

Taiwan surprises with rate hike

Taiwan's central bank unexpectedly raised its policy rate by 12.5bp to 1.875%. This suggests that the central bank will follow the Federal Reserve's moves closely. But this is not helpful to the weakening economy



Xinyi District in downtown Taipei, Taiwan

12.5bp Increase in policy rate to 1.875%

Taiwan unexpectedly raises interest rate

It is a surprise that the central bank increased the policy rate today as the consensus was for a pause.

The economy has been weakening due to slowing global demand for semiconductors, which is the pillar of Taiwan's economy. Moreover, inflation slowed to below 2.5% in February. We did not, therefore, think a rate hike was necessary.

Why did the central bank hike?

So if there was no macroeconomic reason for a rate hike, why did the central bank do it? A slight rate increase could continue to keep the interest rate differential between the US and Taiwan stable, which is important to prevent an acceleration of capital outflows from Taiwan. There have been capital outflows since the demand for semiconductors started to weaken.

On Wednesday, the Federal Reserve [raised rates by 25bp](#), bringing the benchmark funds rate to a range of 4.75% to 5%.

This move by Taiwan's central bank could also help to stabilise the Taiwan dollar. We forecast USD/TWD at 29.00 by the end of the year.