

## Economic growth to stay sluggish

### General Information



GDP	USD529bn
Population	23.4mn
Form of state	Multiparty Democracy
Head of State	Tsai Ing-wen
Next elections	2020, presidential



### Strengths

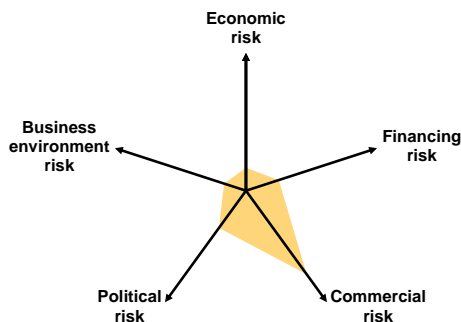
- Functioning, stable democracy
- Good record of sound economic management, pro-business environment, well educated workforce
- Demonstrated economic flexibility, enabling rapid shifts along the value-added scale
- High domestic savings and investment
- Very strong external liquidity

### Weaknesses

- Uncertain and tense relations with Mainland China
- Heavy concentration on the IT/electronics sector
- Highly dependent on demand from China, Hong Kong and USA
- Openness of the economy leaves it vulnerable to demand shocks

### Country Rating

A2



Source: Euler Hermes

### Trade Structure

By destination/origin (% of total)

Exports	Rank	Imports
China	24% 1	17% China
China, Hong Kong SAR	13% 2	14% Japan
United States	10% 3	9% United States
Singapore	6% 4	5% Korea, Republic of
Japan	6% 5	5% Saudi Arabia

By product (% of total)

Exports	Rank	Imports
Electrical machinery and apparatus	32% 1	18% Electrical machinery and apparatus
Telecom. and sound recording apparatus	6% 2	15% Petroleum products and related materials
Professional and scientific instruments	5% 3	5% Specialised machinery
Petroleum products and related materials	5% 4	5% Organic chemicals
Manufactures of metal	5% 5	4% Iron and steel

Source: UNCTAD



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## Economic Overview

### Subpar growth, higher number of insolvencies

The near term outlook is clouded by cyclical headwinds. Companies' bankruptcies have soared by +23% in 2015, GDP growth slowed rapidly in 2015 (+0.7% from +3.9), due to lower exports and industrial production. Looking ahead, there are few signs of significant upturn. Persistent external headwinds will continue to weigh on the outlook. In China, the imbalanced rebalancing is expected to continue and GDP growth is set to slow to +6.5% in 2016. In Eurozone, demand growth may accelerate but at a slow pace. In the US, firm private consumption will sustain the economy but will not translate into higher imports growth. In that context, Taiwan's economy will have to rely more on its domestic demand. Better credit conditions and further fiscal support will help maintaining domestic consumption in positive territory. However the pace of progress will be gradual and not sufficient to push overall growth to past levels (+4% growth on average between 2004 and 2014). GDP will grow at a limited pace of +1.5%, insolvencies will increase by +17%.

### Macro-economic policies to turn more accommodative

Public finances are sound compared to other high income economies. Public debt is manageable. The government balance returned to safer level (close to -3% GDP) after a huge slippage in 2009. Going forward, the trend will reverse. The consolidation process will be halted due to weak economic activity. The new government will step up social welfare and infrastructure expenditures to prop up demand. Revenues will most likely be lower as a consequence of lower economic growth. Monetary policy will remain clearly accommodative due to significant deflationary forces and weak economic prospects. Meanwhile, setting a clear external trade strategy will be pivotal. In particular, the new government will have to clarify its position with the Mainland about the cross strait rapprochement process to ensure stable trade and economic environment.

### External liquidity risk to be limited

External balances are robust. Trade surplus in 2015 amounted 7.6% GDP thanks to lower imports and low commodity prices. Current account surplus remained at high level (c.15% GDP). On the financing side, FDI outflows are increasing but are not matter of concern as they reflect new market growth strategies of Taiwanese companies. Regarding the ability to contain financial external shocks, the market has large buffers including large FX reserves covering more than 18 months of merchandise imports.

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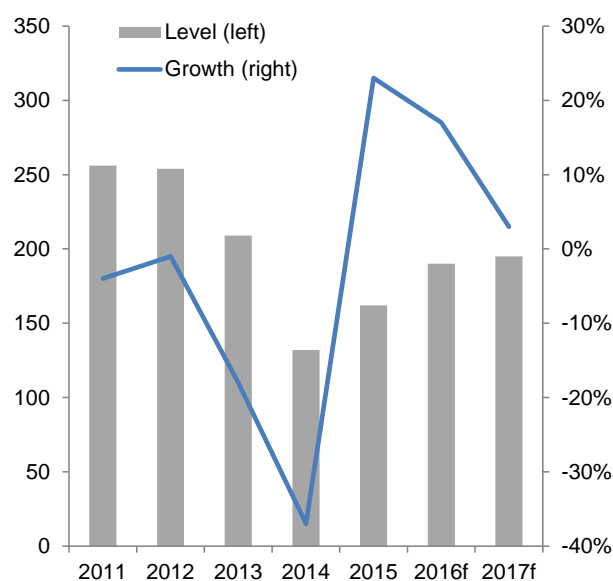
### Key economic forecasts

	2014	2015f	2016f	2017f
GDP growth (% change)	3.9	0.7	1.5	2.0
Inflation (% , average)	1.2	-0.5	1.0	1.5
Fiscal balance (% of GDP)*	-2.7	-2.7	-3.0	-3.2
Public debt (% of GDP)*	37.9	38.5	39.0	39.5
Current account (% of GDP)	12.1	14.6	14.0	13.8
External debt (% of GDP)	33.6	30.4	35.0	35.1

\* Perimeter includes the Central Government, Local Government, and Social Security Funds.

Sources: IMF, Euler Hermes

### Insolvencies



Sources: IHS, Euler Hermes