

4. Public Finance

Acknowledging the mounting budget deficit caused by the implementation of major public works projects and social welfare programs such as the national health insurance plan, the government has adopted a series of adjustments since 1995 to sustain its fiscal soundness. The budget deficit has been gradually cut down as a result and registered a surplus of NT\$60.9 billion in FY1998. However, the trend of falling deficits did not hold for FY1999. Expenditure increased as the government launched demand-stimulus packages and enhanced the efficiency of budget utilization in order to foster domestic recovery. Revenue declined in FY1999, owing to falling tax receipts and the shrinking surplus of public enterprises. Expenditure expansion and revenue shrinkage led to a deficit of NT\$80.7 billion in FY1999.

A Summary of Revenue and Expenditure of General Government

Unit: NT\$ Billion

Item	Fiscal Year*				
	1995	1996	1997	1998	1999
Revenue	1,559.4	1,604.2	1,704.8	2,053.5	1,986.6
<i>(% of GDP)</i>	<i>(23.17)</i>	<i>(21.87)</i>	<i>(21.37)</i>	<i>(23.66)</i>	<i>(21.73)</i>
Current	1,522.6	1,551.0	1,629.4	1,960.7	1,848.2
Capital	36.8	53.2	75.4	92.8	138.4
Expenditure	1,910.0	1,843.8	1,878.8	1,992.6	2,067.3
<i>(% of GDP)</i>	<i>(28.38)</i>	<i>(25.14)</i>	<i>(23.55)</i>	<i>(22.96)</i>	<i>(22.61)</i>
Current	1,328.4	1,383.7	1,463.5	1,545.1	1,547.2
Capital	581.6	460.1	415.3	447.5	520.1
Surplus/Deficit	-350.6	-239.6	-174	60.9	-80.7
<i>(% of GDP)</i>	<i>(-5.21)</i>	<i>(-3.27)</i>	<i>(-2.18)</i>	<i>(0.70)</i>	<i>(-0.88)</i>
Debt Repayment	164.9	162.1	188.0	212.1	161.8
Financing	543.3	419.8	369.3	271.9	232.0
Issuance of Government Bonds	75.1	115.8	136.3	59.9	77.5
Borrowing from Banks	389.4	249.7	200.0	176.3	126.5
Surplus of Previous Fiscal Years	78.8	54.3	33.0	35.7	28.0

Note: * The fiscal year runs from July 1 of the preceding year to June 30 of the year.

Source: Department of Statistics, Ministry of Finance.

Decline in Government Revenue

Government revenue totaled NT\$1,986.6 billion in FY1999, declining by 3.26 percent from the previous fiscal year. The decline was largely caused by the decrease in both tax revenue and surpluses of public enterprises, which

still constituted the two major revenue pools, respectively accounting for 65.43 percent and 15.81 percent of total revenue in FY1999. Tax revenue slightly dropped by 2.97 percent in FY1999 and the shortfall can be attributed, first, to declines in securities transaction tax revenue resulting from lighter equity trading since the outbreak of financial difficulties in several local corporations and, second, to the falling land value increment tax owing to the gloomy real estate market. Surpluses of public enterprises notably reduced by 13.14 percent as seven provincial enterprises had been privatized during the preceding fiscal year. On the other hand, property revenue rose by a robust 72.20 percent in FY1999, due to the release of stocks of state-owned enterprises to the general public by the government.

Revenue and Expenditure of General Government

Unit: NT\$ Billion

Item	Fiscal Year*				
	1995	1996	1997	1998	1999
Revenue					
Taxes	1,170.9	1,141.8	1,213.3	1,339.6	1,299.8
Surpluses of Public Enterprises and Public Utilities	142.0	181.1	180.8	361.6	314.1
Proceeds from Sales of Properties and Recalled Capital	36.8	53.2	75.3	92.8	159.8
Fees, Fines and Indemnities	87.3	91.9	98.5	107.1	103.3
Revenues from Monopolies	61.4	56.0	58.2	57.4	52.4
Others	61.0	80.2	78.7	95.0	57.2
Total	1,559.4	1,604.2	1,704.8	2,053.5	1,986.6
Expenditure					
Education, Science and Culture	357.5	374.4	375.8	411.5	427.4
Economic Development	438.0	329.1	295.1	335.0	377.0
General Administration	222.4	244.0	244.8	257.3	296.0
National Defense	270.0	284.9	291.9	312.3	286.6
Social Security	231.8	290.0	295.0	282.8	280.7
Pensions & Survivors' Benefits	118.1	137.1	179.7	187.7	180.6
Community Development & Environmental Protection	65.3	68.1	68.6	74.8	90.1
Interest payments	194.9	106.1	115.6	115.9	117.3
Others	12.0	10.1	12.3	15.3	11.6
Total	1,910.0	1,843.8	1,878.8	1,992.6	2,067.3
Ratio (%)					
Proceeds from Public Debt to Total Expenditure	24.32	19.82	17.90	11.85	9.87
<i>In which:</i> Issuance of Government Bonds	3.93	6.28	7.25	3.01	3.75
Borrowing from Banks	20.39	13.54	10.65	8.85	6.12
Budget Surplus/Deficit to Total Expenditure	-18.36	-12.99	-9.26	3.06	-3.90

Note: * The fiscal year runs from July 1 of the preceding year to June 30 of the year.

Source: Department of Statistics, Ministry of Finance.

Increase in Government Expenditure

Government expenditure amounted to NT\$ 2,067.3 billion in FY1999, growing by 3.75 percent over the previous fiscal year. Of the total, current expenditure reached NT\$1,547.2 billion, a mere 0.14 percent growth when compared with the previous fiscal year. This implies that the government's measures toward economizing on regular outlays had come into effect by FY1999. In contrast, capital expenditure posted substantial annual growth of 16.22 percent, reaching NT\$520.1 billion in FY1999. The rise can be attributed to the launch of demand-stimulus packages, increased spending on infrastructural projects as well as enhanced budget utilization.

Broken down by expenditure category, expenditure boosts focused on spending on economic development and general administration, which respectively grew by 12.54 percent and 15.04 percent in FY1999. As seen in three preceding fiscal years, spending on education, science and culture continued to command the largest portion of total government expenditure, with a reading of 20.67 percent for FY1999. The fact indicated the government's endeavors to promote education reforms in order to upgrade the education system. Expenditure on economic development was in second place with a share of 18.24 percent, up from 16.81 percent in FY1998. The growth was boosted by increased public investment and efficiency improvement of public construction.

Unfavorable Balance in Fiscal Budget

The fiscal budget had been imbalanced since the early 1990's due to the slow growth in tax revenue and mounting public expenditure. As the fiscal reforms gradually being implemented by the government began to take effect, the fiscal deficit decreased from FY1996 and even witnessed a surplus of NT\$60.9 billion in FY1998. However, as the increase in expenditure outpaced the revenue growth in FY1999, the budget registered a deficit of NT\$80.7 billion, which accounted for 3.9 percent of total expenditure.

Gradual Rise in Debt Obligation

After having reached a peak of 31.26 percent in 1993, the falling trend of public expenditure to gross domestic product continued in FY1999. The public expenditure ratio declined slightly to 22.61 percent from 22.96 percent in FY1998, indicating the effectiveness of the government's recent efforts to reduce its expenses. Debt dependency, as measured by the ratio of debt proceeds (including both debt in the form of government bonds and

borrowing from banks) to total government expenditure, trended down to 9.87 percent from 11.85 percent in preceding fiscal year.

However, with the existing deficit in FY1999 and the mounting expenses for post-earthquake restructuring, the government's outstanding debt, including government bonds, Treasury bills, and borrowing from banks, continued to rise to NT\$2,632.6 billion by the end of December 1999. The ratio of overall outstanding debt to the annual average of gross national product (GNP) between FY1996 and FY1998 stood at 30.39 percent, a figure consistent with the Public Debt Law, provided that the ceiling on total outstanding government debts in all levels of governments was 48 percent of the average nominal GNP in the three preceding fiscal years.

Public Debt

Unit: NT\$ Billion

Item	Fiscal Year*				
	1995	1996	1997	1998	1999
Public Debt	1,518.3	1,680.4	1,860.0	2,080.3	2,332.3
<i>(% of average GNP**)</i>	<i>(26.44)</i>	<i>(26.74)</i>	<i>(27.17)</i>	<i>(27.97)</i>	<i>(28.89)</i>
<i>(% of GDP)</i>	<i>(22.56)</i>	<i>(22.92)</i>	<i>(23.31)</i>	<i>(23.97)</i>	<i>(25.51)</i>
Government Bonds	781.9	835.0	995.0	1,041.0	1,027.9
<i>(% of GDP)</i>	<i>(11.62)</i>	<i>(11.39)</i>	<i>(12.47)</i>	<i>(11.99)</i>	<i>(11.24)</i>
Treasury Bills	0	19.3	15.0	0	105.0
<i>(% of GDP)</i>	<i>(0)</i>	<i>(0.26)</i>	<i>(0.19)</i>	<i>(0)</i>	<i>(1.15)</i>
Borrowing from Banks	736.4	826.1	850.0	1,039.3	1,199.4
<i>(% of GDP)</i>	<i>(10.94)</i>	<i>(11.27)</i>	<i>(10.65)</i>	<i>(11.97)</i>	<i>(13.12)</i>

Note: * The fiscal year runs from July 1 of the preceding year to June 30 of the year.

** The annual average GNP for the previous three fiscal years.

Source: Treasury Department, the Central Bank of China; Council for Economic Planning and Development, Executive Yuan.

As measured by the outstanding debt to GDP ratio, the debt burden for the economy as a whole has gradually picked up since FY1996, reaching 25.51 percent in FY1999. The issuance of public bonds swelled since the second half of 1999, to fund expanded public expenditure, which in turn increased the debt burden for the economy. As of the end of December 1999, the ratio continued its upward trend to 26.96 percent. The outstanding government bonds rose to 12.37 percent of GDP while outstanding debt attributed to borrowing from banks moved slightly downward to 13.05 percent of GDP in FY1999.