

**IS THE TAIWANESE GOVERNMENT
IN A DEBT CRISIS?**

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Executive Summary

1. Taiwan's economy was badly hurt by the global financial crisis of 2008. Both soft domestic demand and weakening exports have led Taiwan to a dismal economy. To alleviate the impacts of the global financial crisis, the Taiwan government launched the Economic Vitalization Package in September 2008.
2. In 2009, to further promote domestic demand, the government adopted a four-year (Project to Expand Investment in the Public Sector, 2009–2012) fiscal stimulus package.
3. Taiwan enjoyed budget surpluses during the period 1955–1988. Since 1989, however, Taiwan has registered budget deficits. The global financial crisis prompted the Taiwanese government to pursue demand-driven measures to bail out the economy, a painstaking task to balance the budget.
4. The sustained budget deficits could reduce national savings and further impose a substantial negative effect on long-term economic growth.
5. With government expenditure outpacing growth in tax revenues, Taiwan turned to issuing public debt and borrowing to finance the growing budget deficit. The outstanding debt at all levels of government in Taiwan reached NT\$5.770 trillion by the end of 2012, an increase of 197.88%, from NT\$1.937 trillion in 1996.
6. In June 2013, Taiwan's Legislative Yuan approved amendments to the Public Debt Act to allow governments to increase borrowing. Government debts will eventually be more than what the public can bear.
7. Since 1990, spending on social security (social welfare and pension and survivors' benefits) has risen continuously as a result of an emphasis on establishing a national social security net.
8. In 1993, Taiwan became an aging society when those aged over 65 exceeded 7% of the total population.

9. Population aging has aggravated social security spending, sped up by the competition between the ruling Kuomintang and opposition Democratic Progressive Party to enhance election prospects.
10. The weak economy, low tax revenue and large budget deficit are putting pressure on Taiwan's already enlarged government debt. The growing government debt is a conundrum, which will be a tax burden for future generations if not dealt with decisively.