



NEWS RELEASE

May 18, 2023

R&I Affirms AA/a-1+, Stable: Taiwan

Rating and Investment Information, Inc. (R&I) has announced the following:

ISSUER: Taiwan

Foreign Currency Issuer Rating: AA, Affirmed
Rating Outlook: Stable

Domestic Currency Issuer Rating: AA, Affirmed
Rating Outlook: Stable

Foreign Currency Short-term Debts: a-1+, Affirmed

RATIONALE:

Taiwan has established solid economic fundamentals, underpinned by sectors that boast globally competitive firms, including information technology (IT) and chemicals. Its external accounts are robust, reflecting large current account surpluses and net foreign assets. The government of Taiwan takes a prudent stance on fiscal management and the debt burden is small. The economy will likely slow down but its strengths in being able to take advantage of the global demand recovery remain intact, making it possible to maintain steady growth. Based on the said recognition, R&I has affirmed the Foreign and Domestic Currency Issuer Ratings. Attention should be paid to the state of Taiwanese society toward the 2024 presidential and legislative elections.

Reflecting its strong capacity of achieving economic growth by tapping into the demand of world economy, Taiwan sustained economic growth even in 2020, the year hit by the rampant COVID-19 pandemic, thanks especially to the recovery in 2H of the same year. The real gross domestic product (GDP) growth averaged 3.2% over the decade between 2013 and 2022, a reminder of Taiwan's strong economic competitiveness. Although the economy in 2023 is expected to slow down continuing from the previous 2022, when global price hikes and monetary tightening began in earnest, the underlying trend remains firm basically.

Given the demographic profile marked by shrinking domestic working-age population, Taiwan needs to tackle the challenge of maintaining and improving productivity through diversification and advancement of growth fundamentals. In recent years, the IT sector, which is Taiwan's core industry, has been struggling amid the intensifying competition as well as the escalating friction over trade and technologies. These factors, along with rising production costs in China, have encouraged Taiwanese companies to repatriate production, providing an opportunity for Taiwan to maintain and expand its export base. Given that a long-term approach is required to foster an industry, eyes are on how the environment for formulation and implementation of national policies will change as a result of 2024 elections.

Taiwan's abundant current account surpluses and foreign assets provide substantial support for its creditworthiness. The trade surplus has stayed at a high level thanks to the competitive strength of IT sector, a key industry of the economy. Backed by the inflows of income from massive foreign assets, the income balance has been in constant surplus. Reflecting the accumulation of surpluses in balance of payments, Taiwan holds net foreign assets that comfortably exceed its GDP in scale.

The government has a sound fiscal position. Supported also by institutional factors such as the Public Debt Act, which sets a government debt ceiling, the fiscal balance and government debt will likely follow a stable trajectory. Given the abundance of domestic savings, there is no concern about the government's financing capability. On the flip side, the falling birthrate and aging population will affect Taiwan's fiscal standing through decreased tax revenue and the growing burden of social welfare expenditure. Attention should be paid to how the government will tackle the challenge of securing fiscal soundness on a medium- to long-term basis.

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NEWS RELEASE

Taiwan's relationship with the People's Republic of China (PRC), a neighbor on the other side of the Taiwan Strait, is weighing on its creditworthiness in terms of external relationship. Beijing sticks to the one-China principle in pursuit of unification of Taiwan under the framework of "one country, two systems". The government of PRC is also extremely nervous about the relationship between Taiwan and the U.S. R&I keeps a close eye on Taiwan's relationship with PRC and its impact on Taiwan's creditworthiness, especially in light of the current complexities in international politics.

The primary rating methodology applied to this rating is provided at "R&I's Analytical Approach to Sovereigns". The methodology is available at the web site listed below, together with other rating methodologies that are taken into consideration when assigning the rating.

https://www.r-i.co.jp/en/rating/about/rating_method.html

R&I RATINGS:

ISSUER:	Taiwan
	Foreign Currency Issuer Rating
RATING:	AA, Affirmed
RATING OUTLOOK:	Stable
	Domestic Currency Issuer Rating
RATING:	AA, Affirmed
RATING OUTLOOK:	Stable
	Foreign Currency Short-term Debts
RATING:	a-1+, Affirmed

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