TAIWAN'S ECONOMY IN 2015: AN ECONOMIC RECESSION IN THE MAKING?

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Executive Summary

1. The rapid decline in oil prices had increased consumer purchasing power and encouraged domestic demand in the first quarter of 2015. Private consumption experienced a growth rate of 3.73%, from 2.81% in the fourth quarter of 2014.

2. As the global economy is still shrinking, particularly with the growing over-supply of the global consumer electronic products market, this has resulted in sluggish demand. Taiwan experienced a sharp deceleration in economic growth in the second quarter of 2015.

3. If Taiwan's exports continue to deteriorate, Taiwan would have to struggle to maintain a one per cent growth rate. In the display panel and semiconductor sectors in particular, cross-Strait production pattern has shifted from a vertical division of labour to horizontal competition. China's supply chain had replaced Taiwan's display panels and electronic products in 2015.

4. Most importantly, sluggish economic performance is bringing mounting pressure on the ruling Kuomintang in the upcoming presidential and legislative elections in January 2016.

5. The Taiwanese government has proposed a series of stimulus policies for the second half of 2015 through 2016 to revitalise the economy, namely, bolstering the economic structure in July, revising mortgage restrictions in August and boosting domestic consumption in October.

6. Locally, social welfare spending remained a burden to Taiwan's economy in 2015 as Taiwan's local mayors continued to increase budget spending on social services for enhancing re-election prospects, putting local governments' fiscal health at risk.

7. At the national level, the Central Bank's monetary aggregate growth rate increased from 5.86% year-on-year in January, 6.81% in May and then declined to 6.01% in

August due to an increase in net foreign capital outflows and slower growth in bank loans and investments.

8. In response to China's depreciation of the yuan, Taiwan's Central Bank had jumped on the depreciation bandwagon to help boost the competitiveness of exports. Taiwan's economic growth is not strong enough to allow a strong currency

9. In employment, the job market in 2015 left much to be desired. For the period January–October, unemployment rate stood at 4.78% for university graduates and post-graduates, followed by college graduates at 4.11% and high-school graduates at 3.82%, figures which are higher than the average unemployment rate of 3.76%.

10. Economically, in light of lingering uncertainties caused by the mild recovery of the US economy and economic downturn in China, several research institutes have forecast a downturn for the 2016 Taiwan economy.

11. Taiwan's economic conundrums mainly lie with its deteriorating industrial structure. Without deepening industrial structural upgrades and reforms in the information and communications technology sector in particular, Taiwan will lose its international competitive advantage.