

5. Public Finance of the Central Government

For 2005, central government revenue climbed by NT\$95.2 billion while expenditure increased by a mere NT\$2.5 billion. As a result, the budget deficit narrowed substantially to NT\$103.9 billion, lending evidence to the positive result of the government's efforts to reduce expenditure and implement tax reforms. Measures to improve government finance will continue to be implemented with the aim of balancing the budget by 2011.

Significant Rise in Central Government Revenue

Central government revenue increased by 6.96 percent to NT\$1,463.4 billion in 2005 due to the recovery of the domestic economy in 2004 and the consequent substantial growth of 16.48 percent in tax revenue.

Tax revenue and surpluses of public enterprises and public utilities together account for 89.63 percent of total revenue. Among the components of the total revenue, business income tax and personal income tax revenues grew significantly by 36.65 percent and 38.02 percent, respectively. However, securities transaction tax dropped 18.91 percent due to the lackluster stock market performance during the year. In addition, surpluses of public enterprises and

Total Revenue and Expenditure of the Central Government

Unit: NT\$ Billion

| | Fiscal Year* | | | | | | | | | |
|----------------------------------|--------------|---------|---------|---------|---------|---------|---------|---------|---------|---------|
| | 1996 | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 | 2003 | 2004 | 2005** |
| Total Revenue | 996.8 | 1,025.2 | 1,251.5 | 1,228.6 | 2,030.8 | 1,417.2 | 1,304.7 | 1,321.0 | 1,368.2 | 1,463.4 |
| (Ratio of GDP : %) | 12.55 | 11.91 | 13.55 | 12.74 | 14.20 | 14.37 | 12.80 | 12.80 | 12.70 | 13.15 |
| Total Expenditure | 1,004.9 | 1,051.4 | 1,083.1 | 1,164.0 | 2,230.1 | 1,559.7 | 1,551.9 | 1,618.1 | 1,564.8 | 1,567.3 |
| (Ratio of GDP : %) | 12.65 | 12.21 | 11.72 | 12.07 | 15.59 | 15.81 | 15.22 | 15.68 | 14.53 | 14.08 |
| Surplus/Deficit | -8.1 | -26.2 | 168.4 | 64.6 | -199.3 | -142.5 | -247.2 | -297.1 | -196.6 | -103.9 |
| (Ratio to GDP : %) | -0.10 | -0.30 | 1.82 | 0.67 | -1.39 | -1.44 | -2.42 | -2.88 | -1.83 | -0.93 |
| (Ratio to Total Expenditure : %) | -0.81 | -2.49 | 15.55 | 5.55 | -8.94 | -9.14 | -15.93 | -18.36 | -12.56 | -6.63 |
| Debt Repayment | 80.2 | 100.4 | 103.9 | 118.0 | 193.4 | 122.2 | 55.5 | 46.5 | 56.1 | 64.1 |
| Financing: | 95.8 | 126.6 | 49.9 | 56.6 | 466.1 | 275.8 | 302.7 | 343.7 | 253.5 | 168.0 |
| Debt Financing | 95.8 | 117.3 | 49.9 | 56.6 | 466.1 | 275.8 | 244.4 | 300.8 | 253.5 | 167.3 |
| Surplus of Previous Fiscal Years | -- | 9.3 | -- | -- | -- | -- | 58.3 | 42.9 | -- | 0.7 |
| Memorandum: | | | | | | | | | | |
| Debt Dependency Ratio*** (%) | 9.53 | 11.16 | 4.61 | 4.86 | 20.90 | 17.68 | 15.75 | 18.59 | 16.20 | 10.67 |

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 2005 are preliminary estimates.

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

Sources: DGBAS, Executive Yuan.
Department of Statistics, Ministry of Finance.

public utilities fell as a result of privatization and losses incurred by some of public enterprises. Proceeds from sales of properties and recalled capital dropped due to a fall in the numbers of shares released by the central government.

Slight Increase in Central Government Expenditure

Owing to enhanced cost control measures, central government expenditure edged up by a mere 0.16 percent after declining 3.29 percent in the previous year. Among the components, spending on education, science and culture accounted for 19.24 percent, the largest share of total government spending. Spending on social welfare accounted for the second largest share of 18.24 percent. Spending on economic development (excluding special budgets) continued on the downward trend starting in 2002 to account for 15.76 percent of total central government spending in 2005, falling behind spending on social welfare and national defense.

However, the Challenge 2008 - National Development Plan, launched in 2002 to tackle the issues of globalization, rapid technological advances, and environmental concerns, has seen modest initial results. Government projects aimed at stimulating economic expansion, job creation, and offering a better quality of life will continue to be implemented.

Total Revenue and Expenditure of the Central Government by Category

Unit: NT\$ Billion

| | Fiscal Year | | | | | | | | | |
|--|-------------|--------|--------|--------|--------|--------|--------|--------|--------|--------|
| | 1996 | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 | 2003 | 2004 | 2005* |
| Total Revenue | 996.8 | 1025.2 | 1251.5 | 1228.6 | 2030.8 | 1417.2 | 1304.7 | 1321.0 | 1368.2 | 1463.4 |
| Taxes | 706.1 | 749.1 | 858.8 | 772.9 | 1280.7 | 841.5 | 820.1 | 828.6 | 916.6 | 1067.7 |
| Surpluses of Public Enterprises and Public Utilities | 151.6 | 149.5 | 239.9 | 284.1 | 442.4 | 335.8 | 250.6 | 326.5 | 282.1 | 243.9 |
| Fees, Fines and Indemnities | 31.9 | 32.7 | 34.9 | 29.1 | 103.0 | 72.5 | 123.3 | 73.3 | 76.0 | 79.0 |
| Revenues from Government-owned Monopolies | 36.4 | 37.8 | 37.4 | 35.9 | 77.3 | 57.5 | 0.4 | -- | -- | -- |
| Proceeds from Sales of Properties and Recalled Capital | 40.7 | 31.1 | 60.5 | 91.9 | 88.4 | 80.9 | 73.9 | 65.8 | 70.4 | 52.4 |
| Others | 30.1 | 25.0 | 20.0 | 14.7 | 39.0 | 29.0 | 36.4 | 26.8 | 23.1 | 20.4 |
| Total Expenditure | 1004.9 | 1051.4 | 1083.1 | 1164.0 | 2230.1 | 1559.7 | 1551.9 | 1618.1 | 1564.8 | 1567.3 |
| General Administration | 104.8 | 108.0 | 112.7 | 134.6 | 234.9 | 167.0 | 162.3 | 167.3 | 164.1 | 165.6 |
| National Defense | 244.1 | 253.4 | 257.1 | 263.2 | 343.3 | 237.7 | 225.2 | 227.7 | 248.9 | 248.7 |
| Education, Science and Culture | 166.6 | 174.9 | 184.8 | 202.7 | 367.6 | 257.2 | 267.0 | 300.2 | 302.1 | 301.5 |
| Economic Development | 124.2 | 113.8 | 126.5 | 172.5 | 356.4 | 277.1 | 291.2 | 295.5 | 248.9 | 247.0 |
| Social Welfare | 143.7 | 150.0 | 150.2 | 157.6 | 411.0 | 293.3 | 262.2 | 284.4 | 279.8 | 285.8 |
| Community Development & Environmental Protection | 19.8 | 15.3 | 15.8 | 19.2 | 39.6 | 22.3 | 23.4 | 28.7 | 24.8 | 25.2 |
| Pensions & Survivors' Benefits | 108.6 | 139.5 | 139.8 | 129.3 | 195.4 | 122.0 | 124.3 | 125.4 | 123.1 | 130.5 |
| Interest payments | 61.2 | 58.9 | 63.5 | 80.3 | 249.6 | 151.2 | 152.2 | 144.6 | 127.1 | 117.9 |
| Others | 31.9 | 37.6 | 32.7 | 4.6 | 32.3 | 31.9 | 44.1 | 44.3 | 46.0 | 45.1 |

Note * The figures for the year 2005 are preliminary estimates.

Sources: DGBAS, Executive Yuan.
Department of Statistics, Ministry of Finance.

In 2005, with tight control over government expenditure and tax reforms, the ratio of the fiscal deficit to total expenditure fell from 12.56 percent in the previous year to 6.63 percent this year. The ratio of the fiscal deficit to GDP also narrowed from 1.83 percent to 0.93 percent.

Less Demand for Debt Financing

The demand for debt financing dropped in 2005 in line with the reduced fiscal deficit. The total amount of the fiscal deficit and debt repayment decreased substantially from NT\$253.5 billion in the preceding year to NT\$168.0 billion this year. Of this amount, NT\$167.3 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. Total outstanding debt of the central government reached NT\$3,555.8 billion at the end of 2005, equal to a record high share of 31.94 percent of 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 10.67 percent from the previous year's 16.20 percent due to falling demand for debt financing. This is the lowest since 2000.

Public Debt of the Central Government

Unit: NT\$ Billion

| End of Fiscal Year | Outstanding Debt | | | Outstanding Debt /GDP (%) |
|--------------------|------------------|------------|-----------------------|---------------------------|
| | | Government | Borrowing from Banks* | |
| 1996 | 1,224.9 | 1,020.4 | 204.5 | 15.42 |
| 1997 | 1,382.2 | 1,129.3 | 252.9 | 16.05 |
| 1998 | 1,381.7 | 1,078.0 | 303.7 | 14.96 |
| 1999 | 1,332.3 | 1,024.9 | 307.4 | 13.82 |
| 2000 | 2,474.7 | 1,362.8 | 1,111.9 | 17.31 |
| 2001 | 2,788.4 | 1,687.8 | 1,100.6 | 28.27 |
| 2002 | 2,878.4 | 1,944.0 | 934.4 | 28.24 |
| 2003 | 3,159.1 | 2,323.8 | 835.3 | 30.62 |
| 2004 | 3,396.6 | 2,548.8 | 847.8 | 31.54 |
| 2005** | 3,555.8 | 2,821.0 | 734.8 | 31.94 |

Notes: * Including foreign debt.

** The figures for the year 2005 are preliminary estimates.

Sources: DGBAS, Executive Yuan.