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# **Taiwan's Macroeconomic Goals for 2016**



National Development Council

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On May 18, 2015, the Executive Yuan of the Republic of China agreed to take a simplified approach to the 2016 National Development Plan. As result of this, this document is the simplified version of the Plan, which contains only the setting up of Taiwan's Macroeconomic goals for 2016 (economic growth rate, consumer price index (CPI) change rate, and unemployment rate) and related background information.

## **I. Current Key Economic Issues and Challenges**

The impact of the global economic slowdown in 2015 led to a sharp decline in overseas market demand for Taiwan exports and to a relatively weak domestic demand as well. Current key domestic economic issues and challenges are the following:

### **1. External Challenges**

- (1) Taiwan's export dependency is high, and exports and industry are relatively concentrated. Thus, factors like global economic prospect and changes in the economic growth of Taiwan's trade rivals have significant impact on Taiwan's economy, and consequently exacerbate fluctuations in Taiwan's economic growth rate.
- (2) The slowdown of Mainland China's economy and the increasing localization of the "Red Supply Chain" have led to a decrease in trade complementarity between Mainland China and Taiwan, and have had a negative impact on Taiwan's exports and its economic growth rate.

### **2. Internal Issues**

- (1) Comparing to South Korea, the level of participation of Taiwan's manufacturing industry in the global value chain is higher. However, Taiwan is restricted by the “sub-contractor model”. Thus, actual gains from trade are relatively limited, and the need for raising the value-added of Taiwan's industries is urgent.
- (2) Excess savings continue to increase (2.55 trillion yuan in 2015, 14.83 trillion yuan from 2005 to 2015), and investment momentum remains weak. Thus, there is an urgent need to remove obstacles to capital investment, in order to channel excess savings into investment and boost the domestic investment rate in Taiwan.
- (3) A slowdown in economic growth has led to the widening of the output gap (the difference between the real GDP and the potential GDP), and there remains room for improving domestic demand and resource utilization efficiencies.

## **II. Taiwan Economic Forecast for 2016**

According to the latest forecasts of domestic and overseas institutions (see Chart 1), the Taiwan economic growth rate for 2016 will be between 1.74% and 2.7% (the official forecast of the Directorate-General of the Budget, Accounting and Statistics (DGBAS) is 2.32%); the consumer price index (CPI) change rate will be between 0.3% and 1.7% (the DGBAS's forecast is 0.84%); and the unemployment rate will be between 3.6% and 3.96%.

Table 1: Forecasts of the Taiwan Economy for 2016

Unit: %

Institutions and Date	2015			2016		
	Economic growth rate	CPI change rate	Unemployment rate	Economic growth rate	CPI change rate	Unemployment rate
<b>Domestic Institutions</b>						
• Institute of Economics, Academia Sinica (2015/12/24)	0.75	-0.30	—	1.74	0.49	—
• Yuanta-Polaris Research Institute (2015/12/23)	0.89	-0.28	—	1.93	0.82	—
• NTU-Cathay Industry/Academic Coop Team (2015/12/22)	1.02	—	—	2.10	—	—
• Chung-Hua Institution for Economic Research (2015/12/14)	0.93	-0.31	3.79	2.24	0.81	3.89
• Taiwan Research Institute (2015/12/11)	0.98	-0.33	3.72	2.06	0.54	3.64
• Directorate General of Budget, Accounting and Statistics (DGBAS) of Executive Yuan (2015/11/27)	1.06	-0.31	3.77(1-11月)	2.32	0.84	—
• Taiwan Institute of Economic Research (2015/11/5)	0.83	-0.43	—	1.84	1.14	—
<b>Overseas Institutions</b>						
• IHS Global Insight (2015/12/15)	1.0	-0.3	3.77	2.0	1.0	3.78
• ADB (2015/12/3)	1.0	-0.2	—	2.4	1.1	—
• EIU (2015/11/27)	1.1	-0.2	3.7	2.1	1.7	3.6
• IMF (2015/10/6)	2.2	-0.1	3.96	2.6	1.0	3.96
• UN Project Link (2015/10)	1.1	-0.6	—	2.7	0.3	—

Source: Institutions' web pages.

### **III. Assumptions for Setting 2016 Macroeconomic Goals**

#### **1. Baseline**

The 2016 economic growth rate, 2.32%, forecast by the DGBAS in November 2015, is used as the baseline, and then international risk factors and the proactive policy actions of Taiwan's government are also taken into consideration for setting the 2016 Macroeconomic Goals.

#### **2. International Risk Factors**

Based on the assessment of domestic and overseas institutions, uncertainties with regard to the 2016 global economic prospect include:

- the extent of the slowdown in the Mainland China's economy and the crowding out effect of the localization of its supply chain on Taiwan companies
- the impact of interest rate hikes by the Fed in the United States, as well as that of quantitative easing in Japan and Europe on international financial markets, such as foreign currency, bond, and stock markets.
- the growing possibility of a debt crisis among emerging markets fueled by the combination of interest rate hikes by the Fed, slow growth in Mainland China's import demand, and structural change in the oil market.
- the future movements of international agricultural and industrial raw materials prices.
- the impact of terrorist attacks on global economic activities and consumer and business confidence.

### 3. Active Policy Actions

To achieve the 2016 Macroeconomic Goals, in addition to continue actively promoting policies that improve the basic economic environment (such as deregulation, industrial structure transformation, and human resource development) to boost private consumption, private investment and export growth, the government will also strategically improve Taiwan's role in the global value chain and respond to the rapid development of the global digital economy. That is, it will boost economic growth through the following two policy combinations: "overseas demand + global value chain" and "domestic demand + digital economy." Furthermore, the government will push measures promoting industrial upgrading and expanding investment that promotes and increases export development, including the new measures that will be implemented in the coming year from the "Measures to Consolidate and Bolster Economic Structure", and policies (or strategies) from the Consumption-Boosting Program, the Productivity 4.0 Plan, and the idea@ Taiwan 2020 (innovation Taiwan) policy white paper.

### **IV. Taiwan's Macroeconomic Goals for 2016**

With a comprehensive consideration of domestic and foreign institutional forecasts, uncertain global economic factors, and proactive government policy actions, Taiwan's 2016 key Macroeconomic goals have been set as follows:

- Economic growth rate: 2.1%~2.7%. If the international situation stays stable and policy implementation achieves the greatest efficacy, the economic growth rate will be able to achieve the upper bound, 2.7%. If downside risks increase, then

it will be near the lower bound, 2.1%.

- CPI change rate: Keep below 2.0%.
- Unemployment rate: 3.7%~3.9%.

Table 2: 2016 Macroeconomic Goals

Category	unit	DGBAS forecast (November 2015)		Goals (December 2015)
		2015	2016	2016
Economic growth rate	%	1.06	2.32	2.1~2.7
CPI change rate	%	-0.31	0.84	Keep below 2.0
Unemployment rate	%	3.77 (Jan-Nov)	—	3.7~3.9

Source: DGBAS of Executive Yuan and National Development Council (NDC).