

system with a step-by-step plan divided into three stages including internet-only banks, bills finance companies and domestic banks.

## 4.2 Taiwan's responses to the COVID-19 pandemic

In response to the impact of the COVID-19 pandemic on the domestic economy and society, Taiwan announced in February 2020 the *Special Act for Prevention, Relief and Revitalization Measures for Severe Pneumonia with Novel Pathogens* and launched an NT\$1.05 trillion “Relief package 2.0,” providing various types of assistance from the three major aspects of pandemic prevention, relief, and revitalization (Table 4.1).

**Table 4.1 Summary of NT\$1.05 trillion “Relief package 2.0” of the Executive Yuan**

Items	Amount	Details
Special Budget	NT\$210 billion	<ul style="list-style-type: none"> <li>The upper limit of the special budget was increased from NT\$60 billion to NT\$210 billion. Moreover, the upper limit could be raised by NT\$210 billion (yet to be submitted to the Legislative Yuan) to NT\$420 billion, depending on the pandemic situation in the future.</li> <li>Allocation of the NT\$210 billion special budget: the MOEA, NT\$97.5 billion; the MOHW, NT\$36.5 billion; the MOL, NT\$31 billion; the MOTC, NT\$30.9 billion; and other ministries, NT\$14.1 billion.</li> </ul>
Funds and Disbursement Through Reprioritization	NT\$140 billion	<ul style="list-style-type: none"> <li>Ministerial funds: the MOL, the MOTC, the Ministry of Education and the Council of Agriculture, with a total of NT\$52.6 billion.</li> <li>Special funds: the National Development Fund and the Small &amp; Medium Enterprise Credit Guarantee Fund (SMEG), totaling NT\$60 billion.</li> <li>Advance procurement: The public construction budget totaling NT\$12 billion.</li> <li>Reprioritization: NT\$15.4 billion.</li> </ul>
Bailout Loans	NT\$700 billion	<ul style="list-style-type: none"> <li>Loan amounts: the Bank provided NT\$200 billion (up to NT\$400 billion depending on the pandemic situation) through the special accommodation facility; the postal savings fund and government-owned banks provided relief funds of NT\$500 billion (in addition, each domestic bank has its own bailout loan program).</li> <li>Loan assistance: The MOEA and the MOTC would assist enterprises in obtaining funding through the SMEG's guarantee, as well as providing corporate and personal interest subsidies.</li> </ul>

Sources: Executive Yuan and related ministries.

In addition, in order to reduce the impact of the pandemic, the Bank cut the policy rate by 25 bps in March 2020 and undertook measures to support liquidity in the financial system and sustain stability of the FX market. Meanwhile, the FSC adopted a number of measures to stabilize financial markets. Other ministries also introduced various response measures.

## 4.2.1 Monetary policy

To help enterprises affected by the COVID-19 pandemic to return to normal operations and to prevent massive capital flows from affecting financial stability, the Bank has implemented major measures since March 2020 as follows:

1. Cutting policy rates: the discount rate, the rate on accommodations with collateral, and the rate on accommodations without collateral were reduced to 1.125%, 1.50%, and 3.375%, respectively.
2. Providing a special accommodation facility to support bank credit to SMEs: the Bank provided banks with a total amount of NT\$200 billion (set at an annual interest rate of 0.1%), in order to support credit extensions to SMEs. The accommodation facility mechanism can be categorized into three schemes A, B and C, according to eligible borrowers, amount, interest rate and collateral (Table 4.2).

**Table 4.2 The Bank launched the special accommodation facility to support bank credit to SMEs**

Items	Scheme A	Scheme B	Scheme C
Eligible borrowers	SMEs (including small business entities)	SMEs (including small business entities)	Only small business entities <sup>1</sup>
Amount	Maximum: NT\$2 million per borrower	Maximum: NT\$6 million per borrower	Maximum: NT\$500,000 per borrower
Interest rate	Not exceeding 1%	Not exceeding 1.5%	Not exceeding 1%
Collateral	The Small and Medium Enterprise Credit Guarantee Fund provides more than 90% credit guarantee.	Collateral <sup>2</sup> required by banks	The Small and Medium Enterprise Credit Guarantee Fund provides 100% credit guarantee.

Notes: 1. Small business entities refer to those for-profit businesses that have tax registration with a sales amount not reaching NT\$200,000 in any given month since January 2020.

2. Collateral means those listed in Article 12 of the *Banking Act*.

3. As of May 21, 2020, the approved loan amounts for Scheme A, B, and C were NT\$6.63 billion, NT\$7.22 billion, and NT\$15.41 billion, respectively, with a total of NT\$29.26 billion.

Source: CBC.

## 4.2.2 Measures for financial market stability

### *Main measures taken by the Bank*

To provide the financial system with sufficient liquidity and maintain FX market stability, the Bank took response measures as follows:

- (1) In order to keep market liquidity at an accommodative level, the Bank decreased the

issuance of CDs in a timely manner so as to reduce sterilized funds.

- (2) Banks with funding demand are able to use their holdings of CDs issued by the Bank to request early withdrawal or to obtain funds from the Bank with CDs as collateral whenever necessary.
- (3) In case of emergency, the Bank's expanded repo facility, introduced in 2008 at the onset of the GFC, could also be applied.
- (4) The Bank paid close attention to cross-border capital flows and acted in line with its mandate to maintain an orderly FX market and safeguard financial market stability.

### **Main measures taken by the FSC**

To orderly maintain the stability of securities exchange markets and protect the interests of investors, the FSC took the following response actions from March 19, 2020 onwards:

- (1) Lowering the cap on total securities borrowing and lending (SBL) short selling volume during trading sessions.
- (2) Expanding the scope of collateral to cover margin deficiency.
- (3) Requiring that if the closing price of the listed securities and Taiwan depository receipts falls by more than 3.5%, then on the following trading day the investors are not permitted to engage in regular or SBL short selling at a price lower than the closing price of the previous trading day.
- (4) Encouraging listed companies to buy back treasury shares in a timely manner to protect the interests of shareholders and enhance investors' confidence.

### **4.2.3 Providing relief loans, subsidy schemes and tax assistance**

The "Relief package 2.0" was mainly employed by the ministries and commissions under the Executive Yuan in supportive measures, such as relief loans and various subsidy schemes for affected corporates and individuals, and the MOF also put easing tax burden measures into practice to provide related tax assistance as follows:

- FSC: through rating and rewarding, lowering loan provisioning ratios, decreasing deposit insurance premium rates and other measures, the FSC encouraged financial institutions to

take strong steps to implement relief measures<sup>83</sup> put forward the ministries and commissions of the central government. In addition, the FSC urged the banking industry to provide loan assistance to enterprises and individuals affected by the COVID-19 pandemic.

- MOF: the MOF urged government-owned banks to continue to extend policy loans to enterprises and provide assistance of relief loans to SMEs, micro-enterprises and individuals; moreover, interest rates of mortgages and consumer loans were reduced further. The MOF also cut taxes and deferred reporting and payment periods of corporate and individual income taxes.
- MOL: the MOL took measures to help unemployed workers to find jobs and/or to participate in public services, to subsidize self-employed business owners, to initiate youth employment stabilization plans, to implement a program that offer part-time jobs in public sectors, to provide labor relief loans, etc.
- Various government agencies, including the MOEA, MOHW, MOTC: the government approved a wide-range of relief packages, providing loan assistance to enterprises, individuals or groups affected by the pandemic. There were also subsidies for business operations, loan interest payments, taxes, payroll and expenses, etc.

### **4.3 The Bank will continue to adopt measures to promote financial stability when necessary**

In 2019, Taiwan's financial markets and infrastructure maintained normal operation and sound development in the context of a slowing economy and mild inflation both domestically and abroad, while financial institutions experienced large increases in profitability, good asset quality and higher capital levels. Overall, Taiwan's financial system remained stable. In such a stable economic and financial environment, the Bank adopted appropriate monetary, credit and FX policies, while the FSC continued to revamp financial regulations and enhance financial supervision measures so as to guide the sound operations of financial institutions and promote financial stability.

Since the beginning of 2020, the outbreak of the COVID-19 pandemic disrupted global supply chain operations, greatly weakened the momentum of international trade and consumer demand, and triggered volatility in global financial markets. These circumstances, coupled with the collapse in oil prices, US-China trade dispute uncertainty, geopolitical conflicts, and other

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<sup>83</sup> As of May 26, 2020, domestic banks had taken over one million borrowers of relief loans, with a total amount of NT\$925.5 billion. Among them, around 680 thousand borrowers with NT\$735.8 billion were approved.