Taiwan’s budgetary responses to COVID-19: the use of special budgets

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Abstract

Purpose – The authors examine the Taiwanese government’s budgetary responses to COVID-19, with a focus on the special budgets created for containing the virus, undertaking bailouts and providing economic stimulus. The authors assess the short-term and long-term fiscal implications of the budgetary measures and discuss how Taiwan’s experiences could provide lessons for other countries for future emergencies.

Design/methodology/approach – The authors collect data from Taiwan’s official documents and news reports and compare the special budgets proposed by the Taiwanese government during the Great Recession and the COVID-19 pandemic. The authors discuss lessons learned from the 2008–09 special budget and possible concerns of the 2020 special budgets. In the conclusions, the authors discuss potential long-term implications for Taiwan’s budgetary system as well as possible lessons for other countries based on Taiwan’s experiences.

Findings – The authors found that the 2008–09 special budgets focused only on economic stimulus, whereas the 2020 special budgets covered COVID-19 treatments, bailouts and economic stimulus. In 2020, the Taiwanese government devised targeted bailout plans for industries and individuals most affected by the pandemic and created the Triple Stimulus Vouchers to boost the economy. Since the special budgets were largely funded through borrowing, the authors pointed out concerns for fiscal sustainability and intergenerational equity.

Originality/value – COVID-19 has changed how the world functions massively. This work adds to the literature on COVID-19 by providing Taiwan’s budgetary responses to the pandemic. This work also identifies ways for Taiwan to improve the existing budgetary system and discusses lessons for other countries.

Keywords COVID-19, Special budget, Bailout, Economic stimulus, Voucher, Public debt

Paper type Viewpoint

Introduction

The COVID-19 pandemic has challenged many countries’ public health systems and economies. The International Monetary Fund has projected that the recession caused by COVID-19 will be the worst since the Great Depression (Gopinath, 2020). Having been hit hard by severe acute respiratory syndrome (SARS) in 2003 and learned many harsh lessons from that outbreak, [1] Taiwan took several precautionary measures for and made timely responses to COVID-19. Its citizens also took precautions voluntarily, such as wearing face masks and avoiding mass gatherings, since the very beginning of the pandemic. With a population of 23.6 million, Taiwan experienced only 449 confirmed cases of COVID-19 and seven deaths as of July 15, 2020. It had no new domestic case after April 12, 2020. The authors would like to thank Dr. Carol Ebdon for her constructive comments and suggestions. All errors are the authors’ own.
Although Taiwan did well in combating COVID-19, the overall economy as well as some industries and individuals were still significantly affected by the pandemic. The economic growth rate for the first quarter of 2020 was 1.59%, compared to 3.29% for the fourth quarter of 2019 and 1.84% for the first quarter of 2019 (Directorate General of Budget, Accounting and Statistics, n.d.). The transportation and tourism industries were impacted most severely by COVID-19, as almost all international travel was suspended. The daily number of passengers at Taiwan Taoyuan International Airport, which dropped from 134,000 in January 2020 to 1,300 in May 2020, shows the impact of COVID-19 on Taiwan’s chief transportation hub (Taoyuan International Airport Corporation, n.d.).

Furthermore, manufacturing output declined by 2.15% in the first quarter of 2020 because of the significant drop in international trade. As a result, many employees were laid off or forced to take unpaid leaves during the first half of 2020. According to Taiwan’s Ministry of Labor (2020), Taiwan’s unemployment rate rose from 3.64% in January 2020 to 4.07% in May 2020, while the monthly number of initial unemployment claims increased from 4,567 in January 2020 to 13,623 in May 2020. The monthly number of workers who took unpaid leaves increased from 941 in January 2020 to 26,323 in May 2020. All these figures demonstrate how significantly the Taiwanese economy was affected by COVID-19.

In order to respond to the COVID-19 pandemic and mitigate its impact on the economy, the Taiwanese government passed a special act in February and established special budgets in mid-March and early May. Article 83 of the Budget Act enables the Executive Yuan to propose a special budget outside of the annual budget for war or defense-related emergency facilities, major economic events, calamities, or major political events that take place irregularly or once every few years. Generally speaking, a special budget is more flexible than the annual budget as it is not subject to balanced-budget requirements and debt limits. In December 2008, for example, the Taiwanese government proposed a special budget for economic stimulus in response to the Great Recession.

In this paper, we examine Taiwan’s budgetary responses to COVID-19 and assess the short-term and long-term fiscal implications of those measures. We collect data from Taiwan’s official documents and news reports and compare the special budgets proposed by the Taiwanese government during two major economic events or calamities: the Great Recession and the COVID-19 pandemic. In the following two sections, we provide details of the special budgets. In the analysis, we discuss lessons learned from the 2008–09 special budget and possible concerns regarding the 2020 special budgets. In the conclusions, we discuss potential long-term implications for Taiwan’s budgetary system as well as possible lessons for other countries based on Taiwan’s experiences.

The 2008–09 special budget responding to the Great Recession
The 2007–09 Great Recession hit Taiwan hard, with many individuals, businesses and industries suffering tremendously. In order to spur economic recovery, the Taiwanese government produced a special budget for issuing the Consumer Vouchers in December 2008. Citizens with valid household registrations could receive the Consumer Vouchers in the value of NT$3,600 for purchasing [2]. The vouchers were valid between January 18 and September 30, 2009, and qualified recipients had to claim the vouchers through designated post offices or other channels. Except for prohibiting consumers from using the vouchers to purchase or reload gift cards or other cash equivalents, there was no limitation imposed on their usage. Many businesses offered promotions to stimulate the use of the vouchers and consumer spending. Once businesses received vouchers from consumers, they could use them to pay their own operating expenses, like salaries. Reusing the vouchers can generate the multiplier effect of the vouchers.

The total budget for the Consumer Vouchers program was NT$85.8 billion, fully funded through borrowing. The special budget equaled 4.74% of the Taiwanese government’s total
expenditures for 2009. The newly incurred debt translated into 2.08% of the total outstanding
debt as of January 1, 2009. Fully 99.4% of the qualified recipients (23.1 million people) claimed
the vouchers, which represented a total value of NT$83.2 billion. However, according to the
Council for Economic Planning and Development (2009), the Consumer Vouchers program
only contributed 0.28–0.43% to the overall economic growth rate in 2009, lower than the 0.64–
0.66% that policymakers had projected before enacting the program.

The 2020 special budgets responding to COVID-19
At the outset of the COVID-19 pandemic, Taiwan’s government agencies were able to use
their annual budgets or reserves to undertake quick responses. However, those budgetary
resources were limited and might not prove sufficient as the pandemic continued to evolve.
Thus, on February 25, 2020, the Legislative Yuan enacted the Special Act for COVID-19
Prevention, Relief and Revitalization, which enables the Executive Yuan to propose special
budgets in response to the COVID-19 pandemic.

In mid-March, the Taiwanese government passed a NT$60 billion special budget. Half of
this special budget was funded through the previous fiscal year’s surplus, and the other half
was funded through borrowing. One-third of the special budget (NT$19.6 billion) was
allocated to treating COVID-19, and the remainder (NT$40.4 billion) was designated for
industry and individual bailouts and economic stimulus. As the pandemic worsened globally,
in early May, the Taiwanese government passed another NT$150 billion special budget,
which was funded entirely through borrowing. This time, only 11% of the special budget
(NT$16.5 billion) was allocated to treating COVID-19, as Taiwan had controlled the spread of
the virus. Nearly 90% of the second special budget (NT$133.5 billion) was budgeted for
bailouts and economic stimulus. Together, the NT$210 billion special budgets equaled 10.1%
of the Taiwanese government’s total expenditures for 2020, while the NT$180 billion of newly
incurred debt amounted to 3.2% of the total outstanding debt as of January 1, 2020. Generally
speaking, the main focus of the special budget passed in March was bailouts and that of the
special budget passed in May was economic stimulus. In the following sections, we further
discuss the Taiwanese government’s plans for these two areas.

Industry and individual bailouts
Because not every industry was impacted by the COVID-19 pandemic, the Taiwanese
government identified industries (e.g. transportation and tourism, manufacturing,
agriculture and art industries) and individuals that were most affected and developed
targeted bailout plans for them. It used a wide variety of budgetary tools to help industries
and individuals weather the difficult time, such as fee waivers, subsidies and government-
guaranteed loans. The bailout plans can be divided into industry-level bailouts and
individual-level bailouts.

At the industry level, the Taiwanese government first developed bailout plans for
transportation and tourism industries, which were affected most severely during the COVID-19
pandemic. It waived most airport fees to help airlines and waived some administrative fees for
other transportation industries. It also provided subsidies ranging from NT$50,000 to
NT$200,000 for hotels and travel agencies. Second, the government lowered tax rates (e.g.
corporate income tax and property tax) for affected businesses. If a business experienced a loss
due to COVID-19, the loss can be deducted from its corporate income tax for the next ten years.
Third, it provided small and medium-sized businesses with five to ten percent deductions for
water and electric utilities. Finally, it offered low-interest government-guaranteed loans for
small and medium-sized businesses.

At the individual level, the Taiwanese government took the problems of unemployment
and unpaid leave seriously. If unemployed workers had enrolled in labor insurance, they
could file for unemployment benefits equaling to 60% of their monthly salaries for six to nine months. Workers who took unpaid leaves could also receive subsidies amounting to half of their loss. In addition, the Taiwanese government provided subsidies for low-income self-employed workers who did not enroll in labor insurance. They could each receive a one-time subsidy ranging from NT$10,000 to NT$30,000. Moreover, the government provided tax and debt assistance to citizens. It lowered mortgage rates and provided extensions for income tax payments and personal debt payments. Similar to industry-level bailouts, the government provided low-interest government-guaranteed loans to 500,000 citizens, and each of whom could borrow NT$100,000 and has three years to repay it.

Economic stimulus: Triple Stimulus Vouchers
When the Taiwanese government formulated the special budgets, it did not have any concrete revitalization plan and only budgeted NT$11 billion for stimulating private consumption. There was a length debate on whether the government should send stimulus checks, issue consumer vouchers or discount coupons, or lower individual income-tax rates. On June 2, 2020, the Executive Yuan finally decided to use the special budgets to issue Triple Stimulus Vouchers, which would cost NT$50 billion. There was a NT$39 billion budget gap between the budgeted number and the proposed stimulus plan. However, thanks to the flexibility of special budgets, the Executive Yuan could cut other budget items in the special budgets or transfer money from other funds to bridge the budget gap.

The Triple Stimulus Vouchers are slightly different from the Consumer Vouchers. Taiwanese citizens and foreign spouses of Taiwanese citizens with residence permits, regardless of age or income level, can pay NT$1,000 to purchase the Triple Stimulus Vouchers, which are worth NT$3,000. Low-income citizens can receive the vouchers for free. During COVID-19, retail sales decreased significantly, while e-commerce continued to prosper. Therefore, individuals cannot use the 2020 vouchers for online purchases, nor can they use them to pay taxes, fines, or utility fees.

The Triple Stimulus Vouchers come in paper and electronic forms and can be used from July 15, 2020 through the end of 2020. People who prefer paper vouchers could preorder the vouchers at convenience stores between July 1 and July 7 and pick them up after July 15. Some convenience stores may have store-exclusive promotions for the preorders. After July 15, individuals can purchase the paper vouchers at post offices. Those who prefer electronic vouchers can visit the official website of the Triple Stimulus Vouchers and connect their vouchers to their credit cards, metro cards (called EasyCards), or third-party mobile payment applications. Like convenience stores, many banks and third-party platforms offer promotions to encourage their customers to order electronic vouchers. When using the electronic vouchers, consumers must first spend NT$3,000 or more on eligible items, whereupon they will receive a NT$2,000 refund.

Analysis
Comparing the 2008–09 and 2020 special budgets, we see some similarities and some differences. Both the 2008–09 and 2020 special budgets were largely funded through borrowing. However, the 2008–09 special budget focused only on economic stimulus (the Consumer Vouchers), whereas the 2020 special budget covered COVID-19 treatments, bailouts and economic stimulus (the Triple Stimulus Vouchers). In the 2020 special budgets, bailouts mainly took place from March to May, and there were different policies for industries, private firms and individuals. The 2020 Triple Stimulus Vouchers program began in July and will last until the end of the year. In this section, we analyze the 2020 bailout plans, examine the different economic stimulus policies in 2008–09 and 2020 and discuss their impacts on fiscal sustainability and intergenerational equity.
The previous literature has debated on the effectiveness of bailouts. Bianchi (2016) observed that with a systemic crisis, bailouts help mitigate the severity of the recession. However, firms’ anticipation of such bailouts could lead to moral hazard in that they might take greater risks when making decisions. On the other hand, Barseghyan (2010) suggested that under certain conditions, if the government provides bailouts immediately by issuing new debts, output will eventually fall, which hurts economic growth [3].

In Taiwan’s case, it is still too early to predict the outcomes of the recent measures, but we do find some advantages of and concerns regarding the 2020 bailout plans. The first advantage is that the government identified industries and individuals most affected by the pandemic and devised targeted bailout plans. In this way, the government could make the best use of limited resources. Second, at the individual level, the government provided subsidies to disadvantaged people who were not included in Labor Insurance, Civil Servant and Teacher Insurance, or Farmer Insurance. Because the subsidies were provided to those in need, this policy could enhance social equity.

On the other hand, there are some concerns about the bailouts that could be addressed in the future. First, at the industry level, the government provided government-guaranteed loans to small and medium businesses. If these businesses eventually file for bankruptcy, those loans would be bad debts that the government may need to assume. Second, at the individual level, the rules and guidelines of the subsidies were overly complicated. Applying for the subsidies required too many documents, some of which were hard to obtain. The review process was also time-consuming. Applicants usually received subsidies two or more weeks after they filed applications.

Both the 2008–09 Consumer Vouchers and the 2020 Triple Stimulus Vouchers have their advantages and disadvantages. The main advantages of the 2008–09 Consumer Vouchers were its simplicity and widespread acceptance by businesses. In 2009, qualified individuals received vouchers worth NT$3,600. Few restrictions were imposed, and consumers were able to spend the vouchers easily. The issuance of the vouchers was also simple and created few controversies.

Nevertheless, the Audit Office of Taiwan (2009) cited some concerns regarding the design of the Consumer Vouchers in its audit report. First and foremost was its limited ability to stimulate consumption. Many people who were uncertain about how the economic downturn would impact the economy and their daily life simply used Consumer Vouchers to make necessary purchases in lieu of using cash, which they would save for future use. In other words, the Consumer Vouchers induced little new consumption. According to the audit report, approximately 72.07% of the value of the Consumer Vouchers was used on purchases that would have occurred in cash without the vouchers. In addition, the multiplier effect from reusing the vouchers was limited since there were no incentives for businesses to use the vouchers to pay their operating expenses.

Given the shortcomings of the 2008–09 Consumer Vouchers, the Taiwanese government learned its lessons and planned accordingly when creating the 2020 Triple Stimulus Vouchers. First, qualified individuals have to pay NT$1,000 to receive paper Triple Stimulus Vouchers worth NT$3,000. Thus, spending takes place when people purchase the paper vouchers. The net cost for the government to issue the vouchers is NT$2,000 per individual rather than NT$3,000, which means the government could save money and issue less debt. Second, Triple Stimulus Vouchers also help promote social equity, as those qualified for income-based assistance do not have to pay NT$1,000 in order to receive the vouchers. Third, individuals can choose electronic vouchers, which save the government printing costs and save businesses time and other costs involved in redeeming the vouchers.

However, the 2020 vouchers do entail more restrictions compared to the 2008–09 vouchers. For example, the 2020 vouchers cannot be used for online shopping, paying taxes or fines, or purchasing alcohol or tobacco. Moreover, people have to choose to receive paper
vouchers or different forms of electronic vouchers (e.g. credit cards, metro cards, or third-party mobile payments), each of which has different guidelines and different promotions. This plethora of options might prove too complicated for consumers and may increase administrative costs. In addition, there are concerns about the multiplier effect of the electronic vouchers. When consumers use the electronic vouchers, they receive a refund after making qualified purchases totaling NT$3,000, and the businesses directly redeem the vouchers. Thus, the electronic vouchers cannot be reused and do not generate the multiplier effect.

The 2020 special budgets were necessary to help revitalize the economy. However, from a budgetary perspective, there might be some overall concerns and implications. Special budgets provide some degree of flexibility for the Taiwanese government to respond to emergency situations, such as the Great Recession and the COVID-19 pandemic. However, because these special budgets were mostly funded through borrowing, they might place heavy fiscal burden on the government and threaten fiscal sustainability in the long term. Figure 1 shows the trends in Taiwan’s total outstanding debt and debt-to-GDP ratio. In the past 20 years, Taiwan’s total outstanding debt almost doubled from NT$2.76 trillion in 2001 to NT$5.33 trillion in 2019. However, Taiwan’s debt-to-GDP ratio was relatively stable (around 30%) and was below the debt limit (40.6%). During the Great Recession, Taiwan’s debt increased significantly. Taiwan’s Ministry of Finance (2020) projected that Taiwan’s total outstanding debt and debt-to-GDP ratio would keep increasing during and after the COVID-19 pandemic.

As Slembeck et al. (2014) suggested, poor debt management is associated with fiscal unsustainability. In addition, Tabellini (1991) viewed issuing debt as passing burden onto future generations. This intergenerational concern could be more controversial when the issued debt is used to finance private consumption rather than capital improvements or investments. A recent study of intergenerational altruism conducted by Fochmann et al. (2018) indicated that boosting economy using tools that shift risk to future generations is not

![Figure 1. Trends in Taiwan's total outstanding debt and debt-to-GDP ratio](image)

Source(s): Ministry of Finance. (2020)
welcome. Hence, when issuing debts, the government should have concrete debt repayment plans to foster intergenerational equity.

Conclusions
The COVID-19 pandemic has challenged many countries’ economies, and Taiwan is no exception. The Taiwanese government took several budgetary measures to bailout and to stimulate the economy. However, the effects of those measures are still too early to be seen. In addition, there is still room for Taiwan to improve the existing budgetary system.

First, the government can consider establishing a rainy-day fund. As Liao and Kuo (2019) discussed, the Taiwanese government does not have a rainy-day fund and only sets aside part of its annual budgets or departmental budgets as “reserves.” If a rainy-day fund can be established, the government may be able to respond to emergencies in a more timely manner.

Second, the government can improve its debt management. Although the total outstanding debt is always below the debt limit, the debt amount is increasing year by year. The special budgets, which were primarily funded through borrowing, may also be a burden on the government. If the government can devise a sustainable debt repayment plan and keep the debt low, it may have more flexibility to issue new debt in the future if needed.

Last but not least, the government can consider practical ways for cutback management. In the past, the government usually developed its budgets incrementally, so there may exist some unnecessary budget items. However, when facing the COVID-19 pandemic and possible economic downturns, the government may encounter reduced revenues and increased spending and may need to think about how to cut back (e.g. making a one-time zero-based budget to cut unnecessary spending or including citizen participation in the process of making budget cuts).

As countries worldwide struggle with the economic impacts of the COVID-19 pandemic, some of Taiwan’s experiences and budgetary measures might provide useful lessons for them. In the bailout stage, the Taiwanese government identified the most affected industries and individuals and created targeted bailout plans for them. In this way, the government could make good use of limited resources. In the ongoing economic stimulus stage, the government is requiring people to purchase the Triple Stimulus Vouchers so that both the government and people could contribute to the economic stimulus. The government is also providing free vouchers for low-income individuals, which serves to both stimulate spending and promote social equity.

Overall, Taiwan has flexible budgetary rules and low public debt. When facing emergencies, the government can make special budgets, which are more flexible than annual budgets. In the past two decades, the Taiwanese government maintained balanced budgets and kept its total outstanding debt at 30% of its GDP so that it might have capacity for issuing new debt. Societies worldwide would do well to follow the Taiwanese example by making good use of limited resources, establishing flexible budgetary rules and making their budget systems sustainable.

Notes
1. In 2003, there were 346 confirmed cases of SARS in Taiwan and 73 deaths, yielding a case fatality rate of 21.1% (Taiwan CDC, 2004). At that time, two hospitals were locked down, many schools were closed, and more than 150,000 people were quarantined (Hsieh et al., 2005).
2. The exchange rate between the New Taiwan Dollar (NT$) and the U.S. Dollar (US$) is about 30 to 1.
3. For more discussion on effects of distortionary fiscal financing on investment and real interest rate, see Traum and Yang (2015).
References


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