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National Finance Act Amendments: Key Contents and Implications

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Background

▪ **On Jan. 29, 2026, the National Assembly partially amended the National Finance Act to enhance national fiscal management transparency/accountability and strengthen/check functions of parliamentary fiscal monitoring.[1)]**

Deliberation Process of National Finance Act Amendments

Sep. 16, 2025	The Strategy and Finance Committee's Economic and Fiscal Subcommittee reviewed 21 partial amendments to the National Finance Act (20 member-proposed and 1 government-submitted bills), and prepared a committee alternative by integrating and adjusting them.
Sep. 25, 2025	At the Strategy and Finance Committee meeting, it was resolved to propose the committee's alternative.
Nov. 12, 2025	The Legislation and Judiciary Committee passed the amendments with revision.
Jan. 29, 2026	It was passed in the original form at the plenary session.

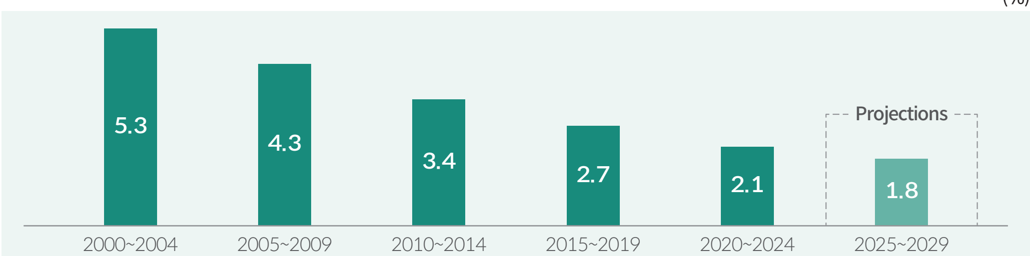
Source: National Assembly Bill Information System

▪ **Given concerns over expanding fiscal expenditure requirements and increasing national debt caused by rising economic uncertainty and a falling potential growth rate, the National Assembly's fiscal control functions must be strengthened.**

- Reflecting these fiscal environment changes, this amendment was prepared to supplement the overall national fiscal management system, including enhancing medium-term fiscal management effectiveness, improving transparency in budget formulation and execution management, and strengthening accountability in revenue and tax management.

[Figure 1] **Average Potential Growth Rate Trends**

(%)



Source: NABO Economic Outlook for 2026

Note: The 2025–2029 average annual potential growth rate is a projection by NABO.

1) Effective from the date of promulgation. However, the provisions regarding the specification of reasons for exemption from preliminary feasibility studies shall take effect 6 months after the date of promulgation.

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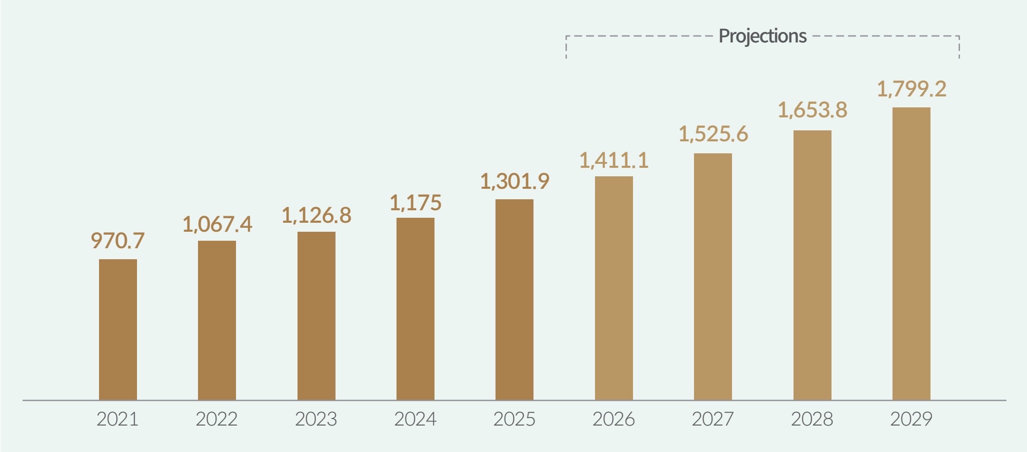
[Figure 2] National Debt Trends

(Trillion KRW)



Source: NABOSTATS (NABO's Fiscal & Economic Statistics System), NABO Medium-Term Fiscal Projection: 2025–2029
Note: Based on settled accounts until 2024, the second supplementary budget for 2025, and NABO projections from 2026 onward.

Key Amendments ① - Strengthening Fiscal Management

▪ Strengthening Effectiveness of National Fiscal Management Plan (NFMP)[2)]

- **(Background)** The NFMP faces limitations as an effective standard for medium-term fiscal management due to the lack of specific implementation strategies for fiscal management goals and sufficient performance evaluations relative to the previous year's plan.

- **(Details)** The amendment mandates the inclusion of specific implementation plans for the NFMP's basic directions and goals, and requires the attachment of a performance evaluation report compared to the previous year's plan.

- **(Significance)** By establishing a systematic monitoring, evaluation, and feedback system to fulfil fiscal goals, this amendment enhances the link between policy objectives and actual fiscal management within the NFMP, while strengthening the National Assembly's fiscal deliberation functions.

▪ Enhancing Timeliness of Long-term Fiscal Outlooks[3)]

- **(Background)** The rigid 5-year fiscal outlook framework cannot flexibly reflect changes in macroeconomic variables and fiscal systems resulting from shifts in domestic and international conditions.

- **(Details)** The amendment establishes a legal basis for the Planning and Budget Minister to conduct ad-hoc outlooks when necessary (e.g., during rapid economic changes).

- **(Significance)** It enhances fiscal outlooks' relevance and accuracy through flexible and timely long-term fiscal forecasting.

2) Article 7, Paragraph 2, Item 1 and Paragraph 3, Item 1 of the Amended National Finance Act
3) Proviso of Article 7, Paragraph 4 of the Amended National Finance Act

Key Amendments ② - Enhancing Transparency in Budget Formulation and Execution Management

▪ Strengthening Transparency and Accountability in Use of Reserve Funds[4)]

- **(Background)** There have been persistent calls to strengthen management over the subjective and arbitrary use of reserve funds. This stems from concerns such as executions that do not align with reserve fund usage principles, unclear calculation bases and expenditure details, and insufficient reporting to the National Assembly on actual fund use.

- **(Details)** The amendment explicitly codifies the criteria for using reserve funds—such as unpredictability, urgency, inevitability, and feasibility of execution—into law. It also mandates that the detailed statement of the reserve fund usage plan, including explanations for how these criteria are met, be submitted to the National Assembly.

- **(Significance)** By strengthening the institutional framework for managing and monitoring reserve fund use, this amendment mitigates arbitrary fund usage and enhances transparency and accountability in its execution.

[Table 1] Status of National Assembly's Settlement Corrective Action Demands Regarding Reserve Funds For Past 5 Years

Fiscal Year	2020	2021	2022	2023	2024
No. of Cases	35	22	27	26	20
Key Details	• Execute reserve funds in accordance with the principles of their use, specify expenditure details in a concrete and detailed manner, and report the current year's reserve fund execution performance to the National Assembly. • Avoid the annual (recurrent) budgeting of reserve funds, and when requesting such funds, clearly prepare and submit calculation bases and justifications that reflect the actual coverage details. • Strengthen management to ensure compliance with legal procedures during reserve fund allocation and execution, and execute them in a manner consistent with their intended purposes. • When selecting and allocating reserve funds, consider predictability and urgency, and budget only for the appropriate scale that is either executable within the current year or necessary for contracts.				

Source: Review Report on the Approval of Reserve Fund Expenditures for Each Fiscal Year, Special Committee on Budget and Accounts, National Assembly

▪ Refining Details and Grounds for Exemption from Preliminary Feasibility Studies[5)]

- The amendment requires the submission of more specific details and justifications for projects exempt from preliminary feasibility studies to the National Assembly to enhance transparency and accountability in the project implementation process. It also exempts national R&D projects under Article 11 of the Framework Act on Science and Technology from such studies to support rapid project implementation.

4) Article 51, Paragraphs 2 and 4 of the Amended National Finance Act
5) Article 34, Item 15 of the Amended National Finance Act

Key Amendment Details ③ – Strengthening Accountability in Revenue and Tax Management

▪ **Enhancing Accuracy and Reliability of Revenue Estimation**[6)]

- **(Background)** The recurring occurrence of significant tax revenue surpluses and deficits has weakened fiscal management efficiency and transparency and exposed limitations in responding flexibly to economic fluctuations.

- **(Details)** The amendment includes provisions requiring the government to re-estimate the revenue budget for the current year every September and immediately submit a re-estimation analysis report to the National Assembly; it must include the estimation methodology and grounds and an evaluation and cause analysis of the differences between the original revenue budget and the re-estimation results by total amount and tax item.

- **(Significance)** It enhances the accuracy of government revenue budget estimates by reflecting changes in domestic and international conditions, and strengthening accountability in national revenue budget management.

[Table 2] **Status of National Tax Revenue Main Budget and Collection Performance for Past 5 Years**

(Trillion won, %)

	2020	2021	2022	2023	2024
Main budget (A)	292.0	282.7	343.4	400.5	367.3
Collection Performance (B)	285.5	344.1	395.9	344.1	336.5
Tax Revenue Error (C=B-A)	-6.5	61.3	52.6	-56.4	-30.8
Tax Revenue Error Rate (C/A)	-2.2	21.7	15.3	-14.1	-8.4

Source: Ministry of Economy and Finance (MOEF)

▪ **Strengthening Transparency and Accountability of Tax Expenditures**[7)]

- **(Background)** Given that the tax revenue base is expected to deteriorate due to low birth rates and an aging population, effective control mechanisms for tax expenditures must be established, as seen in cases where the national tax benefit rate exceeds the legal limit.

- **(Details)** The amendment mandates the submission of details and reasons to the National Assembly, along with the budget proposal attachments, in cases where the national tax benefit rate exceeds the national tax benefit limit.

- **(Significance)** It contributes to securing national fiscal soundness by enhancing the effectiveness of the national tax benefit limit system and the accountability of tax expenditure management.

6) Article 55-2 of the Amended National Finance Act
7) Article 88, Paragraph 3 of the Amended National Finance Act

[Table 3] Status of National Tax Benefit Amount and Total Tax Revenue for Past 5 Years

(Trillion won, %)

	2021	2022	2023	2024	2025
Tax Benefit Amount (A)	57.0	63.5	69.8	70.5	76.4
Total Tax Revenue (B)	364.0	422.9	370.4	365.6	400.3
Tax Benefit Rate [A/(A+B)]	13.5	13.0	15.8	16.1	16.0
Legal Ceiling	14.3	14.6	14.3	14.6	15.5

Source: Tax Expenditure Budget Report, Government of the Republic of Korea

Conclusion and Future Tasks

- **The current amendment to the National Finance Act enhances transparency across the entire fiscal management process—from the establishment of mid-term fiscal plans to budget execution and revenue management—and institutionally strengthens the National Assembly's fiscal review function.**
  - Furthermore, the legislative discussion regarding the "submission of quarterly budget allocation plans and execution information to the National Assembly," which has been presented to the plenary session, is understood as an intent to expand the National Assembly's involvement in the budget execution stage, and the progress of future discussions must be continuously monitored (Partial Amendment to the National Finance Act (Alternative), presented to the plenary session on Dec. 10, 2025).

- **To respond to the expansion of national finances and economic uncertainties, a structure must be established where the National Assembly's fiscal control and monitoring functions can effectively operate throughout the entire process of budget formulation, execution, and feedback.**
  - The recommendations of the National Assembly Reform Advisory Committee (an advisory body to the Speaker) (Dec. 2025) and the amendments to the National Finance Act currently under discussion in the National Assembly raise awareness of the need to substantialize the National Assembly's budget review power, such as mandating the submission of expenditure limits and budget requests by ministry to the National Assembly[8) and clarifying the scope of the government's consent authority for budget increases.[9)]

- **It is necessary to monitor the government's roles and responsibilities regarding the on-site implementation of the recently amended National Finance Act while deepening discussions on the substantialization of budget review and execution control functions corresponding to the expanded fiscal management conditions.**

8) Partial Amendment Bill to the National Finance Act (Sponsored by Representative Ki-sang Choi) (Bill No. 2203377)
9) Partial Amendment Bill to the National Finance Act (Sponsored by Representative Jeung Park) (Bill No. 2210739)

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