



## **2021 Taiwan Economic Forecast**

Ching-Cheng Chang

Kong-Pin Chen

Chun-Che Chi

Ray Yeutien Chou

Kamhon Kan

Chang-Ching Lin

Tzu-Ting Yang

Shou-Yung Yin

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Institute of Economics, Academia Sinica

# **Taiwan Economic Forecast 2021:**

## **The shining pearl in the countercurrent of the pandemic**

In 2020, the Covid-19 pandemic has caused almost all countries in the world to lockdown or control movement across borders. Consequently the world economy is experiencing a historical deep recession. Taiwan's economy, however, has been growing remarkably, thanks to the united efforts and actions of the government and the people to fight and control the pandemic. Indeed, the Taiwan experience in fighting the Covid-19 and maintaining a robust economic growth has become a center of worldwide focus. The real GDP growth rate in the third quarter reached 3.92% and growth in the year 2020 is expected to be 2.71%.

Given the recent progress in development of vaccines for the virus, global economic recovery seems to be round the corner. Revival of foreign trade and robust investment growth will continue to sustain Taiwan's solid economic growth in 2021. We predict the growth rate in 2021 will be 4.24%.

Private consumption, international business and tourism have been hit hard by the pandemic, resulting in foreign consumption plunging to almost zero. Domestic consumption has also slowed down significantly. The real private consumption in the third quarter of 2020 has decreased by 1.48%. At the end of the year, the traditional peak season for consumption is approaching, but the decline in foreign consumption is still large. It is estimated that private consumption will decrease by 2.49% in 2020. As the revival of global economy in 2021 is gathering pace, consumption momentum in Taiwan is expected to resume. Private consumption growth is estimated to be 4.17% in 2021.

The US-China trade war and the pandemic have resulted in reorganization of supply chains and this has induced healthy growth in private investment in Taiwan since the second half of 2020. Growth in private investment was of the order of 2.55% in the third quarter. The estimated annual growth in real private investment in 2020 is expected to be around 1.53%. In 2021, further improvement is likely to occur due to the favorable government policies for investments in green energy, rebuilding of old housing units and 5G-related infrastructure. It is expected that fixed capital formation in 2020 and 2021 will grow by 3.86% and 3.42% respectively.

Healthy growth in foreign trade is expected to continue because of growth in emerging technology applications, long-distance business opportunities and ICT products. Growth in exports and imports of goods and services in the third quarter of 2020 was 3.64% and -3.27% respectively. It is estimated that growth of exports and

imports in the whole of 2020 will be 1.27% and -3.06%, respectively. We expect the growth in foreign trade will continue to be robust next year due to the business opportunities offered by the home economy, development of high-tech products, application of 5G emerging technologies, and the rebound in global trade demand. It is estimated that exports and imports of real goods and services in 2021 will grow 3.76% and 3.05% respectively.

International energy prices (fuel and gas) have declined significantly, dragging down the growth rates of CPI and WPI (wholesale price index). On average, the consumer price index (CPI) during the first 11 months in 2020 fell by 0.26% from the same period last year, while the core consumer price index rose a moderate 0.32%. The WPI fell 8.07% in the same period due to the decline in international commodities prices. CPI and WPI for the whole of 2020 are expected to register negative growth of -0.24% and -7.93% respectively. The pandemic is expected to ease next year, and international commodity market demand will resume in the near future. CPI and WPI are expected to rise 1.33% and -0.41% respectively in 2021.

Unemployment rate in the first 10 months of this year was 3.87% and it is expected to be about 3.86% for the full year and it may decline marginally to 3.73% in 2021. M1B and M2 expanded 9.31% and 5.40% respectively in the first 10 months of 2020, thanks to the active stock market trading and low interest rates. The central bank is expected to continue its easy money policy in 2021. The financial market is expected to continue to prosper and M1B and M2 growth is expected to be 7.32% and 5.01% respectively in 2021.

The successful development of vaccines will lead to recovery of global consumption and investment in the near term. In October 2020, the International Monetary Fund (IMF) reported that global economic growth in 2020 and 2021 is expected to be -4.4% and 5.2% respectively. The Organization for Economic Cooperation and Development (OECD) predicts global economic growth of 4.2% in 2021. However, considering the myriad uncertainties, such as the continuing raging of the Covid-19, multi-faceted antagonism between the United States and China, and other geopolitical risks, the pace of global economic recovery is likely to keep changing. Furthermore, coupled with the deadlock in cross-strait tensions, Taiwan will also be subject to significant uncertainties in respect of foreign trade, investment and performance of its financial markets. Given the aforementioned factors and prediction errors, the 50% interval forecast for Taiwan GDP growth in 2021 will range from 3.16% to 5.42%.

**Table 1 2020 Taiwan Economic Forecast: A Revision**

Unit: Billions of NT\$

	Annual		1st Quarter		2nd Quarter		3rd Quarter		4th Quarter	
	Forecasts	Growth Rates (%)	Realized	Growth Rates (%)	Realized	Growth Rates (%)	Estimate	Growth Rates (%)	Forecasts	Growth Rates (%)
Real GDP	19,714.79	2.71	4,642.89	2.51	4,726.20	0.35	5,071.60	3.92	5,274.10	3.91
Private Consumption	9,491.82	-2.49	2,371.08	-1.74	2,269.15	-5.21	2,407.37	-1.48	2,444.22	-1.60
Government Consumption	2,662.45	2.85	597.14	3.20	624.51	-0.89	684.17	3.41	756.62	5.34
Fixed Capital Formation	4,484.51	3.86	1,068.51	6.95	1,101.06	4.11	1,135.88	4.37	1,179.06	0.54
Private Enterprises	3,620.45	1.53	921.78	5.62	894.03	1.56	938.22	2.55	866.43	-3.53
Public Enterprises	276.06	26.62	38.54	20.42	75.06	46.22	57.13	31.77	105.34	15.34
Government	588.77	10.42	108.15	14.73	132.61	5.27	140.44	8.27	207.58	13.28
Inventory Change	8.76		36.53	-	53.95	-	-60.70	-	-21.03	-
Balance of Trade	3,028.42	17.79	555.96	5.53	665.86	3.68	900.57	28.38	906.02	29.32
Exports of Goods & Services	12,683.87	1.27	2,846.01	-2.09	2,939.28	-3.44	3,329.21	3.64	3,569.37	6.16
Imports of Goods & Services	9,649.13	-3.06	2,290.05	-3.78	2,273.42	-5.35	2,428.64	-3.27	2,657.02	-0.17
Price										
CPI	102.31	-0.24	102.39	0.54	101.70	-0.97	102.42	-0.47	102.73	-0.03
WPI	94.10	-7.93	97.40	-5.11	92.00	-11.25	93.70	-8.64	93.30	-6.62
Monetary Aggregate										
M1B	20,377.94	10.28	19,433.37	7.36	19,906.47	8.88	20,783.13	11.29	21,388.79	13.44
M2	47,751.43	5.77	46,628.37	4.52	47,197.07	4.82	48,213.80	6.68	48,966.48	7.02
Exchange Rates (NT\$/US\$)	29.59		30.15		29.93		29.48		28.81	

Source: Institute of Economics, Academia Sinica, Dec. 16, 2020.

**Table 2 2021 Taiwan Economic Forecast**

Unit: Billions of NT\$

	Annual		1st Quarter		2nd Quarter		3rd Quarter		4th Quarter	
	Forecasts	Growth Rates (%)	Forecasts	Growth Rates (%)	Forecasts	Growth Rates (%)	Forecasts	Growth Rates (%)	Forecasts	Growth Rates (%)
Real GDP	20,550.77	4.24	4,949.04	6.59	4,985.62	5.49	5,200.83	2.55	5,415.28	2.68
Private Consumption	9,887.99	4.17	2,448.17	3.25	2,395.36	5.56	2,491.40	3.49	2,553.06	4.45
Government Consumption	2,715.40	1.99	606.68	1.60	646.06	3.45	692.69	1.24	769.98	1.76
Fixed Capital Formation	4,637.73	3.42	1,094.64	2.45	1,137.27	3.29	1,194.95	5.20	1,210.87	2.70
Private Enterprises	3,765.46	4.01	940.59	2.04	932.73	4.33	988.74	5.38	903.40	4.27
Public Enterprises	282.34	2.27	41.06	6.55	66.90	-10.87	58.97	3.23	115.41	9.56
Government	592.61	0.65	104.35	-3.51	136.90	3.24	144.76	3.08	206.60	-0.47
Inventory Change	74.86	-	41.98	-	33.29	-	11.51	-	-11.93	-
Balance of Trade	3,193.23	5.44	740.51	33.19	750.91	12.77	817.69	-9.20	884.14	-2.42
Exports of Goods & Services	13,160.98	3.76	3,089.26	8.55	3,027.74	3.01	3,375.98	1.40	3,668.00	2.76
Imports of Goods & Services	9,943.14	3.05	2,342.04	2.27	2,270.97	-0.11	2,554.42	5.18	2,775.71	4.47
Price										
CPI	103.67	1.33	102.67	0.28	103.54	1.81	104.24	1.78	104.23	1.46
WPI	93.72	-0.41	94.00	-3.49	93.56	1.70	93.64	-0.06	93.65	0.38
Monetary Aggregate										
M1B	21,869.96	7.32	21,754.60	11.94	21,375.08	7.38	22,097.86	6.33	22,252.29	4.04
M2	50,142.86	5.01	49,551.74	6.27	49,564.06	5.02	50,503.26	4.75	50,952.37	4.06
Exchange Rates (NT\$/US\$)	28.80		28.80		28.80		28.80		28.80	

Source: Institute of Economics, Academia Sinica, Dec. 16, 2020.