

## 4. Public Finance of the Central Government

In the years prior to 1991, the R.O.C. government maintained a sound fiscal position. However, the government's fiscal condition started to deteriorate due to the mounting expenditure required in order to carry out the Six-Year National Construction Project and other major public works programs. The growth of expenditure outpaced that of revenue and therefore caused fiscal deficits for seven consecutive years. However, with the government's continuous effort to slash government spending, the fiscal deficits narrowed down gradually and registered a surplus of NT\$168.4 billion in FY 1998. The surplus slightly declined to NT\$64.6 billion as the government implemented various demand-stimulus packages in order to boost domestic economic recovery for FY 1999. For FY 2000, which covered the 18 months from July 1, 1999 through the end of 2000<sup>1</sup> peak debt payment for bonds issued for financing the Six-Year National Construction Project, the absorbance of large debts inherited from the downsized Taiwan Provincial government, as well as expansionary social welfare programs, led to a deficit of NT\$195.5 billion.

### Rise in Government Revenue

Government revenue grew by an annualized pace of 13.5 percent to NT\$2,035.4 billion in FY2000, and the increase was mainly attributed to the advance in tax revenue. The revised tax law allocated business revenue tax to national tax and generated a bigger national tax revenue pool than the previous fiscal year.

Broken down by government revenue structure, both tax revenue and surpluses of public enterprises still constituted the two major revenue pools, respectively accounting for 62.92 percent and 21.81 percent of total revenue in FY2000. Tax revenue increased by 13.52 percent because business revenue tax was allocated to national tax. The surpluses of public enterprises slightly increased by 7.05 percent, owing to the higher premium per share of stocks released by state-owned enterprises. This occurred despite the shrinking volume of stock release compared with the previous fiscal year. Due to the unsuccessful release of Chung-Hwa Telecom's stocks, some NT\$ 159.1 billion of the surplus of public enterprises revenue was listed on an accrual basis. Property revenue markedly dropped by 34.1 percent as a result of the shrinking volume of stock releases. Some NT\$ 45.6 billion of the sales of property registered as total property revenue was listed on an accrual basis.

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<sup>1</sup> According to the revised Budget Law, the fiscal year has been changed from July-June to January-December in 2001. To effect this change, FY2000 is from July 1, 1999 to December 31, 2000, an 18-month period. The annualized growth rates of each revenue and expenditure category were transformed by the rates of 1.4596 and 1.4769 set by the Directorate-General of Budget, Accounting and Statistics (DGBAS), respectively. In addition, the budget plan for the downsized Taiwan Provincial government was included in the central government budget plan.

## A Summary of Revenue and Expenditure of the Central Government

Unit: NT\$ Billion

Item	Fiscal Year*				
	1996	1997	1998	1999	2000**
Total Revenue	996.8	1,025.2	1,251.5	1,228.6	2,035.4
(percent of GDP : %)	( 13.59)	( 12.85)	( 14.42)	( 13.45)	( 14.12)
Current Revenue	962.8	1,003.0	1200.8	1,147.1	1,962.7
Capital Revenue	34.0	22.2	50.7	81.5	72.7
Total Expenditure	1,004.9	1,051.4	1,083.1	1,164.0	2,230.9
(percent of GDP : %)	(13.70)	(13.18)	(12.48)	( 12.74)	( 15.48)
Current Expenditure	808.3	876.5	897.0	915.8	1,796.2
Capital Expenditure	196.6	174.9	186.1	248.2	434.7
Surplus/Deficit	-8.1	-26.2	168.4	64.6	-195.5
(percent of GDP : %)	( -0.11)	( -0.33)	( 1.94)	( 0.71)	( -1.36)
Debt Repayment	80.2	100.4	103.9	118.0	193.4
Issuance of Government Bonds	95.8	117.3	49.9	56.6	466.1
Surplus of Previous Fiscal Years	-	9.3	-	-	-

Note: \* The fiscal year 2000 begins on July 1, 1999 and ends on Dec. 31, 2000, while the other fiscal years prior to 2000 run from July 1 of the preceding year to June 30 of the designated year.

\*\*The figures for the fiscal year 2000 are preliminary estimates, while the figures for the preceding fiscal years are audited numbers.

Source: Directorate-General of Budget, Accounting and Statistics, Executive Yuan.  
Department of Statistics, Ministry of Finance

### Expansion in Government Expenditure

Government expenditure amounted to NT\$ 2,230.9 billion in FY2000, representing an annualized growth rate of 29.77 percent over the previous fiscal year. Of the total, current expenditure reached NT\$ 1,796.2 billion, posting a substantial growth rate of 32.80 percent when compared with the previous fiscal year. The rise can be attributed to the increased interest payments for large debts inherited from the downsized Taiwan Provincial government, and mounting social welfare expenditure. Capital expenditure continued to grow and registered a robust growth rate of 18.59 percent to NT\$ 434.7 billion. The robust growth was sustained by the government's continuous implementation of demand-stimulus packages, increased spending on infrastructure projects, as well as enhanced budget utilization.

Broken down by expenditure category, social welfare expenditure replaced the national defense expenditure as the largest portion of total expenditure for FY2000, jumping from 13.54 percent in FY1999 to 18.44 percent. The increased social welfare expenditure was mainly attributed to the government's continuous effort to promote the well-being of less-advantaged people and subsidy distributions to the victims at the September 21 earthquake in 1999. Expenditure on education, science and culture commanded the second place with a share of 16.48 percent, indicating the government's endeavors to implement education reforms in order to upgrade the education system. The share of expenditure on economic development continued its upward trend of the past three fiscal years and grew to 15.98 percent from 14.82 percent recorded in FY 1999. The increase was used to accelerate the implementation of public works projects, strengthen

the foundation for economic development, develop technology, and enhance overall national competitiveness. National defense expenditure significantly dropped to 15.39 percent from 22.61 percent recorded in FY 1999, due to the decrease in major weapons procurement.

### Central Government Revenue and Expenditure by Category

Unit: NT\$ Billion

Item	Fiscal Year*				
	1996	1997	1998	1999	2000**
<b>Revenue</b>					
Taxes	706.1	749.1	858.8	772.9	1,280.7
Surpluses of Public Enterprises and Public Utilities	151.6	149.5	239.9	284.1	443.9
Proceeds from Sales of Properties and Recalled Capital	40.7	31.1	60.5	91.9	88.4
Fees, Fines and Indemnities	31.9	32.7	34.9	29.1	103.0
Revenues from Government-owned Monopolies	36.4	37.8	37.4	35.9	83.1
Others	30.1	25.0	20.0	14.7	36.3
<b>Total</b>	<b>996.8</b>	<b>1,025.2</b>	<b>1,251.5</b>	<b>1,228.6</b>	<b>2,035.4</b>
<b>Expenditure</b>					
Education, Science and Culture	166.6	174.9	184.8	202.7	367.6
Economic Development	124.2	113.8	126.5	172.5	356.6
General Administration	104.8	108.0	112.7	134.6	235.0
National Defense	244.1	253.4	257.1	263.2	343.4
Social Security	143.7	150.0	150.2	157.6	411.4
Pensions & Survivors' Benefits	108.6	139.5	139.8	129.3	195.4
Community Development & Environmental Protection	19.8	15.3	15.8	19.2	39.6
Interest payments	61.2	58.9	63.5	80.3	249.6
Others	31.9	37.6	32.7	4.6	32.3
<b>Total</b>	<b>1,004.9</b>	<b>1,051.4</b>	<b>1,083.1</b>	<b>1,164.0</b>	<b>2,230.9</b>
<b>Memorandum</b>					
(Proceeds from Public Debt to Total Expenditure: %)	( 9.53)	( 11.16)	( 4.61)	( 4.86)	( 20.89)
(Surplus/Deficit to Total Expenditure : %)	( -0.81)	( -2.49)	( 15.55)	( 5.55)	( -8.76)

Note: \* The fiscal year 2000 begins on July 1, 1999 and ends on Dec. 31, 2000, while the other fiscal years prior to 2000 run from July 1 of the preceding year to June 30 of the designated year.

\*\* The figures for the fiscal year 2000 are preliminary estimates, while the figures for the preceding fiscal years are audited numbers.

Source: Directorate-General of Budget, Accounting and Statistics, Executive Yuan.  
Department of Statistics, Ministry of Finance.

### Rapid Increase in Financing

During the 1980s, the current account surplus was used to cover the shortfall in the balance on the government capital account. Income from borrowing, including the issues of government bonds and loans, and the surplus appropriated from the previous year were mainly used for debt repayment. However, as capital expenditure has risen since 1991, the current account surplus has not been large enough to cover the capital account deficit. Moreover, as principal payments have gradually increased, the government has increasingly relied on borrowing as a source of funds. The demand for borrowing went down slightly as budget deficits turned into surpluses in FY 1998 and FY 1999. In FY 2000, revenue from borrowing mounted to NT\$ 466.1 billion due to the peak in debt repayment, massive spending on the earthquake reconstruction projects, and the need to make up the fiscal deficit.

## Marked Acceleration in Debt Obligations

With the continuous efforts to cut public expenditure and encourage the private sector to engage in public works projects, the public expenditure to GDP ratio continued its downward trend in FY2000, after having achieved a peak of 17.86 percent in 1992. For FY2000, with the expenses for social welfare programs and interest payments swelling, the public expenditure ratio rose to 15.48 percent from 12.74 percent registered in FY1999. The ratio of the fiscal deficit to total expenditure hit a record high of 22.23 percent in 1992, owing to the expansionary public programs that led to the unfavorable fiscal condition. With the fiscal reforms regularly taking place, the ratio edged down annually and reversed to positive territory in FY 1998. However, as the fiscal budget incurred a deficit in FY 2000, the ratio fell to a negative figure of -8.76 percent.

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, climbed up to 20.89 percent in FY2000 after having been maintained below 5 percent for FY 1998 and FY 1999. The rise resulted from the peak in debt repayment and increased issuance of government bonds in order to raise capital to finance the reconstruction projects after the earthquake.

The government's outstanding debt, including government bonds and borrowing from banks, continued to climb, reaching a high of NT\$ 2,491.5 billion at the end of December 2000 and accounted for 27.89 percent of the average nominal GNP in the three preceding fiscal years. The ratio was within the limit set by the Public Debt Law which required the ceiling on total outstanding government debts in the central government to be maintained at 41.4 percent of the average nominal GNP in the three preceding fiscal years.

The economy's overall debt burden, as measured by the outstanding debt to GDP ratio, climbed up to 17.29 percent in FY 2000, reversing the declines registered in the preceding two fiscal years.

### Public Debt Balance of the Central Government <sup>(1)</sup>

Unit: NT\$ Billion

Item	End of Fiscal Year <sup>(2)</sup>				
	1996	1997	1998	1999	2000 <sup>(4)</sup>
<b>Public Debt Balance</b>	<b>1,233.8</b>	<b>1,397.0</b>	<b>1,396.0</b>	<b>1,348.1</b>	<b>2,491.5</b>
<b>(percent of average GNP<sup>(3)</sup> : %)</b>	<b>( 19.61)</b>	<b>( 20.36)</b>	<b>( 18.72)</b>	<b>( 16.65)</b>	<b>( 27.89)</b>
<b>(percent of GDP : %)</b>	<b>( 16.83)</b>	<b>( 17.51)</b>	<b>( 16.08)</b>	<b>( 14.75)</b>	<b>( 17.29)</b>
Government Bonds	1,035.2	1,156.1	1,105.0	1,052.0	1,389.8
(percent of GDP : %)	( 14.12)	( 14.49)	( 12.73)	( 11.51)	( 9.64)
Borrowing from Banks	198.6	240.9	291.0	296.1	1,101.7
(percent of GDP : %)	( 2.71)	( 3.02)	( 3.35)	( 3.24)	( 7.64)

Notes : (1) Data include general budget and special budget of the central government.

(2) The fiscal year 2000 begins on July 1, 1999 and ends on Dec. 31, 2000, while the other fiscal years prior to 2000 run from July 1 of the preceding year to June 30 of the designated year.

(3) The figure for 2000 is the average GNP of the three preceding calendar years, while those for the other years prior to 2000 are computed with the three preceding fiscal years.

(4) The figures for the fiscal year 2000 are preliminary estimates, while the figures for the preceding fiscal years are audited numbers.