

Macro Note

Taiwan: CBC Likely To Remain On Hold Throughout 2018

Friday, 22 June 2018

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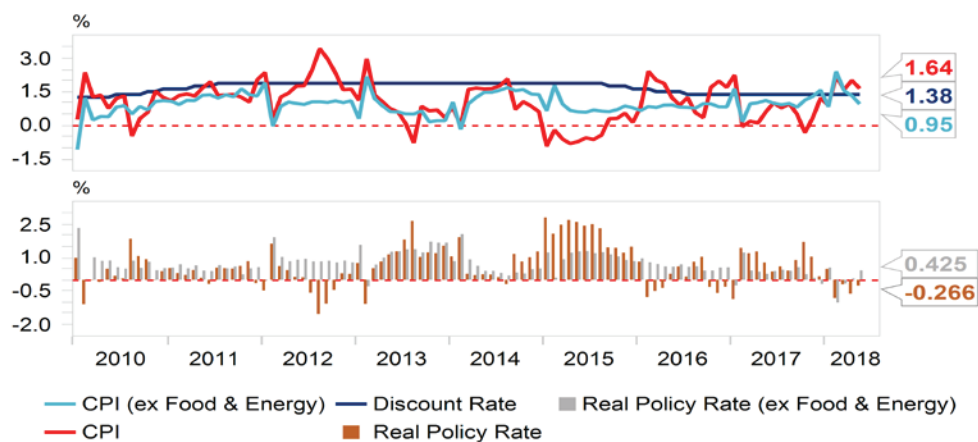
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- The Central Bank of Taiwan (CBC) left its benchmark discount rate unchanged at 1.375% at its quarterly rate decision meeting on Thursday (21 June). Majority of analysts polled by Bloomberg had predicted the outcome while only 3 out of 33 expected a 12.5 bps hike at the meeting. The CBC has been on hold since its last rate move in 2Q16 when it cut interest rate by 12.5 bps.
- The CBC has yet to signal any intention to hike interest rate amid subdued inflation and expected moderation in export growth from a high base ahead. The CBC sees Taiwan economy slowing in second half due to the global uncertainties. Despite revising the growth and inflation forecast for 2018 slightly higher on Thursday, the central bank maintained that Taiwan's output gap will remain negative this year with moderate momentum for economic expansion.
- Taking into consideration of the expected moderation in growth and inflation in the second half of the year, we maintain our call that the earliest that CBC would hike rate could be in March 2019. Our GDP growth and inflation for 2018 remains at 2.5% and 1.5% respectively.
- In the policy statement, the CBC said that uncertainties over the global economic and financial outlook have increased due to monetary policy normalization by major central banks and escalating trade frictions among major economies. The CBC expects Taiwan's export growth momentum to soften due to a higher base effect, whereas domestic demand will continue to serve as the primary driver of economic growth. The CBC forecasts GDP growth of 2.30% in 2H18 and raised its full-year forecast to 2.68% (from 2.58% previously) which reflects a better-than-expected 1Q18 as well as expectation of stronger export and private investment growth.
- For its inflation outlook, the CBC expects headline inflation to moderate to 1.21% in 2H18 from average of 1.66% in the first five months of the year. For the full-year, the CBC has revised up its headline CPI forecast to 1.40% (from 1.27% previously) on account of higher international oil prices but lowered the core inflation (excluding vegetables, fruit, and energy items) forecast downwards to 1.16% (from 1.26% previously) in view of reductions in telecommunication rates. Overall, the inflationary pressure is expected to remain mild. The real interest rate which is calculated with the 1-year time deposit rate is forecast at -0.335% this year.

Please click on the link to access the [CBC's statement](#)

Taiwan: Discount Rate And Inflation Rate

Source: Macrobond, UOB Global Economics & Markets Research



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