

Taiwan: in deep recession

Growth collapsed in 4Q08

The Taiwanese economy contracted a record, worse-than-expected 8.4%y-o-y in 4Q08, prompting the central bank to deliver another 25bp inter-meeting rate cut today.

Though we believe the collapse in growth in part reflected the 'heart attack' the global economy experienced in 4Q08, it has become increasingly obvious that Taiwan—an extremely open economy without any domestic demand cushion—is headed for a more severe downturn than its Asian counterparts in 2009.

The external shocks are huge

The export sector, which has been Taiwan's single growth driver over the past few years, is bearing the full brunt of the slowdown in external demand. Exports of goods and services contracted 19.8%y-o-y in 4Q08. In fact, the collapse in Taiwan exports has been far deeper than those in the rest of the region.

Domestic economy remains in doldrums

Compounding the current downturn is the extremely weak domestic economy. Fixed investment contracted 23%y-o-y, driven by a collapse in private sector investment sentiment. Private consumption held up better, falling 1.7%y-o-y.

Can the government help avert a deep recession

The key question is, given the significant external headwind, can the government apply expansionary fiscal policies to avoid a deep recession? Our answer is simply no. Fiscal measures will provide some relief, but they will not be enough to shore up the economy.

The government has thus far announced three fiscal packages since late 2008 to mitigate the sharp downturn. We estimated the size of these measures at around 3% of GDP, which is not trivial. However, except for the NT\$82.9bn shopping coupon (0.7% of GDP) that had been handed out in January 2009, the implementation of a significant portion of those packages (for instance, details on the NT\$500bn infrastructure plan for 2009-2010 still require approval from lawmakers) will take longer to come through.

Cutting 2009-10 growth forecasts

In part reflecting the growth collapse in 4Q08, we now expect the Taiwanese economy to contract 5.5%y-o-y in 2009 (old forecast: -1.0%), before returning to a sluggish growth of 3.5%y-o-y in 2010. This should place Taiwan's growth outlook in 2009 right near the bottom in the region, supporting our FX strategist's bearish view on the NTD (see [Forex Focus: The world at a glance](#), 17 February).

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Snapshot

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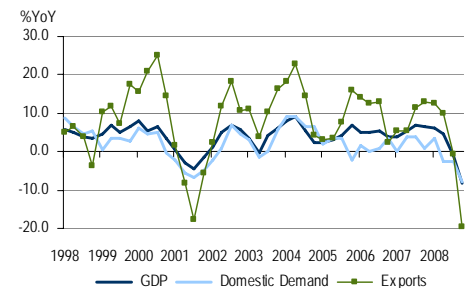
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Taiwan—Growth breakdown



Source: CEIC, BAS-ML calculations.

Taiwan—Key macro forecasts

%y-o-y or otherwise stated	2008	2009F	2010F
GDP	0.1	-5.5	3.5
Private consumption	-0.3	-1.4	3.0
Government spending	1.1	4.2	4.1
Fixed investment	-10.8	-16.2	4.6
Exports	-0.2	-16.6	3.5
Imports	-4.3	-18.5	3.5
CPI	3.5	-1.2	0.8
Policy rate (end period, %p.a.)	1.50	0.75	1.50
NTD/USD (end period)	32.9	34.0	33.2

Source: CEIC, BAS-ML forecasts.

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