

Taiwan Watch

December CBC meeting review: Stay on hold amid economic uncertainty

CBC kept rates unchanged amid lingering growth concerns

Taiwan's central bank (CBC) kept its policy rate unchanged at 1.875% at its quarterly monetary policy meeting today, in line with the market consensus. This marked the third pause after March 2023. The rate decision today was unanimous, as the committee believes (1) Taiwan's CPI inflation will likely gradually moderate to the CBC's implicit target of 2% in 2024, (2) the negative output gap could persist into next year, and (3) its economic outlook is subject to various uncertainties as global growth slows.

We had expected the CBC to deliver another hike before the meeting, given the higher-than-expected CPI prints since Sep and the governor's recent hawkish comments that "Taiwan's hiking cycle hasn't ended yet". The departure from these remarks could be partly due to the Fed's dovish pivot at the FOMC meeting overnight (see [Dec FOMC](#)).

Growth likely to rebound; inflation may fall below 2%

The CBC slightly trimmed its 2023 GDP growth forecast to 1.40% from 1.46% previously (vs. our estimate of 1.1%), due to slower inventory adjustment. The central bank slightly nudged up its 2024 growth forecast to 3.12% yoy (vs. 3.08% previously), which is very close to our estimate of 3.2%. Domestic demand is expected to be the main growth driver next year; export growth could turn positive while investment may continue to face headwinds amid geopolitical concerns. The CBC will continue to monitor several risk factors, including (1) growth slowdown in mainland China, (2) spillover from DM central bank policy, (3) global supply chain restructuring, and (4) geopolitical risks.

The CBC raised its 2023 CPI inflation forecast to 2.46% yoy (vs. 2.22% previously and our latest forecast of 2.5%). Core CPI inflation was also revised up to 2.56% from 2.44% due to sticky services inflation. The CBC expects the headline/core CPI inflation to moderate to 1.89%/1.83% in 2024, as services prices gradually stabilize. That said, the central bank also pointed out potential upside risks due to global commodity prices, domestic services prices and climate impact.

Expect the CBC to stay on hold in 2024

At the press conference, Governor Yang stated that the CBC maintains a tight monetary policy stance and will likely continue to do so in 1H24 as CPI inflation may remain at around 2% then. We believe the hiking cycle has firmly come to an end, even though the governor said that would only be confirmed if the CPI inflation falls below 2%.

Governor Yang left the door open when asked whether the CBC will cut rates when the Fed revert to easing. He suggested the base case would be no rate change in 1H24 and the CBC won't necessarily follow the Fed in cutting rates. Taking into account the CBC's projected growth trajectory, this is largely consistent with our expectation that the CBC will stay on hold throughout 2024. The governor added the ultimate decision would be subject to various uncertainty, including (1) rate decisions by DM central banks, (2) whether inflation can fall below 2%. One scenario that could prompt the CBC to cut rates would be rapid rate cuts by the Fed, which may trigger large capital outflows.

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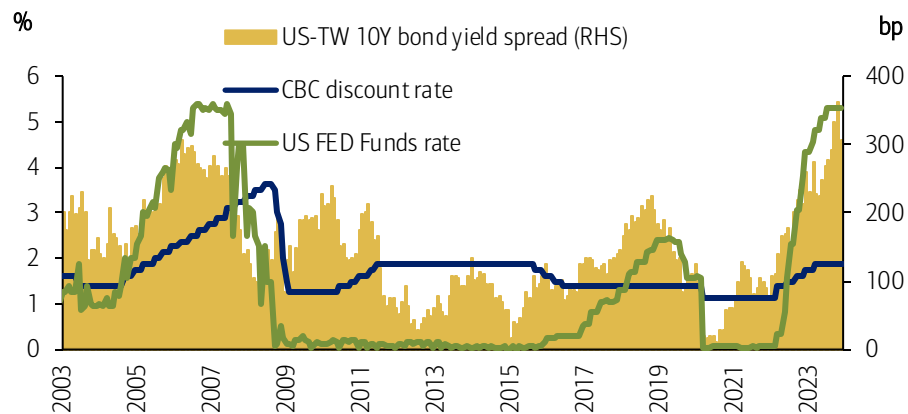
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Exhibit 1: CBC discount rate, Fed funds rate and US 10yr yield

The CBC kept its policy rate unchanged at 1.875% at the December quarterly meeting today



Source: CEIC, Bloomberg

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