

5. Public Finance of the Central Government

For 2006, central government finance continued to improve and recorded the first budget surplus since 2000. Revenue climbed by NT\$82.3 billion while expenditure decreased by NT\$36.8 billion, leading to a surplus of NT\$16.6 billion. This indicates that the government's efforts to cut expenditure and implement tax reforms have reached positive results.

Significant Rise in Central Government Revenue

Central government revenue increased by 5.62 percent over the previous year to NT\$1,546.8 billion in 2006. The increase was mainly supported by a surge in income tax revenue, a result of steady economic expansion, rising corporate dividend distribution, and a buoyant property market. Also contributing to the increase in revenue were the Central Bank's earnings and the flotation of the government's Chunghwa Telecom stock holdings. Broken down by sources of revenue, taxes and the surpluses of public enterprises and public utilities led the others, together making up a lion's share of 89.53 percent. In particular, taxes increased for the fourth consecutive year, greatly improving fiscal conditions.

Total Revenue and Expenditure of the Central Government

Unit: NT\$ Billion

	Fiscal Year*									
	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006**
Total Revenue	1,025.2	1,251.5	1,228.6	2,030.8	1,417.2	1,304.7	1,321.0	1,368.2	1,464.5	1,546.8
(Ratio to GDP : %)	11.91	13.55	12.74	14.20	14.37	12.80	12.80	12.70	13.14	13.37
Total Expenditure	1,051.4	1,083.1	1,164.0	2,230.1	1,559.7	1,551.9	1,618.1	1,564.8	1,567.0	1,530.2
(Ratio to GDP : %)	12.21	11.72	12.07	15.59	15.81	15.22	15.68	14.53	14.06	13.22
Surplus/Deficit	-26.2	168.4	64.6	-199.3	-142.5	-247.2	-297.1	-196.6	-102.5	16.6
(Ratio to GDP : %)	-0.30	1.82	0.67	-1.39	-1.44	-2.42	-2.88	-1.83	-0.92	0.14
(Ratio to Total Expenditure : %)	-2.49	15.55	5.55	-8.94	-9.14	-15.93	18.36	-12.56	-6.54	1.08
Debt Repayment	100.4	103.9	118.0	193.4	122.2	55.5	46.5	56.1	64.1	65.0
Financing:	126.6	49.9	56.6	466.1	275.8	302.7	343.7	253.5	167.3	63.9
Debt Financing	117.3	49.9	56.6	466.1	275.8	244.4	300.8	253.5	167.3	63.9
Surplus of Previous Fiscal Years	9.3	-	-	-	-	58.3	42.9	-	-	-
Memorandum:										
Tax Dependency Ratio*** (%)	74.84	82.74	69.48	60.89	57.64	52.87	51.21	58.58	68.14	71.51
Debt Dependency Ratio**** (%)	11.16	4.61	4.86	20.90	17.68	15.75	18.59	16.20	10.68	4.18

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 2006 are preliminary estimates.

*** Tax dependency ratio is defined as the ratio of annual tax revenue to total government expenditure.

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

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

The significant rise in tax revenue led the tax dependency ratio to rise further from 68.14 percent in 2005 to 71.51 percent this year, showing that the government's measures to improve fiscal positions have been gradually accomplished.

Decrease in Central Government Expenditure

Following a negligible year-on-year increase in 2005, central government expenditure contracted by 2.35 percent in 2006 to NT\$1,530.2 billion. In terms of spending categories, social welfare and education, science and culture topped the list with shares of 19.85 percent and 19.81 percent, hitting their respective record highs. The share of social welfare exceeded that of education, science and culture for the first time since 2002 and ranked first among all categories. Ranking third and fourth were national defense and economic development spending with shares of 15.49 percent and 12.87 percent, respectively. The share of economic development spending successively declined from a high of 18.76 percent in 2002, mainly because part of it was shifted to the special budget.

Financial ratios of the central government improved consistently over the four years to 2006. The ratio of central government expenditure to GDP, for instance, dropped from 14.06 percent in 2005 to 13.22 percent this year, as expenditure decreased while GDP expanded.

Total Revenue and Expenditure of the Central Government by Category

Unit: NT\$ Billion

	Fiscal Year									
	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006*
Total Revenue	1,025.2	1,251.5	1,228.6	2,030.8	1,417.2	1,304.7	1,321.0	1,368.2	1,464.5	1,546.8
Taxes	749.1	858.8	772.9	1,280.7	841.5	820.1	828.6	916.6	1,067.7	1,094.3
Surpluses of Public Enterprises and Public Utilities	149.5	239.9	284.1	442.4	335.8	250.6	326.5	282.1	243.4	290.5
Fees, Fines and Indemnities	32.7	34.9	29.1	103.0	72.5	123.3	73.3	76.0	79.1	78.9
Revenues from Government-Owned Monopolies	37.8	37.4	35.9	77.3	57.5	0.4	—	—	—	—
Proceeds from Sales of Properties and Recalled Capital	31.1	60.5	91.9	88.4	80.9	73.9	65.8	70.4	52.6	58.5
Others	25.0	20.0	14.7	39.0	29.0	36.4	26.8	23.1	21.7	24.6
Total Expenditure	1,051.4	1,083.1	1,164.0	2,230.1	1,559.7	1,551.9	1,618.1	1,564.8	1,567.0	1,530.2
General Administration	108.0	112.7	134.6	234.9	167.0	162.3	167.3	164.1	165.5	167.4
National Defense	253.4	257.1	263.2	343.3	237.7	225.2	227.7	248.9	248.5	237.1
Education, Science and Culture	174.9	184.8	202.7	367.6	257.2	267.0	300.2	302.1	301.5	303.1
Economic Development	113.8	126.5	172.5	356.4	277.1	291.2	295.5	248.9	247.0	196.9
Social Welfare	150.0	150.2	157.6	411.0	293.3	262.2	284.4	279.8	285.7	303.7
Community Development & Environmental Protection	15.3	15.8	19.2	39.6	22.3	23.4	28.7	24.8	25.2	20.4
Pension & Survivors' Benefits	139.5	139.8	129.3	195.4	122.0	124.3	125.4	123.1	130.5	134.7
Obligations	58.9	63.5	80.3	249.6	151.2	152.2	144.6	127.1	117.9	125.2
Others	37.6	32.7	4.6	32.3	31.9	44.1	44.3	46.0	45.2	41.7

Note * The figures for the year 2006 are preliminary estimates.

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

Steep Decrease in Debt Financing Demand

The central government's demand for debt financing dropped steeply in 2006. With the NT\$16.6 billion fiscal surplus partly offsetting the NT\$65 billion debt repayment, debt financing demand shrank to NT\$48.4 billion, a large reduction from the NT\$166.6 billion in the preceding year and the lowest level since 1999. The central government met the debt financing demand by issuing government bonds and borrowing from banks, totaling NT\$63.9 billion in 2006.

Moderate Increase in Debt Obligations

Debt obligations of the central government increased in a decelerating pace. Total outstanding debt of the central government increased moderately to NT\$3,629.5 billion at the end of 2006, while its ratio to GDP dropped slightly to 31.37 percent from 31.88 percent in the previous year.

Public Debt of the Central Government

Unit: NT\$ Billion

	Fiscal Year									
	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006*
Outstanding Debt	1,382.2	1,369.4	1,312.9	2,450.5	2,759.4	2,849.4	3,127.5	3,364.9	3,553.6	3,629.5
(Ratio to GDP : %)	16.05	14.82	13.62	17.14	27.98	27.95	30.31	31.24	31.88	31.37
Government Bonds	1,129.3	1,078.0	1,024.9	1,362.8	1,682.9	1,939.1	2,318.8	2,543.8	2,831.0	3,046.0
Borrowing from Banks	252.9	291.4	288.0	1,087.7	1,076.5	910.3	808.7	821.1	722.6	583.5

Note * The figures for the year 2006 are preliminary estimates.

Sources: Directorate-General of Budget, Accounting and Statistics, Executive Yuan.
National Treasury Agency, MOF.