008>*

(7) In terms of a fund that has managed excessive surplus financial resources (excluding pension funds that have a structural cause of such surplus), the Minister of Strategy and Finance may, when adjusting

the draft fund management plan pursuant to the provisions of paragraph (6), discontinue budgetary support to the fund or request the fund managing entity to take measures to reduce the charge, etc. that serves as a revenue source of the fund. In such cases, if the fund managing entity is not the head of a central government agency, such action shall be taken through the head of the competent central government agency. *<Amended by Act No. 8852, Feb. 29, 2008>*

(8) A fund managing entity set forth in paragraphs (1), (5), and (6) shall, if it is not the head of a central government agency, make the submission, consultation, etc. provided for in each of those paragraphs through the head of the competent central government agency.

Article 67 (Contents of Draft Fund Management Plans) (1) Each draft fund management plan shall consist of the general provisions for management and the fund management plan.

(2) The general provisions for management shall provide for the general matters concerning the business objectives of the fund, the raising and management of the fund (including the limitations to acquisition of stock and real estate), and the acquisition of assets.

(3) Each fund management plan shall be divided into a revenue plan and an expenditure plan, and the revenue plan shall be further divided by type, while the expenditure plan shall be divided by type or project into main categories and subcategories. In such cases, the units of the main categories shall be classified by chapter, section, and paragraph, while the units of the subcategories shall be classified by subparagraph and item.

(4) Necessary matters concerning the preparation of draft fund management plans shall be prescribed by Presidential Decree.

Article 68 (Submission, etc. of Draft Fund Management Plans to National Assembly) (1) The Government shall submit to the National Assembly the draft fund management plan as prepared by units of the main categories pursuant to the provisions of Article 67 (3) by no later than 90 days before the commencement of each new fiscal year. In such cases, the ceilings on the issuance of State bonds and the borrowing of loan funds reflected in the draft fund management plan of the fund under control of the head of a central government agency shall be prescribed in the budgetary general provisions under the provisions of Article 20.

(2) Once the fund management plan is finally fixed, each fund managing entity shall prepare a monthly revenue and expenditure plan on the fund, and shall submit it to the Minister of Strategy and Finance before the commencement of each fiscal year. *<Amended by Act No. 8852, Feb. 29, 2008>*

Article 68-2 (Preparation of Gender-Sensitive Fund Management Plans) (1) The Government shall prepare a report which analyzes in advance the effects of the fund on males and females (hereinafter referred to as "gender-sensitive fund management plan").

(2) The gender-sensitive fund management plan shall include the expected effects of gender equality, performance objectives, benefit analysis by gender, etc.

(3) Detailed matters concerning preparation of gender-sensitive fund management plans shall be prescribed by Presidential Decree. *[This Article Newly Inserted by Act No. 10288, May 17, 2010]*

Article 69 (Consent to Increment) The National Assembly shall, when it intends to increase the amount of expenditure or establish a new item in a main category of the draft fund management plan submitted by the Government, obtain the Government's consent thereto in advance.

Article 70 (Revisions to Fund Management Plans) (1) A fund managing entity may revise the amount of expenditure in each subcategory within the extent of the expenditure of the main categories in the expenditure plan, as prescribed by Presidential Decree.

(2) Each fund managing entity (or the head of the competent central government agency, if the fund

managing entity is not the head of a central government agency) shall, when it intends to revise the amount of expenditure in a main category of the fund management plan, consult with the Minister of Strategy and Finance for adjustment to prepare the draft revised fund management plan, subject to deliberation by the State Council and approval of the President, and submit it to the National Assembly for approval. *<Amended by Act No. 8852, Feb. 29, 2008>*

(3) Notwithstanding paragraph (2), an amount of expenditure in a main category may, if it falls under any of the following subparagraphs, be revised without necessarily submitting the draft revised fund management plan to the National Assembly, as prescribed by Presidential Decree: *<Amended by Act No. 9278, Dec. 31, 2008>* 1. Where a fund, other than funds in the nature of financial services as numerated in the attached Table 3, is involved, if the extent of the revision to the amount of expenditure in the main category does not exceed 2/10; 2. Where one of the funds in the nature of financial services as numerated in the attached Table 3 is involved, if the extent of the revision to the amount of expenditure of the main category does not exceed 3/10: *Provided*, That it shall not exceed 2/10 where the amount of expenditure in the main category falls within ordinary expenditure required for administration and management of the fund; 3. The amount of mandatory expenditure as provided for by another Act; 4. An amount of expenditure that falls under any of the following items: (a) The amount of expenditure appropriated for management of surplus fund in the fund management plan; (b) The amount of expenditure directly related to an excess revenue, where the revenue exceeds or is expected to exceed the estimated amount of revenue in the fund management plan; (c) The amount of expenditure for repayment of the principal and interest of a loan due to the fluctuation of exchange rates and interest rates, and prepayment; 5. The debt service on the State bonds to substitute existing State bonds with new State bonds; 6. The debt service on the State bonds using excess tax revenue anticipated in the year concerned within the extent of the amount of State bonds already issued in the year concerned with the purpose of making up for losses in the revenue of general account budget.

(4) Each fund managing entity shall, when it revises an amount of expenditure in a subcategory or main category in accordance with the provisions of paragraphs (1) through (3), submit a statement on the proposed revision to the Minister of Strategy and Finance and the Board of Audit and Inspection, respectively, while the Government shall clearly state the details and reasons of such revision in the national statement of accounts that shall be submitted to the National Assembly pursuant to Article 61. *<Amended by Act No. 8852, Feb. 29, 2008; Act No. 9278, Dec. 31, 2008>*

(5) When a fund managing entity has revised the amount of expenditure in accordance with paragraph (3) 4 (c), and subparagraphs 5 and 6 of the same paragraph (limited to cases where the range of revision of the amount of expenditure in the main category exceeds 2/10), it shall submit the detailed statement of revision to the competent standing committee and the Special Committee on Budget and Accounts of the National Assembly. In such cases, the detailed statement of revision shall include the results of State bond issuance and debt services. *<Newly Inserted by Act No. 9278, Dec. 31, 2008>*

(6) Each fund managing entity shall, when it revised the amount of expenditure in a subcategory or main category in accordance with the provisions of paragraphs (1) through (3), submit details of such revision to the competent standing committees and the Special Committee on Budget and Accounts of the National Assembly by no later than the end of the following month after a month to which a date on which a quarter expires belongs, in each quarter. *<Newly Inserted by Act No. 9486, Mar. 18, 2009>*

(7) In terms of any pass-through agency under paragraphs (2) through (6), the provisions of Article 66 (8) shall apply *mutatis mutandis* thereto. *<Amended by Act No. 9278, Dec. 31, 2008; Act No. 9486, Mar. 18, 2009>*

Article 71 (Documents Accompanying Draft Fund Management Plans, etc.) The Government or a fund managing entity shall, when it submits to the National Assembly a draft fund management plan or a draft revised fund management plan (hereinafter referred to as "draft fund management plan, etc.") pursuant to Article 68 (1) or 70 (2), attach the following documents thereto: *Provided*, That documents that coincide with those documents already submitted may be omitted when submitting a draft revised fund management plan: *<Amended by Act No. 9278, Dec. 31, 2008; Act No. 10288, May 17, 2010>* 1. The fund raising plan; 2. The estimated financial situation table and estimated financial operations table; 3. The gross and net accounts of the revenue and expenditure plan and the specifications by major category; 4. The performance plan under the provisions of Article 8 (2); 5. Statement on transfers of surplus financial resources between a fund and an account or between funds, and other documents that clearly show the details of the draft fund management plan, etc.; 6. The gender-sensitive fund management plan.

Article 72 (Carryover of Spending Activities) (1) No fund managing entity shall carry over any amount of expenditure for any fiscal year to spend it in the following year: *Provided*, That the amount for which the incurring expenditure was conducted during the year but has not been disbursed within the year due to extenuating circumstances may be carried over to be spent in the following year.

(2) A fund managing entity that carries over an amount of expenditure pursuant to the proviso to paragraph (1) shall prepare a carryover statement, as prescribed by Presidential Decree, and shall dispatch it to the Minister of Strategy and Finance and the Board of Audit and Inspection, respectively, by no later than January 31 of the following year. In such cases, Article 66 (8) shall apply *mutatis mutandis* to pass-through agencies. *<Amended by Act No. 8852, Feb. 29, 2008>*

Article 73 (Settlement of Funds) The head of each central government agency shall prepare and combine the statement of accounts of the funds under its control into the statement of accounts of central government agency for each fiscal year, as prescribed by the National Accounting Act, and shall submit it to the Minister of Strategy and Finance as prescribed in Article 58 (1). *[This Article Wholly Amended by Act No. 9278, Dec. 31, 2008]*

Article 73-2 (Preparation of Settlement Statement of Accounts of Gender-Sensitive Fund) (1) The Government shall prepare a report that evaluates whether males and females receive equal benefits of the fund, and whether the fund is executed in the direction to reduce gender discrimination (hereinafter referred to as "settlement statement of accounts of gender-sensitive fund").

(2) The settlement statement of accounts of gender-sensitive fund shall include the result of execution, effect analysis on and evaluation of gender equality, etc. *[This Article Newly Inserted by Act No. 10288, May 17, 2010]*

Article 73-3 (Medium- and Long-Term Fund Financial Management Plan, etc.)

(1) A managing entity of funds prescribed by Presidential Decree among funds aiming to execute pension benefits and insurance business, or bond-issuing funds shall prepare a medium- and long-term fund financial management plan on the funds under its control (hereinafter referred to as "medium- and long-term fund financial management plan") for the period covering at least five fiscal years following each fiscal year, and submit such plan to the Minister of Strategy and Finance. In such cases, where the fund managing entity is not the head of a central government agency, it shall submit such plan through the head of the competent central government agency.

(2) The medium- and long-term fund financial management plan shall include the following: 1. Forecast and ground of fiscal balance of revenues, etc., and its management plan; 2. Forecast and ground of increase or decrease in obligations, and its management plan; 3. Evaluation and analysis of changes in the medium-

and long-term fund financial management plan compared to that of the previous year, reasons behind the changes, and management plan, etc; 4. Other matters prescribed by Presidential Decree.

(3) The Minister of Strategy and Finance shall reflect the medium- and long-term fund financial management plan established pursuant to paragraphs (1) and (2) in the national financial management plan under Article 7.

(4) Matters concerning the establishment process, etc. of a medium- and long-term fund financial management plan shall be prescribed by Presidential Decree. *[This Article Newly Inserted by Act No. 10288, May 17, 2010]*

Article 74 (Deliberative Council on Fund Management) (1) Each fund managing entity shall have a Deliberative Council on Fund Management (hereinafter referred to as the "Deliberative Council") established for each fund to deliberate on important matters concerning the administration and management of funds: *Provided*, That it is not required to establish a Deliberative Council for a certain fund, if deemed unnecessary, subject to prior consultation with the Minister of Strategy and Finance. *<Amended by Act No. 8852, Feb. 29, 2008>*

(2) The following matters shall be referred to the Deliberative Council for deliberation: *<Amended by Act No. 9278, Dec. 31, 2008>* 1. Preparation of the draft fund management plan under the provisions of Article 66 (5); 2. Revision to an amount of expenditure in a main category under the provisions of Article 70 (2) and (3); 3. Preparation of the report on the settlement of funds under Article 73. 4. Establishment of and revision to the guidelines for asset management under the provisions of Article 79 5. Important matters concerning administration and management of funds prescribed by Presidential Decree and referred for deliberation by the fund managing entity, as deemed necessary.

(3) The head of each fund managing entity shall act as the chairperson of the Deliberative Council, and the Council members shall be commissioned by the chairperson, being people with good knowledge and experience, at least one-half of whom shall be comprised of the people who are not public officials.

(4) Other necessary matters concerning organization and management of the Deliberative Council shall be prescribed by Presidential Decree.

(5) A committee, etc. established pursuant to any other Act for deliberation on the administration and management of a fund shall be deemed to be a Deliberative Council, while the matters subject to deliberation by such a committee, etc. pursuant any other Act shall be deemed to be included in the matters subject to deliberation pursuant to the subparagraphs of paragraph (2).

Article 75 Deleted. *<by Act No. 9278, Dec. 31, 2008>*

Article 76 (Asset Management Committee) (1) The fund managing entity of a fund shall, if the size of the surplus funds in custody (excluding the foreign exchange equalization fund under Article 13 of the Foreign Exchange Transactions Act) as of the end of the fiscal year immediately before the preceding fiscal year exceeds one trillion won, have an Asset Management Committee established within the Deliberative Council for deliberation on important matters concerning asset management: *Provided*, That if any other Act prescribes otherwise, such other Act shall govern.

(2) The following matters shall be referred to the Asset Management Committee for deliberation: 1. Matters concerning establishment of a division exclusively dedicated to asset management pursuant to the provisions of Article 77. 2. Matters concerning establishment and revision to the guidelines for asset management pursuant to the provisions of Article 79. 3. Matters concerning strategy of asset management; 4. Matters concerning evaluation of asset management and risk management; 5. Other important matters concerning asset management.

(3) The chairperson of the Asset Management Committee shall be appointed by the head of a fund management entity, among executives, employees, or public officials of the fund managing entity concerned or the entrusted institution, taking the conditions, etc. of the fund into consideration.
(4) The members of the Asset Management Committee shall be appointed or commissioned by the head of the fund managing entity among those who fall under any of the following subparagraphs. In such cases, the fixed number of the committee members who fall under subparagraph 2 shall constitute the majority of the fixed number of all committee members: 1. An executive, an employee, or a public official of the fund managing entity concerned or the entrusted institution; 2. A person who satisfies the qualification prescribed by Presidential Decree with good knowledge and experience in asset management.
(5) Other necessary matters concerning organization, management, etc. of the Asset Management Committee shall be prescribed by Presidential Decree.
Article 77 (Establishment, etc. of Division Exclusively Dedicated to Asset Management) (1) Each fund managing entity shall establish a division exclusively dedicated to asset management, subject to deliberation by the Asset Management Committee.
(2) Each fund managing entity shall establish a division exclusively dedicated to evaluation of asset management and risk management, or shall entrust such affairs to an external specialized institution, subject to deliberation by the Asset Management Committee.
Article 78 (Special Exception to Asset Management by National Pension Fund) (1) Notwithstanding the provisions of Article 77, the National Pension Fund shall establish a corporation specializing in asset management to manage its surplus funds.
(2) Necessary matters concerning organization, management, and supervision of the corporation under the provisions of paragraph (1) shall be prescribed separately by the National Pension Act.
Article 79 (Establishment, etc. of Guidelines for Asset Management) (1) In order to ensure that asset management of funds is carried out in a transparent and efficient manner, each fund managing entity shall establish guidelines to be complied with in asset management (hereinafter referred to as "guidelines for asset management"), subject to deliberation by the Deliberative Council, and shall submit them to the competent standing committee of the National Assembly within 14 days. In suchcases, the fund established by the Asset Management Committee shall undergo deliberation by the Asset Management Committee prior to deliberation by the Deliberative Council.
(2) Notwithstanding the provisions of paragraph (1), if there is no Deliberative Council established within a fund pursuant to the proviso to Article 74 (1), the fund managing entity shall establish the guidelines for asset management of its own accord.
(3) The guidelines for asset management shall include the following matters: 1. Matters concerning standards and procedures for decision-making on investment, risk management, etc.; 2. Matters concerning distribution for each kind of asset invested; 3. Matters concerning evaluation and public disclosure of the performance of asset management; 4. Matters concerning criteria and procedures for the exercise of voting rights in stocks owned; 5. Matters that the persons who are accountable for asset management shall observe to prevent fraudulent conduct, etc. in connection with asset management; 6. Other matters considered necessary by the fund managing entity in relation to asset management.
Article 80 (Guidelines for Execution of Fund Management Plans) The Minister of Strategy and Finance may prescribe guidelines for execution of fund management plans to enhance efficiency and public character in the execution of the fund management plans. *<Amended by Act No. 8852, Feb. 29, 2008; Act No. 9278, Dec. 31, 2008>*

Article 81 (Integrated Management of Surplus Funds) In order to administer and manage surplus funds held by the fund, the Minister of Strategy and Finance may engage a financial institution selected in accordance with the criteria and procedures prescribed by Presidential Decree in consolidating the surplus funds deposited by each fund managing entity to manage them comprehensively. *<Amended by Act No. 8852, Feb. 29, 2008>*

Article 82 (Evaluation of Fund Management) (1) The Minister of Strategy and Finance shall conduct surveys and evaluations of the management state of at least 1/3 of all funds each fiscal year, as prescribed by Presidential Decree, and shall make an assessment once every three years as to whether to allow each of such funds to continue, taking into consideration the entire financial system. *<Amended by Act No. 8852, Feb. 29, 2008>*

(2) The Minister of Strategy and Finance may operate the fund management evaluation team for the surveys and evaluations of the status of fund management pursuant to the provisions of paragraph (1), and the specialized and technical research or consulting on the fund system. *<Amended by Act No. 8852, Feb. 29, 2008>*

(3) The Minister of Strategy and Finance shall report to the State Council the results of the evaluation conducted pursuant to paragraph (1) or (2), and then submit a report to the National Assembly along with the national statement of accounts submitted to the National Assembly pursuant to Article 61. *<Amended by Act No. 8852, Feb. 29, 2008; Act No. 9278, Dec. 31, 2008>*

(4) Necessary matters concerning organization and management of the fund management evaluation team under the provisions of paragraph (2) shall be prescribed by Presidential Decree.

Article 83 (Inspection of State Administration) Fund managing entities that operate funds governed by this Act shall be subjected to the inspection under Article 7 of the Act on the Inspection and Investigation of State Administration.

Article 84 (Liabilities of Person Accountable for Fund Asset Management) (1) A person accountable for asset management of a fund shall be liable for any loss that the fund sustains due to his/her intentional or grossly negligent violation of any Act and subordinate statute.

(2) If a public official abuses his/her official authority with the intent to exercise influence on asset management of a fund, exercises influence on a fund managing entity or any person accountable for asset management of the fund, and the fund consequently incurs losses, the public official shall be liable for such losses jointly with the person also held liable in accordance with the provisions of paragraph (1).

Article 85 (Provisions Applicable Mutatis Mutandis) Articles 31 (3), 35, 38, 39, 45, 49, 50, and 55 shall apply *mutatis mutandis* to funds.

CHAPTER V IMPROVEMENT OF FINANCIAL SOUNDNESS

Article 86 (Efforts for Improvement of Financial Soundness) The Government shall endeavor to maintain soundness in its finance, manage State claims efficiently, and maintain State obligations at an appropriate level.

Article 87 (Enactment of and Amendment to Acts and Subordinate Statutes Entailing Treasury Burden) (1) The Government shall, when it intends to submit a legislative Bill empowering Treasury expenditure or tax reduction or exemption, attach data of the estimates of the increase or decrease in Treasury revenue and expenditure for five consecutive fiscal years from the year the proposed Act enters into force and the corresponding fund raising scheme to the legislative Bill.

(2) The head of each central government agency shall, when a proposed legislative Bill is to incur Treasury

expenditure, prepare the estimation data and the fund raising scheme set forth in paragraph (1), as prescribed by Presidential Decree, and shall consult with the Minister of Strategy and Finance before making a preliminary announcement of the legislative Bill. *<Amended by Act No. 8852, Feb. 29, 2008>*
(3) Where any matter prescribed by Presidential Decree changes due to the modification of a legislative Bill, following the consultation under paragraph (2), the head of each central government agency shall prepare the estimation data and the fund raising scheme on the legislative Bill, and re-consult with the Minister of Strategy and Finance. *<Newly Inserted by Act No. 10288, May 17, 2010>*
Article 88 (Restrictions on Rebates or Reduction of National Taxes) (1) The Minister of Strategy and Finance shall endeavor to maintain the ratio of total national taxes rebated or reduced to the aggregate of total revenue of national taxes for the current year prescribed by Presidential Decree and total amount of national taxes rebated or reduced for the current year (hereinafter referred to as "ratio of national taxes rebated or reduced") to not exceed the ratio prescribed by Presidential Decree. *<Amended by Act No. 8852, Feb. 29, 2008>*
(2) The head of each central government agency shall, whenever he/she requests a new entitlement to rebates or reduction of a national tax, prepare a scheme for reducing or abolishing the existing entitlement to reduction or exemption of national taxes, or a scheme for reducing Treasury expenditure for purposes of supplementing the amount reduced or exempt, as prescribed by Presidential Decree, along with other necessary matters, to submit it to the Minister of Strategy and Finance. *<Amended by Act No. 8852, Feb. 29, 2008; Act No. 10288, May 17, 2010>*
Article 89 (Formulation of Supplementary Revised Budget Bills) (1) The Government may formulate any supplementary revised budget Bill, if one of the following events occurs, thereby making it necessary to revise the budget already finalized: *<Amended by Act No. 9411, Feb. 6, 2009>* 1. A war or large-scale natural disaster breaks out; 2. A significant change in the domestic or overseas situation, such as an economic recession, mass unemployment, change in inter-Korean relations or economic cooperation, occurs or is likely to occur; 3. The expenditure the State is obligated to pay pursuant Acts and subordinate to statutes is incurred or increased.
(2) The Government shall not allocate or execute the supplementary revised budget in advance before the budget Bill is finally adopted by a resolution of the National Assembly.
Article 90 (Appropriation of Surplus in Tax Accounts, etc.) (1) The State bonds may be repaid preferentially by using excess tax revenue anticipated in the year concerned within the extent of the State bonds already issued in the year concerned with the purpose of making up for losses in the revenue of general account budget, In such cases, it may be treated as an exception to the revenue and expenditure. *<Newly Inserted by Act No. 9278, Dec. 31, 2008>*
(2) The balance of the surplus in the settlement of the revenue and expenditure budgets for each fiscal year after deducting the amount deductible pursuant to other Acts and the amount carried over pursuant to the provisions of Article 48 (hereinafter referred to as "surplus in tax accounts") may be expended for the settlement of subsidies under Article 5 (2) of the Local Subsidy Act and the settlement of the subsidies under Article 9 (3) of the Local Education Subsidy Act.
(3) At least 30/100 of the surplus in tax accounts exclusive of the amount expended pursuant to the provisions of paragraph (2) shall be contributed first, among other things, to the fund for redemption of public capital under the Public Capital Redemption Fund Act. *<Amended by Act No. 9278, Dec. 31, 2008>*
(4) At least 30/100 of the surplus in tax accounts exclusive of the amounts spent or contributed pursuant to the provisions of paragraphs (2) and (3) shall be spent for repayments of the following obligations:

<Amended by Act No. 8135, Dec. 30, 2006; Act No. 9278, Dec. 31, 2008> 1. Principal and interest of State bonds or borrowed loan funds; 2. State compensation decided pursuant to the State Compensation Act 3. Principal and interest of the borrowed loan funds (including deposits received) in the loan account of the public capital management fund under the Public Capital Management Fund Act: *Provided*, That the foregoing shall apply only to loan funds (including deposits received) borrowed on or before December 31, 2006; 4. Other obligations that the Government owes pursuant to other Acts.

(5) The surplus in tax accounts exclusive of the amounts spent or contributed pursuant to the provisions of paragraphs (2) through (4) may be used in the formulation of a supplementary revised budget Bill. *<Amended by Act No. 9278, Dec. 31, 2008>*

(6) Spending or contribution of the surplus in tax accounts pursuant to the provisions of paragraphs (2) through (4) may be done until the end of the year immediately after the current year during which the surplus in tax accounts accrues, irrespective of the expenditure budget of the accounts, subject to deliberation by the State Council and approval of the President. *<Amended by Act No. 9278, Dec. 31, 2008>*

(7) Spending or contribution of the surplus in tax accounts pursuant to the provisions of paragraphs (2) through (5) may be initiated upon obtaining the approval of the President for the national statement of accounts pursuant to Article 13 (3) of the National Accounting Act, notwithstanding any express provisions to the contrary in any other Act. *<Amended by Act No. 9278, Dec. 31, 2008>*

(8) The balance of the surplus in tax accounts after deducting the amounts expended or contributed pursuant to the provisions of paragraphs (2) through (5) shall be carried over to the revenue for the following year. *<Amended by Act No. 9278, Dec. 31, 2008>*

Article 91 (Management of State Obligations) (1) As regards pecuniary obligations that each account or fund of the State owes, the Minister of Strategy and Finance shall establish a State obligations management plan each year, which shall include the following matters: *<Amended by Act No. 8852, Feb. 29, 2008; Act No. 10288, May 17, 2010>*

1. Amounts of State bonds issued or loan funds borrowed and repaid or redeemed during the year immediately before the preceding year and also the preceding year;
2. Estimated amounts of State bonds to be issued or loan funds to be borrowed during the current fiscal year;
3. Plans for issuance of State bonds or loans, and subsequent plan for redemption of State bonds and repayment of loan funds during the period of at least five fiscal years from the relevant fiscal year;
4. Forecast and ground of increase or decrease in obligations, and its management plan during the period of at least five fiscal years from the relevant fiscal year;
5. Other matters prescribed by Presidential Decree.

(2) Pecuniary obligations under paragraph (1) mean the following obligations: 1. Bonds issued by an account or a fund of the State (excluding the accounts or funds difficult to be regarded as the accounts or funds of the State, as specified by Presidential Decree, in substance in light of the manner of raising and managing the financial resources; hereafter the same shall apply in this paragraph); 2. Loan funds borrowed by an account or a fund of the State; 3. Commitments to take a Treasury obligation by an account or a fund of the State; 4. Other obligations prescribed by Presidential Decree as similar to those set forth in subparagraphs 1 and 2.

(3) Notwithstanding paragraph (2), an obligation shall not be included among State obligations, if it falls under any of the following subparagraphs: 1. A treasury Bill under Article 32 (1) of the Management of the National Funds Act or a temporary loan borrowed from the Bank of Korea; 2. A bond taken over or

purchased and held by an account or a fund of the State among the bonds falling under paragraph (2) 1;
3. A loan borrowed from another account or fund of the State among the loan funds falling under paragraph (2) 2.
(4) The Minister of Strategy and Finance may request the head of the central government agency concerned to submit data, if necessary for establishing a State obligations management plan under paragraph (1). *<Amended by Act No. 8852, Feb. 29, 2008>*
Article 92 (Bearing and Management of State Guarantee Obligations) (1) The State shall obtain prior consent of the National Assembly whenever it intends to bear any guarantee obligation.
(2) The Minister of Strategy and Finance shall prepare each year a State guarantee obligation management plan on bearing and management of State guarantee obligation under paragraph (1). *<Newly Inserted by Act No. 10288, May 17, 2010>*
(3) Necessary matters concerning management of guarantee obligations under paragraph (1) and preparation of State guarantee obligation management plans under paragraph (2) shall be prescribed by Presidential Decree. *<Amended by Act No. 10288, May 17, 2010>*

CHAPTER VI SUPPLEMENTARY PROVISIONS

Article 93 (Custody and Safekeeping of Securities)
(1) The head of each central government agency shall not have custody of any security, except as provided for otherwise by Acts and subordinate statutes.
(2) The head of each central government agency shall, when he/she is obligated to take custody of securities in accordance with the provisions of relevant Acts and subordinate statutes, entrust the custody of such securities to the Bank of Korea or a financial institution prescribed by Presidential Decree.
(3) When the Bank of Korea or a financial institution prescribed by Presidential Decree is entrusted with safekeeping of securities pursuant to the provisions of paragraph (2), the provisions of Article 15 (2) through (5) of the State Properties Act shall apply *mutatis mutandis*. *<Amended by Act No. 9401, Jan. 30, 2009>*
Article 94 (Recording and Keeping of Accounting Books) The Minister of Strategy and Finance, heads of central government agencies, and the Bank of Korea and the financial institutions entrusted with safekeeping of securities pursuant to the provisions of Article 93 (2) shall keep accounting books and record necessary matters, as prescribed by Presidential Decree. *<Amended by Act No. 8852, Feb. 29, 2008>*
Article 95 (Holding of Funds) The State may hold a special fund, only when authorized by Acts.
Article 96 (Extinctive Prescription of Pecuniary Claims and Obligations) (1) A right of the State to payment of money may lapse by extinctive prescription, if it has not been exercised for five years, unless otherwise provided for by any other Act.
(2) The provisions of paragraph (1) shall also apply to the rights to claim payment of money against the State.
(3) As regards the rights of the State to payment of money, if there is no provision in any other Act concerning interruption or suspension of extinctive prescription, and other matters, the provisions of the Civil Act shall apply. The foregoing shall also apply to the rights to claim payment of money against the State.
(4) A notice demanding payment issued by the State as provided for by Acts and subordinate statutes shall have the effect of interrupting prescription.
Article 97 (Control of Financial Execution) (1) The head of each central government agency and each fund

managing entity shall submit to the Minister of Strategy and Finance a report on execution of activities and a report on execution of the budget and a fund management plan, as prescribed by Presidential Decree. *<Amended by Act No. 8852, Feb. 29, 2008>*

(2) In order to manage the budget and funds efficiently, the Minister of Strategy and Finance may request the heads of central government agencies or the fund managing entities to take measures necessary for removing obstacles to execution and preventing extravagant expenditure, if found necessary as a result of analysis of the reports submitted pursuant to the provisions of paragraph (1), and inspecting and monitoring the current status of execution of the budget and funds and the actual status of extravagant expenditure practices, if any. *<Amended by Act No. 8852, Feb. 29, 2008>*

Article 97-2 (Informatization of Financial Business) (1) The Minister of Strategy and Finance may, to ensure the smooth performance of finance-related business, develop information and communications media, programs, etc. and have them used by the heads of central government agencies. In such cases, he/she shall consult in advance with the Board of Audit and Inspection on the development of information and communications media, programs, etc. concerning national accounting business.

(2) Notwithstanding paragraph (1), the heads of central government agencies may directly develop and use information and communications media, programs, etc. which handle finance-related business. In such cases, they shall consult in advance with the Minister of Strategy and Finance and the Board of Audit and Inspection (limited to cases of development of information and communications media, programs, etc. concerning national accounting business). *[This Article Newly Inserted by Act No. 9278, Dec. 31, 2008]*

Article 98 (Internal Controls) The head of each central government agency shall require public officials under his/her control to implement internal controls over necessary matters in order to analyze and evaluate whether financial management and spending of financial resources have been properly carried out and whether the data reported during the course of execution thereof are reliable.

Article 99 (Supervision of Execution and Settlement of Budget and Fund Management Plans)
The Minister of Strategy and Finance shall require public officials under his/her control to conduct inspections and monitoring in order to ensure that the execution or settlement of the budget and the fund management plans is properly conducted, and may, if necessary, request the heads of central government agencies to reform related systems or issue instructions concerning execution and settlement of the budget and fund management plans, subject to prior deliberation of the State Council and approval of the President. *<Amended by Act No. 8852, Feb. 29, 2008>*

Article 100 (Citizen Monitoring against Unlawful Spending of Budget and Funds) (1) When it is obvious that a person executing the budget or funds of the State, a person who receives financial support, the head of a central government agency (including the head of one of its subordinate organs), or a person who enters into a contract or conducts any other transaction with a fund management entity has incurred losses upon the State in violation of any Act and subordinate statute, each citizen has a right to submit evidence of any unlawful spending to the head of the central government agency or the fund managing entity responsible for the execution and demand to take corrective measures.

(2) The head of a central government agency or a fund managing entity shall, upon receiving the demand for corrective measures pursuant to the provisions of paragraph (1), notify the person who demanded such corrective measures of the results of the measures taken, as prescribed by Presidential Decree.

(3) The head of a central government agency or a fund managing entity may pay the budgetary incentive under the provisions of Article 49 to the person who demanded corrective measures, if revenue has been increased or expenditure has been saved as a result of such measures taken in accordance with the

provisions of paragraph (2).

Article 101 (Training of Finance-Related Public Officials) The Minister of Strategy and Finance may conduct training programs, as prescribed by Presidential Decree, to improve the expertise of public officials accountable for financial affairs in dealing with such affairs. *<Amended by Act No. 8852, Feb. 29, 2008>*

CHAPTER VII PENAL PROVISIONS

Article 102 (Penal Provisions) A public official who has exercised undue influence on a fund managing entity or any other person accountable for asset management of a fund by the abuse of his/her official authority shall be punished by imprisonment for a period not exceeding five years, by suspension of qualification for a period not exceeding ten years, or by a fine not exceeding ten million won.

ADDENDA

Article 1 (Enforcement Date) This Act shall enter into force on January 1, 2007: *Provided*, That the provisions of Article 56 shall enter into force on the fiscal year during which the standards of accounting of the Government is prepared and enters into force by an Act, while the provisions of Article 11 (14), (17) (limited to the provisions pertaining to Article 48 (4) of the State Property Act), and (29) (limited to the provisions pertaining to Article 21 of the Commodity Management Act) of the Addenda shall enter into force, respectively, on January 1, 2008.

Article 2 (Repealed Acts) The Budget and Accounts Act and the Framework Act on Fund Management are both hereby repealed.

Article 3 (Applicability to National Financial Management Plan, etc.) The provisions of Article 7 shall be applicable to national financial management plans, long-and medium-term plans, etc. established first and subsequently after this Act enters into force.

Article 4 (Applicability to Submission, etc. of Performance Plans, Performance Reports, and Performance Inspection Reports) (1) The provisions of Article 8 (2) and (5) that require submission of a performance plan and preparation of guidelines for performance plans shall be applicable to the budget Bill and the draft fund management plan for fiscal year 2008 first and subsequently, while the provisions of subparagraph 8 of Article 34 and subparagraph 4 of Article 71 that require submission of the performance plan to the National Assembly shall be applicable to the budget Bill and the draft fund management plan for fiscal year 2009 first and subsequently.

(2) The provisions of Article 8 (2) and (3) that require submission of the performance report and the provisions of paragraph (5) of the same Article that requires preparation of guidelines for performance reports shall be applicable to the settlement of accounts and the settlement of funds for fiscal year 2008 first and subsequently, while the provisions of Articles 61 and 73 (6) 7 that require submission of the performance report to the National Assembly shall be applicable to the settlement of accounts and the settlement of funds for fiscal year 2009 first and subsequently.

(3) The provisions of Article 8 (4) that require dispatch of the performance inspection report to the Minister of Strategy and Finance shall be applicable to the settlement of accounts and the settlement of funds for fiscal year 2008 first and subsequently, while the same provisions that require submission of the report to the National Assembly shall be applicable to the settlement of accounts and the settlement of funds for fiscal year 2009 first and subsequently. *<Amended by Act No. 8852, Feb. 29, 2008>*

Article 5 (Applicability to Preparation and Submission of Gender-Sensitive Budget and Statement on Gender-Sensitive Settlement of Accounts) The provisions of Article 26 that require preparation of the gender-sensitive budget, the provisions of subparagraph 9 of Article 34 that require submission of the gender-sensitive budget, the provisions of Article 57 that require preparation of the statement on the gender-sensitive settlement of accounts, and the provisions of Article 58 (1) 4 that require submission of the statement on the gender-sensitive settlement of accounts shall be applicable to the budget Bill and the settlement of accounts for fiscal year 2010 first and subsequently.

Article 6 (Applicability, etc. to Preparation and Submission of Tax Expenditure Budgets) (1) The provisions of Article 27 and subparagraph 10 of Article 34 that require preparation and submission of the tax expenditure budget shall be applicable to the budget Bill for fiscal year 2011 first and subsequently.

(2) The Government shall prepare the report on the results of tax amounts rebated or reduced, tax rebate or reduction rates, etc. for the preceding year and estimates thereof for the current year until fiscal year 2009, as prescribed by Presidential Decree, and shall submit the report to the National Assembly.

Article 7 (Applicability, etc. to Medium-Term Project Plans) The provisions of Articles 28 and 66 (1) shall be applicable to the medium-term project plans pertinent to the budget Bill and the draft fund management plan for fiscal year 2008 first and subsequently.

Article 8 (Applicability to Detailed Plans for Project Execution and Detailed Results of Execution for Lump-Sum Allocated Projects) The provisions of Article 37 (3) and (4) shall be applicable to detailed plans for project execution and detailed results of execution for the projects to which a lump sum is allocated under the budget for fiscal year 2008 first and subsequently.

Article 9 (Applicability to Deadlines for Submission of Comprehensive Statements on Spending of Reserve Funds, Settlement of Accounts, and Settlement of Funds) (1) The deadlines for submission of the comprehensive statement on the expenditure of reserve funds, settlement of accounts, and settlement of funds as set forth in the provisions of Articles 52, 58 through 61, and 73 shall be applicable to the approval for use of reserve funds, settlement of accounts, and settlement of funds for fiscal year 2007 first and subsequently.

(2) As to the deadlines for submission of comprehensive statements on the expenditure of reserve funds, settlement of accounts, and settlement of funds for fiscal year 2006, the former Budget and Accounts Act and the former Framework Act on Fund Management Act shall apply.

Article 10 (Applicability to Enactment of and Amendment to Acts Entailing Treasury Burdens) The provisions of Article 87 (1) shall be applicable to the legislative Bill submitted first and subsequently after this Act enters into force.

Article 11 Omitted.

Article 12 (Relations to other Acts and Subordinate Statutes) Any reference to the Budget and Accounts Act, the Framework Act on Fund Management, or any provision thereof in any other Act and subordinate statute in force at the time this Act enters into force, if any, shall be deemed any reference to this Act or a corresponding provision hereof in lieu of the former provision, if such a corresponding provision exists herein.

ADDENDA <Act No. 8135, Dec. 30, 2006>

Article 1 (Enforcement Date) This Act shall enter into force on January 1, 2007.

Articles 2 through 9 Omitted.

ADDENDA <Act No. 8149, Dec. 30, 2006>

Article 1 (Enforcement Date) This Act shall enter into force on January 1, 2007.

Articles 2 through 5 Omitted.

ADDENDA <Act No. 8151, Dec. 30, 2006>

Article 1 (Enforcement Date) This Act shall enter into force on January 1, 2007.

Articles 2 through 6 Omitted. ADDENDUM <Act No. 8161, Dec. 30, 2006> This Act shall enter into force on January 1, 2007.

ADDENDA <Act No. 8280, Jan. 26, 2007>

Article 1 (Enforcement Date) This Act shall enter into force three months after the date of its promulgation. (Proviso Omitted.) **Articles 2 through 6 Omitted.**

ADDENDA <Act No. 8790, Dec. 21, 2007>

Article 1 (Enforcement Date) This Act shall enter into force on July 1, 2008.

Articles 2 and 3 Omitted. ADDENDUM <Act No. 8836, Dec. 31, 2007> This Act shall enter into force on the date of its promulgation. **ADDENDA** <Act No. 8852, Feb. 29, 2008>

Article 1 (Enforcement Date) This Act shall enter into force on the date of its promulgation. (Proviso Omitted.)

Articles 2 through 7 Omitted. ADDENDA <Act No. 9016, Mar. 28, 2008>

Article 1 (Enforcement Date) This Act shall enter into force on January 1, 2009. (Proviso Omitted.)

Articles 2 through 8 Omitted.

ADDENDA <Act No. 9137, Dec. 11, 2008>

Article 1 (Enforcement Date) This Act shall enter into force on January 1, 2010.

Articles 2 through 6 Omitted.

ADDENDA <Act No. 9278, Dec. 31, 2008>

Article 1 (Enforcement Date) This Act shall enter into force on January 1, 2009: *Provided*, That the amended provisions of Article 63 (3) shall enter into force on February 4, 2009.

Article 2 (Applicability to Submission of Statement of Accounts) (1) The amended provisions of Articles 58 through 61 and 73 shall be applicable to the statement of accounts for the fiscal year 2009 first and subsequently.

(2) Notwithstanding paragraph (1), the part concerning the financial statements included in the national statement of accounts from among the amended provisions of Articles 59 and 61 shall be applicable to the statement of accounts for the fiscal year 2011 first and subsequently. However, at the time of closing of accounts for the fiscal years 2009 and 2010, the head of each central government agency, fund management entities, etc. shall prepare the following documents concerning relevant accounting and fund, and submit them to the Minister of Strategy and Finance by the end of February of the following year, and the Minister of Strategy and Finance shall put them together and submit them to the Board of Audit and Inspection and the National Assembly after undergoing a deliberation by the State Council and then obtaining the approval of the President: *<Amended by Act No. 9401, Jan. 30, 2009>* 1. Financial statements of each fund and the accompanying documents thereof; 2. Financial statements of a special account under Article 3 of the Government Enterprise Budget Act and the accompanying documents thereof; 3. Financial statements of a special account of responsible administrative agency under Article 27 (1) of the Act on the Establishment and Operation of Responsible Administrative Agencies, and the accompanying documents thereof; 4. Report on the management of State obligations under the former Article 58 (1) 6; 5. Report on the present value of State claims under the former Article 58 (1) 7; 6. Report on management and operation of State property under Article 69 of the State Property Act and 7. Statement on the increase or decrease in the commodities and on the present value thereof under Article 21 of the Commodity Management Act.

Article 3 (Exceptions to Submission, etc. of Statement of Accounts) As for the cases of closing accounts for the fiscal years 2009 and 2010, the head of each central government agency shall submit the financial

statements under subparagraph 3 of Article 14 of the National Accounting Act to the Minister of Strategy and Finance by the end of March of the following year, notwithstanding the amended provisions of Article 58 (1).
ADDENDA <Act No. 9280, Dec. 31, 2008>
Article 1 (Enforcement Date) This Act shall enter into force on January 1, 2009.
Articles 2 through 6 Omitted. ADDENDA <Act No. 9401, Jan. 30, 2009>
Article 1 (Enforcement Date) This Act shall enter into force six months after the date of its promulgation. (Proviso Omitted.)
Articles 2 through 11 Omitted. ADDENDUM <Act No. 9411, Feb. 6, 2009>
This Act shall enter into force on the date of its promulgation.
ADDENDA <Act No. 9415, Feb. 6, 2009>
Article 1 (Enforcement Date) This Act shall enter into force three months after the date of its promulgation.
Articles 2 through 8 Omitted. ADDENDA <Act No. 9477, Mar. 5, 2009>
Article 1 (Enforcement Date) This Act shall enter into force on January 1, 2010.
Articles 2 through 9 Omitted. ADDENDA <Act No. 9486, Mar. 18, 2009>
Article 1 (Enforcement Date) This Act shall enter into force on the date of its promulgation.
Article 2 (Applicability to Submission of Details of Re-appropriation of Budget) (1) Details of re-appropriation, use or transfer of the budget shall be submitted to the competent standing committees and the Special Committee on Budget and Accounts of the National Assembly under the amended provisions of Articles 46 (4) and 47 (4), starting from the budget of the fiscal year 2009.
(2) Details of revision to the fund management plan shall be submitted to the competent standing committees and the Special Committee on Budget and Accounts of the National Assembly under the amended provisions of Article 70, starting from the fund management plan of the fiscal year 2009.
Article 3 (Special Cases concerning Deadline for Submission of Details of Re-appropriation of Budget, etc.) Notwithstanding the amended provisions of Articles 46 (4), 47 (4) and 70 and Article 2 of the Addenda, details of re-appropriation, use or transfer of the budget and details of revision to the fund management plan in the first quarter of the fiscal year 2009 shall be submitted by a deadline for submission of details of the second quarter of the fiscal year 2009. ADDENDA <Act No. 9622, Apr. 1, 2009>
Article 1 (Enforcement Date) This Act shall enter into force six months after the date of its promulgation. (Proviso Omitted.)
Articles 2 through 10 Omitted. ADDENDA <Act No. 9626, Apr. 22, 2009>
Article 1 (Enforcement Date) This Act shall enter into force one year after the date of its promulgation.
Articles 2 through 12 Omitted. ADDENDA <Act No. 9670, May 13, 2009>
Article 1 (Enforcement Date) This Act shall enter into force on the date of its promulgation.
Articles 2 through 4 Omitted. ADDENDA <Act No. 9685, May 21, 2009>
Article 1 (Enforcement Date) This Act shall enter into force six months after the date of its promulgation.
Articles 2 through 8 Omitted. ADDENDA <Act No. 9708, May 22, 2009>
Article 1 (Enforcement Date) This Act shall enter into force three months after the date of its promulgation. (Proviso Omitted.)
Articles 2 through 12 Omitted. ADDENDA <Act No. 9712, May 27, 2009> (1) (Enforcement Date) This Act shall enter into force on January 1, 2010. (2) (Applicability to Submission of Performance Plans) The amended provisions of Articles 8 (9) and 36 shall start applying to budget Bills and draft fund management plans to be submitted to the National Assembly in the next fiscal year to which the enforcement date of this Act belongs. **ADDENDA** <Act No. 9785, Jul. 31, 2009>

Article 1 (Enforcement Date) This Act shall enter into force six months after the date of its promulgation.
Articles 2 through 9 Omitted. ADDENDUM <Act No. 9801, Oct. 21, 2009> This Act shall enter into force on December 10, 2009. **ADDENDA** <Act No. 10155, Mar. 22, 2010>

Article 1 (Enforcement Date) This Act shall enter into force on January 1, 2011.

Article 2 Omitted. ADDENDA <Act No. 10165, Mar. 22, 2010>

Article 1 (Enforcement Date) This Act shall enter into force six months after the date of its promulgation: *Provided*, …Omitted.>…Article 6 (1) of this Addenda, …Omitted.>…shall enter into force on January 1, 2011.

Articles 2 through 7 Omitted. ADDENDA <Act No. 10228, Apr. 5, 2010>

Article 1 (Enforcement Date) This Act shall enter into force three months after the date of its promulgation.
Articles 2 through 5 Omitted. ADDENDA <Act No. 10288, May 17, 2010>

(1) (Enforcement Date) This Act shall enter into force on the date of its promulgation.

(2) (Transitional Measures concerning Establishment of National Financial Management Plans) The amended provisions of Articles 7, 9-2, 34, 73-3, 91 and 92 shall apply to each of the national financial management plan, estimation of government disbursement for build-transfer-lease project, medium- and long-term fund financial management plan, State obligations management plan, or State guarantee obligation management plan, first established or prepared after this Act enters into force: *Provided*, That the amended provisions of Article 7 (2) 4-2, 4-3, and subparagraph 2 of Article 9-2 shall apply to a national financial management plan established in 2012.

(3) (Applicability to Submission of Summary of Results on Preliminary Feasibility Survey) The amended provisions of Article 38 (1) shall apply to the first preliminary feasibility survey conducted after this Act enters into force.

(4) (Applicability to Preparation and Submission of Gender-Sensitive Fund Management Plan and Settlement Statement of Accounts of Gender-Sensitive Fund) The amended provisions of Article 68-2 and subparagraph 6 of Article 71 shall apply to a gender-sensitive fund management plan in fiscal year 2011, and the amended provisions of Article 73-2 shall apply to a settlement statement of accounts of gender-sensitive fund in fiscal year 2011. **ADDENDA** <Act No. 10361, Jun. 8, 2010>

Article 1 (Enforcement Date) This Act shall enter into force six months after the date of its promulgation. (Proviso Omitted.)

Articles 2 through 12 Omitted. ADDENDUM <Act No. 10400, Dec. 27, 2010> This Act shall enter into force six months after the date of its promulgation. ADDENDA <Act No. 10414, Dec. 27, 2010>

Article 1 (Enforcement Date) This Act shall enter into force on January 1, 2011.

Articles 2 through 5 Omitted.

ADDENDA <Act No. 10484, Mar. 30, 2011> **Article 1 (Enforcement Date)** This Act shall enter into force on April 1, 2011.

Articles 2 (Applicability to Attachment of Expenditure Budget for Special Cases of State Property) The amended provisions of subparagraph 14 of Article 34 shall apply with regard to the documents attached to the expenditure budget bill to be submitted to the National Assembly in 2016 onward. ADDENDA <Act No. 10682, May. 19, 2011>

Article 1 (Enforcement Date) This Act shall enter into force on the date of its promulgation.

Articles 2 through 3 Omitted.