

## Taiwan's economy will be less rosy in 2022

The comparative advantage of Taiwan's economy will continue to be in manufacturing advanced semiconductor chips, but production bottlenecks will become more obvious in terms of yearly growth. Consumption is under strain while the key risk remains the relationship to Mainland China



Xinyi District in downtown Taipei, Taiwan

### Taiwan grew moderately

GDP growth was 3.8% year-on-year in 3Q21 compared to 7.4% YoY in 2Q21. This moderating growth rate was solely due to the low base fading out of the comparison. The main engine is still semiconductor chips. Semiconductor factory investment led to a jump in overall investment of 27.97% YoY, contributing more than six percentage points in the quarter. Consumption detracted 2.62 percentage points from GDP in the third quarter.

We expect a similar picture to emerge in the fourth quarter. Consumption won't go up until the borders are reopened. And production and exports of semiconductor chips could again be offset by growth in imports of equipment to build factories for the future production of semiconductor chips.

## 2022: Growth in chip production is slowing

The yearly growth rates of semiconductor chips in terms of manufacturing and exports could weaken in 2022. We have already seen monthly growth slowing due to production capacity hitting bottlenecks. This issue will not be resolved next year as new production lines only just started to be built in mid-2021.

The result is that we expect to see more moderate production and export data in 2022 due to this capacity constraint.

This means that strong growth is likely behind us, and we will only see moderate growth rates for production and exports in 2022.

## 2022: Consumption can't depend on vouchers

Taipei has handed out consumption vouchers to try to boost spending but the impact has been marginal, with more people dropping out of the workforce. That's also a reason why the unemployment rate has fallen (people have stopped looking for a job) even though the labour market has not fully recovered.

Vouchers are not a long term solution. What's needed is the reopening of borders to revitalise the tourism industry. But this is another hurdle given that Taipei has difficulty in securing third Covid injections for its residents.

## 2022: Main risk is still the relationship with Mainland China

We cannot ignore this risk anymore. The Cross-Straits relationship is deteriorating, and the involvement from other nations is not helping.

The risk of a military event is very small but could be a black swan.

Taipei could change its tone and try to re-establish unofficial communication channels but otherwise this deadlock will remain in 2022.

## 2022: No policy action

We do not expect any fiscal or monetary policy action for 2022. On the fiscal side, handing out more vouchers for consumers may be futile as the impact is very short lived.

On monetary side, there is a risk to inflation from global energy prices. So even if the domestic economy is not performing as well in 2022 as it did in 2021, the central bank should stay put.

Until the economy is fully recovered - and for this a full reopening of the borders is required, which is difficult given the lack of the third Covid injections - the central bank won't consider raising interest rates.

### Forecasts

We expect that GDP growth will be 3.5% YoY in 4Q21, and 6.0% for the full year 2021. The USD/TWD forecast is 27.9 by the end of 2021.

For 2022, we expect 4.0% GDP growth, and a weaker Taiwan dollar against the dollar,

at 29.20, due to tapering in 2021 and Fed rate hikes in 2022.