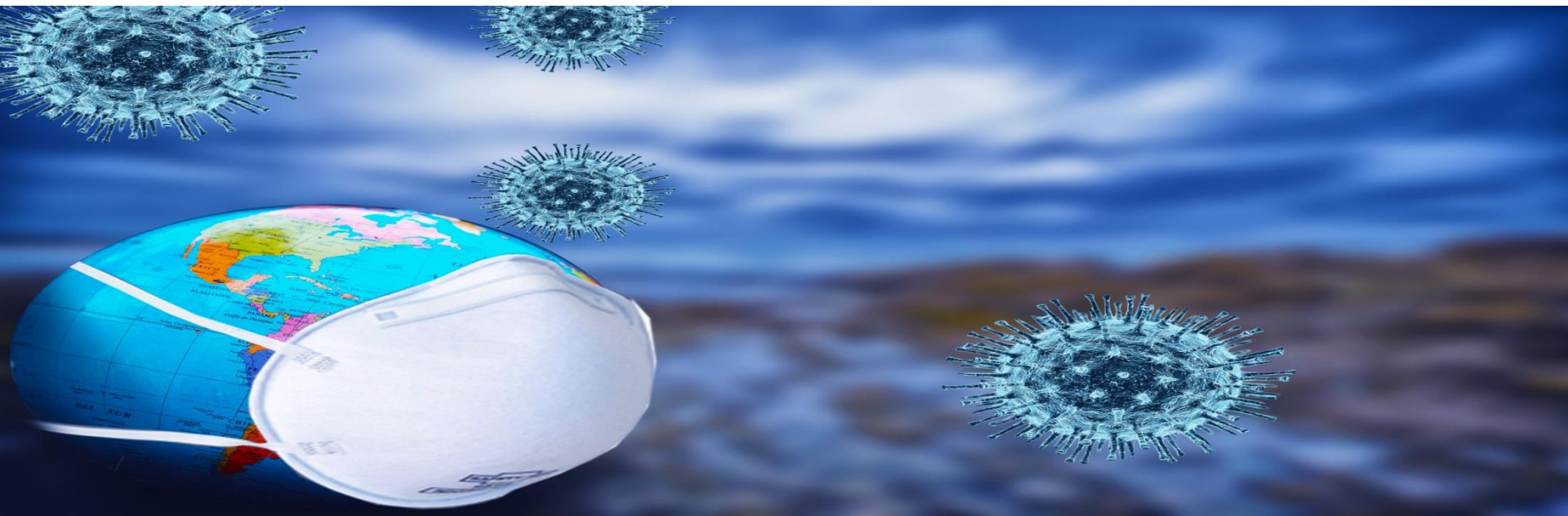




# TAIWAN'S ECONOMIC SITUATION AND OUTLOOK



**September 2020**

National Development Council



# CONTENTS

**I. PREFACE**

**II. GLOBAL ECONOMIC SITUATION AND OUTLOOK**

**III. CURRENT DOMESTIC ECONOMIC SITUATION**

**IV. PROSPECTS FOR 2020 AND 2021**

**V. CONCLUSION**



## I. PREFACE

- ***Taiwan's Economic Situation and Outlook*** offers readers in Taiwan and overseas a summary of the current economic situation in Taiwan, including economic growth, foreign trade, domestic demand, industrial production, employment, and prices, in addition to the prospects for 2020 and 2021.
- According to the DGBAS' latest forecast, for the second quarter of 2020, real GDP contracted by 0.58%. However, real GDP is projected to grow by 1.56% and 3.92% in 2020 and 2021, respectively. Taiwan's economy has not been fully spared from the fallout of the COVID-19 pandemic amid shrinking external demand and plummeting tourism, but capital formation and government consumption would underpin Taiwan's economic growth in 2020.



## **II. Global Economic Situation and Outlook**

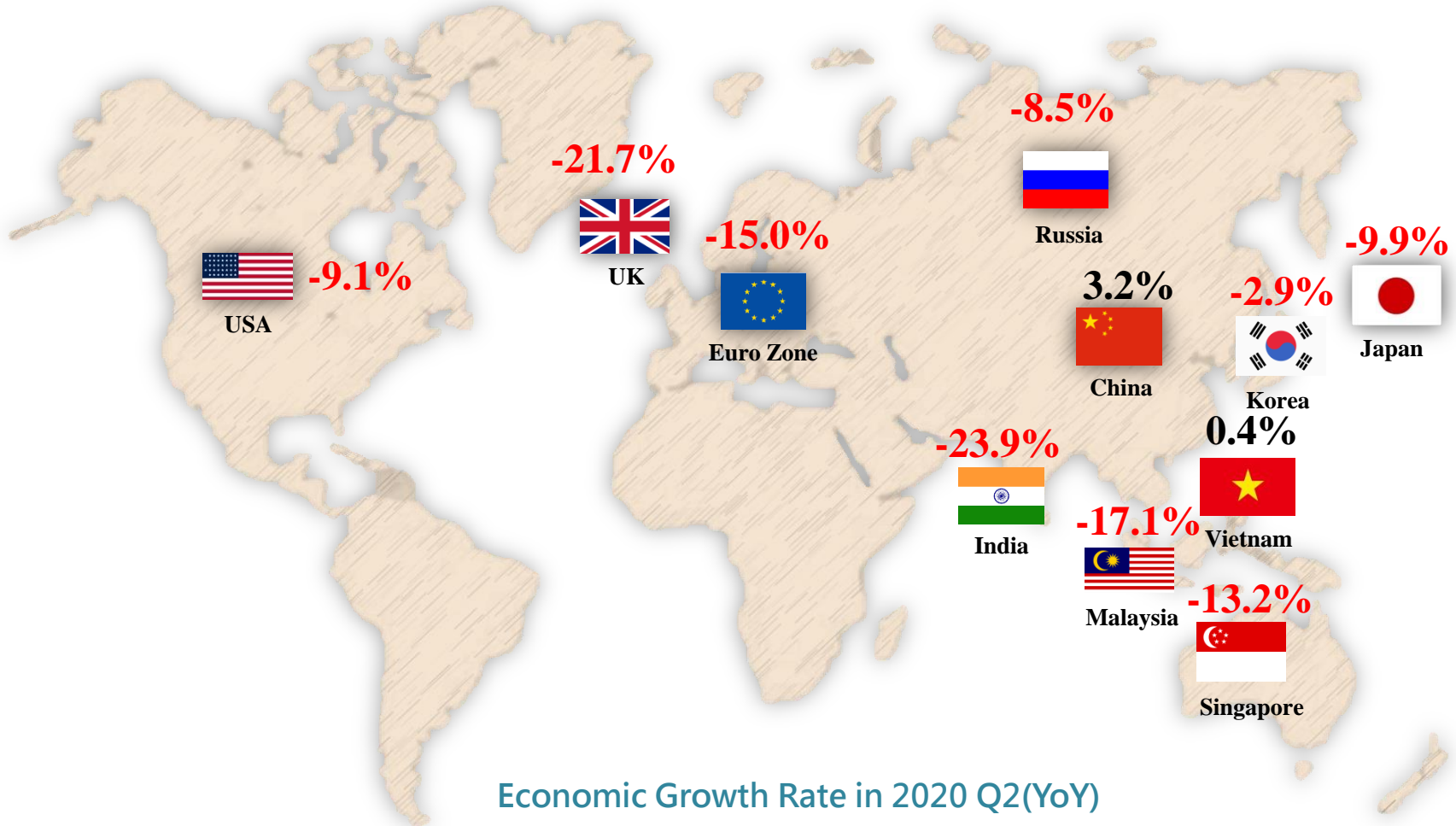
# Global Economy in Recession



IHS Markit®

## 2020 Global Economic Growth Rate Forecast

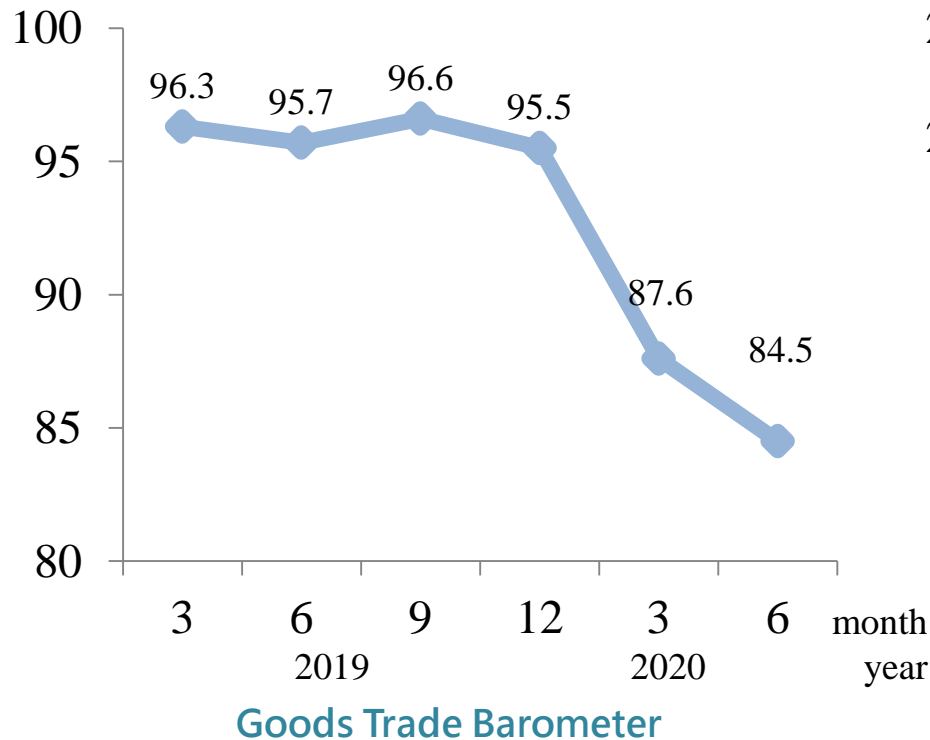
**-4.8%**



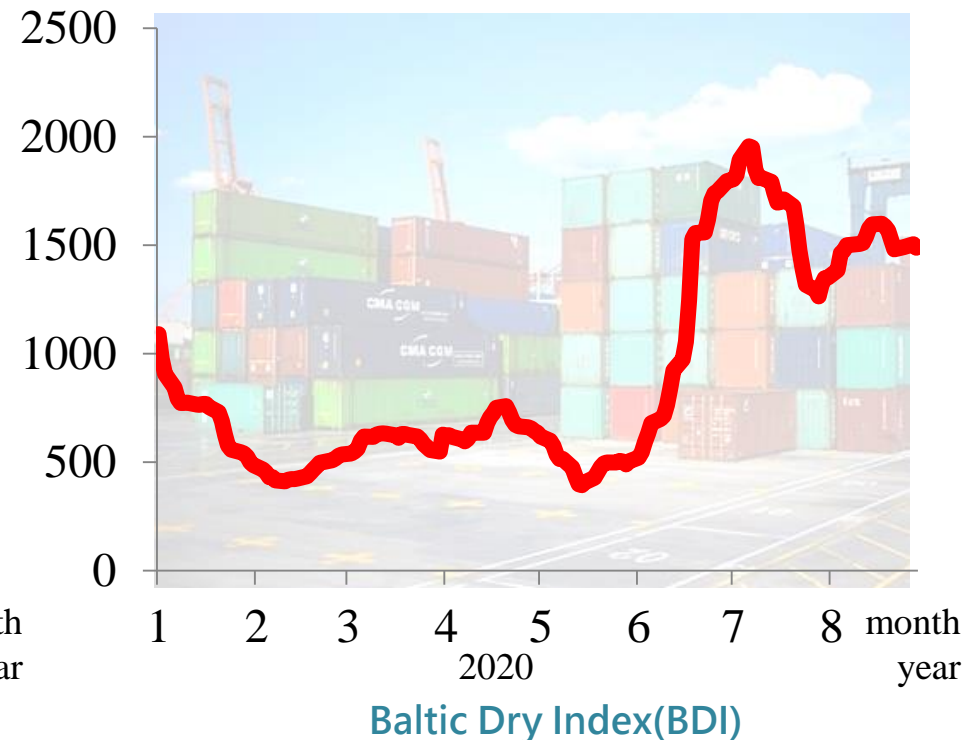
Source: Official websites of each country.

# Global Trade in Recession

- The WTO Goods Trade Barometer dropped to a record low in Q2 of 2020 . It shows a severe decline in global trade.
- However, in the second half of 2020, the Baltic Dry Index(BDI) rebounded, reflecting the gradual recovery of global freight demand.



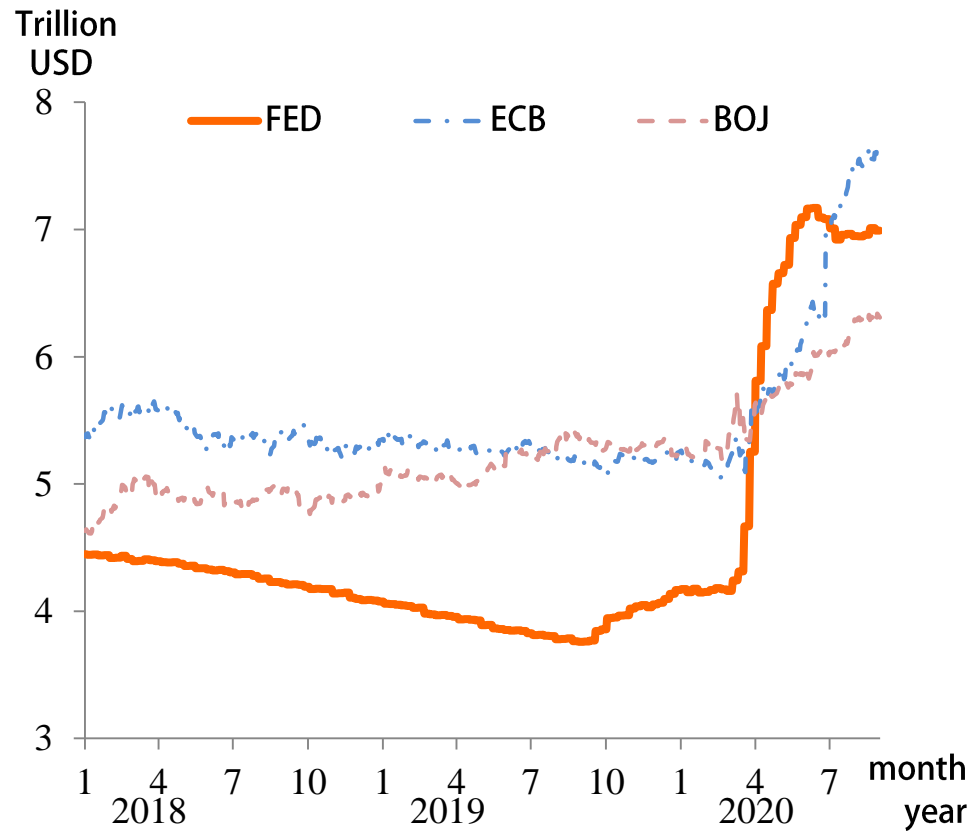
Source: WTO.



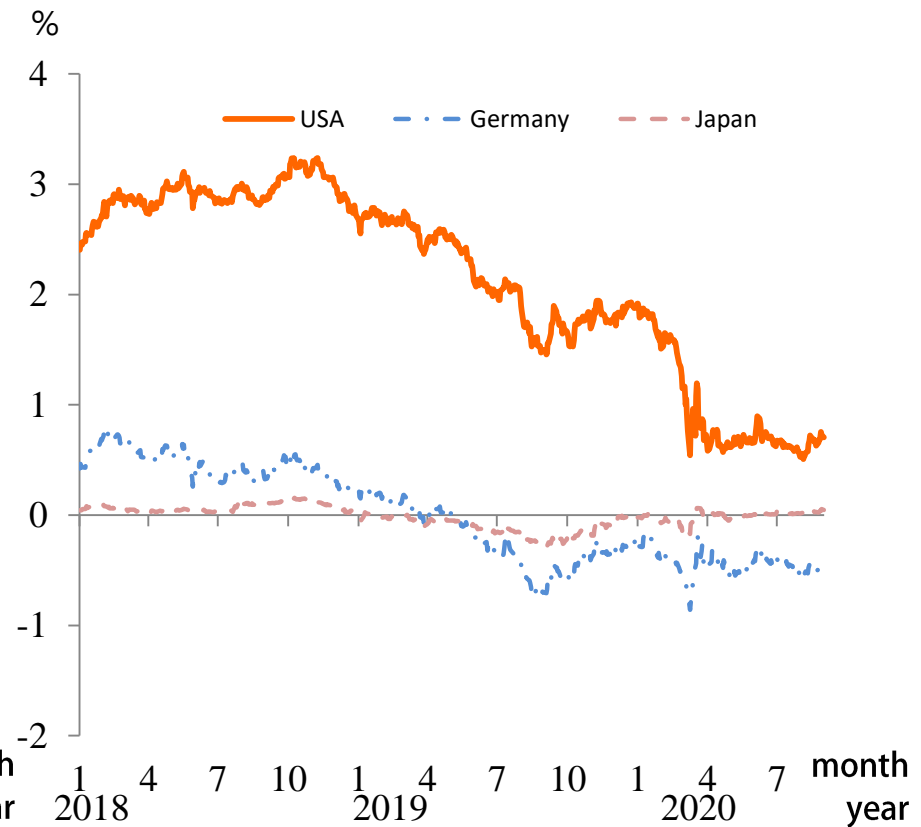
Source : Bloomberg

# Central Banks Balance Sheet Expansion

- The central banks of advanced economies implemented policies of asset purchases and interest rate cuts to ease the impact of the epidemic, causing balance sheets to expand and bond yields to fall.



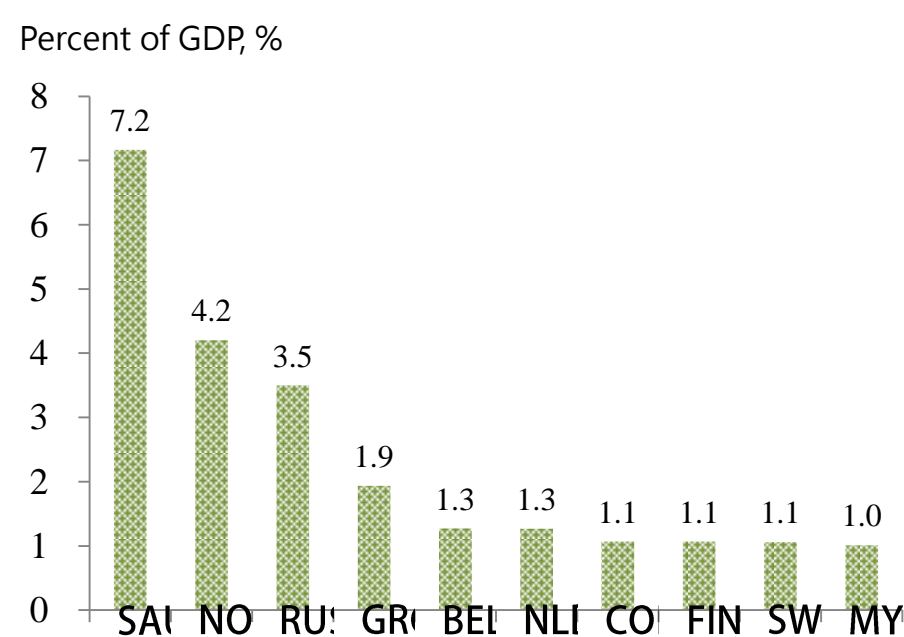
Size of Central bank balance sheet



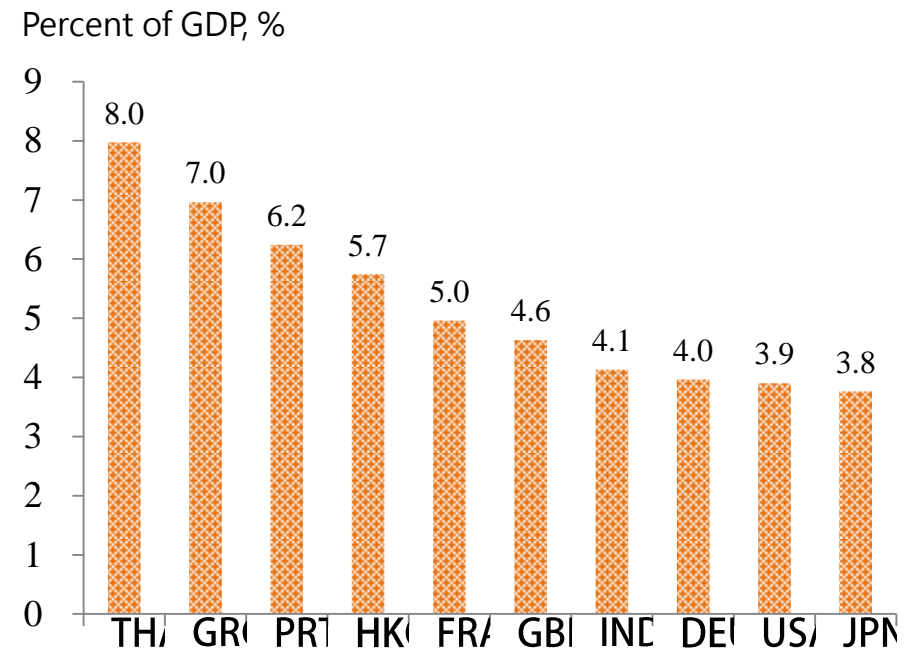
10-year bond yield

# Impact on Economies Depending on Oil and Tourism

- Low oil prices and weaker crude oil demand have hit oil exporting countries such as Saudi Arabia and Russia.
- Border controls have severely affected tourism revenues in Thailand and Greece.



Impact on oil export



Impact on tourism revenue

Note: The figures report the impacts based on the latest IMF staff forecast in June 2020, compared with the October 2019 WEO forecast for 2020 and the scenario proposed in UNWTO (2020) involving gradual reopening in September 2020.

Source : IMF, "External Sector Report: Global Imbalances and the COVID-19 Crisis," Aug. 4, 2020.



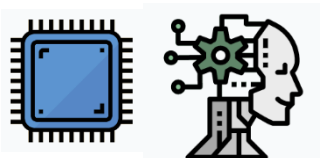


### **III. Current Domestic Economic Situation**



# Foreign Trade Rebound

- In August 2020, Taiwan's total exports increased by 8.3% year-on-year, caused by the recent spike in remote work and online learning, as well as outbound shipments for the consumer electronics industry's upcoming peak season.

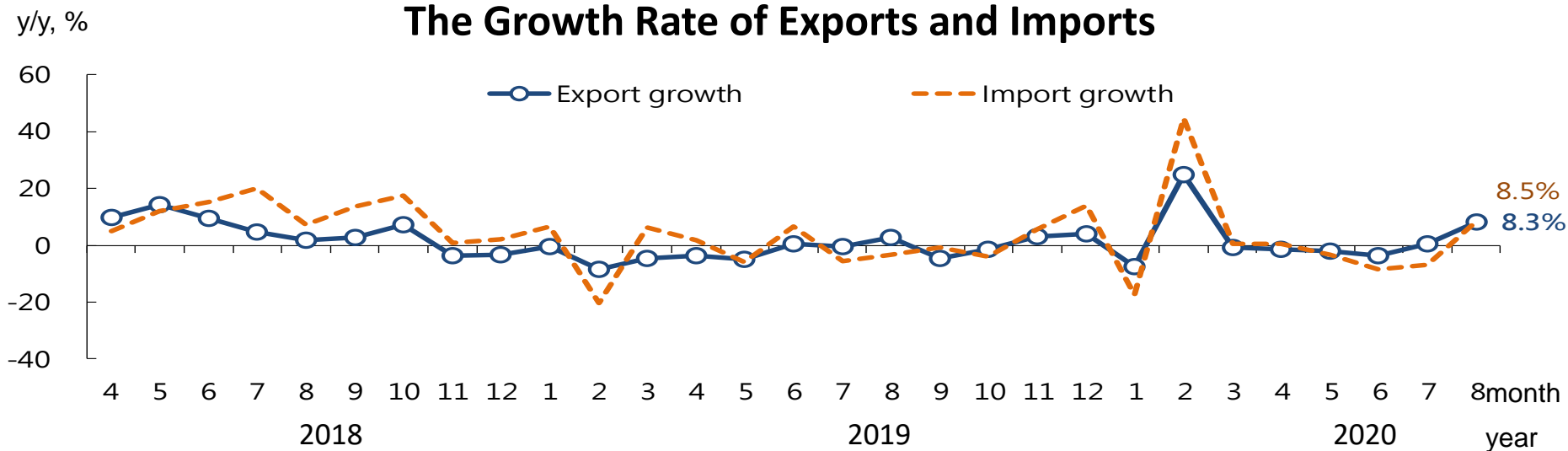


Parts of electronic product

**+19.1%**



Information, communication and audio-video products **+21.0%**



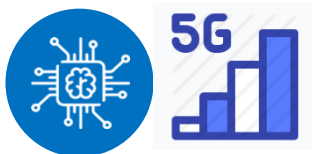
Note: Since FY2016, the general trade system has been applied for the compilation of external trade statistics, and the historical data has been revised to FY2001.

Source: Ministry of Finance, Sep. 2020.



# Industrial Production to Grow Modestly

- The Industrial Production Index (IPI) posted an annual increase of 2.65% in July 2020, mainly due to the demand for 5G networks, high-performance computing devices and work-at-home equipment.

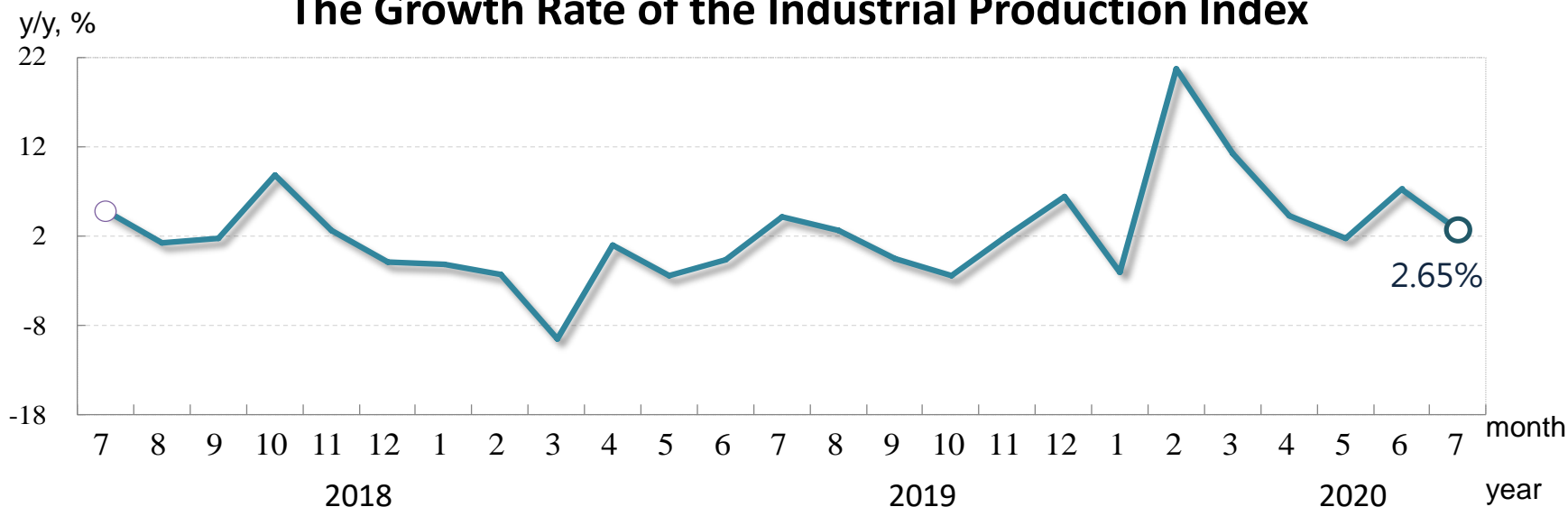


Electronic parts  
and components **+14.42%**



Computers, electronic &  
optical products **+12.80%**

## The Growth Rate of the Industrial Production Index



Source: Ministry of Economic Affairs, Aug. 2020.



# Retail Trade Increases Slightly

- In July 2020, supported by the triple stimulus voucher, retail trade increased by 2.49% year-on-year, ending five months of declines.



General merchandise stores **+7.2%**

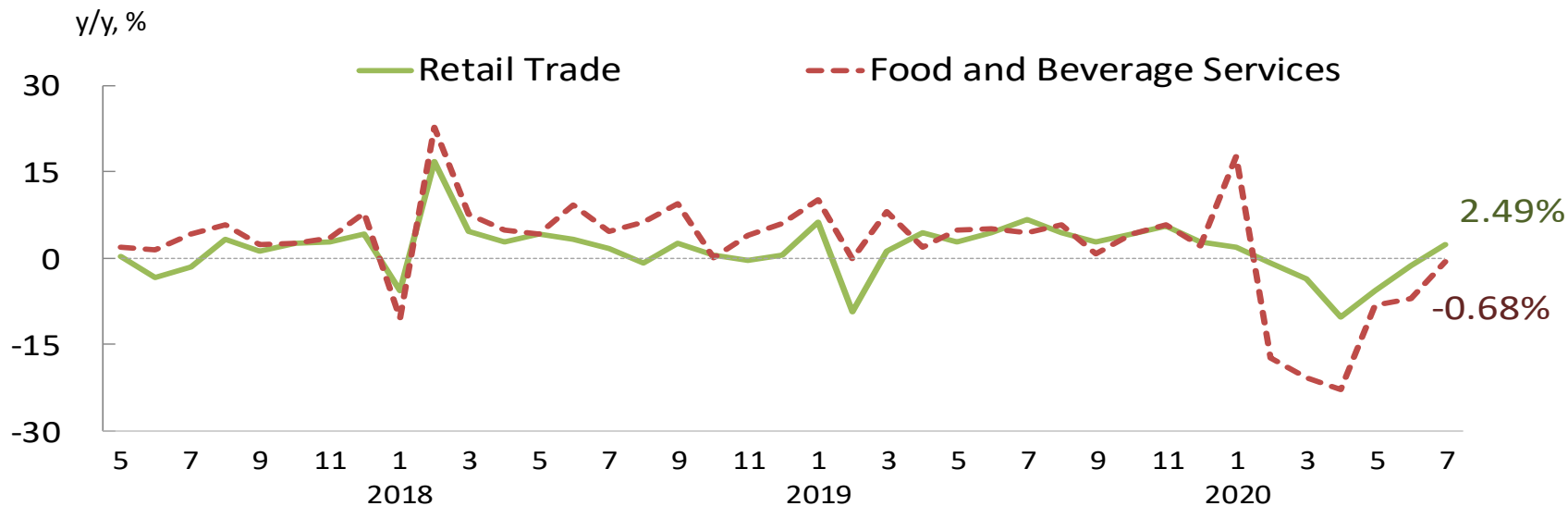


Retail sale via mail order houses or internet **+16.4%**



Motor vehicles and motorcycles **-2.5%**

## The Growth Rate of Retail Trade and Food Services



Source: Ministry of Economic Affairs, Aug. 2020.

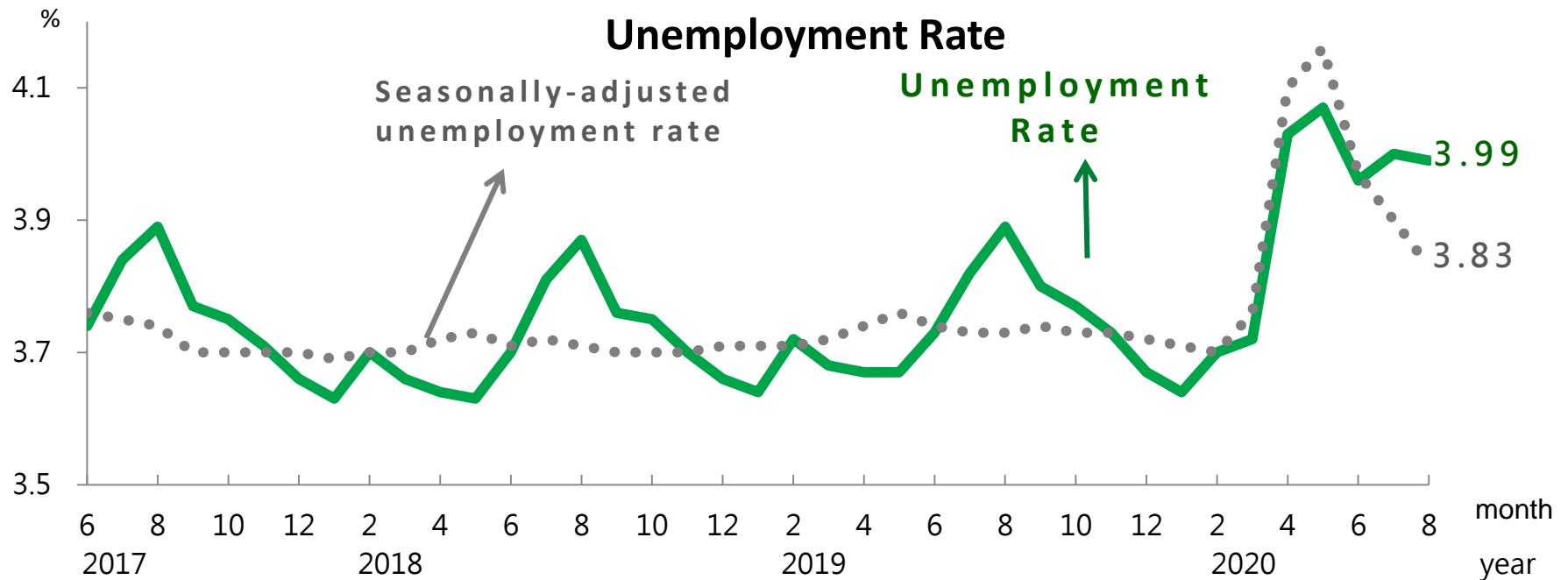


# Unemployment Rate Decreases

- The unemployment rate fell by 0.01 percentage points from a month earlier to 3.99% in August 2020. After seasonal adjustments, it dropped 0.07 percentage points to 3.83%.



The number of unemployed persons decreased by 1,000 persons from last month.

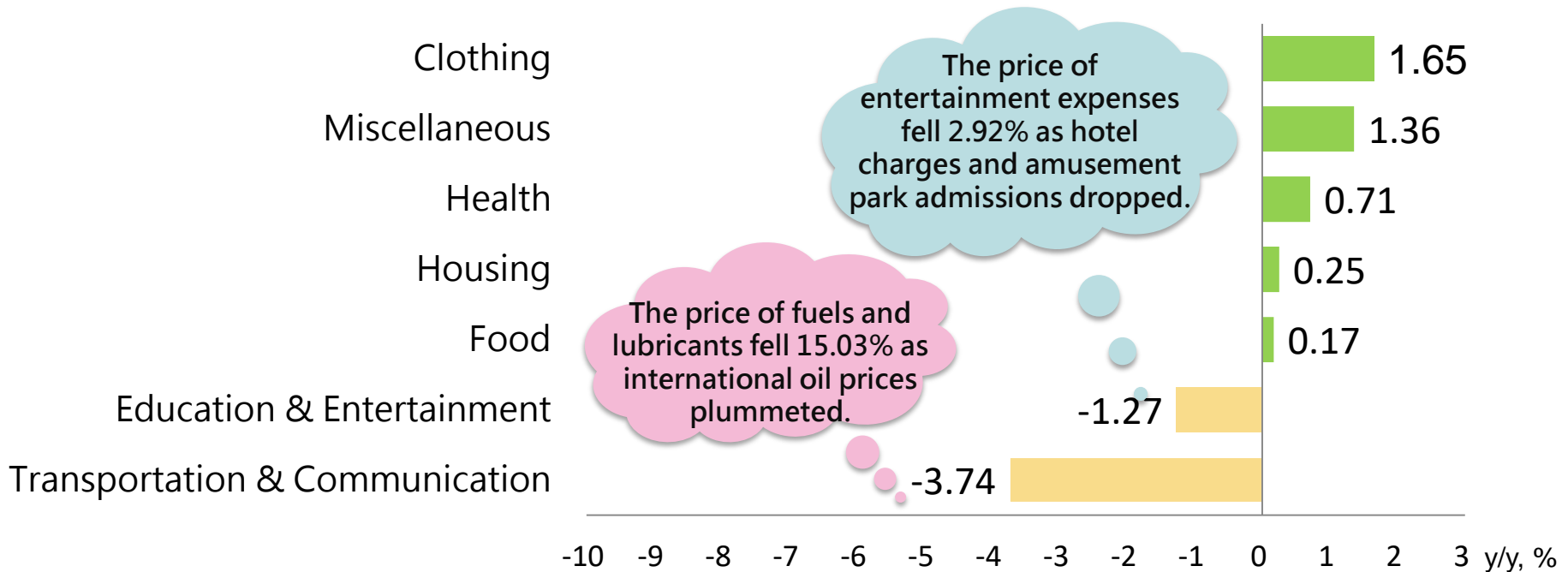




# Inflation Continues to Decrease

- The CPI in August 2020, compared with the same month of 2019, decreased by 0.33%, due mainly to the economic impact of COVID-19 and a fall in international oil prices, while the core CPI increased 0.31%.

## The Annual Changes of Consumer Price Indices in August 2020



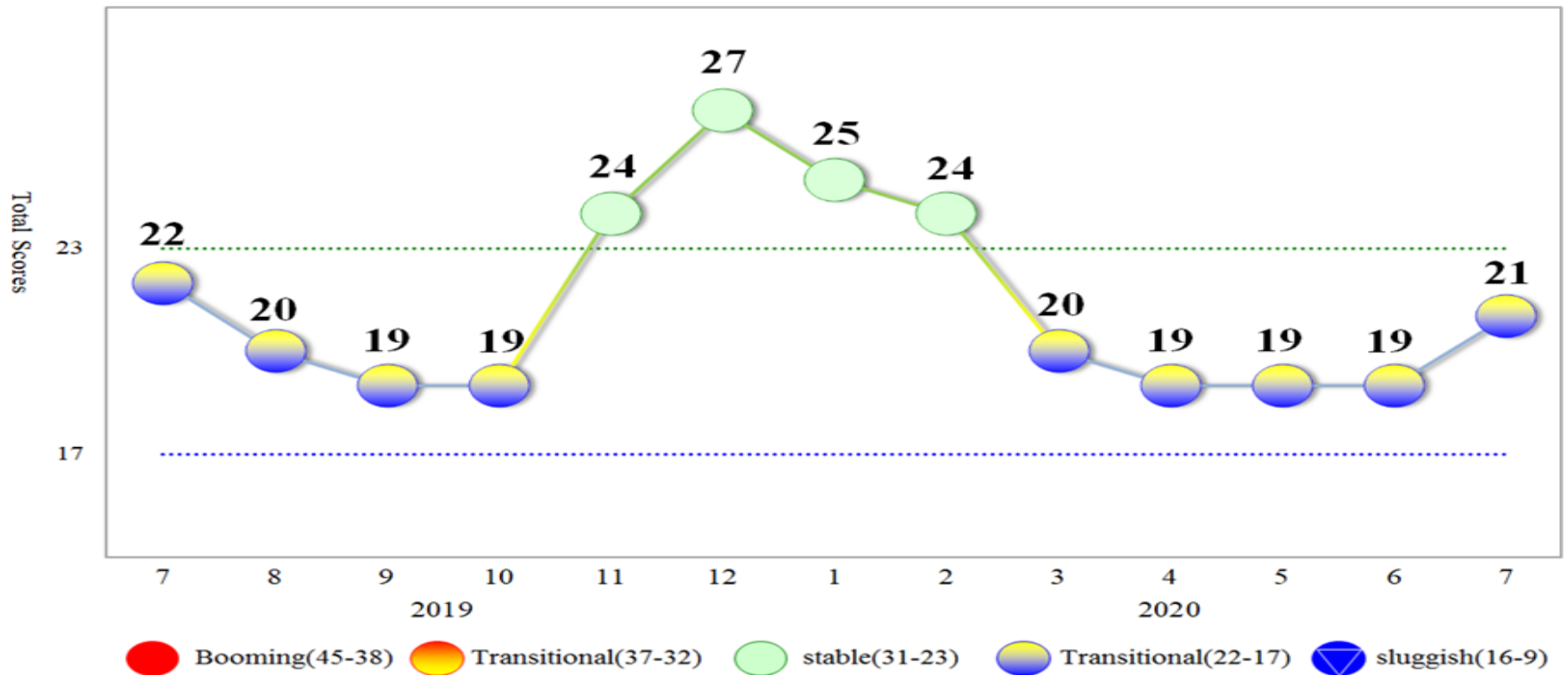
Source: DGBAS, Sep. 2020.



# Monitoring Indicators Flash “Yellow-Blue” Signal

- In July 2020, the overall monitoring indicator continued to flash the “yellow-blue” signal, as the total score increased to 21.

Monitoring Indicators



Note: The checkpoints for each component of the monitoring indicators were changed in July 2018, since they are subject to regular review and revision every five years, but the component items remain the same. As for leading indicators, there have been some changes to the components, such as “diffusion index of export orders” being substituted for “index of export orders”. Please see the link below for more details: [https://www.ndc.gov.tw/en/News\\_Content.aspx?n=4061A3F0B105B5AE&sms=E39F6CCF42B6E423&s=D1D76F75B2FF19C5](https://www.ndc.gov.tw/en/News_Content.aspx?n=4061A3F0B105B5AE&sms=E39F6CCF42B6E423&s=D1D76F75B2FF19C5)

Source: NDC, Aug. 2020.



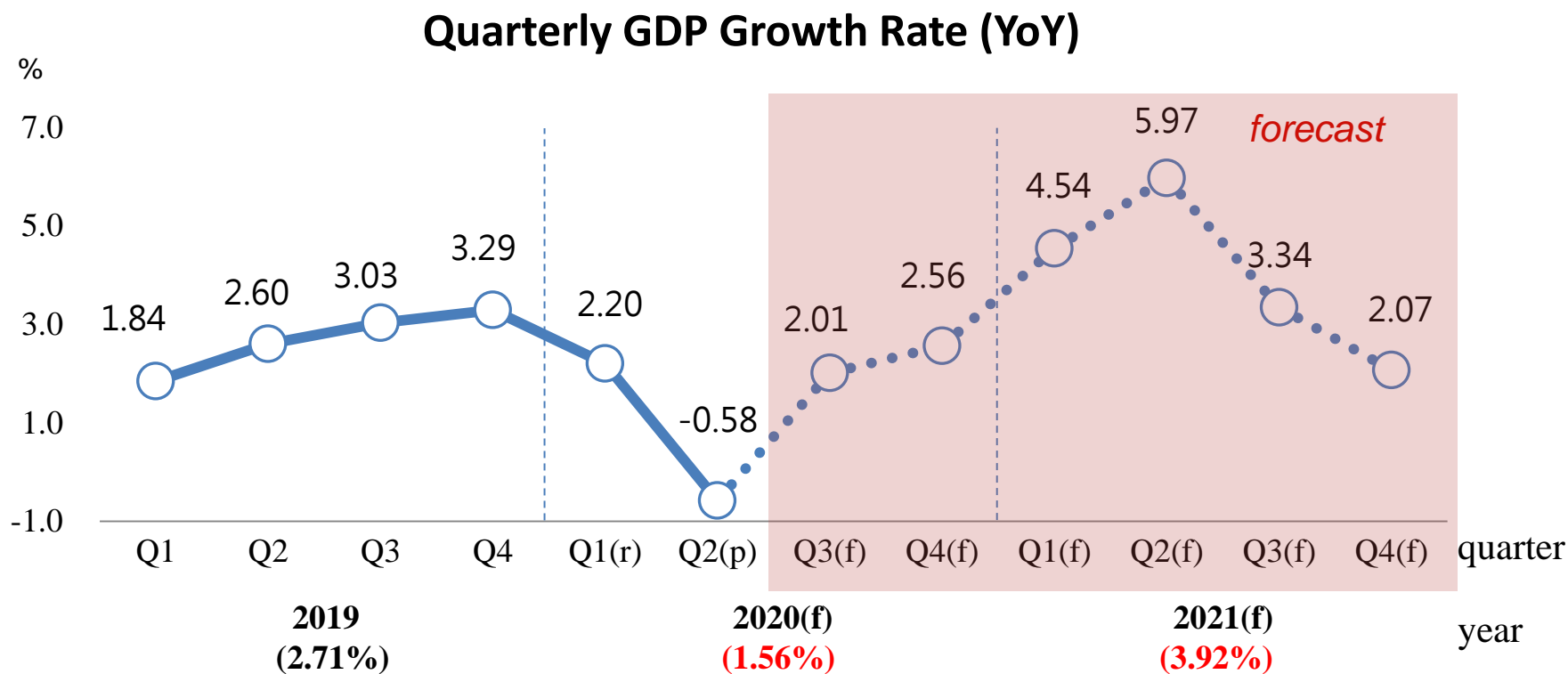
## **IV. PROSPECTS FOR 2020 and 2021**





# The Economy to Remain Stable

- In August 2020, DGBAS revised its projection for GDP growth downward to 1.56% (from 1.67%) for 2020, as private consumption fared worse than expected.
- For 2021, Taiwan's GDP is projected to rise by 3.92%.



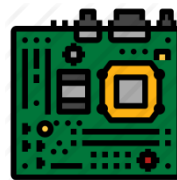
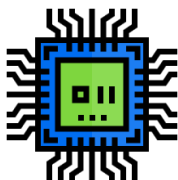


# Investment Expected to Remain Robust

- The growth rate of fixed investments is forecast to grow by 4.65% in 2020, slowing to 1.86% in 2021.



Taiwanese companies  
returning from  
overseas



Continuing investment  
in semiconductor  
manufacturing



Investment in offshore wind  
power and 5G networks

## The Growth Rate of Each Component of Fixed Investment

Unit: %

	Fixed Investment	Private Enterprises	Government	Public Enterprises
<b>2019</b>	<b>9.05</b>	<b>9.86</b>	<b>7.06</b>	<b>1.31</b>
<b>2020 (f)</b>	<b>4.65</b>	<b>2.41</b>	<b>10.88</b>	<b>26.39</b>
Q1(r)	6.32	5.04	14.69	16.90
Q2(p)	2.73	0.03	4.26	46.41
Q3(f)	8.01	6.82	8.98	30.26
Q4(f)	1.81	-2.35	14.76	16.52
<b>2021 (f)</b>	<b>1.86</b>	<b>2.10</b>	<b>0.79</b>	<b>1.00</b>



# Private Consumption to Grow at a Slower Pace

- In 2020, real private consumption is expected to contract 1.44%, mainly owing to the impact of the COVID-19 pandemic, and will rise to 3.55% in 2021.

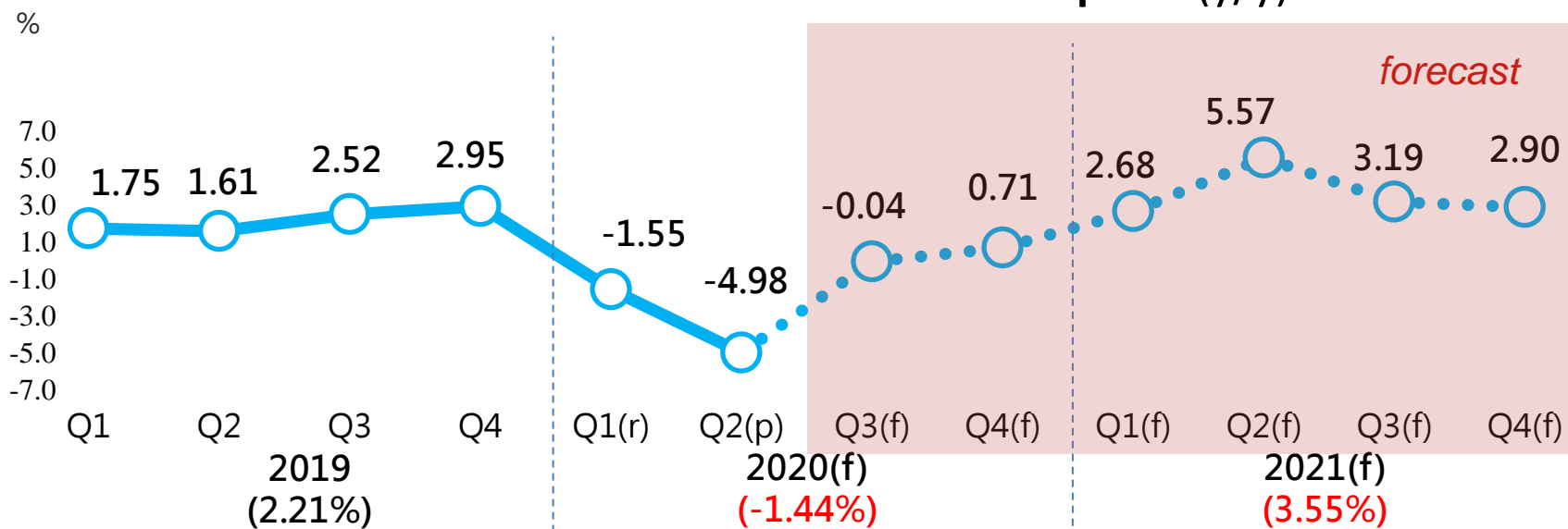


The relief and stimulus measures



Emerging e-commerce and other stay-at-home demand

## The Growth Rate of Private Consumption (y/y)



Source: DGBAS, Aug. 2020.

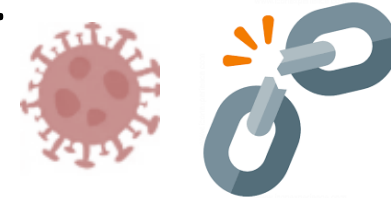


# Covid-19 Disruptions to Weigh on Exports

- Real exports of goods and services are forecast to contract 2.74% in 2020, improving to 5.61% in 2021.

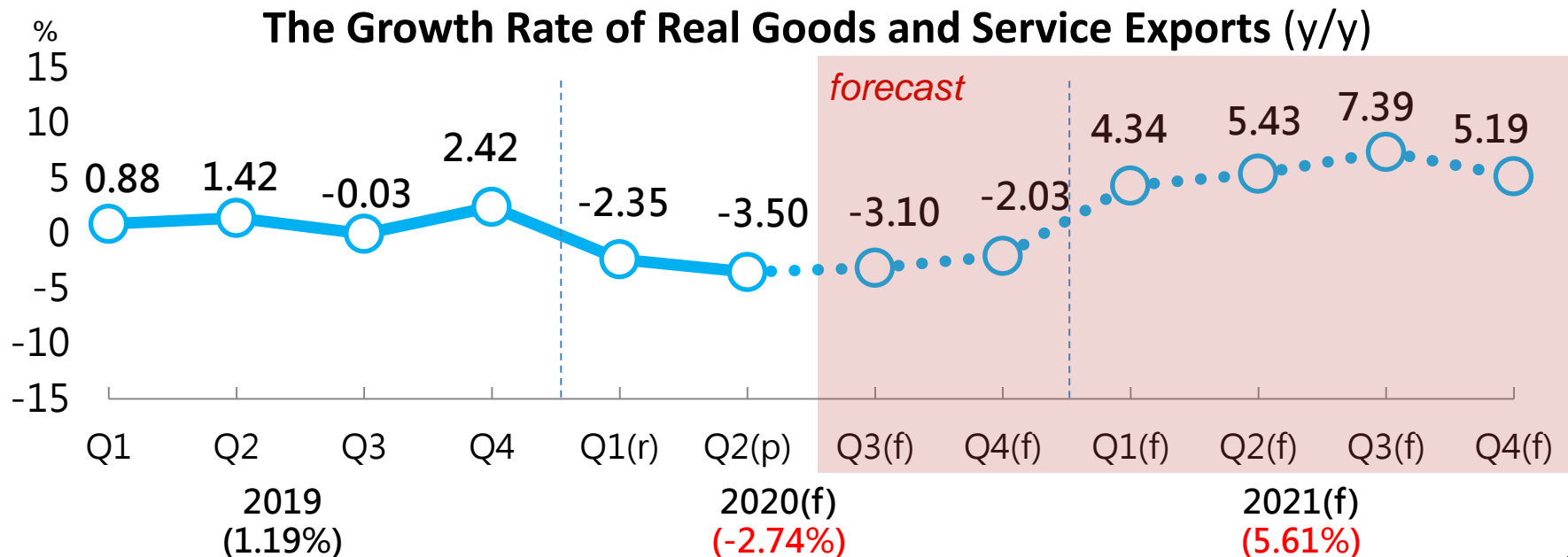


Emerging demand for  
new technological applications  
(5G and high performance computing)



**COVID-19**

Weakened global demand ,  
slumping raw material prices  
and a decrease in tourism

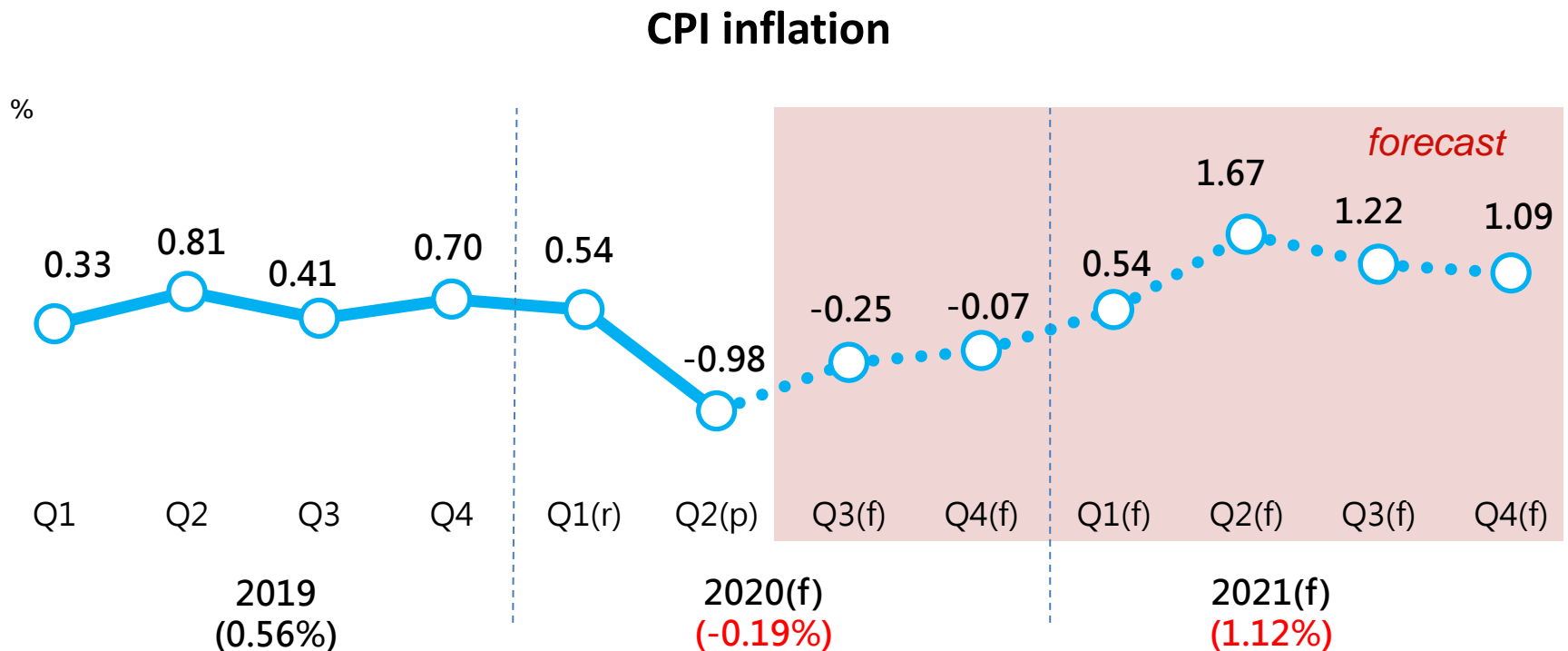


Source: DGBAS, Aug. 2020.



# Inflation Rate Expected to Decrease

- The consumer price index (CPI) is expected to decrease 0.19% in 2020, which is an upward revision of 0.13 percentage points, mainly reflecting the decline convergence in oil and raw material prices. In 2021, the CPI will gently rise by 1.12%.





## Forecasts for Taiwan's Economy

	Real GDP (yoy,%)		Consumer Price Index (yoy, %)	
	2020 <sub>f</sub>	2021 <sub>f</sub>	2020 <sub>f</sub>	2021 <sub>f</sub>
<b>DGBAS (2020.8)</b>	1.56	3.92	-0.19	1.12
<b>CBC (2020.9)</b>	1.60	3.28	-0.20	0.92
<b>TIER (2020.7)</b>	1.83	-	-0.20	-
<b>CIER (2020.7)</b>	1.33	2.33	0.33	0.88
<b>IHS Markit (2020.9)</b>	0.14	3.18	-0.16	0.97
<b>ADB (2020.9)</b>	0.8	3.5	0.2	0.8
<b>IMF (2020.4)</b>	-4.0	3.5	0.5	1.5

Note:

1. DGBAS = Directorate-General of Budget, Accounting and Statistics, ROC (Taiwan); CBC = Central Bank of Republic of China (Taiwan); TIER = Taiwan Institute of Economic Research, Taipei; CIER = Chung-Hua Institution for Economic Research, Taipei; ADB = Asian Development Bank; IMF = International Monetary Fund.
2. f = forecast



## V. CONCLUSION

- According to the IHS Markit's latest forecast, the global economic growth rate is expected to contract by 4.8% in 2020, caused largely by the rapid and uncontrolled spread of COVID-19 globally in the first half of 2020.
- On the domestic side, according to the latest forecast from DGBAS, the real GDP is projected to grow by 1.56%, revised downward by 0.11 percentage points from the previous forecast, mainly owing to the impact of COVID-19 on consumer and tourism-related activities. Nevertheless, the negative effect will be partially offset by several economic stimulus measures implemented by the government.
- With the worldwide pandemic hobbling the global economy and showing no signs of abating, many industries in Taiwan are in dire need of economic relief. The government has set aside a further special budget of NT\$210 billion (US\$7.1 billion) for the next stage of relief efforts, including subsidies for workers' wages and business operations, and support for the research, development and purchase of vaccines.

**Thank you**