

FX & Rates	3Q21F	4Q21F	1Q22F	2Q22F
USD/TWD	27.70	27.70	28.00	28.20
TWD Official Discount Rate	1.13	1.13	1.13	1.13

Economic Indicators	2019	2020	2021F	2022F
GDP	3.0	3.1	5.9	3.0
CPI (average, y/y %)	0.6	-0.2	1.8	1.6
Unemployment Rate (%)	3.7	3.8	3.7	3.6
Current account (% of GDP)	10.6	14.2	14.5	13.0
Fiscal balance (% of GDP)	0.1	-0.7	-1.5	-0.5

## ECONOMY

### Prolonged COVID-19 Outbreak To Weigh On Outlook

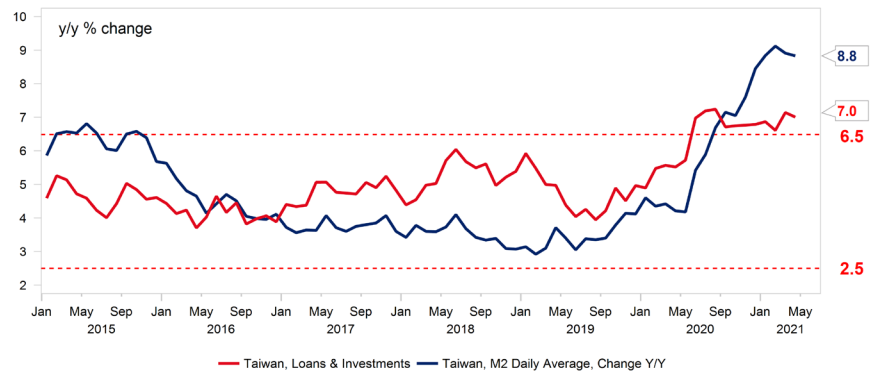
The unexpected surge in COVID-19 infections in May has dampened the outlook for Taiwan this year as the soft lockdown nationwide was extended to nearly the whole of June, at least. The more prolonged outbreak including the possibility that it could hit the domestic semiconductor manufacturing hub, has increased the downside risks to the economy. Furthermore, Taiwan continues to trail far behind regional economies in its vaccination rollout primarily due to a shortage in vaccine supply and this has increased tensions with the mainland. As of June 15, only 3.4% of the population have received at least one dose of the vaccine. The low vaccination rate could hinder the effective control of domestic infection and delay the reopening of its borders.

The bulk of the 1Q21 GDP growth of 8.92% y/y was attributed to net exports (5.08% point) and gross fixed capital formation (2.85% point) with lesser contribution from private consumption (1.04% point) and government consumption (0.57% point). This implies that the pandemic impact will likely be contained as long as its export sector is intact.

Exports will continue to benefit from sustained demand for tech products and production capacity expansion in the manufacturing sector, but the contribution from net exports will decline sharply in 2H21 due to an anticipated surge in imports. Meanwhile, investment is expected to remain robust due to strong demand in the semiconductor industry, ongoing reshoring of Taiwan's overseas companies as well as building of the 5G infrastructure amongst others.

## Taiwan: Bank Loans Growth And Capital Inflows Propping Up M2

Source: Macrobond, UOB Global Economics & Markets Research



To mitigate the pandemic impact particularly on private consumption demand, the Taiwanese government has announced in June, cash subsidies to households for childrearing, for self-employed and temporary workers as well as taxi drivers and tourism-related workers. Individuals and businesses will also be able to apply for relief loans.

While the tightened social distancing measures imposed since May 15 will have a severe impact on 2Q21 GDP, the headline growth will still be propped up by a low base of comparison. Taking into account of the buoyant 1Q21 GDP and on the assumption that Taiwan is able to avoid a full-lockdown of its economy and contain the outbreak in 3Q21, we have updated our 2021 growth forecast to 5.9% with 2Q21 at 7.6% y/y. This is above the official 2021 GDP forecast of 5.46%.

Meanwhile, the low comparison base, surge in commodity prices as well as an improvement in domestic consumer spending are boosting the inflation outlook this year. The headline and core CPI (excluding fruit, vegetables, and energy) have rebounded to 1.4% y/y and 1.1% y/y respectively in Jan-May. The headline CPI is likely to hover at around 2.0% y/y for the rest of the year, bringing the full-year to 1.8% (2020: -0.2%). The higher inflation is expected to be transitory and moderate to 1.6% in 2022.

### CENTRAL BANK No Change To Monetary Stance

Monetary aggregate M2 has continued to rise at a rate above the central bank's reference range of 2.5%-6.5% due to rising

credit growth and capital inflows, keeping domestic liquidity flushed. While inflation has been largely driven by supply-side factors, the rising house prices remains a concern for the central bank which will likely continue to be addressed through selective credit control measures.

There is comparatively less room for the Central Bank of the Republic of China's (Taiwan) to raise its benchmark discount rate given that it had only cut by 25 bps last year, one of the least amongst the Asian central banks. The COVID-19 uncertainties will likely keep the CBC on hold at 1.125% through 2021.

### CURRENCY Virus Resurgence Not A Game Changer For TWD

The sudden spike in COVID-19 cases in Taiwan since mid-May did little to alter the appreciation trend of the TWD. The best performing Asian currency this year (+2% against USD year-to-date) even touched a 24-year high of 27.50 /USD in early June, in the midst of a worsening outbreak.

It is clear by now that TWD is drawing support from strong external demand for its tech exports, buoyant risk appetite underpinned by global reflation, and limited impact from virus to Taiwan's 2021 GDP. So, until the growth hit is significantly larger than expected, we remain comfortable in our view for TWD staying strong at 27.7 against the USD in 2H21. Next year, as the USD recovery takes on a firmer footing, USD/TWD is expected to reverse higher, towards 28.0 in 1Q22 and 28.2 in 2Q22.