

Subdued acceleration

General Information

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



Strengths

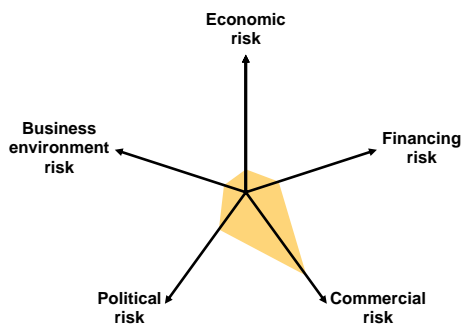
- Functioning, stable democracy
- Good record of sound economic management, pro-business environment, well educated workforce
- Demonstrated economic flexibility, enabling rapid shifts along the value-added scale
- High domestic savings and investment
- Very strong external liquidity

Weaknesses

- Uncertain and tense relations with Mainland China
- Heavy concentration on the IT/electronics sector
- Highly dependent on demand from Mainland China, Hong Kong and USA (export-dependent economy)
- 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	25% 1 19%	China
China, Hong Kong SAR	14% 2 17%	Japan
United States	12% 3 12%	United States
Japan	7% 4 6%	Korea, Republic of
Singapore	6% 5 4%	Germany

By product (% of total)

Exports	Rank	Imports
Electrical machinery and apparatus	34% 1 19%	Electrical machinery and apparatus
Telecom and sound recording apparatus	5% 2 11%	Petroleum products and related materials
Professional and scientific instruments	5% 3 6%	Specialised machinery
Miscellaneous manufactured articles	5% 4 4%	Professional and scientific instruments
Plastics in primary forms	4% 5 4%	Organic chemicals

Source: UNCTAD

Economic Overview

Modest acceleration ahead

The Taiwanese economy accelerated to +1.5% in 2016, up from +0.7% in 2015. Activity was driven by a recovery of exports as demand for high tech products rose in the second half of 2016. Domestic demand picked up speed due to favorable fiscal policies such as government subsidies on car sales.

Going forward, the economy should accelerate gradually (+2.0% in 2017 and 2018). Yet it remains below potential (long-term average is 3.5%). Stronger global demand growth and proactive fiscal policies should support GDP growth. Private consumption acceleration will be limited due to poor wages growth and soft labor market conditions.

Yet, risks stem from tense political relations with Mainland China, a potential rise in US protectionist measures, and tighter global financing conditions. Insolencies will continue to rise: +6% in 2017 after +25% in 2016.

Macro-economic policies to remain accommodative while structural challenges are inevitable

After a reduction in 2015 and H1 2016, the central bank kept its policy rates stable in H2 2016 while the economy recovered at a slow pace. We expect monetary policy to remain accommodative. By the end of 2017 the central bank may choose to further cut rates to 1.0% (from the current 1.375%) in an effort to support domestic demand.

Public finances remain robust with a government debt well below 60% GDP. In 2017, the government will continue to have a cautious stance on fiscal affairs, and focus more on targeted expenditures – such as infrastructure investments – than on a broad-based support.

Taiwan faces several structural challenges. First, the local electronics industry meets increasing competition from South Korea and Mainland China. Second, the aging population puts pressure on public finances. This calls for a reform of the pension system and an expansion of the tax base.

External position: short term strengths, long term vulnerabilities

Current account surplus stands at a healthy 13% of GDP and the trade surplus (goods and services) reached a strong 12% in 2016. Extensive foreign exchange reserves cover more than 20 months. Long-term risks do exist and stem from rising tensions with the Mainland (its main trade partner) and strong dependence on the electronic sector. In that context, diversification of trade partners and products innovation will be pivotal.

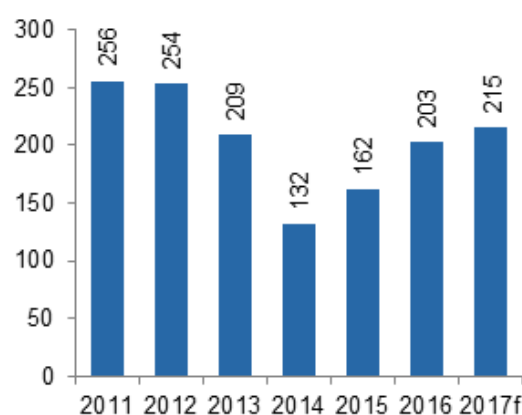
Key economic forecast

	2015	2016	2017f	2018f
GDP growth (% change)	0.7	1.5	2.0	2.0
Inflation (% year average)	-0.3	1.4	1.6	1.5
Fiscal balance (% of GDP)*	-1.8	-1.6	-1.8	-1.8
Public debt (% of GDP)*	36.5	35.7	34.4	32.6
Current account (% of GDP)	14.3	13.5	13.3	12.7
External debt (% of GDP)	30.3	32.5	31.4	30.7

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

Sources: IMF, Euler Hermes

Corporate insolvencies



Sources: national statistics, Euler Hermes

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