

Taiwan's economy under pressure as trade woes continue

Weak global semiconductor demand, limited benefits from China's re-opening, and further rate hikes mean it'll be a tough year ahead for Taiwan

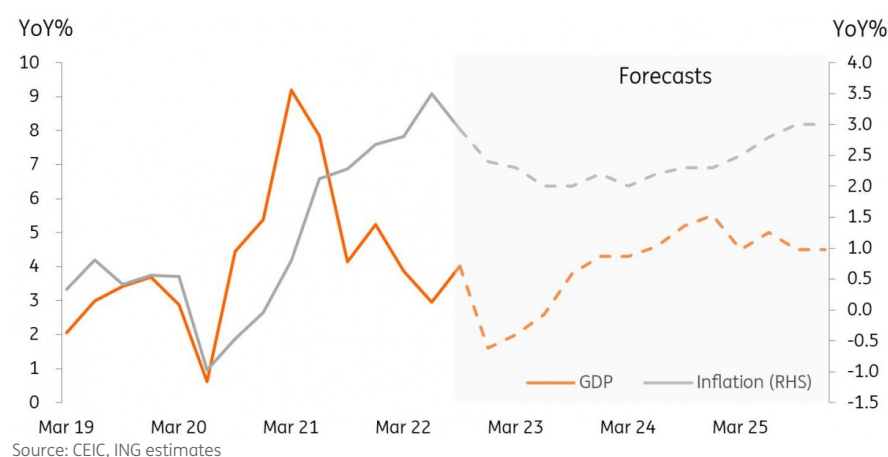


Taiwan accounts for around two-thirds of semiconductor production

Taiwan: At a glance

Taiwan's economy has been showing signs of weakness since September 2022, when global semiconductor demand slumped. That was mostly due to high inflation and therefore weaker demand for electronic goods in the US and Europe. Demand from China, which is also a big consumer market, also suffered due to Covid-19 measures. Average growth in the first three quarters averaged above 3% year-on-year. This is low compared to 7% for the same period in the previous year. Inflation picked up but didn't exceed 3.6% in 2022. The central bank still raised the discount rate to 1.75% from 1.125%. The Taiwan dollar weakened against the US dollar by around 10% in 2022.

GDP and inflation outlooks



3 calls for 2023

1 Weak semiconductor demand leading to slower growth

Taiwan's economy will continue to come under pressure from shrinking sales of semiconductors as external demand wanes. Semiconductors contribute around 40% of Taiwan's exports. As high inflation continues to lower purchasing power in the US and Europe, and with Mainland China's economy yet to recover fully, the challenging time for semiconductors and therefore trade for Taiwan could continue until at least the first half of 2023. If external demand improves in the second half of the year, Taiwan's economic growth should accelerate.

2 Mainland China's reopening of borders may not benefit Taiwan

Mainland China's elimination of most Covid restrictions and the reopening of borders may not benefit Taiwan, at least in the first half of 2023. Taiwan has banned Mainland Chinese tourists since the Covid outbreak, and only allows Chinese citizens to visit for business or family reasons. This means retail sales in Taiwan may not recover to pre-Covid levels in 2023.

3 Monetary policy will weigh on the economy

Taiwan's central bank may continue to shadow the US Fed's rate hike path, at least in the first quarter of 2023. That means the monetary policy will exacerbate the weak growth of the economy. This is a risky policy, which could bring further financial pressure to companies and households that will face higher interest costs. On the fiscal side, the government may need to extend preferential policies to small and medium-sized enterprises and it is likely to spend more on military expenses. The New Taiwan dollar (TWD) could be volatile when the central bank changes its interest rate path from hikes to cuts. Taking more time to move from hikes to easing than the Fed in the US could help support the TWD against the US dollar from the second quarter to the fourth quarter of 2023.

Taiwan forecast summary table

	4Q22	1Q23	2Q23	3Q23	4Q23	FY2022	FY2023	FY2024	FY2025
GDP (YoY%)	1.6	2.0	2.6	3.8	4.3	3.1	3.2	4.9	4.6
Inflation (YoY%)	2.4	2.3	2.0	2.0	2.2	2.9	2.1	2.2	2.8
Unemployment rate (%)	3.7	4.0	4.2	4.4	4.1	3.7	4.2	3.8	3.5

	4Q22	1Q23	2Q23	3Q23	4Q23	1Q24	2Q24	4Q24	4Q25
Discount rate (%)	1.750	1.875	1.875	1.750	1.625	1.500	1.375	1.375	1.500
10Y bond yields (%)	1.35	1.35	1.35	1.23	1.10	0.98	0.98	1.11	1.23
USD/TWD	30.6	30.2	29.6	29.5	29.4	31.5	30.0	32.0	32.0

Source: CEIC, ING estimates