

TAIWAN'S ECONOMIC SITUATION AND OUTLOOK



Council for Economic Planning and Development
Executive Yuan

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I. CURRENT DOMESTIC SITUATION

Economic Growth

- ⇒ In the first quarter of 2009, Taiwan's GDP contracted by 10.24% yoy. Hard hit by the global financial crisis, real exports of goods and services plummeted by 27.15%. And dampened by the domino effect, private consumption and fixed investment decreased by 1.41% and 41.0%, respectively.
- ⇒ With the whole world simultaneously in the grip of recession, Taiwan's exports inevitably will decline sharply this year. Real GDP is projected to contract 4.25% in 2009.

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 | | | | |
| 2004 | 6.2 | 7.7 | 4.5 | -0.5 | 19.5 | 33.1 | -18.2 | -5.8 | - | - | 14.4 | 18.9 |
| 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 |
| 2008r | 0.1 | -2.4 | -0.3 | 1.1 | -10.6 | -13.3 | -2.3 | 0.4 | - | - | -0.03 | -4.0 |
| Q1 | 6.3 | 3.3 | 2.1 | 1.3 | 3.7 | 3.9 | 6.5 | 0.1 | - | - | 12.7 | 9.6 |
| Q2 | 4.6 | -2.6 | 0.5 | -0.2 | -8.0 | -9.9 | 4.7 | -1.0 | - | - | 9.9 | 0.2 |
| Q3 | -1.1 | -2.4 | -2.1 | 1.2 | -11.8 | -12.8 | -9.4 | -7.6 | - | - | -0.6 | -2.6 |
| Q4r | -8.6 | -7.7 | -1.7 | 2.2 | -22.6 | -31.5 | -6.4 | 8.0 | - | - | -19.2 | -21.4 |
| 2009f | -4.3 | -3.7 | 0.7 | 3.2 | -18.5 | -29.0 | 4.2 | 22.3 | - | - | -13.9 | -16.4 |
| Q1p | -10.2 | -9.3 | -1.4 | 3.7 | -33.8 | -41.0 | -26.1 | 13.3 | - | - | -27.2 | -30.9 |
| Q2f | -8.5 | -4.5 | 1.1 | 2.6 | -22.7 | -34.4 | 23.9 | 27.5 | - | - | -21.4 | -20.3 |
| Q3f | -3.0 | -3.8 | 1.6 | 2.1 | -18.0 | -29.1 | 0.8 | 33.5 | - | - | -12.4 | -16.4 |
| Q4f | 5.2 | 3.0 | 1.9 | 4.2 | 1.0 | -6.5 | 13.6 | 15.8 | - | - | 9.1 | 6.5 |

P = preliminary; f = forecast; r = revised. Source: Directorate-General of Budget, Accounting, and Statistics (DGBAS), May 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 | | | | |
| 2004 | 6.2 | 7.1 | 2.7 | -0.1 | 3.6 | 4.2 | -0.4 | -0.2 | 0.9 | -0.9 | 8.2 | 9.1 |
| 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 |
| 2008r | 0.1 | -2.0 | -0.2 | 0.1 | -2.0 | -2.0 | -0.04 | 0.01 | -0.03 | 2.1 | -0.02 | -2.1 |
| Q1 | 6.3 | 2.9 | 1.3 | 0.1 | 0.6 | 0.5 | 0.1 | 0.0 | 0.9 | 3.4 | 8.2 | 4.9 |
| Q2 | 4.6 | -2.2 | 0.3 | -0.0 | -1.6 | -1.7 | 0.1 | -0.2 | -0.9 | 6.8 | 6.9 | 0.1 |
| Q3 | -1.1 | -2.1 | -1.2 | 0.1 | -2.3 | -1.9 | -0.1 | -0.2 | 1.2 | 1.0 | -0.4 | -1.4 |
| Q4r | -8.6 | -6.3 | -0.9 | 0.3 | -4.4 | -4.5 | -0.1 | 0.2 | -1.3 | -2.3 | -13.5 | -11.2 |
| 2009f | -4.3 | -3.1 | 0.4 | 0.4 | -3.1 | -3.7 | 0.1 | 0.6 | -0.8 | -1.2 | -9.5 | -8.4 |
| Q1p | -10.2 | -7.7 | -0.8 | 0.4 | -5.2 | -5.1 | -0.3 | 0.2 | -2.0 | -2.5 | -18.7 | -16.1 |
| Q2f | -8.5 | -3.6 | 0.6 | 0.3 | -4.0 | -4.9 | 0.3 | 0.6 | -0.4 | -5.0 | -15.7 | -10.8 |
| Q3f | -3.0 | -3.2 | 0.9 | 0.3 | -3.1 | -3.9 | 0.01 | 0.8 | -1.3 | 0.3 | -8.5 | -8.8 |
| Q4f | 5.2 | 2.5 | 1.0 | 0.6 | 0.2 | -0.7 | 0.3 | 0.6 | 0.8 | 2.7 | 5.6 | 2.9 |

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

CURRENT DOMESTIC SITUATION

Domestic Investment

- ⇒ In the first quarter of 2009, gross fixed capital formation contracted 33.8%, due mainly to a 41.0% decline in private investment.
- ⇒ In 2009, with a large number of firms postponing investment plans and cutting capital expenditure, and housing investment declining, domestic private investment is expected to contract 29.0%. But with the government carrying out a series of major investment programs to stimulate the economy, government investment is projected to increase 22.3%.

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 |
| 2006 | 2,531.4 | 0.9 | 1,932.5 | 3.6 | 190.7 | -7.9 | 408.2 | -7.4 |
| 2007 | 2,668.0 | 1.9 | 2,054.8 | 3.3 | 199.5 | 1.4 | 413.7 | -5.3 |
| 2008_r | 2,541.9 | -10.8 | 1,872.5 | -13.5 | 205.2 | -2.6 | 464.2 | 0.3 |
| Q1 | 615.7 | 3.7 | 483.4 | 3.9 | 46.3 | 6.5 | 86.0 | 0.1 |
| Q2 | 676.8 | -8.0 | 528.0 | -9.9 | 42.7 | 4.7 | 106.0 | -1.0 |
| Q3 | 647.3 | -11.8 | 484.9 | -12.8 | 46.0 | -9.4 | 116.4 | -7.6 |
| Q4 _r | 605.1 | -22.6 | 378.9 | -31.5 | 70.5 | -6.4 | 155.7 | 8.0 |
| 2009_f | 2,103.7 | -18.5 | 1,345.0 | -29.0 | 218.3 | 4.2 | 540.4 | 22.3 |
| Q1 _p | 430.9 | -33.8 | 296.6 | -41.0 | 36.5 | -26.1 | 97.8 | 13.3 |
| Q2 _f | 530.1 | -22.7 | 350.0 | -34.4 | 55.0 | 23.9 | 125.2 | 27.5 |
| Q3 _f | 533.8 | -18.0 | 345.3 | -29.1 | 46.9 | 0.8 | 141.6 | 33.5 |
| Q4 _f | 608.9 | 1.0 | 353.2 | -6.5 | 79.9 | 13.6 | 175.8 | 15.8 |

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

CURRENT DOMESTIC SITUATION

Foreign Trade

- ⇒ In April 2009, with the weakening of external demand, exports and imports fell by 34.3% and 41.2% year on year, which was less than their respective falls of 36.6% and 47.2% in the first quarter.
- ⇒ A trade surplus of US\$2.1 billion was recorded.

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 | 381.1 | 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 | 466.0 | 9.2 | 246.7 | 10.1 | 219.3 | 8.2 | 27.4 |
| 2008 | 496.5 | 6.6 | 255.7 | 3.6 | 240.8 | 9.8 | 14.8 |
| 2009 Q1 | 72.6 | -41.8 | 40.5 | -36.6 | 32.1 | -47.2 | 8.5 |
| 2009 Apr | 27.6 | -37.6 | 14.8 | -34.3 | 12.7 | -41.2 | 2.1 |

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, though trade with these two regions has grown more slowly in the last three years. Japan has remained Taiwan's largest supplier of imports, despite a narrowing share.
- ⇒ Export shares of the United States, Europe and Japan have narrowed as those of China (including Hong Kong) and ASEAN have increased.

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-Apr | -26.9 | -24.8 | -35.3 | -39.5 | -42.3 | -52.7 | -43.1 | -56.9 | -38.6 | -36.7 |

*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 April 2009, the industrial production index posted a year-on-year decrease of 19.9%, but the decline was the smallest in six months. The pace of decrease has moderated due to inventory replenishment.

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 Q1 | -32.4 | -16.5 | -33.4 | -12.0 | -5.2 | -24.0 |
| Apr | -19.9 | -2.2 | -20.4 | -7.4 | -3.7 | -20.6 |

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 fell by 0.05 of a percentage point in April to 5.76 percent, from 5.81% in March. In contrast, the seasonally adjusted unemployment rate rose by 0.05 of a percentage point to 5.77 percent.

⇒ In April, the labor force participation rate fell by 0.05 of a percentage point from the previous month, to 57.7%,.

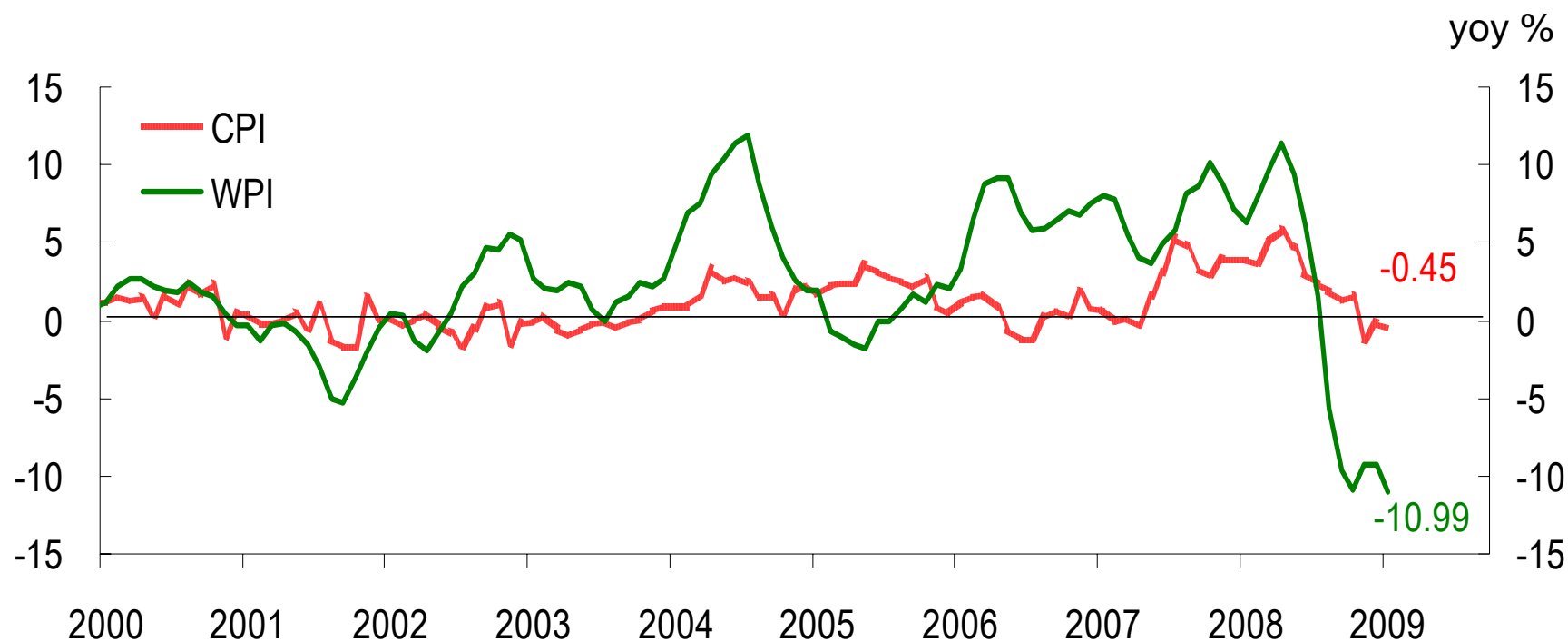


Source: Directorate-General of Budget, Accounting and Statistics.

CURRENT DOMESTIC SITUATION

Prices

- ⇒ In the first half of 2008, surging international prices of crude oil and cereals fueled relatively steep rises in the annualized changes of the CPI and WPI. But as commodity prices fell back in the second half of the year, the pressure of imported inflation markedly subsided.
- ⇒ In April 2009, the CPI and WPI decreased 0.45% and 10.99%, respectively.
- ⇒ For 2009 as a whole, Taiwan's CPI is projected to fall 0.84%, according to the latest forecast by the DGBAS.

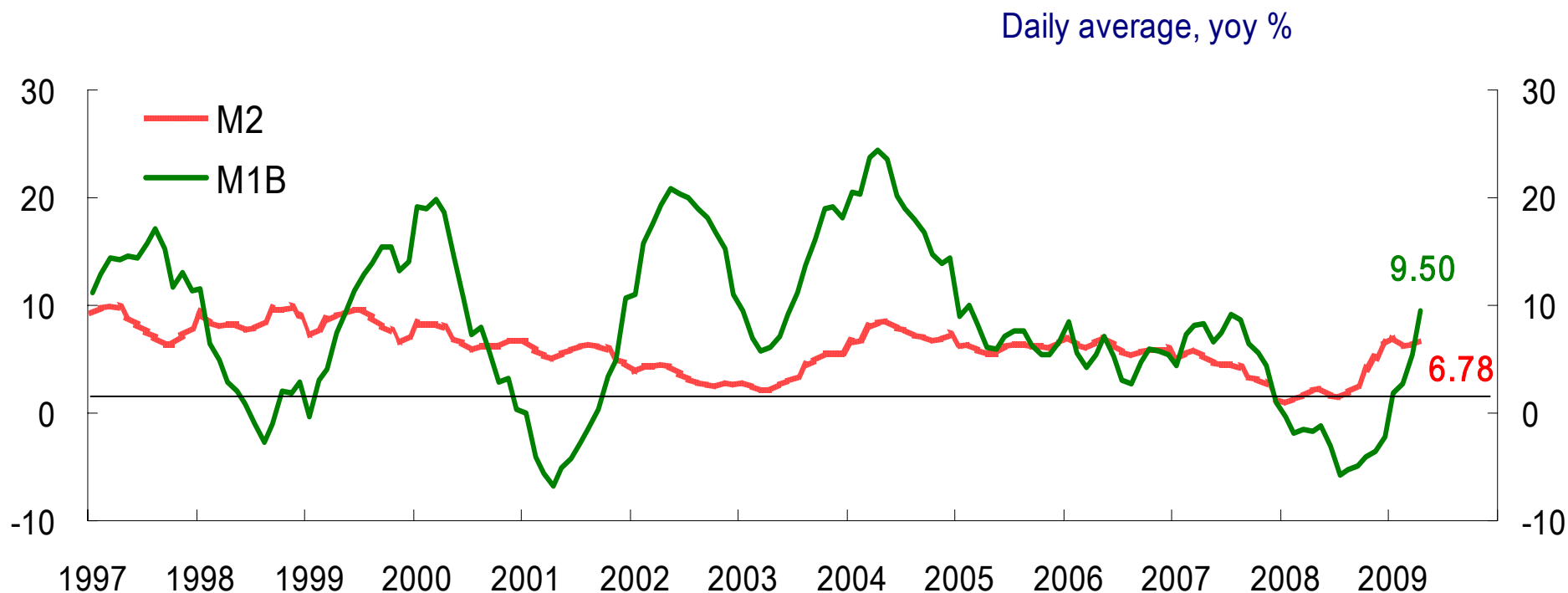


Source: Directorate-General of Budget, Accounting and Statistics.

CURRENT DOMESTIC SITUATION

Money Supply

- ⇒ In April, the annual growth rates of M1B and M2, measured on a daily average basis, were 9.50% and 6.78%, respectively. Those figures were both higher than in the preceding month, mainly due to active trading in the stock market and continuous net capital inflows.
- ⇒ For the first four months of this year, the average annual growth rates of M1B and M2 were 4.85% and 6.60%, respectively.

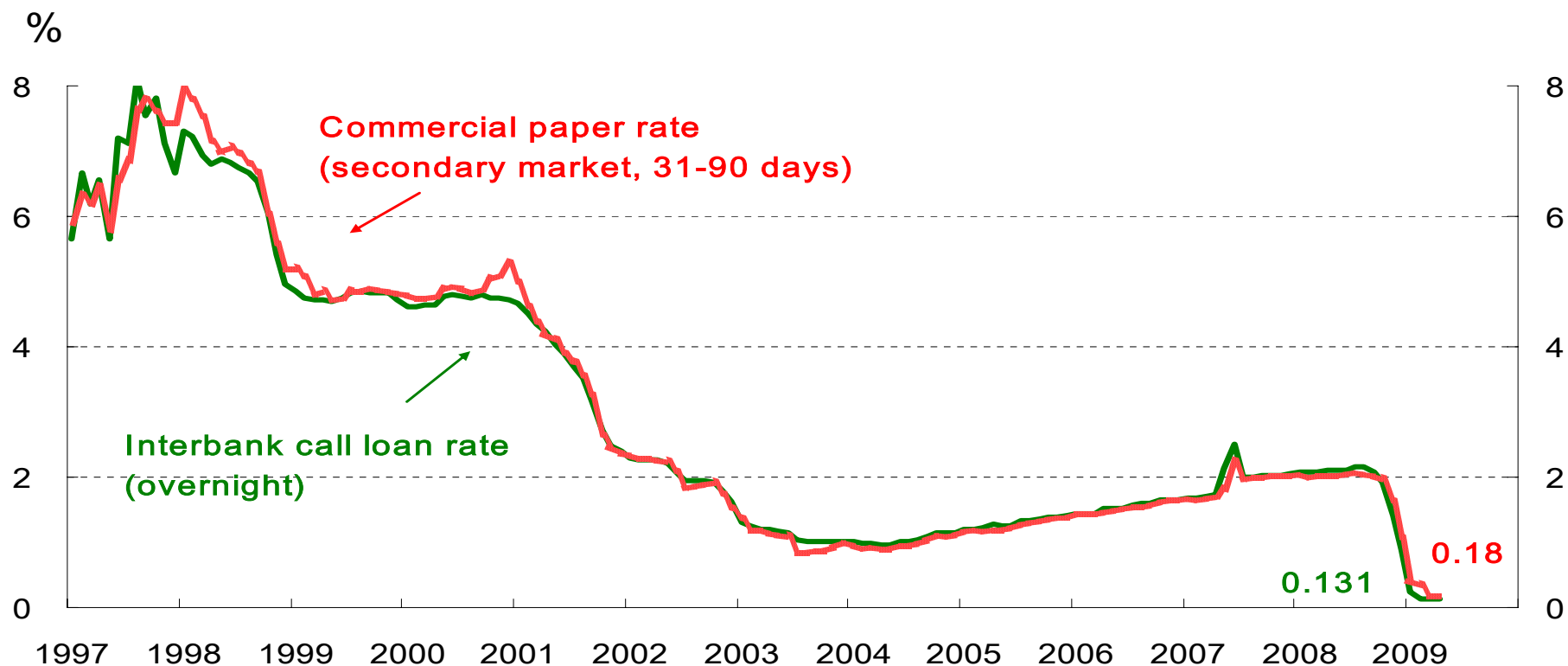


Source: Central Bank of China (Taiwan).

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 April 2009, the commercial paper rate and interbank rate fell to 0.18% and 0.13%, respectively.

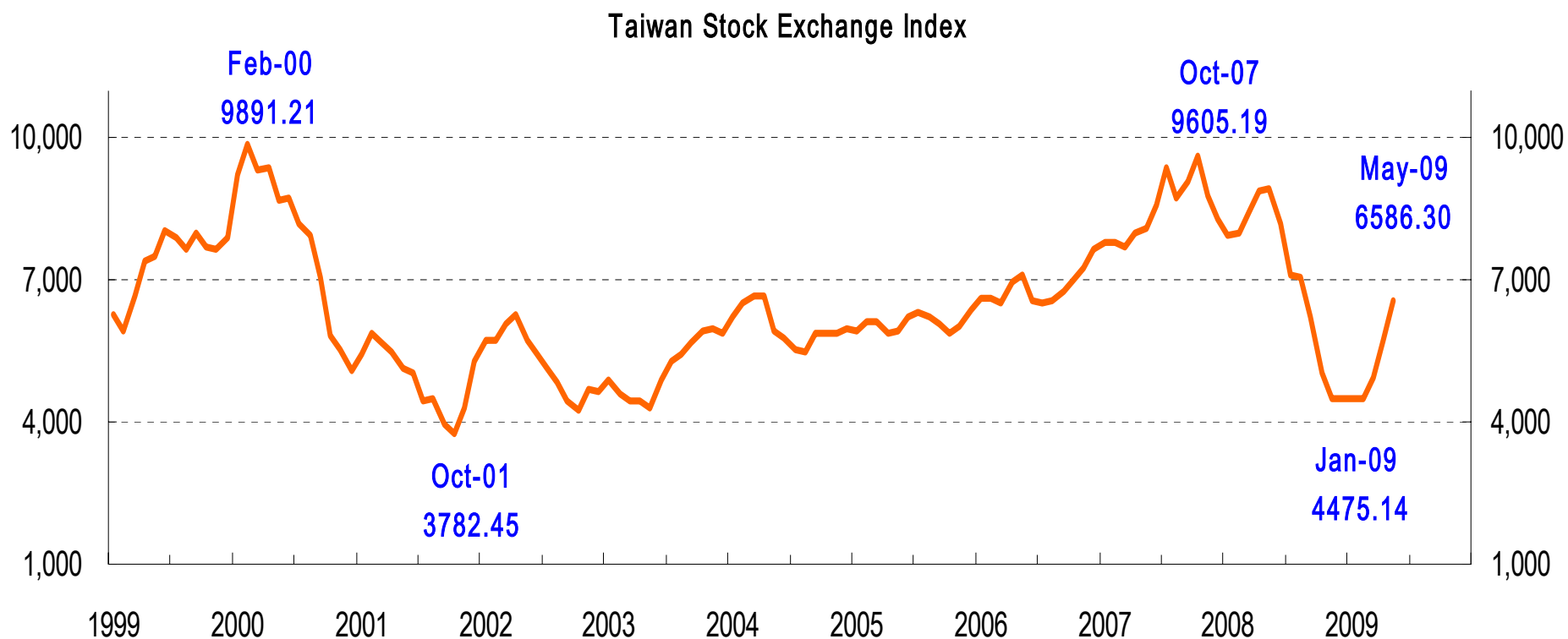


Source: Central Bank of China (Taiwan).

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.
- ⇒ The index rebounded to 6,586 points in May 2009, boosted by improvement in cross-strait relations.



Source: Taiwan Stock Exchange.

CURRENT DOMESTIC SITUATION

Monitoring Indicators

The total score in April increased by 1 point to 11, flashing the "blue" signal for the eighth consecutive month.

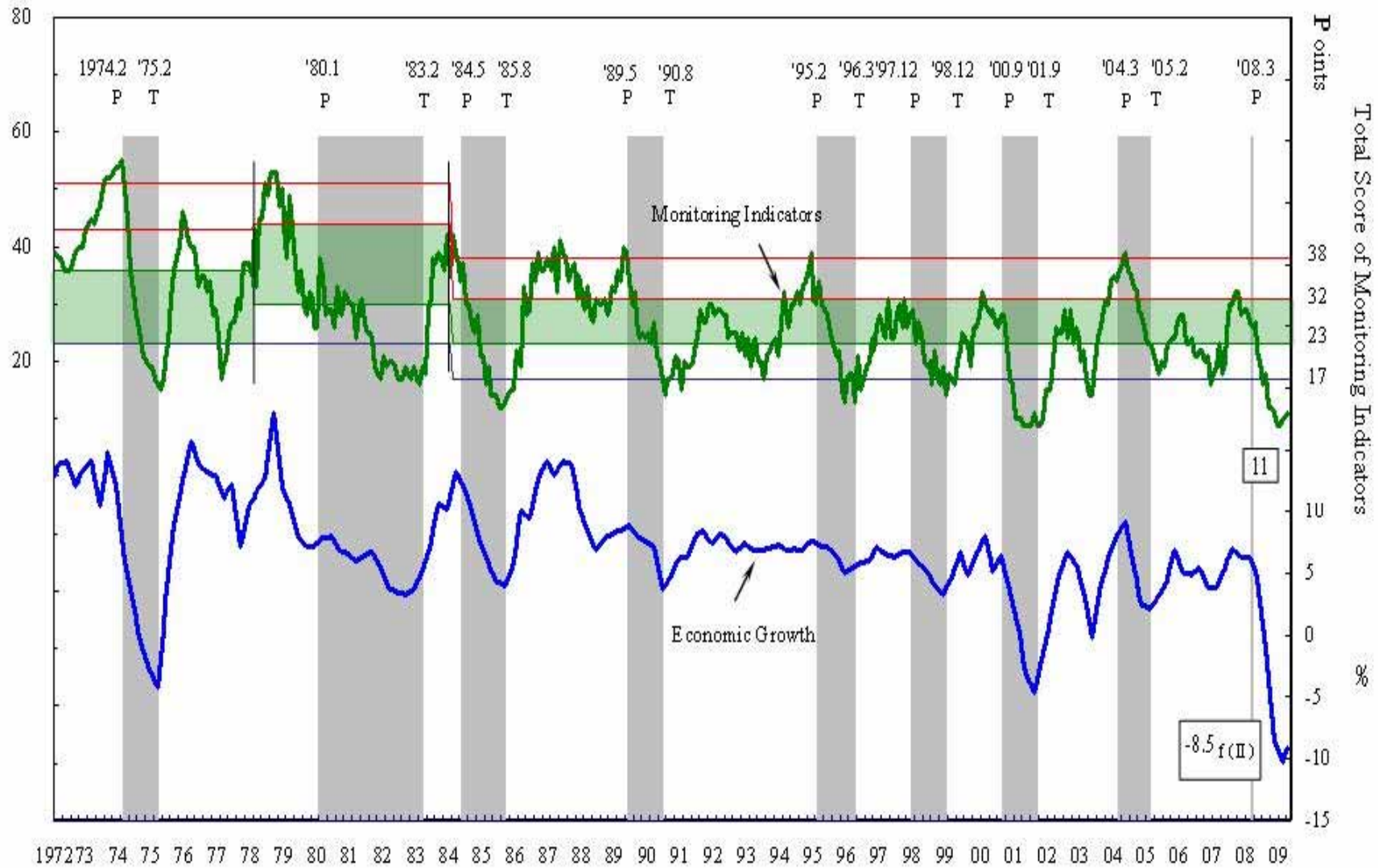
The total score showed a slight improvement in economic conditions, with a moderating pace of decline in most components.

| | | 2008 | | | | | | | | | | 2009 | | | |
|---|-------|------|----|----|----|----|----|----|----|----|---|------|----|----|--------------------|
| | | 4 | 5 | 6 | 7 | 8 | 9 | 10 | 11 | 12 | 1 | 2 | 3 | 4 | |
| Total | Light | | | | | | | | | | | | | | |
| | Score | 27 | 22 | 20 | 16 | 18 | 12 | 12 | 11 | 9 | 9 | 10 | 10 | 11 | |
| Monetary Aggregates M1B | | | | | | | | | | | | | | | 9.3 |
| Direct and Indirect Finance | | | | | | | | | | | | | | | 1.0 |
| Stock Price Index | | | | | | | | | | | | | | | -35.5 |
| Industrial Production Index | | | | | | | | | | | | | | | -20.8 |
| Nonagricultural Employment | | | | | | | | | | | | | | | -1.7 |
| Exports | | | | | | | | | | | | | | | -26.0 |
| Imports of Machinery and Electrical Equipment | | | | | | | | | | | | | | | -27.5 |
| Manufacturing Sales | | | | | | | | | | | | | | | -34.2 _p |
| Wholesale, Retail and Food Services Sales | | | | | | | | | | | | | | | -1.9 |

● 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.

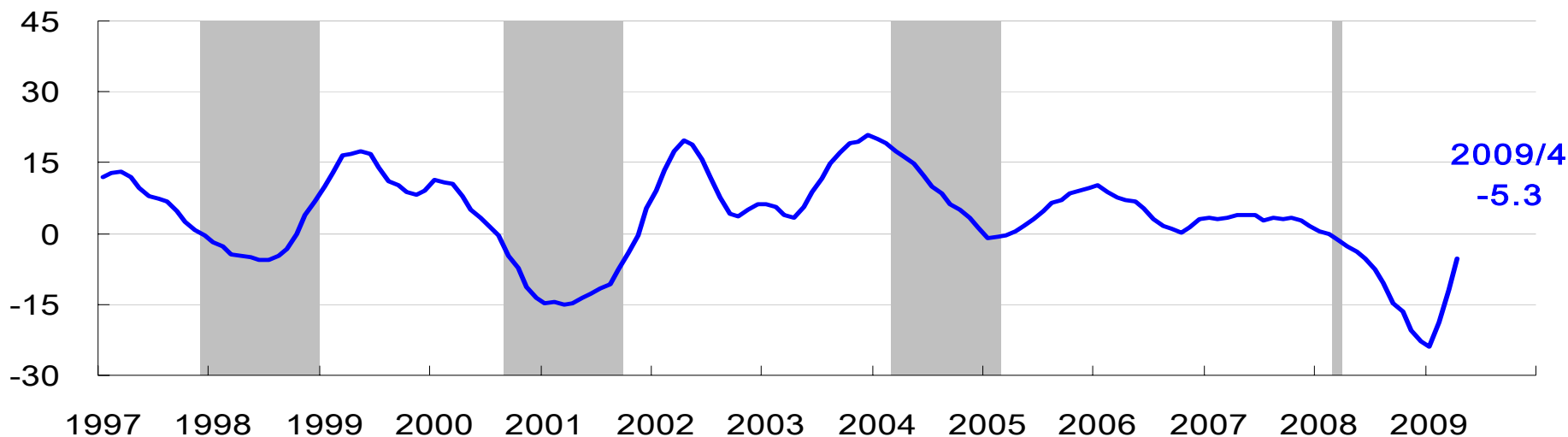
Monitoring Indicators and Economic Growth



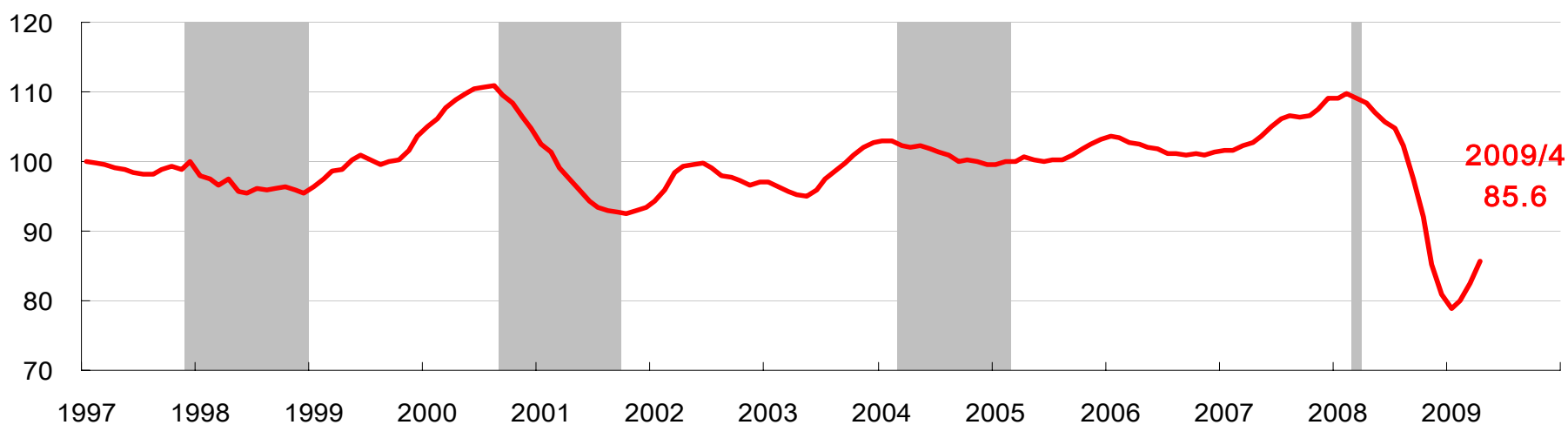
Note: The shaded areas represent recessions. Source: CEPD

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

⇒ **The economy is forecast to contract in 2009**

- With the unprecedented 36.65% decline in exports, Taiwan's economy in the first quarter shrank by 10.24% from a year earlier. This marks the largest quarterly slump on record.
- As the economy is projected to contract 8.5% and 2.98% in the second and third quarters respectively, and recover to grow 5.2% in the fourth quarter, it appears the recession may have reached its trough in Q1 2009.
- For 2009 as a whole, the GDP growth forecast has been revised down to -4.25% from the previous forecast of -2.97%, dragged down by the dismal global economic situation.

⇒ **Export decline**

- As the import demand in advanced countries falls sharply due to economic recession, Taiwan's full-year exports are projected to plunge by 21.8%, much worse than the declines caused by the Asian economic crisis in 1998 (-9.3%) and the popping of the dot-com bubble and the 911 terrorist attacks in 2001 (-16.9%).
- Imports are also projected to decrease by 28.5% in 2009, due to falling oil prices and declining export-induced demand.

⇒ **Private consumption outlook is uncertain**

- A soaring unemployment rate plus shrinking income have hurt private consumption growth. However, the vehicle and real estate markets are showing signs of resilience, as Taiwan's stock index edges higher and lessens recession fears.
- Private consumption is projected to stay close to stagnation with a 0.74% increase in real terms for 2009 as a whole.

PROSPECTS FOR 2009

⇒ Domestic investment to slow further

- Because the gloomier economic outlook is prompting businesses to put investment plans on hold and cut capital expenditure, and the housing market is in the doldrums, private investment is projected to decrease by 29.0% in 2009.
- However, government investment is forecast to grow 22.3% in 2009, the biggest increase since 1992, due mainly to infrastructure development under the government's project to expand investment in public works.

⇒ Inflation risks subsiding

- Commodity prices have continued to fall back as prospects for a material easing of global demand have been reinforced. The WPI is projected to decrease by 7.75% in 2009.
- Factors such as the continuing fall of commodity prices, the discount strategy adopted by many retailers, and the relatively stable price of services such as rent, translate into a projected CPI decrease of 0.84% in 2009.

Forecasts for Taiwan's Economy

| | Real GDP (yoy, %) | | Consumer Prices (yoy, %) | |
|--------------------------------------|----------------------|---------------|-----------------------------|---------------|
| | 2008 | 2009 | 2008 | 2009 |
| DGBAS (2009.5) | 0.06* | -4.25 (-2.97) | 3.53* | -0.84 (-0.82) |
| TIER (2009.4) | | 0.11 (0.89) | | 0.17 (1.82) |
| CIER (2009.4) | | -3.59 (1.24) | | -0.69(-0.95) |
| Academia Sinica (2008.12) | | 0.56 | | 0.17 |
| Polaris (2009.3) | | -4.8 (0.52) | | -0.97 (-0.22) |
| Global Insight (2009.5) | | -4.5(-4.9) | | -1.0 (-1.1) |
| 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. * indicates data provided by DGBAS.

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 |
|--|---|
| <p>– Measures to strengthen financing of small and medium enterprises</p> | <p>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.</p> <p>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.</p> |
| <p>– Provision of special loans and credit guarantees to non-SMEs</p> | <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> |
| <p>– Implementation of special project for financing social enterprises</p> | <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 |
|--|--|
| <p>1. Establishment of a special inter-departmental Cabinet task force on alleviating unemployment</p> | <p>The task force is already set up and at work.</p> |
| <p>2. Continued implementation of the 2008~2009 Short-Term Employment-Promotion Measures (including the Immediate Work Program)</p> | <p>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.</p> <p>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.</p> |
| <p>3. The 2009~2012 Employment Promotion Program (November 6, 2008)</p> | <p>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.</p> |

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

| Name of initiative or measure (date approved or announced by the Executive Yuan) | Explanation |
|--|--|
| <p>4. Implementation of the Short-term Skill Plus Program</p> | <p>1. Implementation period: From February 2009 to January 2010.</p> <p>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.</p> <p>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.</p> |
| <p>5. The Project for Cultivating High-Grade Manpower to Promote Employment</p> | <p>1. Implementation period: From 2009 to 2010.</p> <p>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.</p> |

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 4.25%

(Growth rate without the measures listed below: -7.22%)

| Measure | Forecast in May. 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 -1.17 percentage points:

- Exports contributing -9.52 percentage points
- (Less) Imports contributing -8.35 percentage points

Private sector contributing -4.05 percentage points:

- Private investment contributing -3.70 percentage points
- Private consumption contributing 0.40 percentage points
- Inventory increase contributing -0.75 percentage points

The government sector contributing 0.97 percentage points:

- Government consumption contributing 0.36 percentage points
- Government investment contributing 0.55 percentage points
- State-owned enterprise investment contributing 0.06 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

Conclusion

- Although the IMF and HIS Global Insight have lowered their forecasts for global GDP growth in 2009 to the lowest level since World War Two, the recession may be abating amid recent signs of a moderating pace of decline and reviving confidence around the world. But though the global economy is widely expected to enter a gradual recovery in 2010, the outlook remains highly uncertain, and full recovery remains a long slog.
- The synchronous nature of the global downturn and Taiwan's heavy reliance on external demand have magnified the impact on Taiwan's economy. GDP is projected to be negative for the first three quarters in 2009, with an overall contraction of 4.25% for the year as a whole.
- The government has drawn up a number of stimulus measures, including public construction programs, promoting urban regeneration and boosting private investment, short-term employment-promotion measures, tax reductions, and admitting tourists from mainland China, which together should enable Taiwan to speedily regain a healthy level of economic growth.
- Moreover, the recent progress on promoting the normalization of cross-strait economic and trade relations will also help support Taiwan's growth and competitiveness.

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.