

5. Public Finance of the Central Government

For the year of 2009, with central government revenue contracting by 5.3 percent while expenditure increasing by 6.1 percent, overall 2009 central government finances turned to a deficit of NT\$162.0 billion, ending a streak of surpluses since 2006.

Significant Decline in Central Government Revenue

In 2009, central government revenue decreased by NT\$87.4 billion to NT\$1,553.5 billion. Tax revenue reduced significantly by NT\$191.3 billion, while the revenue from surpluses of public enterprises and public utilities increased by NT\$65.3 billion.

A closer look at the components shows that the two major sources of central government revenue in 2009 continued to be tax revenue and surpluses of public enterprises and public utilities, contributing to 67.7 percent and 20.5 percent, respectively, of the total revenue. The decline in tax revenue was attributable to reduced enterprise earnings and individual income amid the economic downturn, and the government's tax cuts to stimulate the economy. As a result, income tax revenue fell to NT\$576.9 billion and showed a record 23.2 percent decrease

Total Revenue and Expenditure of the Central Government

Unit: NT\$ Billion

| | Fiscal Year* | | | | | | | | | |
|----------------------------------|--------------|---------|---------|---------|---------|---------|---------|---------|---------|---------|
| | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009** |
| Total Revenue | 2,030.8 | 1,417.2 | 1,304.7 | 1,320.9 | 1,368.2 | 1,464.5 | 1,546.4 | 1,635.5 | 1,640.9 | 1,553.5 |
| (Ratio to GDP : %) | 13.5 | 14.3 | 12.5 | 12.3 | 12.0 | 12.5 | 12.6 | 12.7 | 12.9 | 12.4 |
| Total Expenditure | 2,230.1 | 1,559.7 | 1,551.9 | 1,618.1 | 1,564.8 | 1,567.0 | 1,529.8 | 1,552.0 | 1,617.7 | 1,715.5 |
| (Ratio to GDP : %) | 14.8 | 15.7 | 14.9 | 15.1 | 13.8 | 13.3 | 12.5 | 12.0 | 12.7 | 13.7 |
| Surplus/Deficit | -199.3 | -142.5 | -247.2 | -297.2 | -196.6 | -102.5 | 16.6 | 83.4 | 23.2 | -162.0 |
| (Ratio to GDP : %) | -1.3 | -1.4 | -2.4 | -2.8 | -1.7 | -0.9 | 0.1 | 0.6 | 0.2 | -1.3 |
| Debt Repayment | 193.4 | 122.2 | 55.5 | 46.5 | 56.1 | 64.1 | 65.0 | 6.0 | 65.0 | 65.0 |
| Financing: | 466.1 | 275.8 | 302.7 | 343.7 | 253.5 | 167.3 | 63.9 | 0 | 45.5 | 227.0 |
| Debt Financing | 466.1 | 275.8 | 244.4 | 300.8 | 253.5 | 167.3 | 63.9 | 0 | 0.0 | 164.5 |
| Surplus of Previous Fiscal Years | 0 | 0 | 58.3 | 42.9 | 0 | 0 | 0 | 0 | 45.5 | 62.5 |
| Memorandum: | | | | | | | | | | |
| Tax Dependency Ratio***(%) | 60.9 | 57.6 | 52.9 | 51.2 | 58.6 | 68.1 | 71.5 | 77.9 | 76.8 | 61.3 |
| Debt Dependency Ratio****(%) | 20.9 | 17.7 | 15.7 | 18.6 | 16.2 | 10.7 | 4.2 | 0 | 0 | 9.6 |

Notes: * Effective 2001, the calendar year is adopted as the fiscal year. As a transition, fiscal year 2000 begins on July 1, 1999 and ends on Dec. 31, 2000.

** The figures for the year 2009 are preliminary estimates.

*** Tax dependency ratio is defined as the ratio of annual tax revenue to total government expenditure.

**** Debt dependency ratio is defined as the ratio of annual issuance of government bonds and borrowing from banks to total government expenditure.

Sources: 1. Directorate-General of Budget, Accounting and Statistics, Executive Yuan.

2. Department of Statistics, Ministry of Finance.

from the previous year. The revenue from estate and gift taxes fell by 25.9 percent in 2009 due to lower tax rates. Business tax revenue declined by 8.4 percent from the previous year, despite the government's shopping voucher scheme to boost consumption.

As tax revenue shrank and expenditure increased in 2009, the ratio of tax revenue to government expenditure, an indicator of the tax dependency of central government finances, dropped substantially to 61.3 percent from 76.8 percent in 2008.

Steady Increase in Central Government Expenditure

In 2009, central government expenditure reached NT\$1,715.5 billion, an increase of NT\$97.8 billion from the previous year. Of the increase, NT\$43.2 billion was aimed at promoting economic development via infrastructure projects such as mass rapid transit systems, railroads, flood prevention and mitigation, and broadband networks. The second largest portion of the increase went to social welfare, where a total of NT\$22.2 billion bolstered the subsidies for low-income employees and the labor insurance scheme.

In terms of share in total government expenditure, education, science and culture, and social welfare were the top two categories, accounting for 19.0 percent and 18.7 percent, respectively, followed by national defense with 17.0 percent. The share for economic development as percentage of total expenditure rose to 14.3 percent from last year's 12.5 percent.

Total Revenue and Expenditure of the Central Government by Category

Unit: NT\$ Billion

| | Fiscal Year | | | | | | | | | |
|--|-------------|---------|---------|---------|---------|---------|---------|---------|---------|---------|
| | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009* |
| Total Revenue | 2,030.8 | 1,417.2 | 1,304.7 | 1,320.9 | 1,368.2 | 1,464.5 | 1,546.4 | 1,635.5 | 1,640.9 | 1,553.5 |
| Taxes | 1,280.7 | 841.5 | 820.1 | 828.5 | 916.6 | 1,067.8 | 1,094.3 | 1,208.7 | 1,242.9 | 1,051.6 |
| Surpluses of Public Enterprises and Public Utilities | 442.4 | 335.8 | 250.7 | 326.5 | 282.2 | 243.4 | 289.1 | 271.5 | 253.4 | 318.7 |
| Fees, Fines and Indemnities | 103.0 | 72.5 | 123.3 | 77.8 | 76.1 | 79.0 | 79.0 | 81.1 | 83.1 | 78.0 |
| Revenues from Government-owned Monopolies | 77.3 | 57.5 | 0.3 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Proceeds from Sales of Properties and Recalled Capital | 88.4 | 80.9 | 73.9 | 65.7 | 70.3 | 52.6 | 58.5 | 51.3 | 40.0 | 53.7 |
| Others | 39.0 | 29.0 | 36.4 | 22.4 | 23.0 | 21.7 | 25.5 | 22.9 | 21.4 | 51.5 |
| Total Expenditure | 2,230.1 | 1,559.7 | 1,551.9 | 1,618.1 | 1,564.8 | 1,567.0 | 1,529.8 | 1,552.0 | 1,617.7 | 1,715.5 |
| General Administration | 234.9 | 167.0 | 162.3 | 167.3 | 164.1 | 165.5 | 167.3 | 168.2 | 173.0 | 168.9 |
| National Defense | 343.3 | 237.7 | 225.2 | 227.7 | 248.9 | 248.5 | 237.1 | 256.7 | 282.4 | 291.2 |
| Education, Science and Culture | 367.6 | 257.2 | 267.0 | 300.2 | 302.1 | 301.5 | 303.1 | 308.7 | 310.4 | 326.5 |
| Economic Development | 356.4 | 277.1 | 291.2 | 295.5 | 248.9 | 247.0 | 197.0 | 193.3 | 201.3 | 244.5 |
| Social Welfare | 411.0 | 293.3 | 262.2 | 284.4 | 279.8 | 285.7 | 303.3 | 305.1 | 298.4 | 320.6 |
| Community Development & Environmental Protection | 39.6 | 22.3 | 23.4 | 28.7 | 24.8 | 25.2 | 20.4 | 19.4 | 13.5 | 21.4 |
| Retirement & Compassionate Aid | 195.4 | 122.0 | 124.3 | 125.4 | 123.1 | 130.5 | 134.7 | 134.6 | 133.8 | 133.4 |
| Interest Payments | 249.6 | 151.2 | 152.2 | 144.6 | 127.1 | 117.9 | 125.2 | 124.0 | 117.4 | 116.8 |
| General Subsidies and Other Expenditure | 32.3 | 31.9 | 44.1 | 44.3 | 46.0 | 45.2 | 41.7 | 42.1 | 87.5 | 92.2 |

Note: * The figures for the year 2009 are preliminary estimates.

Sources: 1. Directorate-General of Budget, Accounting and Statistics, Executive Yuan.

2. Department of Statistics, Ministry of Finance.

In addition to the general budget expenditures, the central government also set aside a total of NT\$234.9 billion as a special budget in the course of 2009, for plans to reenergize the economy through programs or measures including the shopping vouchers, the expansionary public spending scheme, as well as the Typhoon Morakot disaster relief and reconstruction efforts.

As a result, the ratio of central government expenditure to GDP rose from 12.7 percent in the previous year to 13.7 percent, while the ratio of budget deficit to GDP was 1.3 percent.

Greater Demand for Debt Financing

The NT\$162.0 billion fiscal deficit and the NT\$65.0 billion debt principal repayment combined to represent a need for the central government to finance NT\$227.0 billion for 2009. Of this amount, NT\$164.5 billion was raised through issuing government bonds and borrowing from banks, while the remaining NT\$62.5 billion was financed with surpluses from previous fiscal years. The debt dependency ratio, i.e. the ratio of annual government bond issuance and borrowing from banks to total government expenditure, jumped to 9.6 percent in 2009, as opposed to the two preceding years, when there was no demand for debt financing.

Considerable Increase in Debt Obligations

For the year of 2009, the central government was faced with a demand to finance not only the general budget but also the special budget, both relying on government bond issuance and borrowing from banks. Total outstanding debt of the central government increased significantly by NT\$358.3 billion over the previous year-end, amounting to NT\$4,141.9 billion at the end of 2009. Furthermore, the ratio of outstanding central government debt to GDP also rose markedly from the previous year's 29.8 percent to 33.1 percent.

Public Debt of the Central Government

Unit: NT\$ Billion

| | End of Fiscal Year | | | | | | | | | |
|--------------------|--------------------|---------|---------|---------|---------|---------|---------|---------|---------|---------|
| | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009* |
| Outstanding Debt | 2,450.1 | 2,759.1 | 2,849.3 | 3,124.7 | 3,362.2 | 3,550.1 | 3,623.5 | 3,720.5 | 3,783.6 | 4,141.9 |
| (Ratio to GDP ; %) | 24.1 | 27.8 | 27.4 | 29.2 | 29.6 | 30.2 | 29.6 | 28.8 | 29.8 | 33.1 |

Note: * The figures for the year 2009 are preliminary estimates.

Sources: 1. Directorate-General of Budget, Accounting and Statistics, Executive Yuan.

2. Ministry of Finance.