

## Taiwan keeps rates on hold as fiscal spending kicks in

Taiwan's central bank has kept rates on hold. As long as the economy doesn't contract, monetary policy will likely remain steady. Fiscal stimulus is boosting the economy but may falter if job cuts continue and there's no fundamental change in export demand



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### Taiwan central bank still on hold

Taiwan's central bank has, as expected, kept its policy interest rate on hold. It's stood at 1.375% for 12 quarters since June 2016. The economy is not doing well. Export orders and exports have been contracting since November 2018 due to the trade war between mainland China and the US, as well as the falling product life cycle of smart-devices.

GDP growth has been slowing since the second half of 2018 but, at 1.78% year-on-year in the fourth quarter of 2018, it is still in positive territory. With even the US Fed [signalling an end to tightening](#), the Taiwan central bank could well be waiting for the right time for a rate cut. And we believe it'll shoot that bullet if we see negative economic growth.

Weakness in the economy, especially in the export environment, makes us believe that corporate

earnings of Taiwan companies in general could be at risk. Capital outflows from Taiwan's asset markets are possible in 2019. Therefore, we're revising our call on the Taiwan dollar (TWD) to weaken against the US dollar from 30.40 to 30.95 by the end of 2019.

## Fiscal spending is working

The government has taken up the main role of supporting the economy. It will probably increase spending by 2.8% to a record TWD 2.022 trillion in 2019. That will be around 11% of nominal GDP.

This includes raising infrastructure spending and giving out rebates to consumers on energy-saving automobiles. It also includes increasing military spending by 5.6%, which may trigger more tension between Taiwan and mainland China. This is unlikely to be positive for the Taiwan economy.

## Core economic problems not solved

We believe these spending commitments do not solve the problems Taiwan is facing, and could only have a temporarily positive impact on economic growth, meaning the job market remains unstable. The trade conflict is hurting export growth and there's little that Taiwan can do about that.

Taiwan may be waiting for its electronics industry, which is smart-device dependent, to produce sideline products for the development of 5G or Artificial Intelligence. But that will take time.

So, growth in the Taiwan economy will continue to slow. The central bank has revised downward GDP growth to 2.13% for 2019 from 2.33%, which is still higher than our forecast of 1.8%.