

Weak external demand weighs on growth

General Information



GDP	USD529bn (2014)
Population	23.4mn (National statistics 2014)
Form of state	Multiparty Democracy
Head of government	MA Ying-jeou
Next elections	2016, presidential



Strengths

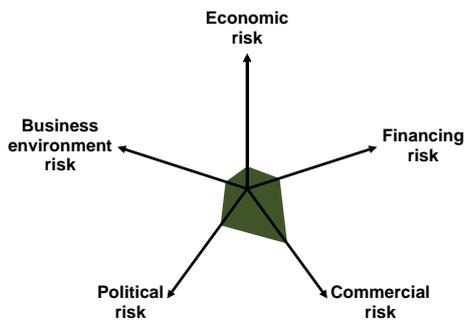
- Functioning, stable democracy
- Good record of sound economic management, pro-business environment, well educated workforce
- Demonstrated economic flexibility, enabling rapid shifts along the value-added scale
- High domestic savings and investment
- Very strong external liquidity

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

A1



Source: Euler Hermes

Trade Structure

By destination/origin (% of total)

Exports	Rank	Imports
China	27% 1	18% Japan
China, Hong Kong SAR	13% 2	15% China
United States	11% 3	9% United States
Singapore	7% 4	6% Korea, Republic of
Japan	6% 5	5% Saudi Arabia

By product (% of total)

Exports	Rank	Imports
Electrical machinery, apparatus and appliances, n.e.s.	28% 1	19% Petroleum, petroleum products and related materials
Petroleum, petroleum products	7% 2	17% Electrical machinery, apparatus
Professional and scientific instruments, n.e.s.	6% 3	5% Specialised machinery
Telecommunication and sound	5% 4	4% Organic chemicals
Plastics in primary forms	5% 5	4% Non-ferrous metals

Source: ITC, Chelem



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Economic Overview

GDP growth to weaken due to lower external demand

GDP growth will likely be below trend (10 year growth average at 4%) in 2015 and 2016. The economy is set to suffer from low global demand growth and Chinese slowdown. Domestic demand is expected to act as a cushion, but the pace of progress will not be sufficient to maintain growth like past levels. Better domestic credit conditions and more supportive fiscal policy should help to keep growth in positive territory and allow for further improvement in the medium term. In particular, Private consumption will likely remain solid owing to higher real income and strong labour market. Investment will remain resilient supported by government initiatives especially: a fiscal package to upgrade Taiwan's economy (Productivity 4.0, USD1.1bn over 9 years dedicated); measures to promote tourism (through visa facilitation); eased regulation for stock market; funding facilitation for SMEs. Implementing such policy will be crucial to ensure a stable growth in the long run and reduce the adverse effects of China's re-balancing. Notably, slower demand growth from China will affect Taiwanese exports; the "move to quality growth" will increase competitiveness pressure on Taiwanese companies.

Macro-policies are sound

Public finances are sound compared to other high income countries. After a huge slippage in 2009, the government balance returned to safer level (close to -3%). Public deficit will worsen slightly in 2015 and 2016 but remain under control. The consolidation process is set to halt (i) as the government would like to prop up domestic demand, (ii) as revenues will most likely be lower as a result of lower economic growth. Monetary policy will remain clearly accommodative as deflationary pressures have increased and growth prospects weakened. External trade policy will probably focus on strengthening relationship with China, Mainland. The previous protests and the defeat of the KMT in last municipal elections slow down the cross strait rapprochement process.

External position is solid

Thanks to its strong competitive advantage as a manufacturing hub, the country has a strong current account surplus. Trade surplus in 2014 amounted 7.8% GDP in 2014 (from 6.9% in 2013), and current account surplus remained at high level (12.4% GDP). Going forward, current account surplus will likely remain large at 13% of GDP reflecting both weaker imports. On the financing side, FDI outflows are set to increase but are not matter of concern as they reflect competitiveness and 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). External debt is at acceptable level.

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Key economic forecasts

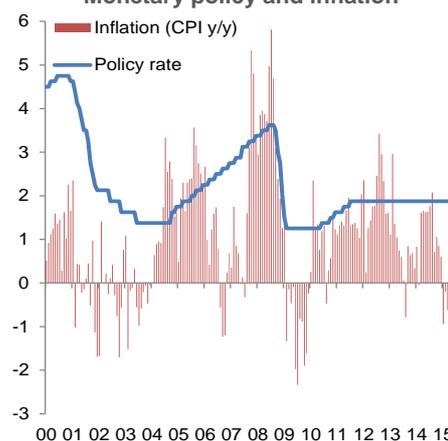
	2013	2014	2015	2016
GDP growth (% change)	2.2	3.8	1.5	2.5
Inflation (% , yearly average)	0.8	1.2	-0.4	1.0
Fiscal balance* (% of GDP)	-3.2	-2.5	-3.3	-3.0
Public debt** (% of GDP)	39.1	37.6	37.7	38.0
Current account (% of GDP)	10.8	12.4	13.0	11.0
External debt (% of GDP)	33.3	33.6	36.0	36.1

* General government net lending, IMF WEO definition

** General government debt, IMF WEO definition

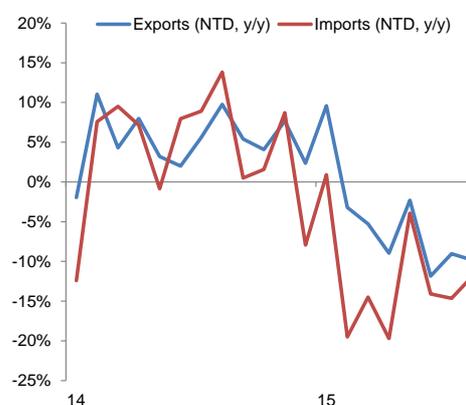
Sources: National sources, IMF-WEO, IHS, Euler Hermes

Monetary policy and inflation



Sources: National sources, IHS, Euler Hermes

Trade performance



Sources: IHS, Euler Hermes