

VI. Taiwan's policy measures to cope with the global financial crisis

The impact of global financial turmoil resulted in downside risks to the local economy in the second half of 2008. In order to alleviate the impacts of the financial crisis, Taiwan's government launched the Economic Vitalization Package in September 2008⁶⁵ and implemented a succession of monetary policies, financial stability measures and fiscal policies so as to increase domestic demand, stabilize the financial system and maintain the momentum of economic growth.

6.1 Monetary policies

To increase domestic demand and provide a sufficient injection of liquidity into the market, the CBC adopted an easy monetary stance. Key measures are summarized as follows:

Lowering the discount rate

The CBC lowered the discount rate by 2.375 percentage points in seven cuts from September 2008 to March 2009 (Table 6.1). Lower interest rates helped to reduce individual and corporate funding costs, encourage private consumption and investment, and stimulate domestic economic growth.

In addition, in order to prompt domestic banks to speedily lower their interest rates in line with the CBC's rate cuts, the CBC, Ministry of Finance and FSC held meetings twice with primary mortgage banks in November 2008. With the consent of those banks, rate adjustments of mortgage loans and corporate loans could be made monthly instead of quarterly (or semiannually) without additional renewal fees before March 2009.

Table 6.1 CBC discount rate cuts

Effective date	Change (percentage point)	Discount rate (%)
26 Sept. 2008	-0.125	3.50
9 Oct. 2008	-0.250	3.25
30 Oct. 2008	-0.250	3.00
9 Nov. 2008	-0.250	2.75
11 Dec. 2008	-0.750	2.00
7 Jan. 2009	-0.500	1.50
18 Feb. 2009	-0.250	1.25

Source: CBC.

⁶⁵ Please refer to Box 2 "Economic Vitalization Package in Taiwan," the second financial stability report, December 2008.

Lowering the required reserve ratios

From 18 September 2008 onward, the CBC lowered the required reserve ratios on demand deposits and time deposits by 1.25 and 0.75 percentage points, respectively, releasing around NT\$200 billion of funds with a view to increasing the momentum of bank lending.

Expanding the scope of Repo facility operations

To provide financial institutions with sufficient liquidity, the Board of the CBC reached the decision to expand the scope of Repo facility operations in its meeting on 25 September 2008. The monetary policy decisions included: (1) expanding eligible counterparties to include securities firms and insurance companies; (2) extending the term of Repo facility operations to within 180 days from 30 days; (3) expanding eligible instruments to include CDs issued by the CBC; and (4) allowing financial institutions to apply for the CBC's approval for Repo facility operations based on their funding demand, in addition to the operations announced by the CBC.

6.2 Measures to stabilize the financial system

In order to stabilize financial markets, improve market confidence, as well as assist individual and corporate funding, the government also implemented a number of measures to stabilize the financial system as follows:

Adopting an interim blanket deposit guarantee

The government announced that it would guarantee all deposits in insured financial institutions (both banks and community financial institutions) by their full amount until the end of 2009. Additional deposits to be guaranteed included foreign currency-denominated deposits, inter-bank deposits and lending, and financial bonds issued before or on 23 June 2005. This measure effectively stabilized the market and restored the confidence of depositors.

Initiating approaches for stabilizing stock markets

The impact of global financial turmoil resulted in acute slumps in the local stock markets. In order to stabilize domestic equities prices, the government launched the following measures: (1) temporarily resuming the ban on short-selling 150 listed shares below the previous day's closing price, suspending borrowed and margin stocks from short-selling, and narrowing the