

4. Public Finance of the Central Government

For 2002, the central government slightly reduced expenditure compared with the previous year. Yet, the decline in tax revenue, as well as the decrease in income from selling shares of public enterprises and dividends from public enterprises caused central government revenues to drop and led to a widened deficit of NT\$246.9 billion.

Mild Decrease in Central Government Revenue

Central government revenue declined by 7.90 percent to NT\$1,305.3 billion in 2002, mainly owing to the decreases in tax revenue and surpluses of public enterprises and public utilities

Broken down by revenue category, tax revenue and surpluses of public enterprises and public utilities still constituted the two major revenue pools for the central government, which respectively accounted for 62.82 percent and 19.32 percent of total revenue in 2002. Beginning

Total Revenue and Expenditure of the Central Government

Unit: NT\$ Billion

	Fiscal Year*									
	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002**
Total Revenue	834.2	900.5	937.4	996.8	1,025.2	1,251.5	1,228.6	2,030.8	1,417.2	1,305.3
(percent of GDP ; %)	(14.85)	(14.55)	(13.93)	(13.59)	(12.85)	(14.42)	(13.44)	(14.11)	(14.91)	(13.41)
Current Revenue	798.8	866.4	913.3	962.8	1,003.0	1,200.8	1,147.1	1,958.1	1,347.3	1,238.6
Capital Revenue	35.4	34.1	24.1	34.0	22.2	50.7	81.5	72.7	69.9	66.7
Total Expenditure	978.5	972.8	965.7	1,004.9	1,051.4	1,083.1	1,164.0	2,230.1	1,559.7	1,552.2
(percent of GDP ; %)	(17.42)	(15.72)	(14.35)	(13.70)	(13.18)	(12.48)	(12.74)	(15.50)	(16.41)	(15.95)
Current Expenditure	693.0	704.1	738.8	808.3	876.5	897.0	915.8	1,795.5	1,236.7	1,183.6
Capital Expenditure	285.5	268.7	226.9	196.6	174.9	186.1	248.2	434.6	323.0	368.6
Surplus/Deficit	-144.3	-72.3	-28.3	-8.1	-26.2	168.4	64.6	-199.3	-142.5	-246.9
(percent of GDP ; %)	(-2.57)	(-1.17)	(-0.42)	(-0.11)	(-0.33)	1.94	0.71	(-1.38)	(-1.50)	(-2.54)
(percent of Total Expenditure ; %)	(-14.75)	(-7.43)	(-2.93)	(-0.81)	(-2.49)	(15.55)	(5.55)	(-8.94)	(-9.14)	(-15.91)
Debt Repayment	52.6	51.4	31.0	80.2	100.4	103.9	118.0	193.4	122.2	55.4
Financing:	196.9	123.7	75.1	95.8	126.6	49.9	56.6	466.1	275.8	302.3
Issuance of Government Bonds	162.8	108.2	75.1	95.8	117.3	49.9	56.6	466.1	275.8	244.4
Surplus of Previous Fiscal Years	34.1	15.5	—	—	9.3	—	—	—	—	57.9
Memorandum:										
Debt Dependency Ratio*** (%)	16.64	11.12	7.78	9.53	11.16	4.61	4.86	20.90	17.68	15.75

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, 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 year 2002 are preliminary estimates, while the figures for the preceding years are audited numbers.

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

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

in 2002, monopoly gains on tobacco and alcohol, a major part of government revenue in the past, were phased out following Taiwan's entry into the WTO. Instead, a new tax was imposed on tobacco and alcohol. However, tax revenue still regressed slightly by 2.55 percent in 2002 due to a 29.05 percent drop in business income tax in line with the gloomy business climate a year earlier. The surpluses of public enterprises and public utilities significantly slackened by 24.9 percent as the sales of government-owned stocks passed its peak, and dividends from public enterprises decreased after privatization. Revenue from fees, fines, and indemnities sharply increased by 70.07 percent due to the huge licensing fees of NT\$49 billion for operating 3G telecommunications services.

Slight Decline in Central Government Expenditure

Central government expenditure amounted to NT\$1,552.2 billion in 2002, a slight decline of 0.48 percent over the previous year. Among the components, current expenditure contracted by 4.29 percent to NT\$1,183.6 billion, mainly owing to the shrinkage of government subsidies to the loss of the farmers' insurance program and to the civil servant's pension plans. Capital expenditure substantially grew by 14.12 percent to NT\$368.6 billion, reflecting the government's continuous efforts to implement the "Plan for National Development in the New Century" and policies aiming to promote public investment to boost the economy.

Total Revenue and Expenditure of the Central Government by Category

Unit: NT\$ Billion

	Fiscal Year*									
	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002**
Total Revenue	834.2	900.5	937.4	996.8	1,025.2	1,251.5	1,228.6	2,030.8	1,417.2	1,305.3
Taxes	557.1	615.6	705.7	706.1	749.1	858.8	772.9	1,280.7	841.5	820.0
Surpluses of Public Enterprises and Public Utilities	146.3	155.3	113.9	151.6	149.5	239.9	284.1	442.4	335.8	252.2
Fees, Fines and Indemnities	21.2	21.2	25.0	31.9	32.7	34.9	29.1	103.0	72.5	123.3
Revenues from Government-owned Monopolies	40.4	42.1	39.9	36.4	37.8	37.4	35.9	77.3	57.5	0.3
Proceeds from Sales of Properties and Recalled Capital	48.8	41.7	31.4	40.7	31.1	60.5	91.9	88.4	80.9	73.9
Others	20.5	24.6	21.5	30.1	25.0	20.2	14.7	39.0	29.0	35.6
Total Expenditure	978.5	972.8	965.7	1,004.9	1,051.4	1,083.1	1,164.0	2,230.1	1,559.7	1,552.2
General Administration	98.6	94.4	93.1	104.8	108.0	112.7	134.6	234.9	167.0	162.3
National Defense	253.5	242.5	234.1	244.1	253.4	257.1	263.2	343.3	237.7	225.2
Education, Science and Culture	156.9	158.6	156.6	166.6	174.9	184.8	202.7	367.6	257.2	267.1
Economic Development	187.1	172.0	137.1	124.2	113.8	126.5	172.5	356.4	277.1	291.2
Social Welfare	89.9	91.0	134.2	143.7	150.0	150.2	157.6	411.0	293.3	262.4
Community Development & Environmental Protection	26.5	29.2	24.8	19.8	15.3	15.8	19.2	39.6	22.3	23.4
Pensions & Survivors' Benefits	88.5	93.4	95.6	108.6	139.5	139.8	129.3	195.4	122.0	124.3
Interest payments	39.7	55.3	56.7	61.2	58.9	63.5	80.3	249.6	151.2	152.2
Others	37.9	36.4	33.2	31.9	37.6	32.7	4.6	32.3	31.9	44.1

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, 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 year 2002 are preliminary estimates, while the figures for the preceding years are audited numbers.

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

Broken down by expenditure category, spending on economic development commanded the largest share of total central government expenditure, with the reading steadily rising from the previous year's 17.77 percent to 18.76 percent in 2002. This reflected the government's continuous efforts to implement stimulative economic policies. The central government's spending on social welfare had displayed in an upward trend and accounted for the largest share of overall government expenditure in the previous two years. However, in 2002 the spending fell by 10.54 percent compared with the previous year, due to the government's efforts to enhance the farmers' insurance program's auditing procedures, thus reducing the need for government subsidy. Moreover, with the higher base of the corresponding period of the previous year due to the disbursement of pension fund subsidies, the share of social welfare in total central government expenditure declined from 2001's 18.80 percent to 16.91 percent in 2002.

The scale of public expenditure of the central government, as measured by the ratio of central government expenditure to GDP, declined to 15.95 percent in 2002 from the previous year's 16.41 percent due to the decrease in social welfare expenditure. During the same time, the ratio of fiscal deficit to GDP leaped from 9.14 percent in 2001 to 15.91 percent as a result of the shrinkage of government revenues.

Increasing Demand for Debt Financing

In 2002, principal repayment of central government debt dropped significantly from the previous year because NT\$195.9 billion of it was transferred to the government debt management fund under the ministry of finance. However, the central government's demand for debt financing climbed to NT\$302.3 billion in 2002 from the preceding year's NT\$264.7 billion due to the widening annual fiscal deficit. Of this amount, NT\$244.4 billion was raised through issuing government bonds and the remaining NT\$57.9 billion was appropriated from surpluses of the previous years.

Soft Increase in Debt Obligations

The amount of bond issues of the central government in 2002 totaled NT\$244.4 billion, causing the outstanding debt of the central government to reach NT\$2,898.4 billion at the end of 2002. The ratio of central government outstanding debt to the average of annual GNP in the preceding three years stood at 30.11 percent, which was still below the ceiling of 40 percent in accordance with the *Public Debt Law*.

Public Debt of the Central Government

Unit: NT\$ Billion

	End of Fiscal Year*									
	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002***
Outstanding Debt	800.2	916.6	1,103.6	1,226.6	1,385.2	1,384.8	1,335.4	2,478.0	2,808.0	2,898.4
(percent of 3-year-averaged GNP** ; %)	(17.07)	(17.65)	(19.21)	(19.49)	(20.19)	(18.57)	(16.50)	(27.74)	(29.89)	(30.11)
(percent of GDP ; %)	(14.24)	(14.81)	(16.40)	(16.73)	(17.36)	(15.95)	(14.61)	(25.64)	(29.54)	(29.78)
Government Bonds	704.6	781.4	944.3	1,028.0	1,144.3	1,093.1	1,040.0	1,377.9	1,719.1	1,971.1
(percent of GDP ; %)	(12.54)	(12.62)	(14.03)	(14.02)	(14.34)	(12.59)	(11.38)	(14.26)	(18.08)	(20.25)
Borrowing from Banks	95.6	135.2	159.3	198.6	240.9	291.7	295.4	1,100.1	1,088.9	927.3
(percent of GDP ; %)	(1.70)	(2.19)	(2.37)	(2.71)	(3.02)	(3.36)	(3.23)	(11.38)	(11.46)	(9.53)

Notes: * Effective 2001, the calendar year is adopted as the fiscal year. 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.

** Effective 2000, the figure 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.

***The figures for fiscal year 2002 are preliminary estimates, while the figures for the preceding years are audited numbers.

Source: Ministry of Finance.

Debt dependency, as measured by the ratio of debt proceeds to total central government expenditure, continued to trend down to 15.75 percent in 2002 from 2001's 17.68 percent. The decrease was mainly attributable to the setup of the government debt management fund in late 1999 that shared the responsibility of principal repayment. Coupled with appropriating surpluses in the previous years, the debt dependency ratio persisted to decline.