

5. Public Finance of the Central Government

For 2004, central government finance improved mainly due to domestic economic expansion, the gradual recovery of the local stock and real estate markets, and the adoption of cost-saving and revenue-increasing initiatives. Central government revenue increased by NT\$46.6 billion while expenditure fell by NT\$52.9 billion. As a result, the central government deficit narrowed to NT\$197.6 billion, a substantial decline of 33.49 percent compared to the previous year.

Increase in Central Government Revenue

Central government revenue increased by 3.53 percent to NT\$1,367.6 billion in 2004 due to the recovery of the domestic economy and the substantial growth of 10.62 percent in tax revenue.

Tax revenues and surpluses of public enterprises and public utilities together account for 87.71 percent of total revenue. The portion of tax revenues in total revenue grew from 62.73 percent in 2003 to 67.02 percent in 2004. However, the surpluses of public enterprises and public utilities dropped by a substantial 13.32 percent due to a higher base in the previous year

Total Revenue and Expenditure of the Central Government

Unit: NT\$ Billion

	Fiscal Year*									
	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004**
Total Revenue	937.4	996.8	1,025.2	1,251.5	1,228.6	2,030.8	1,417.2	1,304.7	1,321.0	1,367.6
(Ratio of GDP : %)	13.36	12.98	12.34	14.06	13.29	14.20	14.74	13.81	13.57	13.89
Total Expenditure	965.7	1,004.9	1,051.4	1,083.1	1,164.0	2,230.1	1,559.7	1,551.9	1,618.1	1,565.2
(Ratio of GDP : %)	-0.40	-0.11	-0.32	1.89	0.70	-1.39	-1.48	-2.62	-3.05	-2.01
Surplus/Deficit	-28.3	-8.1	-26.2	168.4	64.6	-199.3	-142.5	-247.2	-297.1	-197.6
(Ratio to GDP : %)	-0.40	-0.11	-0.32	1.89	0.70	-1.39	-1.48	-2.62	-3.05	-2.01
(Ratio to Total Expenditure : %)	-2.93	-0.81	-2.49	15.55	5.55	-8.94	-9.14	-15.93	-18.36	-12.62
Debt Repayment	31.0	80.2	100.4	103.9	118.0	193.4	122.2	55.5	46.5	56.1
Financing:	75.1	95.8	126.6	49.9	56.6	466.1	275.8	302.8	343.7	253.7
Issuance of Government Bonds & Borrowing from Banks	75.1	95.8	117.3	49.9	56.6	466.1	275.8	244.5	300.8	253.5
Surplus of Previous Fiscal Years	-	-	9.3	-	-	-	-	58.3	42.9	0.2
Memorandum:										
Debt Dependency Ratio*** (%)	7.78	9.53	11.16	4.61	4.86	20.90	17.68	15.75	18.59	16.20

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

** The figures for the year 2004 are preliminary estimates.

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

Sources: 1. Directorate-General of Budget, Accounting and Statistics, Executive Yuan.
2. Department of Statistics, Ministry of Finance.

caused by the addition of the dividends from the Executive Yuan's Development Fund and public enterprises. Another contributing factor was the lack of revenue generated through the privatization process of public enterprises due to a delayed schedule.

Decrease in Central Government Expenditure

Owing to enhanced cost analysis measures, more participation in public construction from the private sector, and a low interest rate environment favorable for interest-bearing government bonds, central government expenditure declined by 3.27 percent compared to the previous year. Among the components, spending on education, science and culture accounted for 19.3 percent, the largest share of total government spending and a record high for this category. Spending on social welfare accounted for the second largest share of 17.9 percent, followed by expenditure on national defense with a share of 15.9 percent.

In 2004, with more rigid control over government expenditure, the ratio of the fiscal deficit to total expenditure fell to 12.62 percent from the previous year's 18.36 percent. The ratio of the fiscal deficit to GDP also narrowed from 3.05 percent to 2.01 percent.

In addition to the Challenge 2008 - National Development Plan, the government has also

Total Revenue and Expenditure of the Central Government by Category

Unit: NT\$ Billion

	Fiscal Year*									
	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004**
Total Revenue	937.4	996.8	1,025.2	1,251.5	1,228.6	2,030.8	1,417.2	1,304.7	1,321.0	1,367.6
Taxes	705.7	706.1	749.1	858.8	772.9	1,280.7	841.5	820.1	828.6	916.6
Surpluses of Public Enterprises and Public Utilities	113.9	151.6	149.5	239.9	284.1	442.4	335.8	250.6	326.5	283
Fees, Fines and Indemnities	25	31.9	32.7	34.9	29.1	103	72.5	123.3	73.3	75.8
Revenues from Government-owned Monopolies	39.9	36.4	37.8	37.4	35.9	77.3	57.5	0.4	-	-
Proceeds from Sales of Properties and Recalled Capital	31.4	40.7	31.1	60.5	91.9	88.4	80.9	73.9	65.8	70.4
Others	21.5	30.1	25	20	14.7	39	29	36.4	26.8	21.8
Total Expenditure	965.7	1,004.9	1,051.4	1,083.1	1,164.0	2,230.1	1,559.7	1,551.9	1,618.1	1,565.2
General Administration	93.1	104.8	108	112.7	134.6	234.9	167	162.3	167.3	164.2
National Defense	234.1	244.1	253.4	257.1	263.2	343.3	237.7	225.2	227.7	248.9
Education, Science and Culture	156.6	166.6	174.9	184.8	202.7	367.6	257.2	267	300.2	302.1
Economic Development	137.1	124.2	113.8	126.5	172.5	356.4	277.1	291.2	295.5	248.8
Social Welfare	134.2	143.7	150	150.2	157.6	411	293.3	262.2	284.4	280.1
Community Development & Environmental Protection	24.8	19.8	15.3	15.8	19.2	39.6	22.3	23.4	28.7	24.8
Pensions & Survivors' Benefits	95.9	108.6	139.5	139.8	129.3	195.4	122	124.3	125.4	123.1
Interest payments	56.7	61.2	58.9	63.5	80.3	249.6	151.2	152.2	144.6	127.1
Others	33.2	31.9	37.6	32.7	4.6	32.3	31.9	44.1	44.3	46.1

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Sources: 1. Directorate-General of Budget, Accounting and Statistics, Executive Yuan.
2. Department of Statistics, Ministry of Finance.

launched the New Ten Projects. A total of NT\$36.5 billion has been appropriated this year for several smaller projects under the above two plans, which should contribute to the expansion of public investment.

Less Demand for Debt Financing

The demand for debt financing dropped in 2004 in line with the reduced fiscal deficit. The total amount of the fiscal deficit and debt repayment dropped to NT\$253.7 billion from the preceding year's NT\$343.6 billion. Of this amount, NT\$253.5 billion was raised through issuing government bonds and borrowing from banks, while the remaining amount was appropriated from surpluses of previous years.

Continued Increase in Debt Obligations

Despite the remarkable narrowing in the fiscal deficit, the debt obligation of the central government continued to increase in 2004. Total outstanding debt of the central government reached NT\$342.99 billion at the end of 2004, equal to a record high share of 34.84 percent of annual GDP.

The debt dependency ratio, an indicator to show the share of funds for financing government expenditure by the issuance of government bonds and borrowing from banks, fell to 16.20 percent from the previous year's 18.59 percent due to falling demand for debt financing. However, it is still double the figure in 1995. The recent widening of the fiscal deficit and the weak growth in tax revenue while the economy was expanding strongly highlight the increasingly pressing need for fiscal reform.

Public Debt of the Central Government

Unit: NT\$ Billion

End of Fiscal Year*	Outstanding Debt			Outstanding Debt /GDP (%)
		Government	Borrowing from Banks**	
1995	1,101.8	936.7	165.1	15.68
1996	1,224.9	1,020.4	204.5	15.94
1997	1,382.2	1,129.3	252.9	16.63
1998	1,381.7	1,078.0	303.7	15.52
1999	1,332.3	1,024.9	307.4	14.41
2000	2,475.0	1,362.8	1,112.2	17.30
2001	2,802.6	1,701.7	1,100.9	29.16
2002	2,892.6	1,957.9	934.7	30.62
2003	3,173.3	2,337.7	835.6	32.60
2004***	3,429.9	2,562.7	867.2	34.84

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

** Including foreign debt.

***The figures for the year 2004 are preliminary estimates.

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2. Department of Statistics, Ministry of Finance.