

# New Fiscal Issues in front of Korea

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# Tax Expenditure

# Tax Expenditure

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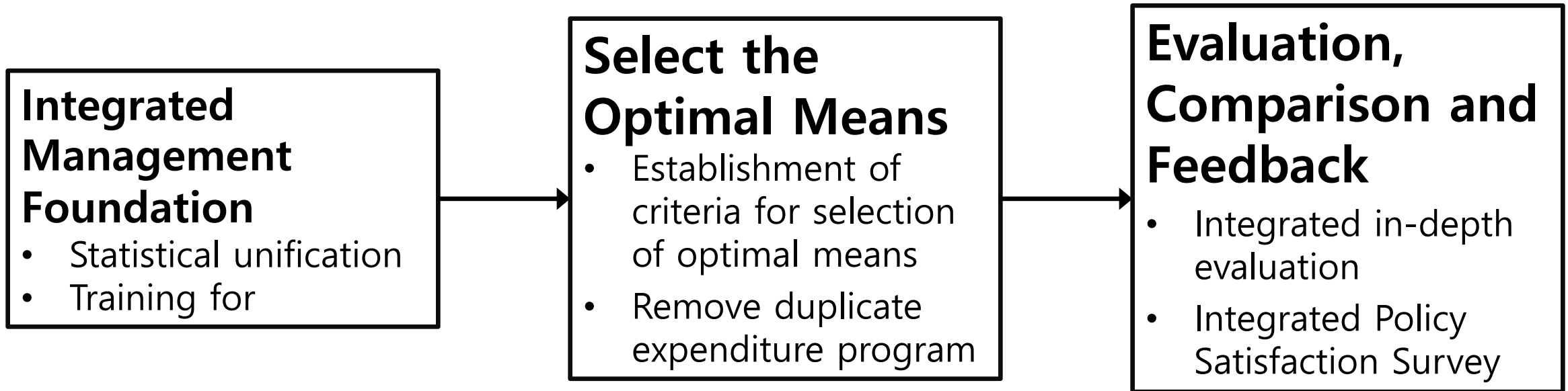
- Tax expenditure refers to the financial support provided by the government through the tax system rather than direct expenditures.
- This includes various tax reliefs, exemptions, deductions, credits, and deferrals which aim to achieve specific policy.
- The biggest problem with tax expenditure is that the total number of expenditures is not proactively controlled and is not linked to various systems prepared for budget project management.



# Tax Expenditure in Korea

Year	2022	2023	2024	Average Growth Rate (%)
Tax Expenditure (A)	63.5 trillion KRW (48.1 billion USD)	69.5 trillion KRW (52.7 billion USD)	77.1 trillion KRW (58.5 billion USD)	10.2
Fiscal Expenditure (B)	682.4 trillion KRW (517.4 billion USD)	638.7 trillion KRW (484.0 billion USD)	656.9 trillion KRW (497.7 billion USD)	△1.9
Total Fiscal Expenditure (C = A + B)	745.9 trillion KRW (565.5 billion USD)	708.2 trillion KRW (536.7 billion USD)	734.0 trillion KRW (556.2 billion USD)	△0.8
Tax Expenditure Ratio (A/C)	8.5%	9.8%	10.5%	-

# Linking Tax Expenditure with Fiscal expenditure



# **Fiscal Theory of the Price Level (FTPL)**

# Fiscal Theory of the Price Level (FTPL)

- The Fiscal Theory of the Price Level (FTPL) argues that fiscal policy (Gov. debt and others) also influences inflation and price stability.
- C. Sims (Chico Univ.), R. Barro (Harvard) and others have successfully described U.S. inflation in relation to the government's fiscal deficit.
- Is the government's fiscal activity a variable that can fully explain the level of inflation in other countries as in the United States?



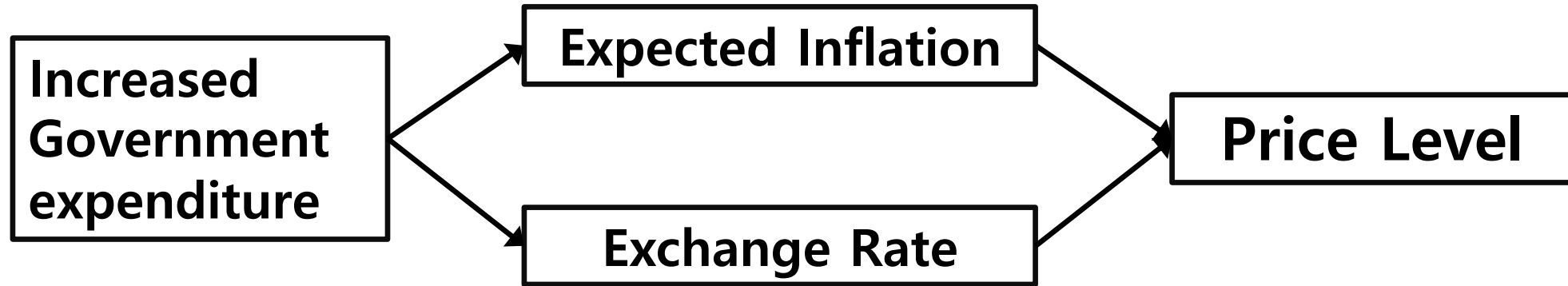
C. A. Sims (2011 Nobel Laureate)



# Comparison of FTPL and QTM

Aspect	Fiscal Theory of the Price Level (FTPL)	Quantity Theory of Money (QTM)
Key Equation	Price level determined by the ratio of government debt to the monetary base.	$MV=PQ$ (where M is money supply, V is velocity, P is price level, Q is output).
Key Proposition	Views currency as "government-issued equity."	"Inflation is always and everywhere a monetary phenomenon."
Inflation Link	Inflation linked to government's budgetary position and debt management.	Inflation is driven by changes in the money supply relative to economic output.
Inflation Control	Inflation controlled through fiscal discipline and debt levels.	Inflation controlled by regulating money supply
Policy Implications	Requires coordination between monetary and fiscal policies.	Primarily concerns central banks and monetary authorities.
Empirical Support	Still gaining empirical support through academic research like that by Christopher Sims.	Extensive empirical support through historical economic data across countries.

# Proposed Mechanism



Even if strict central bank independence is maintained, an increase in government debt stimulates prices.

If the government issues government bonds to increase spending, total liquidity does not increase. Even if liquidity does not increase that much, an increase in government debt stimulates prices.

# **Green Budget :**

## **GHG(Greenhouse Gas) Reduction Cognitive Budgeting System**

# **Green Budget : GHG(Greenhouse Gas) Reduction Cognitive Budgeting System**

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- A system that analyses the impact of national budgets on GHG reduction, reflects the findings on budget preparation, and evaluates whether the budgets have been properly executed.
- In South Korea, a system is in place where the government identifies projects that reduce greenhouse gas emissions, calculates their contribution to emission reduction, and includes this data in the budget proposal submitted to the National Assembly.



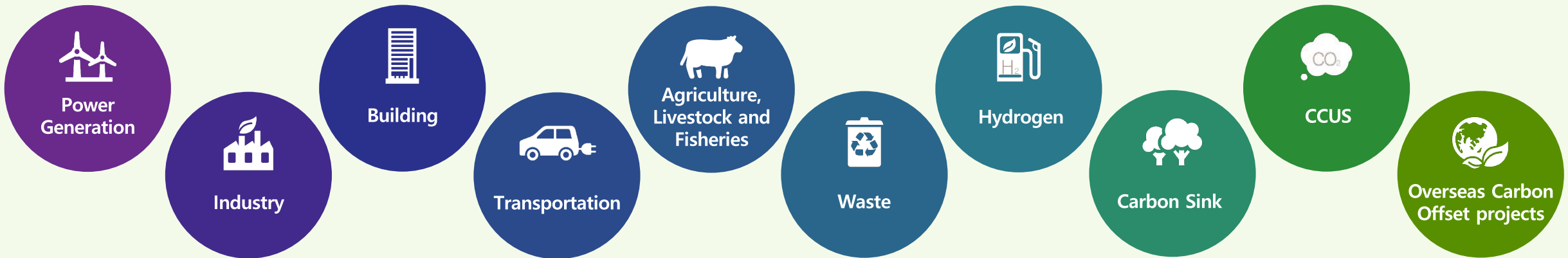
# 10 Sectors in GHG Reduction Projects

Classified into 10 sectors after the selection process



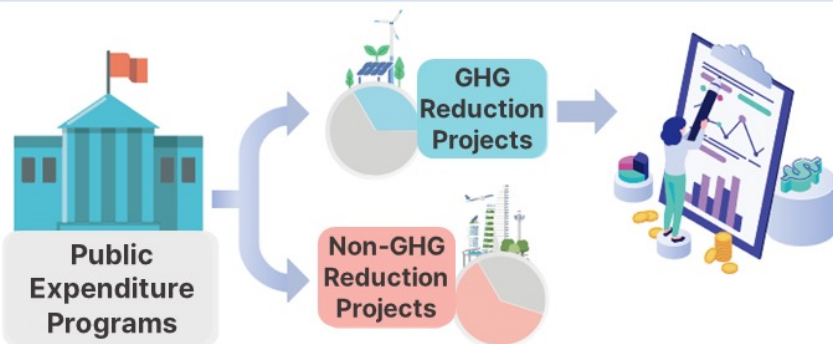
The goal is to monitor the projects' reduction effects and connect them with national carbon neutrality policies

**Classification into reduction projects aligned with national basic plan for Carbon Neutral and Green Growth (Apr. '23)**



# Expected effects

## 1. Measure the impact and scale of GHG reduction projects in public expenditure programs



Ref.

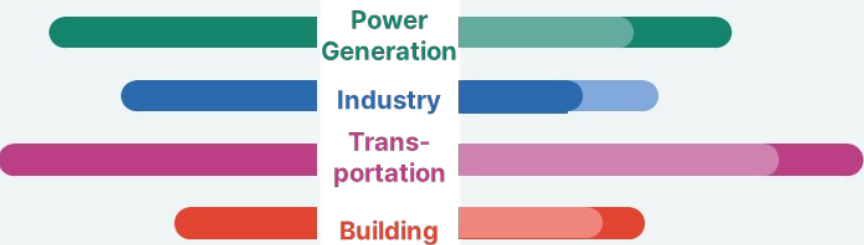
In fiscal year 2024, 10.9 trillion won out of the national budget of 657 trillion won to be used for GHG reduction projects.

## 3. Track the trend of GHG reduction budget by sectors

E.g.

✓ Fiscal year T

✓ Fiscal year T+1



## 2. Estimate annual GHG reduction effects of each project

E.g. Projects with immediate and visible reduction effects



Project Name	'25	'26	'27	~	'30	'40	'50
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Project (Qnt.)	50	50	50		50	-	-
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E.g. Projects expected to deliver potential reduction in the future



Project Name	'25	'26	'27	~	'30	'40	'50
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Project (R&D)	-	-	-		200	800	4,000
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# Thank You

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