

## 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 2008<sup>65</sup> 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.

<sup>65</sup> 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

percentage fall limits of share prices; (2) encouraging companies to buy back their own stocks as treasury stocks or company directors to purchase their companies' stocks; and (3) encouraging state-owned financial institutions and the four government-managed funds to purchase low-priced stocks of well-performing companies.

### ***Increasing securities market momentum and expanding capital market size***

To increase market momentum, the short-selling of borrowed and margin stocks at or above the closing price on the previous trading day was permitted from 28 November 2008 onwards. As a result, the trading volume in the stock market increased substantially in December 2008. Moreover, after the government resumed the short-selling of 150 listed shares below the closing price on the previous trading day and lifted the limits on the total volume of short-selling for borrowed and margin stocks, starting from 5 January 2009, market liquidity increased. In addition, the FSC released a new regulation on 30 April 2009, which gave the green light to Qualified Domestic Institutional Investors (QDIIs) from China wishing to invest in Taiwan's securities and futures. It was expected to expand the scale of the local capital market so as to promote its internationalization and competitiveness.

### ***Coordinating corporate financing support***

In order to assist corporations to weather the current economic downturn and to tackle their business difficulties, the government introduced several projects, including: (1) organizing a Special Task Force on Facilitating Enterprises to Obtain Operational Funds to help small and medium enterprises (SMEs) and large corporations find financing support; (2) releasing two self-disciplined mechanisms by the Bankers' Association allowing corporations that face financial difficulties but still operate normally and pay loan interest as scheduled to extend loans by six months if their expiry date is before the end of 2009, and temporarily loosening collateral requirements on margin loans to ease selling pressure from margin calls; (3) extending the settlement period for dishonored checks; (4) implementing the Program to Encourage Lending by Domestic Banks to Small and Medium Enterprises, which is expected to increase SMEs' lending by NT\$300 billion from July 2008 to the end of 2009; (5) providing NT\$600 billion in loans to large corporations<sup>66</sup> under the Directions for the Provision of Special Loans and Credit Guarantees to Non-SMEs; and (6) loosening the qualification requirements for credit guarantees, lowering guarantee fees and expanding authorized guarantee coverage by the Small and Medium Enterprise Credit Guarantee Fund

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<sup>66</sup> Effective until the end of 2010.

of Taiwan (Taiwan SMEG)<sup>67</sup>.

In order to help corporations raise funds from capital markets, the government also implemented several related measures, including: (1) relaxing the lower limit of offering prices for equity offerings; (2) allowing issuers of convertible bonds which are due before the end of 2009 to set additional conversion price reset provisions or modify terms, such as extending the due date, after reaching the final decision at shareholders' meetings and negotiating with bondholders; (3) allowing companies to issue new corporate bonds to pay off previous bond indentures; and (4) allowing public-issuing companies to repay corporate bonds using the residual funds of previous bond issues.

### ***Assisting individuals to get loans from banks***

In order to assist individuals to get loans from banks and to reduce the interest burden for homebuyers, the government introduced several measures, which included: (1) providing a total of NT\$400 billion in preferential mortgage loans in September 2008 and April 2009, respectively; and (2) allowing borrowers of preferential mortgage loans to extend the expiration date or defer principal repayment of loans if applicable, and allowing involuntarily unemployed workers to defer principal payments of their mortgage loans.

### ***Temporarily adjusting the risk-based capital system of the insurance industry***

In view of the impact of the global financial crisis and to maintain the function of the risk-based capital (RBC) system as well as the stability of the domestic insurance market, the FSC promulgated a new regulation in November 2008 to allow insurance companies to raise funds through issuing bonds with a capital nature. Furthermore, the FSC amended the risk-based capital system of the insurance industry in October and November 2008, respectively. The main amendments were: (1) the issuance of bonds with a capital nature can be included in eligible capital, and the maximum limit of bonds with a capital nature and preferred stock of a liability type being included in eligible capital was raised; (2) except for the cross investments among insurance companies, the funds invested in bonds with a capital nature or preferred stock of a liability type need not be deducted from eligible capital; (3) the special reserve for major events and part of unrealized gains or losses arising from investments on stocks, exchange-traded funds (ETFs) and mutual funds can be included in eligible capital. The above amendments are to be in effect until the end of 2009.

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## 6.3 Fiscal policies

In addition to the monetary policies and financial stability measures mentioned above, there are expansionary fiscal policies to promote domestic demand and maintain the momentum of domestic economic growth.

### *Expanding investment in public works*

The government adopted a four year project of Expanding Investment in Public Works to Revitalize the Economy with a total of NT\$500 billion to expand investment in public works schemes. Its objectives are to: (1) create a comprehensive and rapid transit network; (2) create a safe and disaster-free environment; (3) improve the quality of the cultural and living environment; (4) strengthen infrastructure to enhance national competitiveness; (5) improve transportation facilities on outlying islands; and (6) foster education and employment. This project is expected to increase real GDP by 0.68 percentage points in 2009.

### *Encouraging consumption*

The government issued consumption vouchers valued at NT\$3,600 per person starting from 18 January 2009, totaling around NT\$ 80 billion, to effectively stimulate private consumption and boost the domestic economy.

### *Lowering the estate and gift tax rates*

The ceiling of the estate and gift tax rates was lowered to 10% from 50%. It is expected to attract capital remitted abroad to flow back and revitalize domestic markets.

### *Promoting employment*

To create employment opportunities, the government introduced the 2008-2009 Short-Term Employment Promotion Program, which aims to provide approximately 46 thousand and 56 thousand job openings in 2008 and 2009, respectively. Moreover, the 2009-2012 Employment Promotion Program is expected to add 50 thousand employment opportunities per year from 2009 to 2012, and effectively reduce the unemployment rate.