

The 2020 Budget of the Central Government : A Compendium

Forward

Due to the economic and trade turmoil such as the US-China trade conflict, the global economic growth was slowing down during the past year. The government has taken down-to-earth approaches to invigorate our economy, continuing to expand domestic consumption, make all-out effort to encourage investment and introduce Taiwan to the world. Through the efforts of government and all sectors of the economy, the domestic economy remains steadily growing. The growths in the first and second quarter of 2019 reach 1.8% and 2.4%, both taking the lead of the four Asian dragons. As of August this year, the overseas Taiwanese businesses have been coming back to invest over NT\$500 billion in Taiwan. The number of tourists reached an all-time record of 11 million in 2018, the fourth year in a row to breach 10 million benchmark. The World Economic Forum (WEF) continues to rank Taiwan the first in the economic stability indicator. The administration will grasp this opportunity, with our grit and creativity, to make a crisis an opportunity, and make it a driving force for Taiwan's economic growth.

This July, the IHS Markit's projected the global economic growth in 2020 at 2.7%, slightly below the 2.8% in 2019. In spite of the sluggish global economy, trade dispute has accelerated the reform of supply chain, pushing businesses to return to expand production capacity in Taiwan. Moreover, the

dominant semiconductor manufacturing process, next-generation network technology (5G), and the expanding applications of high-performance computing and AI are expected to sustain the momentum of the export sector. Domestically, the steady job market helps elevate private consumption, but the weakening demographic dividend has contracted growth. In the investment side, continuing investment on advanced procedures by the semiconductor industry, on-going green energy investment (e.g., offshore wind energy), starting up 5G network construction by the telecom service provider, along with the government's effort to improve investment environment, to scale up overseas companies' investment, and to implement the Forward-looking Infrastructure Programs, will all help foster investments. To sum up, Taiwan's economic performance in 2020 is expected to grow as it did in the second half of 2019.

In the face of global uncertainties and challenges from the transformations in the industrial and demographic structure, we need to foster cooperation between the government and the private sector. The guiding principle for Executive Yuan is simplifying government for the convenience of the public. Going forward, the implementation of all policies will begin with the people's perspective in mind, and taking action to solve social problems that concern the public. The government will make efforts to promote growth, ensure security, underpin cultural strength, and protect disadvantaged, to provide people with the safety and security to go about life and work.

In the face of the global economic challenges, the government needs to expand fiscal policy to ensure the economic momentum. The 2020 budget was planned by the following guidelines : (1) to

expand revenue forecast based on the steadily growing economy over the past few years. (2) to utilize all budget resources based on the zero-based principle. (3) to keep the growth rate of expenditure lower than that of revenue. (4) to comply with the loan cap of the Public Debt Act and the Fiscal Discipline Act. The revenue and expenditure of the 2020 budget both exceeded 2.1 trillion and reached a balance ever since 1999.

The Executive Yuan kept to require all agencies not only to earn more and spend less, but also to review the priorities and performances of all administrative policies. After agencies submitted their budget proposals in late-May, the Executive Yuan held a cabinet meeting to deliberate on the budget allocation within limited resources and to ensure that the budget reflects the vision of strengthening economic development and providing quality life, as well as maintaining fiscal soundness.

The overall budget arrangement has contained all the key policies of the current administration, which include:

- (1) Accelerating public investment to improve infrastructure. The overall infrastructure expenditure amounts to NT\$467 billion, NT\$81.8 billion (or 21.3%) higher than 2019.
- (2) Focusing on technology innovation to improve national competitiveness. The R&D expenditure of total general and special funds amount to NT\$152.3 billion, NT\$3.4 billion (or 2.3%) higher than 2019.
- (3) Investing in education to cultivate talents. The overall expenditure amounts to NT\$308.3 billion, NT\$8.9 billion (or 3%) higher than 2019.

- (4) Building a friendly environment for child-rearing. The budget of the program in response to declining birth rate comes to a total of NT\$50.6 billion, NT\$14.6 billion (or 41.1%) higher than 2019.
- (5) Enhancing cultural development and enriching ethnic equality. After taking into account of all the general and special funds, the total culture expenditure amount to NT\$49.4 billion, NT\$2 billion (or 4.1%) higher than 2019.
- (6) Building a credible defense force to ensure national security. After taking into account of all the general and special funds, the overall defense expenditure amounts to NT\$411.3 billion, NT\$31.4 billion (or 8.3%) higher than 2019.
- (7) Building a sustainable pension system and securing the Labor Insurance finance. The budget saved from the pension reform amounts to NT\$24.1 billion, which will be injected into the Public Service Pension Fund by all levels of government. Together with the NT\$20 billion to support the Labor Insurance Fund, the overall expenditure amounts to NT\$44.1 billion.
- (8) Stabilizing local government revenue and balancing the rural-urban development. The general allowance and special subsidy to local governments amounts to NT\$176.2 billion, NT\$9.4 billion (or 5.6%) higher than 2019. Together with the NT\$5.1 billion in centrally-funded tax revenues, the overall financial assistance from central government increases by NT\$14.5 billion (or 2.8%).
- (9) Accelerating the expansion of access to affordable long-term care institution. The budget of all general and special funds for long-term care services amount to NT\$44.1 billion, NT\$5.1 billion

(or 13.1%) higher than 2019.

(10) Developing renewable energy to create a sustainable environment. The budget of all general and special funds amount to NT\$46.5 billion, NT\$17.2 billion (or 58.7%) higher than 2019.

The revenue of the 2020 budget is estimated to be NT\$2,102.2 billion, which increases by NT\$109.8 billion (or 5.5%) compared with 2019. The expenditure is set at NT\$2,102.2 billion, which increases by NT\$104.2 billion (or 5.2%) compared with 2019. The growth of revenue continues to outpace that of expenditure. The increase of expenditure has been put in priorities such as infrastructure, R&D, national defense, welfare for the disadvantage, child-rearing allowances, talent cultivation and balancing the rural-urban development.

The Budget has once again achieved balance since 1999 with no extra borrowing need except NT\$85 billion for debt repayment. After factoring in the NT\$118.2 billion of borrowing for special budget, the borrowing totals NT\$203.2 billion, or 9.2% of total expenditure which is well below the loan cap of 15% stipulated by the Public Debt Act, and is consistent with the provision of the Special Act for Forward-looking Infrastructure. The debt to 3-year-average GDP ratio at the end of 2020 is projected to be 31.5% (below the debt ceiling of 40.6%), the same level as that of 2019. It shows the government's determination to uphold fiscal discipline.

As for expenditure by functions, Social Welfare expenditure of NT\$524.5 billion takes up the largest share of 24.9% ; Education, Science and Culture expenditure of NT\$428.2 billion takes the second place of 20.4% ; Defense expenditure of NT\$343.5 billion takes the third of 16.4% ; Economic

Development expenditure of NT\$252.4 billion takes the fourth of 12%.

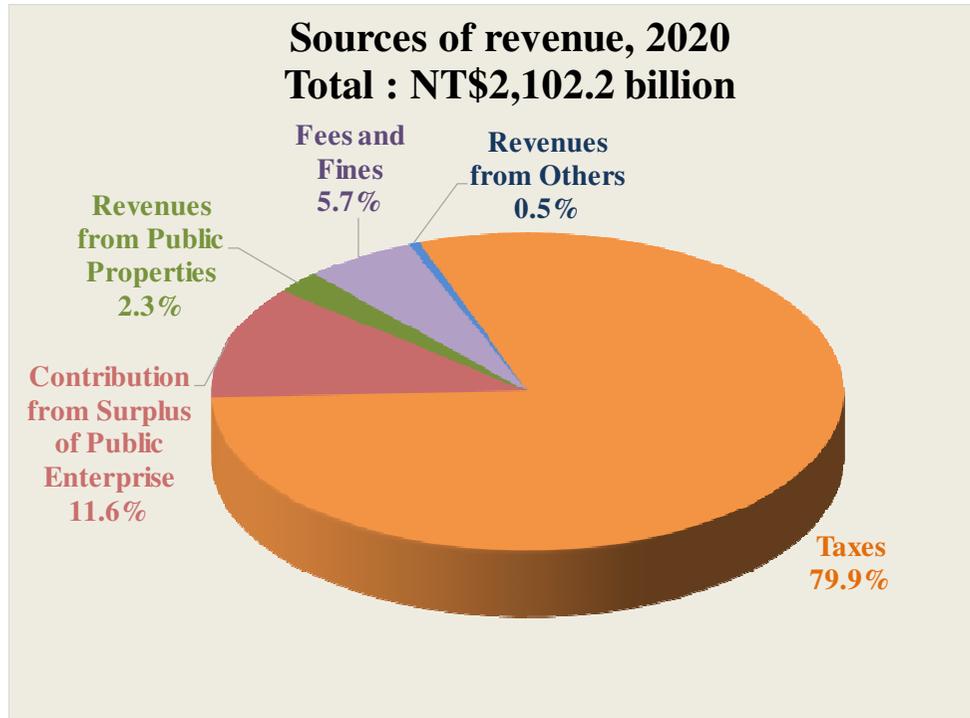
The expenditure increase of NT\$104.2 billion is mainly attributable to:

- (1) An increase of NT\$32.5 billion in Social Welfare expenditure, mainly due to higher government contributions to Labor Insurance, National Health Insurance, National Pension Insurance and Farmer Health Insurance, and appropriation to the Labor Insurance Fund.
- (2) An increase of NT\$18.8 billion in Defense expenditure, mainly due to higher investment in military weapons and the implementation of voluntary military service.
- (3) An increase of NT\$12.6 billion in Education, Science and Culture expenditure, mainly due to the policy countering declining birth rates.
- (4) An increase of NT\$10.3 billion in Economic Development expenditure, mainly due to higher government contributions to the Agriculture Development Fund and the TRA Train Purchasing and Renewal Plan.

The government predicts that the GDP in 2020 will reach NT\$18.8 trillion, equivalent to US\$598.1 billion; the GDP per capita will reach US\$25,332 and the economic growth will be 2.6%. Meanwhile, domestic prices maintain stable, with a moderate CPI inflation of 0.8%. All these indicators demonstrate that the Budget has managed to pursue a balance between economic development and fiscal soundness.

Analysis of Revenue and Expenditure

1. Revenue



Composition and Changes of Revenue

NT\$ Billion

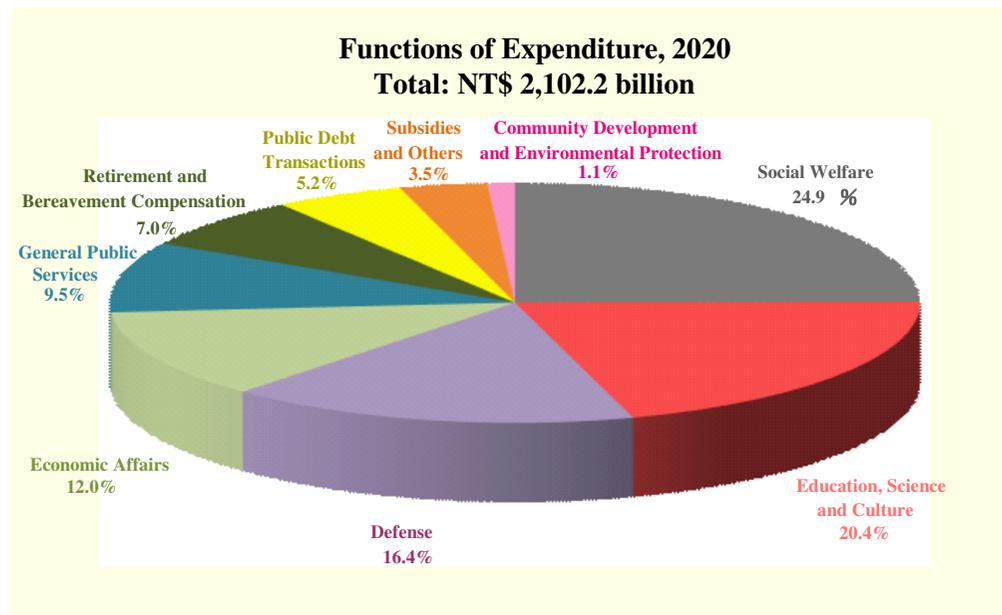
Item	2020		2019		Change	
	Amount (A)	%	Amount (B)	%	Amount (A-B)	%
Total	2,102.2	100.0	1,992.4	100.0	109.8	5.5
1. Taxes	1,679.6	79.9	1,647.1	82.7	32.5	2.0
Income Taxes	997.5	47.5	957	48.0	40.5	4.2
Business Taxes	241.5	11.5	239.8	12.1	1.7	0.7
Commodity Taxes	160.5	7.6	163.1	8.2	-2.6	-1.6
Customs Duties	119.7	5.7	120	6.0	-0.3	-0.2
2. Contribution from Surplus of Public Enterprise	243.6	11.6	228.8	11.5	14.8	6.5
3. Fees and Fines	119.1	5.7	79.9	4.0	39.2	66.5
4. Revenues from Public Properties	48	2.3	25.9	1.3	22.1	85.4
5. Revenues from Others	11.9	0.5	10.7	0.5	1.2	11.5

Total revenue for 2020 is projected to be NT\$2,102.2 billion, NT\$109.8 billion (or 5.5%) higher than 2019, and is comprised of five major sources:

- (1) **Taxes.** 79.9% of revenue come from taxes, which goes up from NT\$1,647.1 billion in 2019 to NT\$1,679.6 billion in 2020, an increase of NT\$32.5 billion (or 2%). The increase is mainly from higher Income Taxes of NT\$40.5 billion.
- (2) **Contribution from Surplus of Public Enterprise.** 11.6% of revenue is contributed from the business special fund and equity investments, which goes up from NT\$228.8 billion in 2019 to NT\$243.6 billion in 2020, an increase of NT\$14.8 billion (or 6.5%). The increase is mainly due to higher contributions from National Development Fund of NT\$7.3 billion, CPC Corporation, Taiwan of NT\$4.5 billion, Transportation and Communications Operations Fund of NT\$3 billion.
- (3) **Fees and Fines.** 5.7% of revenue derives from fees and fines, which goes up from NT\$ 79.9 billion in 2019 to NT\$119.1 billion in 2020, an increase of NT\$39.2 billion (or 66.5%). The increase is mainly a result of a NT\$40 billion one-off auction of broadband licenses for fifth generation mobile phones.
- (4) **Revenue from Public Properties.** 2.3% of revenue stems from public properties, which goes up from NT\$ 25.9 billion in 2019 to NT\$48 billion in 2020, an increase of NT\$22.1 billion (or 85.4%). The increase is mainly from the liquidation of Local Construction Fund of NT\$19.8 billion.

(5) **Revenue from Others.** 0.5% of revenue comes from others, which goes up from NT\$10.7 billion in 2019 to NT\$11.9 billion in 2020, an increase of NT\$1.2 billion (or 11.5%). The increase is due to the rise in refunds of military equipment purchases in prior years.

2. Expenditure



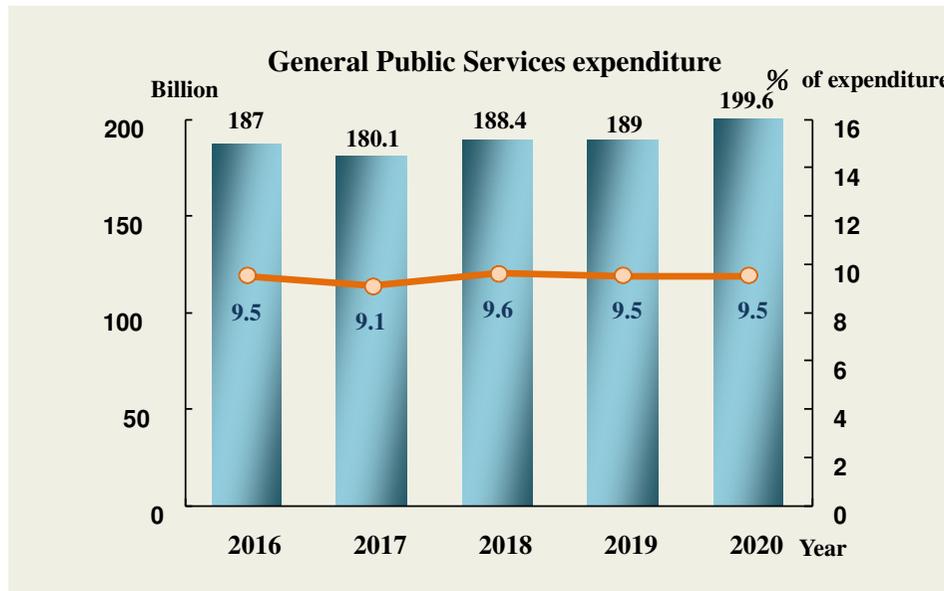
Composition and changes of Expenditure

NT\$ Billion

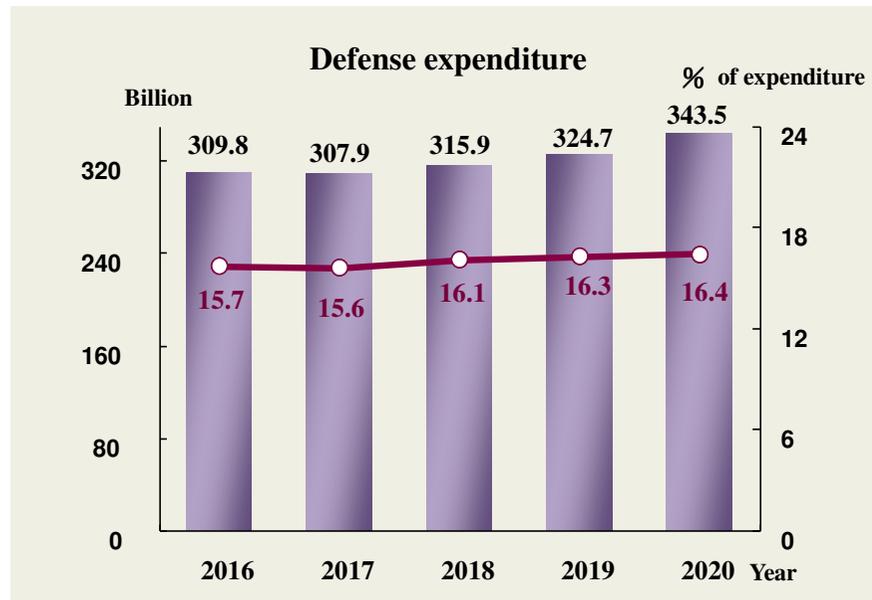
Item	2020		2019		Change	
	Amount (A)	%	Amount (B)	%	Amount (A-B)	%
Total	2,102.2	100.0	1,998	100.0	104.2	5.2
1.General Public Services	199.6	9.5	189	9.5	10.6	5.6
2.Defense	343.5	16.4	324.7	16.3	18.8	5.8
3.Education, Science and Culture	428.2	20.4	415.6	20.8	12.6	3.0
4.Economic Affairs	252.4	12.0	242.1	12.1	10.3	4.3
5.Social Welfare	524.5	24.9	492	24.6	32.5	6.6
6.Community Development and Environmental Protection	23.8	1.1	19	0.9	4.8	25.7
7.Retirement and Bereavement Compensation	146.4	7.0	138.1	6.9	8.3	6.0
8.Public Debt Transactions	109.7	5.2	111.5	5.6	-1.8	-1.7
9.Subsidies and Others	74.1	3.5	66	3.3	8.1	12.2

The expenditure of 2020 is expected to be NT\$2,102.2 billion, NT\$104.2 billion (or 5.2%) higher than 2019. The composition and changes of expenditures by function are briefly presented as follows.

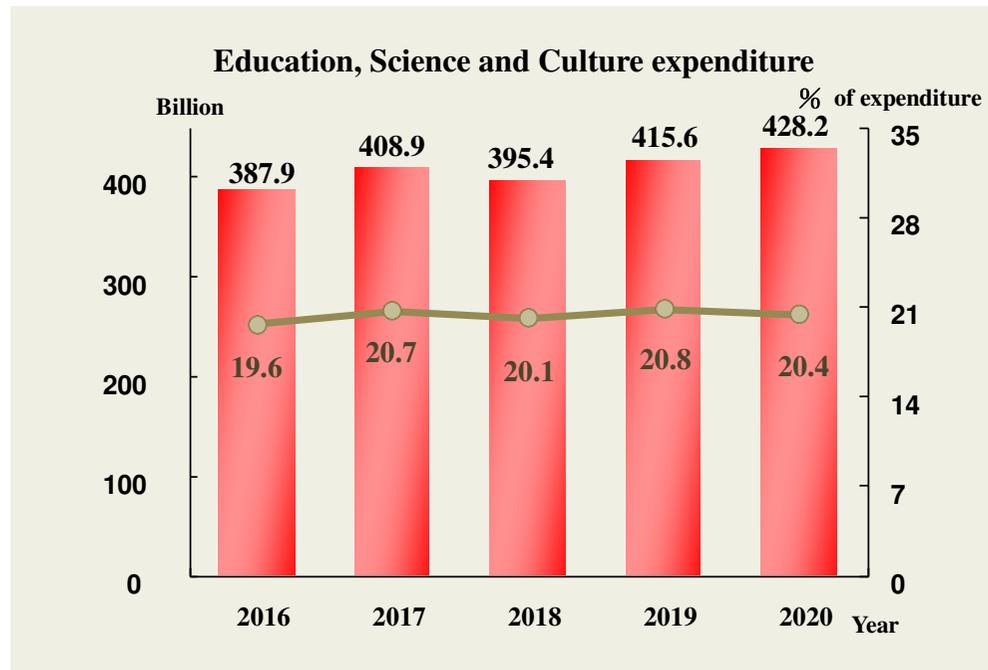
- (1) General Public Services expenditure is expected to be NT\$199.6 billion (or 9.5% of total), NT\$10.6 billion (5.6%) higher than the 2019 level.



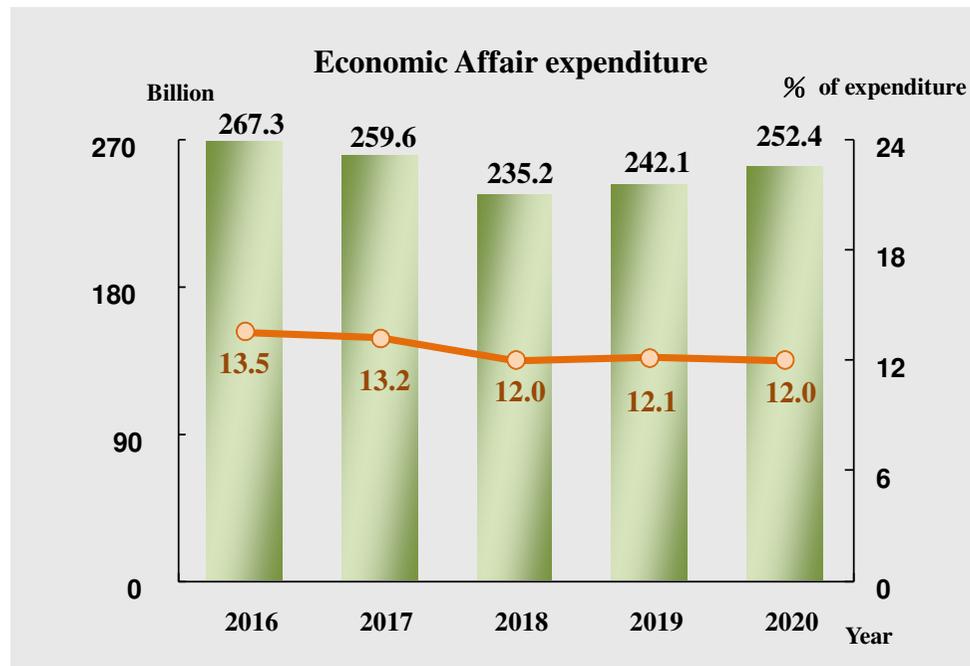
(2) Defense expenditure is expected to be NT\$343.5 billion (or 16.4% of total), NT\$18.8 billion (5.8%) higher than the 2019 level.



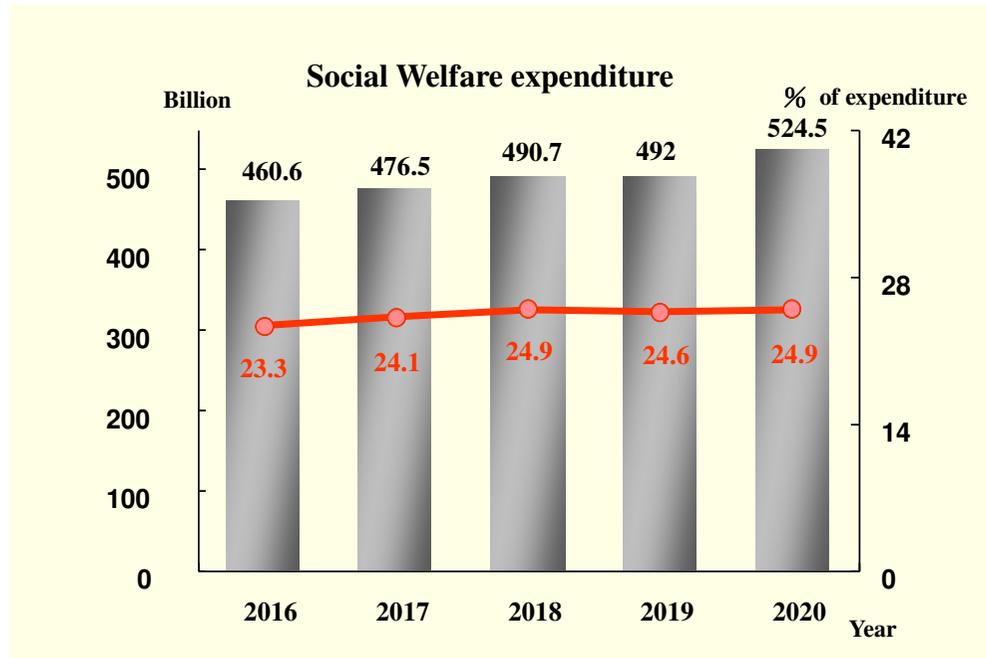
(3) Education, Science and Culture expenditure is expected to be NT\$428.2 billion (or 20.4% of total), NT\$12.6 billion (3%) higher than the 2019 level.



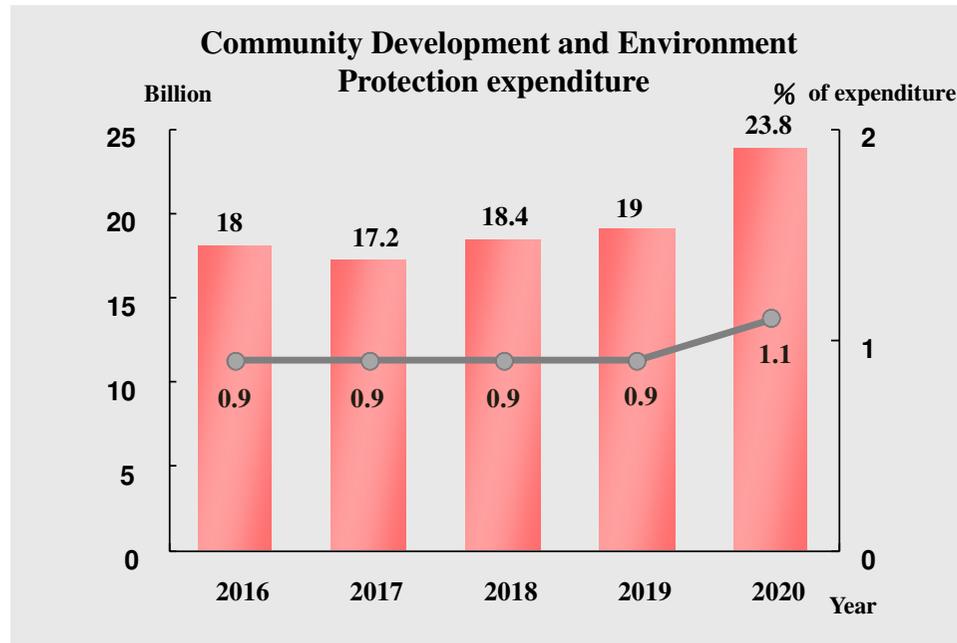
(4) Economic Affairs expenditure is expected to be NT\$252.4 billion (or 12% of total), NT\$10.3 billion (4.3%) higher than the 2019 level.



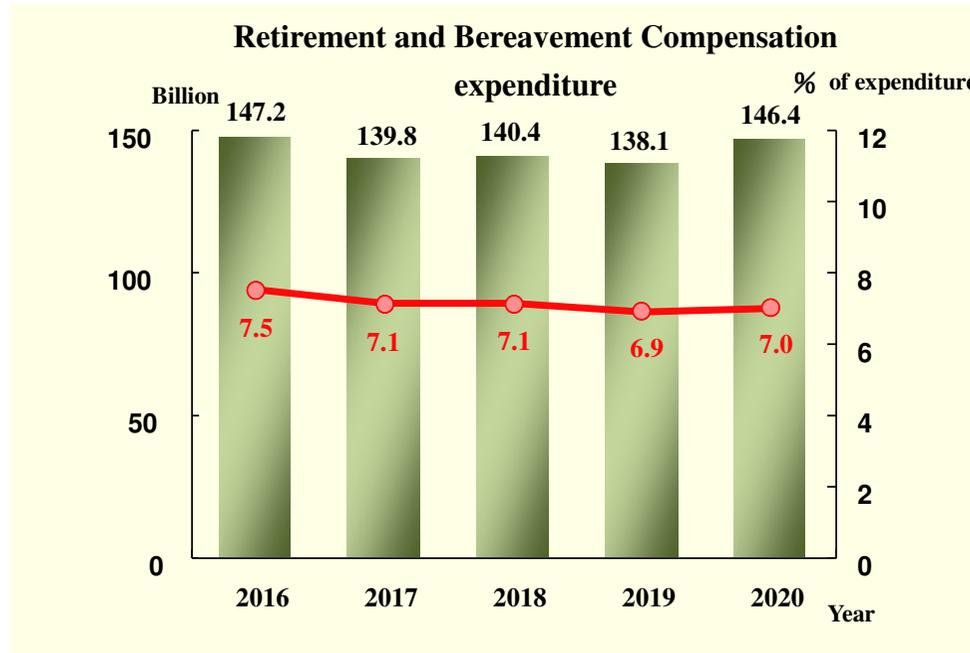
(5) Social Welfare expenditure is expected to be NT\$524.5 billion (or 24.9% of total), NT\$32.5 billion (6.6%) higher than the 2019 level.



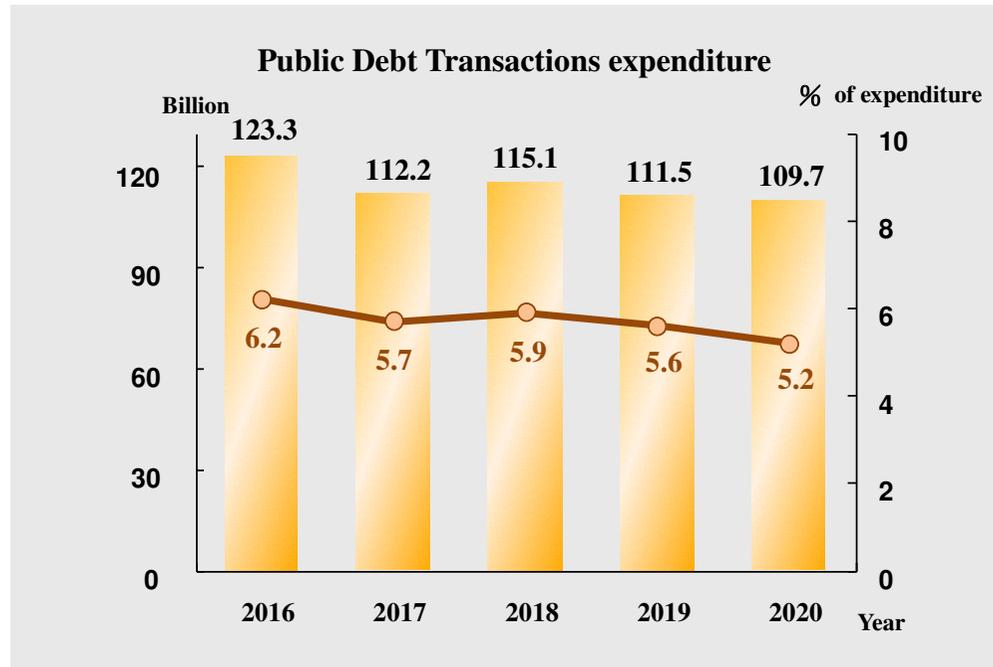
(6) Community Development and Environmental Protection expenditure is expected to be NT\$23.8 billion (or 1.1% of total), NT\$4.8 billion (25.7%) higher than the 2019 level.



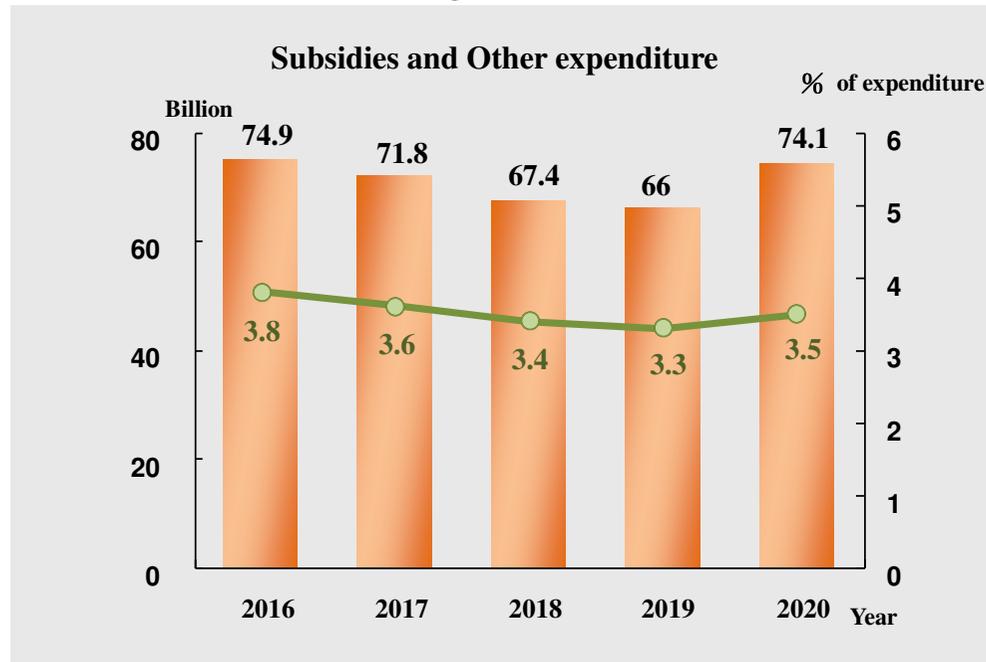
(7) Retirement and Bereavement Compensation expenditure is expected to be NT\$146.4 billion (or 7% of total), NT\$8.3 billion (6%) higher than the 2019 level.



(8) Public Debt Transactions expenditure is expected to be NT\$109.7 billion (or 5.2% of total), NT\$1.8 billion (1.7%) lower than the 2019 level.



(9) Subsidies and Others expenditure is expected to be NT\$74.1 billion (or 3.5% of total), NT\$8.1 billion (12.2%) higher than the 2019 level.



3. Financing Need

Composition and Changes of Financing Need

NT\$ Billion

Item	2020		2019		Change	
	Amount (A)	%	Amount (B)	%	Amount (A-B)	%
1. Deficit	-	-	5.6	6.3	-5.6	-100.0
2. Debt Repayment	85	100.0	83.5	93.7	1.5	1.8
3. Financing Need	85	100.0	89.1	100.0	-4.1	-4.6
(1) Borrowing	85	100.0	89.1	100.0	-4.1	-4.6
(2) Surplus from the Previous Years	-	-	-	-	-	-

The 2020 budget strikes a balance between revenue and expenditure. Debt repayment is set at NT\$85 billion or 5.1% of tax revenue. This is in compliance with Article 12 of the Public Debt Act, which requires the central government allocate at least 5% of tax revenue for repayment of principal on debt. After taking into account the NT\$118.2 billion borrowing of special budget, the total financing need is expected to be NT\$203.2 billion, which will all be funded through borrowing. The amount is equivalent to 9.2% of the expenditure, lower than the 15% loan cap regulated by Article 5 of the Public Debt Act.

At the end of 2018, the public debt incurred by the central government was NT\$5,380.1 billion. Taking into account the estimates of borrowings and debt repayments in the 2020 and 2019 budgets, the central government outstanding debt is projected to be NT\$5,619.1 billion at the end of 2020, which is 31.5% of the 3-year-average GDP. It is below the 40.6% debt ceiling stipulated by Article 5 of the Public Debt Act. As for the public debt incurred by local governments, NT\$858.2 billion has been accumulated at the end of 2018.

Composition of Public Debt
December 31, 2018

NT\$ Billion

Government Level	General Fund			Non-profit Special Fund			Total of Non Self-redeeming debt extending more than 1 year
	Extending more than 1 year		Maturing within 1 year	Extending more than 1 year		Maturing within 1 year	
	Self-redeeming	Non Self-redeeming		Self-redeeming	Non Self-redeeming		
Total	38.3	6,222.2	189	412.1	16.1	191.7	6,238.3
Central Government	-	5,380.1	51	255.7	-	177.4	5,380.1
Local Government	38.3	842.1	138	156.4	16.1	14.3	858.2

Note: 1.The figures of central government general and non-profit special funds are final audit accounts; figures of local government are final accounts.

2.The figures for local government public debt are from statistics posted on the website of National Treasury Administration, Ministry of Finance.

By definition of the Public Debt Act, the above-mentioned public debts are non-self-redeeming public debts with maturity of 1 year or above incurred by government through the general budgets, special budgets, and special funds other than business special funds or trust funds.

Meanwhile, in response to the increasing concerns with future contingent obligations, the central government started to disclose these items in the Financial Statement from 2009 onwards. According to the latest updated estimates based on the 2018 Central Government Financial Statement, as of the end of June 2019, the actuarial present value of these future contingent obligations are estimated to be NT\$14,786.9 billion for the central government and NT\$2,831.1 billion for the local government, which total NT\$17,618 billion for all levels of government.

Future Contingent Obligations

June 30, 2019

NT\$ Billion

Item	Total	Central Government	Local Government
Total	17,618.0	14,786.9	2,831.1
1. Unfunded Pension For Public Service (before 1995)	4,432.8	3,089.6	1,343.2
2. Public Service Pension Fund (after 1995)	2,471.7	1,013.4	1,458.3
3. Labor Insurance	9,671.1	9,671.1	-

4.Civil Servant and Public School Faculty Insurance	106.0	106.0	-
5.National Pension Insurance	783.1	783.1	-
6.Military Personnel Insurance	41.2	41.2	-
7.Farmer Health Insurance	82.1	82.1	-
8.Arrears incurred by local governments in the overdue health insurance premium and preferential deposit interest for retirees of public service	30.0	0.4	29.6

The above-mentioned disclosures are mainly the social insurance or employee pension provided by the government to strengthen the economic security of the elderly. These future contingent obligations are either statutory spending in the future, which must be provided for by annual budgets, or possible payments for underfunded social insurances, which could otherwise be compensated by premium adjustments or other pension reforms. They are distinct from the public debts raised to finance deficits, which are governed by the Public Debt Act.