



2023 Taiwan Economic Forecast

Ching-Cheng Chang	Chun-Che Chi	Ray-Yeutien Chou
Wen-Tai Hsu	Yu-Chin Hsu	Kamhon Kan
Chang-Ching Lin	Chien-Fu Lin	Daigee Shaw
Tzu-Ting Yang	Shou-Yung Yin	

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Institute of Economics, Academia Sinica

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Slow growth as global demand drops

In 2022, the Russia-Ukraine war has hurt economies the world over, global inflation is soaring, and most economies such as the United States and Europe have successively launched a cycle of interest rate hikes. The financial situation has faced austerity on part of consumers, affecting end demand that has resulted in weak global economic growth in the second half of the year. However, domestic private consumption in Taiwan picked up significantly in the third quarter. Real GDP growth rate in Taiwan in the third quarter reached 4.01% and growth in whole of the year 2022 is expected to be 2.94%. Looking forward to 2023, domestic demand is expected to increase following the opening of the border, and consumption momentum is expected to accelerate. However, the slowdown of the global economy will negatively impact Taiwan's foreign trade and economic growth. The real economic growth rate in 2023 is expected to be 2.41%.

In terms of private consumption, as the epidemic becoming milder and the people learning of coexist with the virus, business activities have gradually resumed and the overall spending has climbed. Real private consumption in third quarter of 2022 increased by 6.95%. The total turnover of the wholesale, retail and catering industries in the first 10 months also reached a record high and the growth rate increased by 7.68% compared with the same period of last year. In addition, the fourth quarter is the traditional peak season for consumption. It is estimated that the negative growth in the previous two years will be reversed, and the real private consumption growth rate will rise by 3.45% in 2022. The gradual relaxation of border controls next year will bring greater room for recovery of consumption and service industries. Real private consumption is expected to rise 4.51% in 2023.

Private investment in technology manufactures such as semiconductors and other related products continues to expand. Growth in private investment was of the order of 3.52% in the third quarter. The estimated annual growth in real private investment in 2022 is around 7.15%. Global economic growth is expected to slow down next year and that may affect the pace of investments by enterprises. The willingness to invest in equipment will be more muted and capital expenditure will slow down. It is expected that in 2023, considering the high growth in the base period, real private investment will grow only 1.95%. As public projects such as government green energy facilities continue to be built, fixed capital formation in 2022 and 2023 is expected to grow by 6.98% and 2.35% respectively.

The global demand for goods is sluggish. In the second half of the year, foreign trade has declined month by month. From September to November, the annual growth rate of nominal exports showed negative growth (in U.S. dollars). Growth in exports and imports of goods and services in the third quarter of 2022 was 2.75% and 2.30% respectively. It is estimated that growth of exports and imports in the whole of 2022 will be 3.50% and 4.73%, respectively. In the face of external environmental risks such as sluggish international demand and technology control caused by the dispute between the United States and China, growth rates of import and export of goods seem to have converged. However, the opening of the border will help exports and imports of services recover. In 2023, export and import growth rates of real goods and services will be 2.71% and 4.06% respectively.

Inflation has moved up because of rise in energy and food prices. Prices of consumer goods are under pressure. The consumer price index (CPI) rose 2.97% from January to November over the same period last year, while the core consumer price index was up 2.60% during the same period. The wholesale price index (WPI) rose 12.92% in the same period due to factors such as rising international raw material prices and depreciation of the New Taiwan dollar. CPI and WPI for the whole year of 2022 are expected to rise 3.01% and 12.59% respectively. The price rise will slow down next year, but one must still be aware of the impact of exchange rate fluctuations in terms of imported inflation. CPI and WPI are expected to rise 2.15% and 0.14% respectively in 2023.

Unemployment rate in the first 10 months of this year was 3.69%. It is necessary to continue to observe the impact of the economic cycle on labor demand. It is expected that unemployment rate in 2022 and 2023 will grow by 3.68% and 3.81% respectively. As the central banks of various countries have continuously raised interest rates, Taiwan has also raised three subsidized interest rates by 62.5 basis point and deposit reserve ratios by 50 basis point this year. Growth rate of money supply has dropped significantly compared with the same period last year. M1B and M2 expanded 8.30% and 7.57% respectively in the first 10 months of 2022. The deferred effect of the tightening monetary policy and the fear of recession in the global economy has caused turmoil in the domestic stock exchange and bond market. Under the high base period, M1B and M2 growth is expected to be 3.68% and 5.85% respectively in 2023.

Looking ahead, the IMF and OECD recently downgraded their growth forecasts for the global economy and world trade volume in 2023. Developments attributable to the

new crown policy adjustment will affect the risk of global economic contraction. In addition, geopolitical risks such as continued concerns about the Russia-Ukraine war, and re-intensification of the confrontation between the United States and China are also giving rise to uncertainties. The rising interest rates in world financial markets will affect the volatility of the capital market and the stability of the exchange rate. Under the high uncertainty of the international political and economic situation, we expect that at the 50% confidence interval the real GDP growth will be in the range of 1.05% to 4.03%.

Table 1 2022 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	21,783.59	2.94	5,298.67	3.87	5,268.05	2.95	5,525.81	4.01	5,691.07	1.09
Private Consumption	9,776.86	3.45	2,437.47	0.67	2,316.38	3.14	2,435.89	6.95	2,587.12	3.23
Government Consumption	2,835.78	2.92	623.63	-0.56	676.40	5.99	726.10	2.12	809.65	3.96
Fixed Capital Formation	5,659.75	6.98	1,347.29	9.22	1,413.17	11.27	1,483.81	4.97	1,415.49	3.06
Private Enterprises	4,808.64	7.15	1,200.71	10.33	1,212.69	11.38	1,266.92	3.52	1,128.33	3.81
Public Enterprises	335.36	13.77	50.20	0.95	80.68	34.58	87.97	31.77	116.51	-1.55
Government	522.91	2.32	98.09	2.32	121.91	0.38	130.86	6.04	172.05	1.02
Inventory Change	19.27	-	19.23	-	48.39	-	-20.32	-	-28.03	-
Balance of Trade	3,489.57	-0.39	868.74	9.18	804.73	-10.24	889.12	4.29	926.98	-3.31
Exports of Goods & Services	15,289.17	3.50	3,757.20	8.98	3,743.61	4.78	3,857.13	2.75	3,931.22	-1.68
Imports of Goods & Services	11,802.46	4.73	2,888.46	8.92	2,938.89	9.81	2,968.02	2.30	3,007.09	-1.07
Price										
CPI	107.46	3.01	106.11	2.81	107.46	3.46	107.82	2.93	108.48	2.85
WPI	116.17	12.59	110.74	12.54	118.79	16.24	117.53	12.03	117.61	9.70
Monetary Aggregate										
M1B	25,532.82	7.63	25,464.70	11.17	25,296.77	8.12	25,631.13	6.82	25,738.69	4.65
M2	55,904.32	7.55	54,785.47	8.13	55,422.57	7.69	56,048.63	6.92	57,360.63	7.49
Exchange Rates (NT\$/US\$)	29.80		28.00		29.46		30.40		31.33	

Source: Institute of Economics, Academia Sinica, Dec. 22, 2022.

Table 2 2023 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	22,309.33	2.41	5,396.00	1.84	5,420.46	2.89	5,649.72	2.24	5,843.14	2.67
Private Consumption	10,217.66	4.51	2,529.01	3.76	2,485.05	7.28	2,549.39	4.66	2,654.20	2.59
Government Consumption	2,917.76	2.89	649.09	4.08	686.99	1.57	741.06	2.06	840.61	3.82
Fixed Capital Formation	5,792.97	2.35	1,383.77	2.71	1,441.70	2.02	1,507.88	1.62	1,459.62	3.12
Private Enterprises	4,902.52	1.95	1,223.58	1.90	1,232.72	1.65	1,293.30	2.08	1,152.93	2.18
Public Enterprises	353.11	5.29	54.75	9.05	81.82	1.41	81.29	-7.59	135.25	16.08
Government	549.37	5.06	102.07	4.06	128.63	5.51	133.52	2.03	185.15	7.62
Inventory Change	-15.52	-	15.52	-	29.09	-	-23.70	-	-36.44	-
Balance of Trade	3,391.73	-2.80	809.15	-6.86	765.66	-4.86	865.96	-2.60	950.96	2.59
Exports of Goods & Services	15,704.08	2.71	3,793.10	0.96	3,823.65	2.14	4,008.11	3.91	4,079.22	3.76
Imports of Goods & Services	12,281.21	4.06	2,977.01	3.07	3,042.66	3.53	3,132.50	5.54	3,129.04	4.06
Price										
CPI	109.77	2.15	108.71	2.46	109.65	2.04	110.14	2.15	110.60	1.95
WPI	116.33	0.14	114.79	3.65	116.31	-2.09	116.47	-0.90	117.73	0.11
Monetary Aggregate										
M1B	26,471.16	3.68	26,496.13	4.05	26,240.23	3.73	26,520.19	3.47	26,628.08	3.46
M2	59,174.12	5.85	58,561.95	6.89	58,916.09	6.30	59,320.03	5.84	59,898.39	4.42
Exchange Rates (NT\$/US\$)	31.79		31.62		31.86		31.91		31.78	

Source: Institute of Economics, Academia Sinica, Dec. 22, 2022.