

TAIWAN'S ECONOMIC SITUATION AND OUTLOOK



Council for Economic Planning and Development
Executive Yuan

September 2009

CONTENTS

I. CURRENT DOMESTIC SITUATION

- Economic Growth
- Domestic Investment
- Foreign Trade
- Industrial Production
- Employment
- Prices
- Money and Interest Rates
- Stock Price
- Business Cycle Conditions

II. PROSPECTS FOR 2009/2010

III. POLICY INITIATIVES

IV. Conclusion

I. CURRENT DOMESTIC SITUATION

Economic Growth

- ⇒ In the second quarter of 2009, real exports of goods and services declined by 18.36%. With the added effects of decreasing fixed capital formation and weakening private consumption, Taiwan's real GDP contracted by 7.54%.
- ⇒ As the world economy begins to recover in the second half of 2009, Taiwan's export performance is expected to regain vitality. For 2009 as a whole, real GDP is forecast to contract by 4.04%.

Real GDP Growth (Change from a year ago)

	Economic growth	Domestic demand								Net foreign demand		
		Total	Consumption		Gross fixed capital formation			Increase in inventory	Total	Exports of goods & services	Less: Imports of goods & services	
			Private	Gov't	Subtotal	Private sector	Public enterprises					Gov't
2005	4.2	1.7	3.0	1.1	1.2	0.3	16.2	-1.8	-	-	7.6	3.8
2006	4.8	1.5	1.8	-0.4	0.9	3.6	-7.9	-7.4	-	-	10.3	5.6
2007	5.7	2.2	2.3	0.9	1.9	3.3	1.4	-5.3	-	-	8.8	3.8
2008	0.1	-2.4	-0.3	1.1	-10.6	-13.3	-2.3	0.4	-	-	-0.03	-4.0
2009^f	-4.0	-4.1	0.2	3.3	-17.8	-27.4	0.2	21.5	-	-	-11.9	-14.7
Q1 ^r	-10.1	-9.9	-1.6	3.7	-33.4	-40.6	-26.0	13.3	-	-	-27.9	-33.1
Q2 ^p	-7.5	-5.5	0.4	1.5	-23.7	-33.4	4.4	24.0	-	-	-18.4	-19.4
Q3 ^f	-3.5	-3.9	0.4	3.4	-15.4	-26.2	4.4	34.4	-	-	-10.5	-13.0
Q4 ^f	5.5	3.2	1.9	4.5	1.9	-4.4	11.6	14.9	-	-	13.2	11.8
2010^f	3.9	2.3	1.9	-0.9	1.7	3.2	3.6	-3.7	-	-	11.0	10.7
Q1 ^f	8.1	5.4	2.1	-0.7	5.9	5.9	20.1	-1.2	-	-	24.4	25.4
Q2 ^f	4.5	2.1	1.8	0.5	0.6	1.9	-0.1	-3.9	-	-	12.0	10.7
Q3 ^f	2.0	1.6	2.7	-1.4	1.7	4.5	1.5	-6.8	-	-	5.8	6.2
Q4 ^f	1.4	0.2	0.9	-1.8	-0.1	0.9	-0.1	-2.4	-	-	4.9	4.3

P = preliminary; f = forecast; r = revised. Source: Directorate-General of Budget, Accounting, and Statistics (DGBAS), August 2009

CURRENT DOMESTIC SITUATION

Contributions to GDP Growth (in percentage points)

	Economic growth (yoy)	Domestic demand								Net foreign demand		
		Total	Consumption		Gross fixed capital formation				Increase in inventory	Total	Exports of goods & services	Less: Imports of goods & services
			Private	Gov't	Sub-total	Private sector	Public enterprises	Gov't				
2005	4.2	1.5	1.8	0.1	0.3	0.1	0.3	-0.1	-0.6	2.6	4.7	2.0
2006	4.8	1.3	1.0	-0.1	0.2	0.5	-0.1	-0.2	0.2	3.5	6.5	3.0
2007	5.7	1.9	1.3	0.1	0.4	0.5	0.0	-0.1	0.1	3.8	5.9	2.1
2008	0.1	-2.0	-0.2	0.1	-2.0	-2.0	-0.04	0.01	-0.03	2.1	-0.02	-2.1
2009f	-4.0	-3.4	0.1	0.4	-3.0	-3.5	0.00	0.5	-0.9	-0.7	-8.1	-7.5
Q1r	-10.1	-8.2	-0.9	0.4	-5.2	-5.1	-0.3	0.2	-2.5	-1.9	-19.1	-17.3
Q2p	-7.5	-4.4	0.2	0.2	-4.2	-4.8	0.1	0.5	-0.5	-3.2	-13.5	-10.3
Q3f	-3.5	-3.3	0.2	0.4	-2.6	-3.5	0.1	0.8	-1.3	-0.3	-7.2	-7.0
Q4f	5.5	2.7	1.0	0.6	0.3	-0.5	0.3	0.5	0.7	2.8	8.2	5.3
2010f	3.9	1.9	1.1	-0.1	0.2	0.3	0.1	-0.1	0.7	2.0	6.9	4.9
Q1f	8.1	4.6	1.4	-0.1	0.7	0.5	0.2	-0.03	2.6	3.5	13.4	9.9
Q2f	4.5	1.7	1.0	0.1	0.1	0.2	0.00	-0.1	0.6	2.8	7.8	5.0
Q3f	2.0	1.3	1.5	-0.2	0.3	0.5	0.02	-0.2	-0.3	0.7	3.7	3.0
Q4f	1.4	0.2	0.5	-0.2	-0.01	0.1	0.00	-0.1	0.00	1.2	3.3	2.0

P = preliminary; f = forecast; r = revised. Source: Directorate-General of Budget, Accounting, and Statistics (DGBAS), August 2009

CURRENT DOMESTIC SITUATION

Domestic Investment

- ⇒ In the second quarter of 2009, gross fixed capital formation contracted 23.7%, due mainly to a 33.4% decline in private investment.
- ⇒ This big drop in private investment was caused by investment plans being put on hold due to the weak economy, with imports of capital equipment and investment in construction continuing to decline. But with the government carrying out a series of major investment programs to stimulate the economy, government investment increased by 24.0% in the same quarter.

Gross Fixed Capital Formation: Real Growth and Current-Price Value

NT\$ billion; yoy %

	Total		Private investment		Public enterprise investment		Government investment	
	Amount	Growth rate	Amount	Growth rate	Amount	Growth rate	Amount	Growth rate
2007	2,668.0	1.9	2,054.8	3.3	199.5	1.4	413.7	-5.3
2008	2,544.8	-10.6	1,875.2	-13.3	205.5	-2.3	464.2	0.4
2009^f	2,122.3	-17.8	1,373.3	-27.4	209.9	0.2	539.1	21.5
Q1 ^r	433.1	-33.4	298.8	-40.6	36.5	-26.0	97.8	13.3
Q2 ^p	521.8	-23.7	353.8	-33.4	46.1	4.4	122.0	24.0
Q3 ^f	553.0	-15.4	360.1	-26.2	48.8	4.4	144.1	34.4
Q4 ^f	614.4	1.9	360.7	-4.4	78.4	11.6	175.3	14.9
2010^f	2,190.4	1.7	1,438.5	3.2	220.8	3.6	531.0	-3.7
Q1 ^f	458.8	5.9	317.5	5.9	44.0	20.1	97.3	-1.2
Q2 ^f	536.9	0.6	369.0	1.9	47.2	-0.1	120.7	-3.9
Q3 ^f	571.2	1.7	382.9	4.5	50.4	1.5	137.9	-6.8
Q4 ^f	623.4	-0.1	369.0	0.9	79.2	-0.1	175.2	-2.4

P = preliminary; f = forecast; r = revised. Source: DGBAS, August 2009

CURRENT DOMESTIC SITUATION

Foreign Trade

- ⇒ In July 2009, exports and imports fell by 24.4% and 34.1% year on year, less than their respective falls of 34.2% and 42.3% in the first half of the year. The improving trade performance was mainly a result of rising demand from mainland China.
- ⇒ A trade surplus of US\$2.0 billion was recorded in July 2009.

Foreign Trade

US\$ billion; yoy %

	Trade		Exports		Imports		Balance
	Value	Growth	Value	Growth	Value	Growth	
2001	234.3	-20.0	126.3	-16.9	108.0	-23.3	15.6
2002	248.6	6.1	135.3	7.1	113.2	4.9	22.1
2003	278.6	12.1	150.6	11.3	128.0	13.0	22.6
2004	351.1	26.0	182.4	21.1	168.8	31.8	13.6
2005	381.0	8.5	198.4	8.8	182.6	8.2	15.8
2006	426.7	12.0	224.0	12.9	202.7	11.0	21.3
2007	465.9	9.2	246.7	10.1	219.3	8.2	27.4
2008	496.1	6.5	255.6	3.6	240.4	9.7	14.8
2009 Jan-Jun	161.4	-38.1	88.5	-34.2	73.0	-42.3	15.5
2009 Jul	32.5	-29.3	17.3	-24.4	15.2	-34.1	2.0

Note: Trade data are adjusted according to the United Nations IMTS Compilers Manual (2004). Total exports include “exports” and “re-exports,” and total imports include “imports” and “re-imports.”

Source: Ministry of Finance.

CURRENT DOMESTIC SITUATION

Major trade partners

- ⇒ China (including Hong Kong) and ASEAN have become increasingly important trade partners to Taiwan since 2000.
- ⇒ Japan has remained Taiwan's largest supplier of imports, despite a narrowing share. Meanwhile, the higher cost of crude oil has increased the share of imports from the Middle East.

Changes in Two-way Trade with Major Trading Partners (yoy%)

	Exports					Imports				
	USA	Japan	Europe	China (incl. Hong Kong)	ASEAN 6*	USA	Japan	Middle East	China (incl. Hong Kong)	ASEAN 6*
2002	-2.7	-5.0	-5.9	29.4	7.4	-0.8	5.5	9.8	24.2	3.7
2002 Share	18.6	8.5	15.1	10.1	9.8	14.9	26.6	5.2	8.3	13.3
2003	-3.0	0.5	10.4	23.6	10.5	-6.9	19.6	43.7	30.9	5.2
2004	8.3	11.1	14.7	28.8	33.0	28.2	33.6	34.6	47.7	16.2
2005	1.3	9.4	-0.7	12.2	13.8	-2.8	5.3	36.5	16.2	3.8
2006	11.2	7.9	10.6	14.8	13.8	7.1	0.5	30.1	20.1	10.4
2007	-0.9	-2.2	9.7	12.6	16.7	17.0	-0.7	12.0	11.9	1.7
2008	-4.0	10.2	4.6	-0.8	7.3	-0.7	1.3	40.3	10.3	8.4
2008 Share	12.0	6.9	11.7	39.0	15.0	10.9	19.3	16.2	13.7	10.7
2009 Jan-Jul	-27.7	-23.1	-35.0	-34.0	-35.1	-46.0	-37.0	-54.1	-36.6	-33.4

*ASEAN 6 refers to Indonesia, Malaysia, the Philippines, Singapore, Thailand and Vietnam.

Source: Ministry of Finance.

CURRENT DOMESTIC SITUATION

Production

- ⇒ In 2008, the industrial production index showed an annual growth rate of minus 1.8%, the lowest since 2002.
- ⇒ In July 2009, the industrial production index posted a year-on-year decrease of 8.1%. However, the decline has moderated, compared to the 24.3% contraction in the first half of the year, with industrial production being driven back upward by a pick-up in exports .

Growth of Industrial Production Index yoy %

	Total	Mining	Manufacturing	Electricity and gas	Water	Construction
2001	-8.4	0.8	-9.0	0.7	2.2	-11.2
2002	7.5	8.5	8.9	4.8	-5.2	-20.7
2003	9.1	-7.1	9.6	4.3	2.2	9.0
2004	9.3	-3.9	10.0	3.3	-0.3	4.8
2005	3.8	-9.4	3.7	4.3	0.6	11.4
2006	4.7	-5.0	4.5	2.3	2.8	9.0
2007	7.8	-17.0	8.3	3.0	0.3	-0.5
2008	-1.8	-4.7	-1.6	-1.8	-1.8	-9.3
2009 Jan-Jun	-24.3	-15.7	-24.9	-8.5	-3.7	-22.8
Jul	-8.1	-2.0	-8.2	-1.6	-0.2	-14.6

Including industries of chemicals, chemical products, rubber products, plastic products, basic metals, fabricated metal products, machinery & equipment, electrical & electronic machinery, transport equipment, and precision instruments.

Source: Ministry of Economic Affairs.

CURRENT DOMESTIC SITUATION

Unemployment rate and labor force participation rate

⇒ The unemployment rate rose by 0.13 of a percentage point in July to 6.07%, from 5.94% in June. The seasonally adjusted unemployment rate rose by 0.10 of a percentage point to 6.01%.

⇒ In July, the labor force participation rate increased by 0.11 of a percentage point from the previous month, to 57.90%.

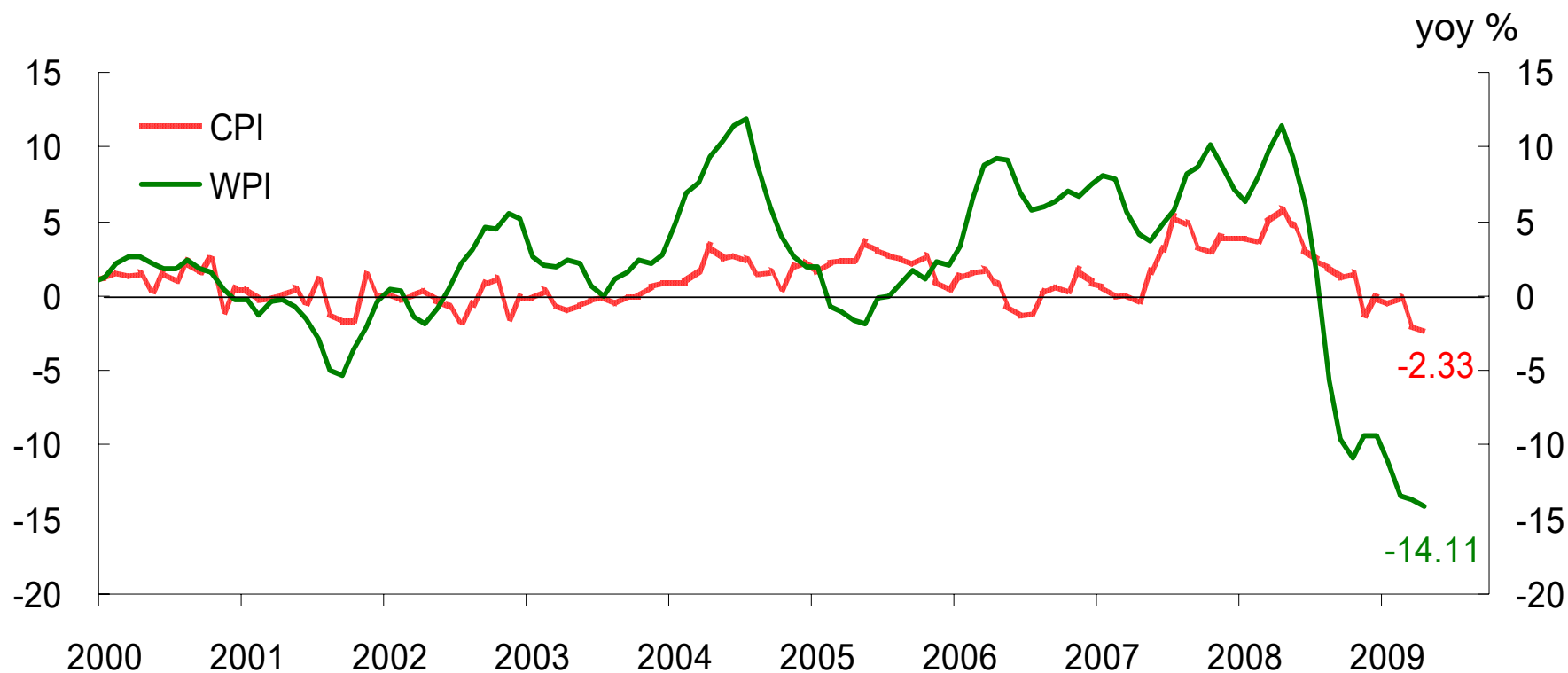


Source: Directorate-General of Budget, Accounting and Statistics.

CURRENT DOMESTIC SITUATION

Prices

- ⇒ With commodity prices having fallen from year-earlier highs, the CPI in July showed a year-on-year dip of 2.33%, the 6th consecutive month of price contraction. Core prices (excluding fresh food and energy prices) also fell 0.93%.
- ⇒ With the high-base effect as well as sagging commodity prices over recent months, the WPI in July was down sharply by 14.11% year on year.

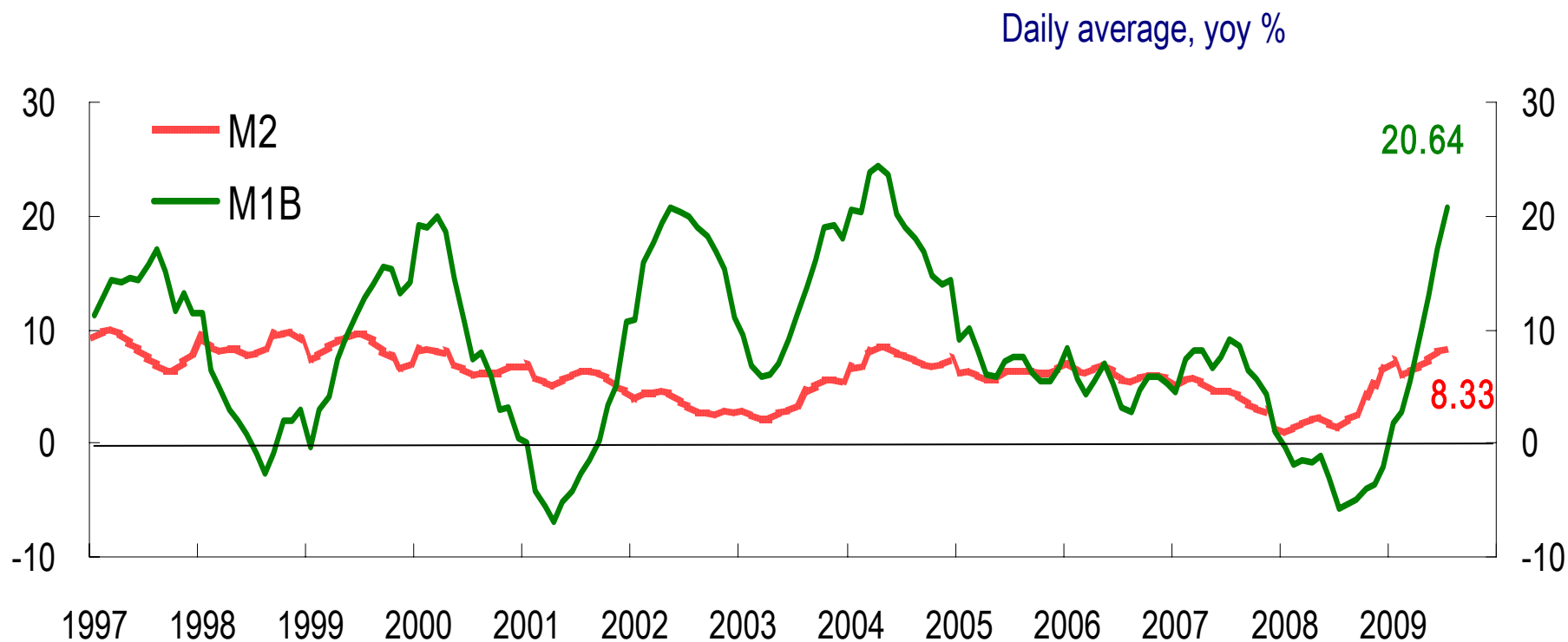


Source: Directorate-General of Budget, Accounting and Statistics.

CURRENT DOMESTIC SITUATION

Money Supply

- ⇒ With the steady transfer of funds from time and savings deposits to demand deposits, the annual growth rate of M1B in July rose to 20.64%. The M2 annual growth rate climbed to 8.33%, due mainly to continuous net capital inflows.
- ⇒ For the first seven months of this year, the average annual growth rates of M1B and M2 were 9.91% and 7.18%, respectively.

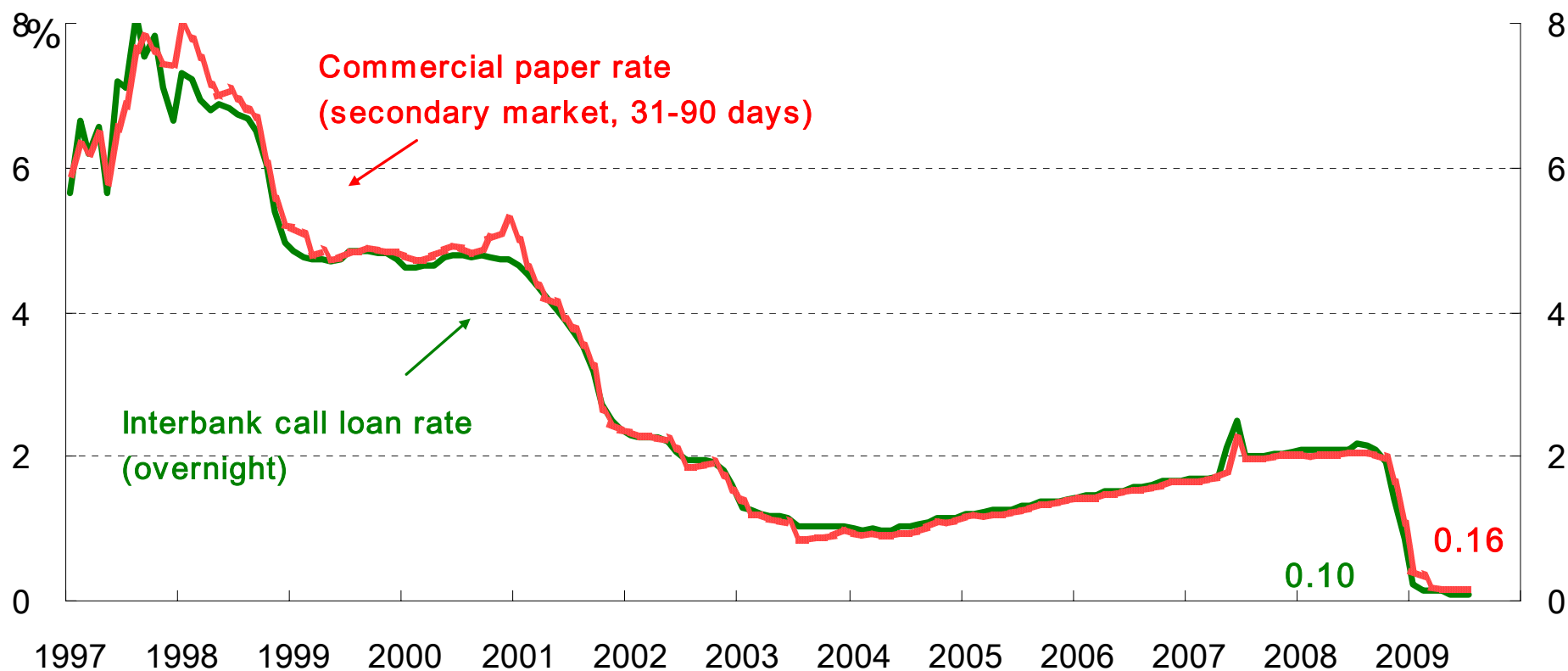


Source: Central Bank of China (Taiwan).

CURRENT DOMESTIC SITUATION

Short-term Interest Rates

- ⇒ Since recent falls in international commodity prices have greatly alleviated the pressure of imported inflation, while economic activity has decelerated sharply, the CBC has implemented a seventh successive cuts in interest rates.
- ⇒ In July 2009, the commercial paper rate and interbank rate fell to 0.16% and 0.10%, respectively.

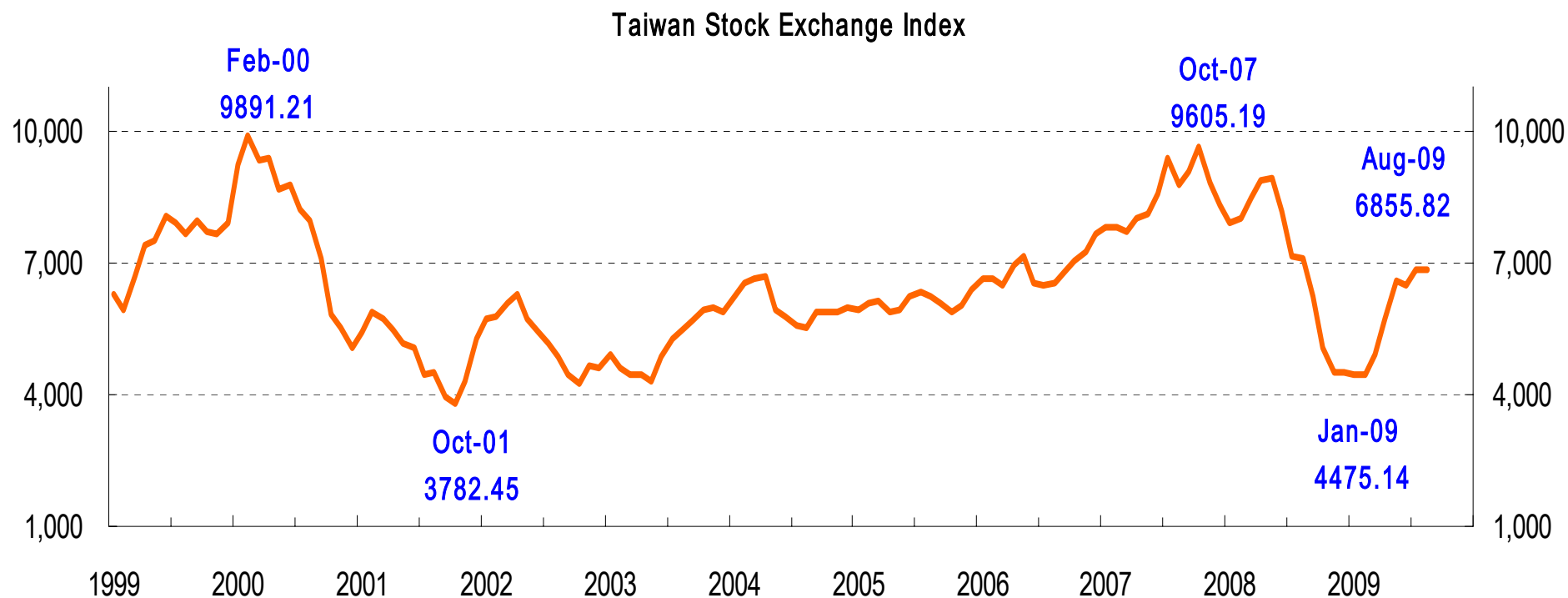


Source: Central Bank of China (Taiwan).

CURRENT DOMESTIC SITUATION

Stock Price

- ⇒ After peaking at a 9,605-point average in October 2007, Taiwan's stock exchange index plummeted to 4,475 points in January 2009 due to weakening economic conditions.
- ⇒ Increasingly clear signs of global recovery and improving cross-strait relations have helped the index rebound to 6,856 points in August 2009.



Source: Taiwan Stock Exchange.

CURRENT DOMESTIC SITUATION

Monitoring Indicators

The overall monitoring indicator flashed “yellow-blue” for the second consecutive month in July 2009, signaling signs of gradual improvement in Taiwan’s economic conditions.

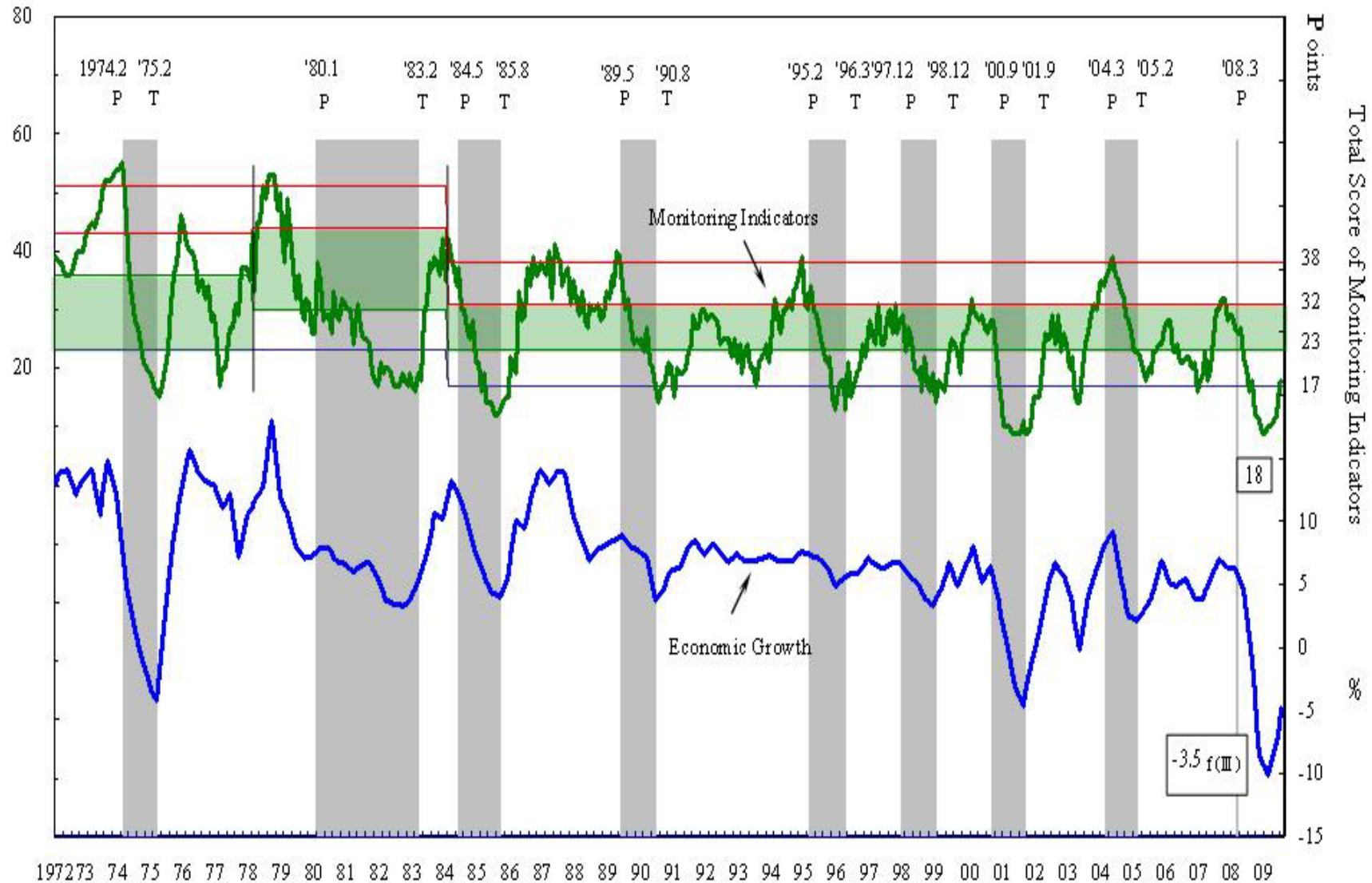
		2008						2009							
		7	8	9	10	11	12	1	2	3	4	5	6	7	
Total	Light														
	Score	16	18	12	12	11	9	9	10	10	11	12	17	18	
Monetary Aggregates M1B															20.5
Direct and Indirect Finance															0.5
Stock Price Index															-4.1
Industrial Production Index															-11.1
Nonagricultural Employment															-1.9
Exports															-17.6
Imports of Machinery and Electrical Equipment															-12.5
Manufacturing Sales															-24.2 _p
Wholesale, Retail and Food Services Sales															8.6

● Booming ● Transitional ● Stable ● Transitional ● Sluggish

*Components are in terms of percentage changes over 1-year span. All components, except stock price index, have been seasonally adjusted.

Source: Council for Economic Planning and Development. (CEPD)

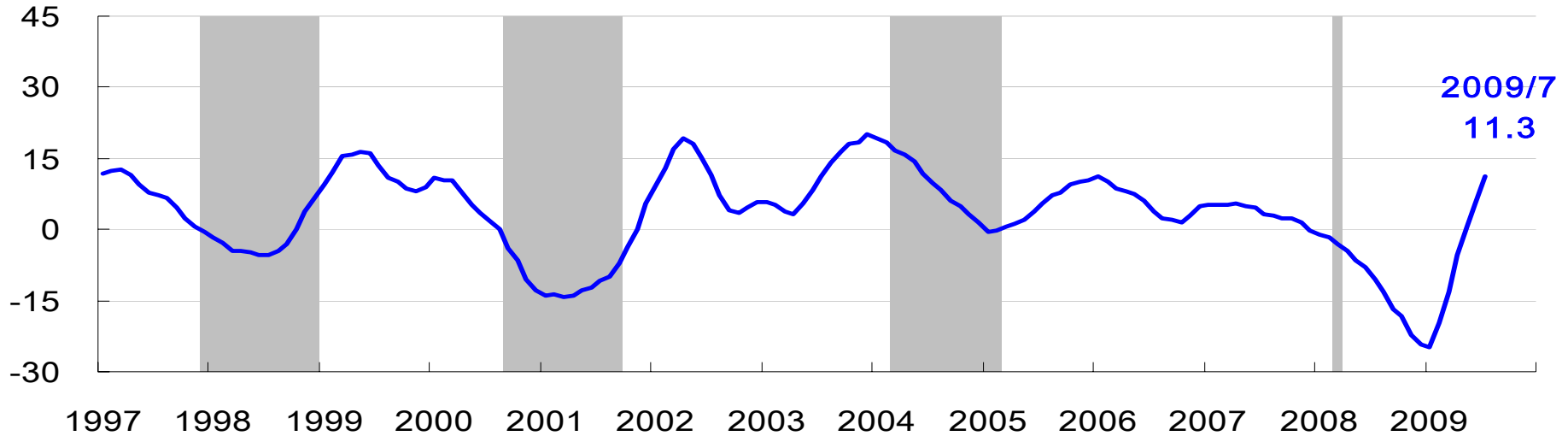
Monitoring Indicators and Economic Growth



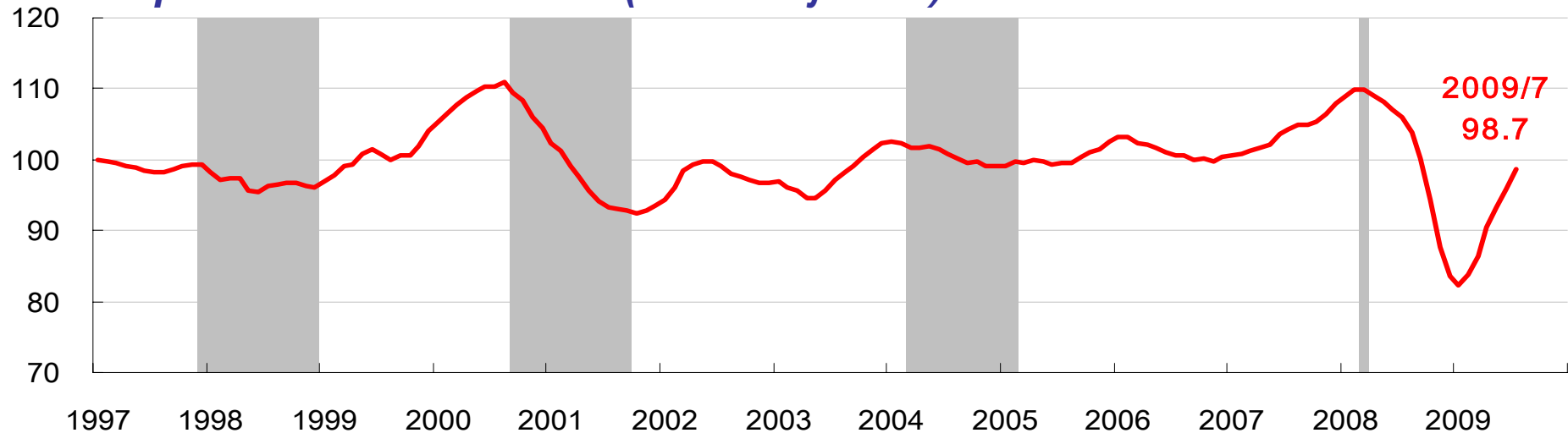
Note: The shaded areas represent recessions. Source: CEPD

CURRENT DOMESTIC SITUATION

Composite Leading Index (Annualized 6-month rate of change)



Composite Coincident Index (Trend adjusted)



Note: The shaded areas represent recessions. Source: CEPD

II. PROSPECTS FOR 2009/2010

⇒ Taiwan's economy shows signs of bottoming out

- In line with growing signs of gradual recovery in Asia's emerging economies, the contraction of Taiwan's real GDP improved from a first-quarter decline of 10.13% to a second-quarter decline of 7.54%.
- Expressed as a seasonally adjusted annual rate (SAAR), real GDP increased 20.69% in the second quarter, in contrast to a decrease of 10.16% in the first quarter. The quarter-to-quarter improvement indicates that Taiwan's economy reached the bottom of the recession in Q1 2009.
- For 2009 as a whole, the GDP growth forecast has been revised upward to -4.04% from the previous forecast of -4.25%, with per capita GNP projected to reach US\$16,280. The damage caused by Typhoon Morakot is estimated to clip 0.2 of a percentage point from GDP growth in 2009.
- In 2010, Taiwan's economy is forecast to grow 3.92% with per capita GNP reaching US\$16,977.

PROSPECTS FOR 2009/2010

⇒ Exports regaining some momentum

- As the expected global recovery gathers strength, export declines are expected to keep narrowing, with positive growth reappearing in the fourth quarter of 2009. The full-year growth forecast for Taiwan's goods and services exports has been revised upward from -13.92% to -11.90%. In 2010, exports are projected to grow 10.98%, boosted in part by improving cross-strait relations.
- Because of rising export-induced demand, the full-year growth forecast for Taiwan's goods and services imports in 2009 has also been revised upward from May's projection of -16.36% to the latest projection of -14.65%. In 2010, imports are projected to grow by 10.71%.

⇒ Private consumption outlook remains weak

- A soaring unemployment rate plus shrinking income have hurt private consumption growth, though the stock and vehicle markets are showing signs of resilience.
- Private consumption is projected to stay close to stagnation with a 0.21% increase in real terms for 2009 as a whole. In 2010, private consumption is projected to rise moderately by 1.87%.
- The damage caused recently by Typhoon Morakot has had some impact on private consumption and service exports. But once relief and recovery efforts are rolling forward soundly, the disruptions from the disaster will substantially diminish.

II. PROSPECTS FOR 2009/2010

⇒ Domestic investment to slow further

- Despite rising capacity utilization rates, private investment is projected to decrease by 27.43% in 2009, due mainly to businesses putting investment plans on hold until the economy enters a sustained recovery. Private investment is forecast to grow 3.16% in 2010.
- However, government investment is forecast to grow 21.48% in 2009, largely on account of infrastructure development under the government's project to expand investment in public works.
- While government investment in 2010 had been forecast to contract by 3.73%, this figure does not take into account the spending now under planning for Typhoon Morakot post-disaster reconstruction.

⇒ Inflation risks subsiding

- Even though the prices of oil, basic metals and chemical materials have been rising recently, the WPI is still forecast to show a year-on-year fall of 8.94% for the whole of 2009, owing to last year's high base of comparison.
- Due to the heavy losses inflicted by Typhoon Morakot on Taiwan's agricultural, fishery and livestock sectors, food prices are expected to increase in Q3 2009. Nonetheless, factors such as the fiercely competitive markets, the discount strategy adopted by many retailers, the relatively stable prices of services such as rent, and the high-base effect, translate into a projected CPI decrease of 0.68% in 2009.
- In 2010, the WPI is forecast to rise by 3.72% as commodity prices rebound in line with the global economic upturn. The CPI is projected to rise by 0.87%, as the fierce competition in the markets restrains the markup.

Forecasts for Taiwan's Economy

	Real GDP (yoy, %)		Consumer Prices (yoy, %)	
	2009	2010	2009	2010
DGBAS (2009.8)	- 4.04 (- 4.25)	3.92	-0.68 (-0.84)	0.87
TIER (2009.7)	-1.91 (0.11)	-	- 0.17 (0.17)	-
CIER (2009.7)	-3.56 (-3.59)	3.69	-0.54 (-0.69)	0.72
Academia Sinica (2009.6)	-3.46 (0.56)	-	-0.19 (0.17)	-
Polaris (2009.6)	- 4.60 (- 4.8)	-	-0.78 (-0.97)	-
Global Insight (2009.8)	- 4.1 (- 4.5)	3.6 (3.2)	-0.8 (-0.8)	1.4 (1.4)
IMF (2009.4)	-7.5		-	-

CIER: Chung-hua Institute for Economic Research, Taipei.

TIER: Taiwan Institute of Economic Research, Taipei.

DGBAS: Directorate-General of Budget, Accounting and Statistics, ROC (Taiwan).

Polaris: Polaris Research Institute.

() indicates the value of previous forecasts.

III. POLICY INITIATIVES

A. Financial Stabilization and Three-Pillars-of-Support Policy

Name of initiative or measure (date approved or announced by the Executive Yuan)	Explanation
<p>1. Government support for banks</p> <ul style="list-style-type: none"> – Announcement of full guarantee of all bank savings deposits (7 October, 2008) 	<p>In October 2008, the Executive Yuan announced that the government would forthwith guarantee the whole amount of savers' bank deposits. Under the effect of this measure, deposits in small and medium-sized private banks increased by some NT\$171.2 billion through the end of February 2009, demonstrating that deposit funding in such banks has already returned to stability.</p>
<ul style="list-style-type: none"> – Adoption of loose monetary policy to increase banks' liquidity 	<p>From September 2008 to March 18, 2009, the central bank cut interest rates seven times by a total of 2.375 percentage points, to inject liquidity into the market.</p>
<p>2. Bank support for businesses</p> <ul style="list-style-type: none"> – Establishment of the Special Task Force on Government Assistance for Financing Business Operation 	<p>This special task force was established on October 1, 2008, with the mission of formulating policies concerning government assistance to stabilize financing of business enterprises.</p>
<ul style="list-style-type: none"> – Extension of the time for dealing with dishonored checks, and the launch of a mechanism for debt negotiation between banks and borrowers 	<p>Business enterprises that are operating normally may apply for a 6-month extension of industrial and commercial loans from commercial banks for loans expiring before the end of 2009.</p>

A. Financial Stabilization and Three-Pillars-of-Support Policy (*continued*)

Name of initiative or measure (date approved or announced by the Executive Yuan)	Explanation
<ul style="list-style-type: none"> – Measures to strengthen financing of small and medium enterprises 	<ol style="list-style-type: none"> 1. The Small and Medium Enterprise Credit Guarantee Fund of Taiwan (Taiwan SMEG) has speeded up its claim handling procedure, reduced its guarantee processing fees, raised its authorized guarantee coverage by 10% (to an upper limit of 80%) of loans, and raised the upper limit of credit guaranteeable per enterprise from NT\$100 million to NT\$120 million. 2. The implementation of the Project to Boost Domestic Bank Lending to Small and Medium Enterprises is expected to increase such lending by NT\$300 billion from July 2008 to December 2009.
<ul style="list-style-type: none"> – Provision of special loans and credit guarantees to non-SMEs 	<p>Under the Directions for the Provision of Special Loans and Credit Guarantees to Non-SMEs, announced on November 12, 2008, a fund of NT\$600 billion has been made available for loan applications by non-SMEs.</p>
<ul style="list-style-type: none"> – Implementation of special project for financing social enterprises 	<p>Under this project, banks will provide loans at preferential interest rates to domestic large enterprises and SMEs that are operating and meeting credit commitments normally, and that sign a pledge not to reduce their current workforce by more than 1%.</p>

A. Financial Stabilization and Three-Pillars-of-Support Policy *(continued)*

Name of initiative or measure (date approved or announced by the Executive Yuan)	Explanation
<p>3. Business support for workers</p> <ul style="list-style-type: none"> – Implementation of the Local Care Project for Initiating Service to SMEs. 	<p>Launched on January 20, 2009, this project involves integrating local and central government resources and collaborating with private industrial associations to provide proactive care for local SMEs. The scope of services offered under the project includes assistance with financial, technological, marketing, and labor problems, and help in solving operational difficulties. The project is scheduled to last for two years.</p>
<ul style="list-style-type: none"> – Establishment of guidance team for stabilizing employment 	<p>On November 24, 2008, the Council of Labor Affairs created a guidance team for stabilizing employment, with the establishment of a single window for the provision of expert opinion to the management and employees of businesses considering laying off workers. As well as making suggestions conducive to stabilizing employment, the group can provide information about relevant administrative resources available from the government, promote negotiation between management and labor, and seek out win-win solutions that enable businesses to overcome difficulties while keeping workers in employment.</p>
<p>4. Continuation of preferential home loan programs (September 11, 2008)</p> <ul style="list-style-type: none"> – Preferential home purchase loans – Program to help young couples form families with ease of mind – Interest subsidies for home purchase and renovation loans – Provision of rent subsidies for those without the means to purchase homes 	<p>An additional NT\$200 billion has been allocated for preferential home purchase loans. The program is scheduled to run from September 22, 2008 to September 21, 2010; if any of the allocated funds remain unused at the end of this period, the program may be continued until all of the funds are used up</p>

B. Expanding Domestic Demand and Stimulating Consumption

Name of initiative or measure (date approved or announced by the Executive Yuan)	Explanation
<p>1. The issuance of consumption vouchers (November 20, 2008)</p>	<p>1. On December 5, 2008, President Ma announced the draft of the special statute for the issuance of consumption vouchers to invigorate the economy, with a budget of NT\$85.7 billion.</p> <p>2. On January 18, 2009, a set of vouchers worth NT\$3,600 was distributed to every member of the population, valid for use up to September 30, 2009.</p>
<p>2. Continued execution of the Program for Strengthening Local Construction to Expand Domestic Demand (May 22, 2008)</p>	<p>On May 22, 2008, the Executive Yuan approved the Program for Strengthening Local Construction to Expand Domestic Demand, with a total budget of NT\$103.42 billion, including subsidies amounting to NT\$58.3 billion allocated to county and city governments for local construction projects.</p>
<p>3. Implementing the Project for Expansion of Investment in Public Works to Invigorate the Economy (with coverage ranging from public construction to projects for cultivating high-grade manpower to promote employment, and the establishment of a schooling safety net)</p>	<p>1. On January 23, 2009, President Ma promulgated the Special Act for Expansion of Investment in Public Works to Invigorate the Economy, providing for investment totaling NT\$500 billion over four years.</p> <p>2. In February 2009, the Executive Yuan approved the Plan for Expanding Investment in Public Works to Invigorate the Economy, the main components of which include the construction of the Taoyuan International Airport MRT line, the grade-separation of city railways in Taichung and Kaohsiung, the widening and expansion of national highways, the promotion of urban regeneration, the reconstruction of old and damaged bridges, and other infrastructural works with a bearing on long-term national development.</p>

B. Expanding Domestic Demand and Stimulating Consumption (*continued*)

Name of initiative or measure (date approved or announced by the Executive Yuan)	Explanation
4. Subsidizing the purchase of energy-saving, low-carbon-emitting household appliances and equipment, low-polluting vehicles, etc. (September 11, 2008)	Subsidies cover the purchase of energy-saving lights (light bulbs), solar water-heating systems, solar photovoltaic systems, home appliances such as air-conditioners, refrigerators and washing machines that meet energy-saving certification requirements, and electric motorcycles and other low-polluting vehicles.
5. The special project to increase the number of tourist arrivals from mainland China	Actively promoting tourism from mainland China, with the target of receiving 3,000 arrivals per day.

C. Invigorating Exports and Raising Enterprise Competitiveness

Name of initiative or measure (date approved or announced by the Executive Yuan)	Explanation
<p>1. The New Cheng Ho Plan (December 25, 2008)</p>	<p>Scheduled for implementation from September 2008 to the end of 2012, with a total budget of NT\$8.5 billion, this plan is aimed at helping businesses increase exports through expansion of export financing and insurance, penetration of the mainland China and other emerging markets, stepped up marketing, and greater efforts to attract foreign firms to conduct procurement in Taiwan.</p>
<p>2. Short-term continuation (July 2008 to year-end 2009) of five-year tax-exemption for additional investment, to enable manufacturing and related technical service firms to enjoy tax breaks (September 11, 2008)</p>	<p>On January 23, 2009, President Ma promulgated the requisite amendment of Article 9 Paragraph 2 of the Statute for Upgrading Industries, which is projected to cut enterprises' tax liability by NT\$11.3 billion.</p>
<p>3. Cutting by NT\$30,000 per vehicle the commodity tax on new passenger cars purchased to replace old ones, to promote car consumption, stabilize the operation of the auto industry, and match the government's energy-saving and carbon-reduction drive (December 11, 2008)</p>	<ol style="list-style-type: none"> 1. On January 17, 2009, President Ma promulgated the amendment of the Commodity Tax Act to add new provisions in Article 12-1. 2. Under the new provisions of the Act, the commodity tax for passenger sedans, small goods vehicles and dual-purpose passenger and goods vehicles with cylinder capacity not exceeding 2,000 cc is reduced by NT\$30,000 per vehicle, and for motorcycles with cylinder capacity not exceeding 150 cc is reduced by NT\$4,000 per vehicle. This measure is projected to result in total tax savings of NT\$10.3 billion.

C. Invigorating Exports and Raising Enterprise Competitiveness (*continued*)

Name of initiative or measure (date approved or announced by the Executive Yuan)	Explanation
4. Continued implementation of the Action Plan for Energy Conservation and Greenhouse Gas Reduction, to improve the industrial structure (September 4, 2008)	The Executive Yuan approved the implementation of the Action Plan for Energy Conservation and Greenhouse Gas Reduction on September 4, 2007, to promote changes in social consumption and production modes by inducing adjustment of people's living habits and the overall industrial structure in keeping with the international trends of carbon reduction and high oil prices.
5. Expansion of the National Development Fund to help enhance economic development and support national sustainable development policy (October 23, 2008)	The National Development Fund will be expanded in gradual stages from its current size of NT\$200 billion, to enable it to play a larger role in helping enhance Taiwan's economic development and supporting national sustainable development policy. In the first stage of expansion, the Fund's bank financing will be increased by NT\$100 billion.

D. Promoting Employment and Enhancing Labor Training

Name of initiative or measure (date approved or announced by the Executive Yuan)	Explanation
1. Establishment of a special inter-departmental Cabinet task force on alleviating unemployment	The task force is already set up and at work.
2. Continued implementation of the 2008~2009 Short-Term Employment-Promotion Measures (including the Immediate Work Program)	1. Most of the employment opportunities provided under these measures are public service jobs, primarily targeted at middle-aged and older workers, women, members of indigenous tribes, the mentally and physically disabled, university graduates without work experience, and disadvantaged groups. The combination of employment and training is aimed at helping workers gain stability of employment. 2. These measures provided a total of 48,000 job opportunities in 2008, and their extension through 2009 could provide a total of 73,000 more job opportunities.
3. The 2009~2012 Employment Promotion Program (November 6, 2008)	The 2009~2012 Employment Promotion Program was approved by the Executive Yuan on November 6, 2008. Consisting of measures to expand industry-academia collaboration, enhance vocational training, raise the success rate of job-matching services, provide wage subsidies, assist workers to start their own businesses or be self-employed, and augment short-term employment opportunities, the Program is targeted at providing around 48,000 job opportunities and 240,000 training opportunities annually, and is projected to generate employment effect for as many as 55,000 people per year.

D. Promoting Employment and Enhancing Labor Training (*continued*)

Name of initiative or measure (date approved or announced by the Executive Yuan)	Explanation
4. Implementation of the Short-term Skill Plus Program	<ol style="list-style-type: none"> 1. Implementation period: From February 2009 to January 2010. 2. Based on agreement between management and labor to reduce working hours, business enterprises or organizations may utilize original normal working hours to conduct employee training programs. The government will subsidize the full cost of training up to NT\$950,000 per SME and NT\$1.9 million per large enterprise. The government will also provide training allowances of NT\$100 per hour to each training participant, up to a maximum of NT\$10,000 per month per person. 3. The Short-term Skill Plus Program was partially revised on February 27, 2009 to ease the application threshold and deadline, with the application deadline extended from March 31, 2009 to September 30, 2009.
5. The Project for Cultivating High-Grade Manpower to Promote Employment	<ol style="list-style-type: none"> 1. Implementation period: From 2009 to 2010. 2. This project helps those who have graduated from university or college within three years and are waiting for work by helping them find employment opportunities as interns, educational service providers, research assistants, and so on, in businesses, non-profit enterprises, and educational foundations, and also provides training and continuing education opportunities for university and college graduates and above, to cultivate high-grade manpower and promote employment.

E. Actively Caring for the Disadvantaged

Name of initiative or measure (date approved or announced by the Executive Yuan)	Explanation
<p>1. Project to Subsidize Work Income (August 28, 2008)</p>	<p>1. This project is targeted at citizens aged between 20 and 65 who are the main breadwinners of their households, and who earn less than NT\$300,000 per year.</p> <p>2. The amount of the subsidy will vary according to the circumstances of the beneficiary. For example, an unmarried applicant who has no dependent relatives will be entitled to receive a subsidy of NT\$3,500 per month if he earns less than NT\$220,000 per year, and NT\$3,000 per month if he earns between NT\$220,000 and NT\$250,000 per year.</p> <p>3. This project was originally scheduled for implementation from October 2008 to March 2009, but plans are now being made to extend it to September 2009.</p>
<p>2. Continued implementation of measures to care for the disadvantaged</p>	<p>The government will continue to implement the Immediate Care Project, establish a filtering and transfer system and a database for high-risk families, increase living subsidies for low-income households, subsidize the health insurance premiums for the children of mid- and low-income households and all members of low-income households, and expand the subsidizing of nutritious lunches.</p>

F. Tax Reduction Measures

Name of initiative or measure (date approved or announced by the Executive Yuan)	Explanation
1. Increasing the four main individual income tax deductions – namely, the standard deduction, the salary/wage earner’s special deduction, and the deductions for the disabled and higher education expenses	On December 26, 2008, President Ma promulgated an amendment to the Income Tax Act, the main effects of which included raising the standard deduction for an unmarried person to NT\$73,000 and for a married couple to NT\$146,000; raising the salary/wage earner’s special deduction and the deduction for the disabled to NT\$100,000 each; and adjusting the deduction for higher education expenses to a maximum of NT\$25,000 “per person” studying at college level or higher. This amendment is projected to reduce income tax payment by a total of NT\$21.6 billion per year.
2. Reduction of estate and gift taxes	On January 21, 2009, President Ma promulgated an amendment to the Estate and Gift Tax Act to lower the estate and gift tax rate from 50% to 10%, and raise the tax-exempt thresholds to NT\$12 million for estate tax and NT\$2.2 million for gift tax. This is projected to reduce tax payment by a total of NT\$19.2 billion per year.
3. Raising tax credit rates for companies purchasing and installing energy-saving equipment or investing in new and clean energy equipment or technology	On October 31, 2008, the Executive Yuan amended and promulgated the Regulations Governing the Application of Investment Tax Credits to Companies Purchasing and Installing Energy-Saving Equipment or Investing in New and Clean Energy Equipment or Technology, raising the tax credit for technology from 5% to 7% and for equipment from 7% to 15%. This is projected to reduce tax payment by a total of NT\$80 million.

- The Directorate-General of Budget, Accounting, and Statistics (DGBAS) estimates that the government's active implementation of economic revitalization and employment promotion measures could raise the 2009 economic growth rate by 2.97 percentage points.

2009 GDP forecast:
negative growth of 4.04%

(Growth rate without the measures listed below: -7.01%)

Measure	Forecast in August 2009	
	Budget (NT\$ billions)	Contribution to economic growth rate (percentage points)
1. The issuance of consumption vouchers	85.7	0.66
2. The Project for Expansion of Investment in Public works	149.2	0.65
3. The Short-Term Skill Plus Program, 2008~2009 Short-Term Employment-Promotion Measures, 2009~2012 Employment Promotion Program, and Project to Subsidize Work Income	48.9	0.39
4. Tax Reduction Measures	62.4	0.36
5. Admitting tourists from mainland China (3,000 tourists per day)	-	0.40
6. Promoting urban regeneration and boosting private investment	66.0	0.51
Total	-	2.97

External sector (net export) contributing -0.66 percentage point:

- Exports contributing -8.14 percentage points
- (Less) Imports contributing -7.48 percentage points

Private sector contributing -4.28 percentage points:

- Private investment contributing -3.49 percentage points
- Private consumption contributing 0.12 percentage point
- Inventory increase contributing -0.91 percentage point

The government sector contributing 0.90 percentage point:

- Government consumption contributing 0.37 percentage points
- Government investment contributing 0.53 percentage point
- State-owned enterprise investment contributing 0.00 percentage points

➤ Comparison of the Scale of Main Economic Revitalization Measures of Significant Countries since 2008

Country (Area)	Amount	As percentage of GDP (%)	Implementation period
Taiwan	NT\$718.0 billion	5.8	2009~2012
	NT\$346.2 billion	2.9	2009*
Rep. of Korea	112.2 trillion won	9.1	2008~2012
Japan	147.7 trillion yen	30.9	2008~2009
Singapore	S\$23.4 billion	9.2	Includes S\$205 billion from March 2009 to March 2010
U.S.A.	US\$1.8052 trillion	12.7	2008~2010
China	Input of RMB4 trillion before 2010	13.5	2009~2010

*Including the issuance of consumption vouchers, the Project for Expansion of Investment in Public Works, the 2008~2009 Short-Term Employment-Promotion Measures, the short-term Skill Plus Program, the 2009~2012 Employment Promotion Program, close-to-poverty subsidies, and tax reduction measures.

** Not including the US Treasury Department's Financial Stability Plan.

G. Promoting the normalization of cross-strait relations

The third round of **Chiang-Chen Talks**, officially convened on April 26, yielded the signing of three agreements: the Agreement on Joint Cross-Strait Crime-fighting and Mutual Judicial Assistance, the Cross-Strait Financial Cooperation Agreement and the Supplementary Agreement on Cross-Strait Air Transport. Apart from the first agreement, the other outcomes of the talks are all mainly targeted at economic and trade matters.

Agreement	Content
<p>1. Cross-Strait Financial Cooperation Agreement: Marching forward on course to becoming a regional financial center</p>	<ul style="list-style-type: none"> ■ Financial supervision cooperation <ul style="list-style-type: none"> • Establishing cooperative mechanisms for financial supervision of the banking, securities and futures, and insurance sectors. • Conducting the follow-up negotiation and signing of three memoranda of understanding (MOUs on banking supervision, securities and futures supervision, and insurance supervision) • Embarking on market access negotiations ■ Monetary supervision cooperation <ul style="list-style-type: none"> • Conducting banknote exchange, supply and flowback operations • Embarking on cooperation in such areas as anti-counterfeiting technology • Gradually establishing a cross-strait currency clearance mechanism ■ Other items of cooperation <ul style="list-style-type: none"> • Conducting negotiations on domestic financial institutions entering and developing business in each other's markets

G. Promoting the normalization of cross-strait relations

Agreement	Content
<p>2. Supplementary Agreement on Cross-strait Air Transport : Regularly scheduled cross-strait flights - connecting Taiwan to global markets</p>	<ul style="list-style-type: none"> ■ Arrangement of regular flights ■ Opening of two new direct cross-strait flight paths <ul style="list-style-type: none"> • a southern line across the Taiwan Strait (between the Taipei and Guangzhou Flight Information Regions) • a northern line across the Taiwan Strait (between the Taipei and Shanghai Flight Information Regions) ■ Increase of passenger flight points <ul style="list-style-type: none"> • The Mainland side adding six new flight points (Hefei, Harbin, Nanchang, Guiyang, Ningbo, and Jinan), for a total of 27 flight points that may operate regular flights. ■ Substantial increase of flights <ul style="list-style-type: none"> • The number of weekly flights to be greatly increased from 108 to 270 flights. ■ Increase of cargo flights and opening of belly cargo carriage <ul style="list-style-type: none"> • The number of weekly regular cargo flights and charter flights to be increased to 28, double the current number of cargo charter flights. ■ Mutual establishment of representative entities, and mutual exemption from taxes and fees <ul style="list-style-type: none"> • The two sides will also further discuss mutual exemption from taxes and fees related to airline operations and transportation revenue earned from the other side.

G. Promoting the normalization of cross-strait relations

- The two sides also reached a consensus on jointly promoting mainland Chinese investment in Taiwan.

Consensus	Content
<p>Mainland investment in Taiwan: Boosting foreign investor confidence in Taiwan</p>	<ul style="list-style-type: none"> ■ The two sides also reached a consensus on jointly promoting Mainland investment in Taiwan based on the principles of "complementary strengths, mutual benefit and a win-win situation." ■ The Taiwan side agreed to promptly promulgate related laws, regulations and accompanying measures. ■ The Mainland side agreed to encourage Mainland enterprises to pay inspection visits to Taiwan and seek cross-strait investment opportunities. ■ The two sides also agreed that their competent authorities would mutually cooperate on implementing the content of the agreement.

- The two sides also agreed on four issues for negotiation at the **fourth round of Chiang-Chen Talks** later this year:
 - Cross-strait fishery labor cooperation
 - Cross-strait quarantine and inspection of agricultural products
 - Cross-strait cooperation on standards inspection, measurement and certification
 - Avoidance of double taxation

IV. Conclusion

- As more green shoots appear in the global economy, Global Insight has upwardly revised its forecasts for global GDP growth in 2009 and 2010. The global recovery is being led by emerging economies in East Asia, which, according to the Asian Development Bank, have already entered the transition from recession to recovery. Although the global economy is widely expected to experience an upturn in 2010, the path of recovery remains difficult and its pace uncertain.
- The DGBAS has recently upgraded its growth forecast for Taiwan in the second half of 2009, in expectation of the economy moving into a gradual recovery. However, the weak economic conditions in advanced countries will continue to weigh on Taiwan's export growth for the remainder of this year. GDP is projected to be negative for the first three quarters in 2009, with an overall contraction of 4.04% for the year as a whole.
- Taiwan's agricultural and tourism sectors have sustained severe damage from Typhoon Morakot, but the overall impact on the economy is limited. Under the positive effects of fiscal stimulus measures and other economy-boosting factors, including public construction programs, drives to promote urban regeneration and boost private investment, short-term employment-promotion measures, tax reductions, the influx of tourists from mainland China, and closer cross-straits economic ties, Taiwan is expected to speedily regain a healthy level of economic growth.

Thank you

This summary is prepared by the Department of Economic Research of the Council for Economic Planning and Development (CEPD). Quarterly updates can be found on the CEPD's website at <http://www.cepd.gov.tw/encontent>. For inquiries call 886-2-2316-5682 or send an e-mail to bci@cepd.gov.tw.