

Box 2

Economic Vitalization Package in Taiwan

Impacted by the global financial crisis, the growth of the local economy slowed perceptibly. In order to revive the domestic economy and solidify the foundation of long-term economic development, the government launched the Economic Vitalization Package in September 2008. This package is drawn up from three basic policy directions on “stimulating consumption,” “vitalizing investment and accelerating construction,” and “stabilizing financial markets and promoting exports.” The government is pushing forward ten concrete policy measures which comprise: (1) looking after the disadvantaged; (2) encouraging consumption; (3) promoting employment; (4) offering preferential housing loans; (5) strengthening public construction; (6) promoting private investment; (7) stabilizing financial and stock markets; (8) enhancing financing to SMEs; (9) expanding exports; and (10) pursuing tax reform. It is forecasted that the package can spur domestic investment and consumption totaling at least NT\$1 trillion. Moreover, focusing on the policy of “stimulating consumption,” in November 2008, the government further put forth a new measure to distribute consumer vouchers to reverse the flagging economy and increase domestic demand. These measures have been implemented successively, key items of which are summarized as follows:

1. Stimulating consumption

1.1 Looking after the disadvantaged

- Implementing subsidy measures to continue caring for the disadvantaged.

1.2 Encouraging consumption

- Subsidizing the purchase of energy-saving lights and home appliances;
- Relaxing restrictions on the use of National Travel Cards;
- Promoting the use of energy-saving LED lights;
- Subsidizing the purchase of electric-powered and low-polluting vehicles, and the replacement of old vehicles, by members of the general public; and
- Expecting to distribute consumer vouchers in January 2009.

1.3 Promoting employment

- Relaxing the Regulations for Subsidizing and Awarding Employers for Hiring

Unemployed Workers;

- Helping young people obtain employment;
- Conducting temporary special projects for raising living quality or promoting social welfare;
- Encouraging enterprises to invest in staff training; and
- Providing temporary work opportunities to increase employment.

2. Vitalizing investment and accelerating construction

2.1 Providing preferential housing loans

- Allocating an additional NT\$200 billion for the provision of preferential home-purchase loans;
- Helping young families buy or change houses because of having a child or children with housing loans of zero interest rate for the first two years;
- Continuing the provision of interest subsidies for home-purchase and home-refurbishment loans; and
- Providing rent subsidies for those without the means to purchase a home.

2.2 Strengthening public construction

- Actively encouraging private participation in public construction and urban renewal;
- Acting with the utmost urgency to promote foreign and mainland Chinese investment in public construction projects in Taiwan;
- Specially executing and accelerating the implementation of an NT\$240 billion budget for large-scale public construction projects; and
- Speeding up the execution of the Program for Strengthening Local Construction to Expand Domestic Demand.

2.3 Promoting private investment

- Implementing a five-year tax-exemption for new or increased investment before year-end 2009;
- Promoting a program for the preferential sale of land in industrial parks;

- Raising tax deduction rates for enterprises purchasing and installing energy-saving equipment or investing in new and clean energy technology;
- Increasing the funding, raising the upper limits, and extending the duration of preferential loans to encourage the upgrading of the tourism industry;
- Actively guiding the implementation of major private investment projects amounting to NT\$4 trillion within four years;
- Encouraging insurance companies to participate in the national major construction projects;
- Rationally releasing government-owned land in order to reduce investors' land use costs; implementing the four years rent-free and six years at half-rent scheme for leasing out government-owned land;
- Expanding efforts to attract international investors, and planning the 2008 Taiwan Business Alliance Conference; and
- Pushing for the amendment to the Statute Governing the Establishment and Management of Free Trade Zones, setting up a single window, and strengthening inducements for foreign investors.

3. Stabilizing financial markets and promoting exports

3.1 Stabilizing financial and stock markets

- Halving the securities transaction tax for half a year with the draft amendment to the Securities Transaction Tax Act to be forwarded to the Legislative Yuan for deliberation;
- Coordinating the funding support needed by banks to continue conducting corporate financing operations and avoid tightening the supply of credit to companies that are operating normally but facing temporary difficulty;
- Organizing a Task Force on Facilitating Enterprises to Obtain Operational Funds to help those that are assessed to be viable to apply for participation in the disciplinary debt negotiation mechanism coordinated by the Bankers' Association;
- Giving the green light to Qualified Domestic Institutional Investors (QDIIs) from mainland China wishing to invest in Taiwanese securities and futures; and
- Continuing to implement the following measures for revitalizing the stock market:

- Prohibiting short-selling below the closing price on the previous trading day (from 22 September to 3 October 2008) of 150 listed shares, suspending short-selling for borrowed and margin stocks (from 1 October to 31 December 2008), and narrowing the range of price fall to 3.5% (from 13 October to 24 October 2008), in order to mitigate stock market fluctuations;
 - Organizing numerous fora for policy interpretation to propagate the fact that Taiwan's economic fundamentals remain sound;
 - Encouraging investment trust companies to raise domestic stock funds for investment in the stock market, company directors to purchase their companies' stocks, and well performing companies to buy back their stocks as treasury stocks;
 - Encouraging banks, securities firms, and insurance companies to make good use of their funds by investing in good quality stocks that have fallen excessively in price;
 - Revising the threshold at which financial holding companies may buy back their shares to hold as treasury stocks from a minimum capital adequacy ratio of 110% to 105%; and
 - Encouraging state-owned institutions to conduct their own evaluation and purchase of low-priced stocks of well performing companies, and urging the four government-managed funds to continuously exert the function of stabilizing the stock market, in order to reinforce investor confidence.
- Enforcing a blanket deposit guarantee measure until the end of 2009;
 - Implementing various monetary easing measures to sufficiently inject liquidity to the market; and
 - Providing funding support to commercial banks whose home-purchase lending is facing a shortage of funds or bordering on the upper limit prescribed by Article 72-2 of the Banking Act through simplifying the procedure for issuance of financial debentures, expediting the approval of applications for securitized housing loan products (mortgage bonds), and coordinating with Chunghwa Post Co. to provide postal savings deposits to supplement banks' deposit base for the provision of home-purchase loans.

3.2 Enhancing financing to SMEs

- Implementing the Program for Strengthening Domestic Bank Financing of SMEs, and increasing the loan percentage and amount of the guarantees provided by the SMEG; and
- Carrying out the Micro-enterprise Startup Loan Program and the “Phoenix” Program of Small Business Startup Loans for Women, along with the provision of comprehensive business startup consultation and guidance, to help women and middle-aged and older people set up micro-businesses.

3.3 Expanding exports

- Executing continuously the plan for expanding overseas export markets, setting targets for growth of at least 10% in the second half of 2008 and 14% in 2008; and
- Diversifying export markets and especially pursuing expansion in emerging markets, and planning to accomplish the Global Market Expansion Plan.

3.4 Pursuing tax reform

- Implementing the income tax credit for middle- and low-income families, and raising the exemption of individual income tax and other deductions; and
- Lowering the estate tax and gift tax rate to 10% and the income tax for general profit-seeking enterprises.

5.3 Taiwan’s amendment to fair value accounting standards based on recent international trends

Fair value accounting standards (Box 3) reflect current market conditions, enhance comparability of values of financial instruments purchased at anytime, and provide transparent and important information to financial statement users. However, recent market illiquidity due to the subprime mortgage crisis forced financial instruments to be measured by models instead of market prices, in turn increasing the uncertainty of fair value measurements. This not only raised concerns about vague classifications of the fair value hierarchy⁵⁸ of financial instruments stipulated by the US accounting standards, but also caused the stock prices of many corporations to slump when they disclosed large amounts of unexpected

⁵⁸ Refer to “The Definition of Fair Value” in Box 3.