

#### Ma Tieying, CFA

Senior Economist



Please direct distribution queries to Violet Lee  
+65 68785281 [violetleeyh@db.com](mailto:violetleeyh@db.com)

- *We examine three historical episodes of TWD appreciation – the late 1980s, the post-GFC, and the COVID-19 pandemic.*
- *Across these episodes, exports showed no significant adverse impact from currency appreciation.*
- *Monetary policy responses involved a complex balancing act.*
- *Asset price rallies accompanied each episode of currency appreciation.*
- **Forecast implications:** *GDP forecast remains at 3.0% for 2025 and 2.4% for 2026, with a modest 12.5bps rate cut anticipated by end-2026*

We examine three major historical episodes of Taiwan's currency appreciation and their associated impacts on exports, GDP, monetary policy, and asset prices.

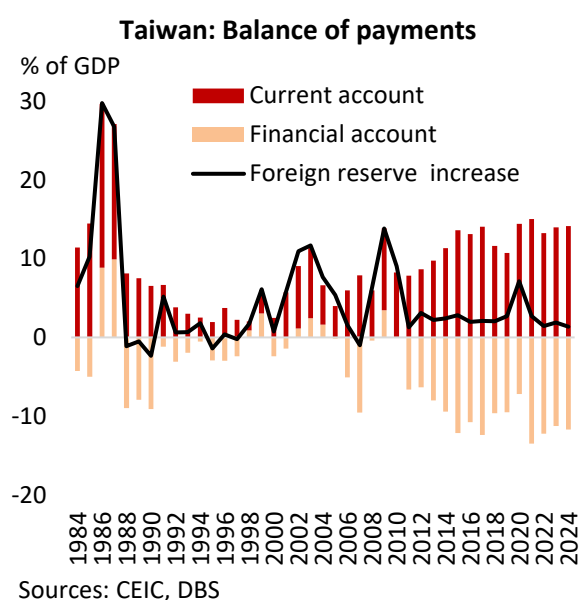
#### Three historical episodes

Over the past four decades, Taiwan has experienced three significant episodes of currency appreciation:

**Late 1980s (1986-1992):** A significant 37% cumulative appreciation (approximately 6% annually), driven by a large trade surplus and substantial foreign hot money inflows. Trade frictions with the US also intensified. The US Treasury designated Taiwan as a currency manipulator (alongside Japan and South Korea) in 1988, and again in 1992.

**Post-Global Financial Crisis (2008-2011):** A more moderate 10% appreciation (approximately 3% annually), primarily attributed to domestic capital repatriation due to global risk aversion and foreign capital inflows spurred by the Fed's QE policies.

**COVID-19 pandemic (2020-2021):** A 9% appreciation (approximately 5% annually), fueled by Taiwan's strong trade performance amidst the pandemic. Despite global lockdowns, Taiwan benefited from surging global demand for technology products and its well-managed domestic public health situation.



## Exports and GDP

Across the three historical episodes, there is no substantial evidence that currency appreciation hurt Taiwan's export competitiveness. Instead, global macroeconomic factors consistently dominated export and GDP performance.

**Late 1980s:** Export growth fell sharply, from about 30% YoY in 1986–1987, to 10% in 1988–1989, and further down to just 1.5% by 1990. GDP growth followed a similar downward trajectory, decelerating from 12% to 8%, and then to 5.5%. This downturn, however, coincided with a global economic slowdown, attributed to the 1990 oil shock, US recession, and Japan's asset bubble burst.

Examining Taiwan's overall share in the global export market, it remained above 2% throughout the 1986–1992 period. While traditional industries such as textiles and footwear suffered from currency strength, manufacturers successfully moved up the value chain, particularly in PCs and semiconductors. Taiwan's share in global exports began to

decline notably and persistently only from the early 2000s, following China's accession to the WTO and the rising wave of Taiwanese manufacturing relocation to the mainland.

**Post-GFC:** Exports and GDP were also primarily influenced by global macroeconomic conditions. Exports dropped by 20% in 2009 due to the collapse in global demand but rebounded strongly with double-digit growth in 2010 and 2011. GDP growth mirrored this pattern, contracting temporarily before recovering robustly. Taiwan's share in the global export market remained stable at around 1.7% during this period.

**COVID-19 pandemic:** Exports and the overall economy successfully accommodated currency appreciation, which was primarily an outcome of export outperformance. Exports grew by 5% in 2020, driven by pandemic-related demand for technology, and surged by approximately 30% in 2021 as global demand broadly recovered. GDP growth also remained strong, expanding by 3.4% in 2020 and accelerating to 6.7% in 2021.

Manufacturers took the opportunity presented by the pandemic to consolidate and expand their position in the global tech supply chain. Taiwan's share in the global export market increased during this period, returning to 2%. Its export structure was also significantly upgraded, with tech-intensive products rising to more than 60% of total exports.

Taiwan: Economic indicators during late 1980s, GFC, and COVID-19 pandemic

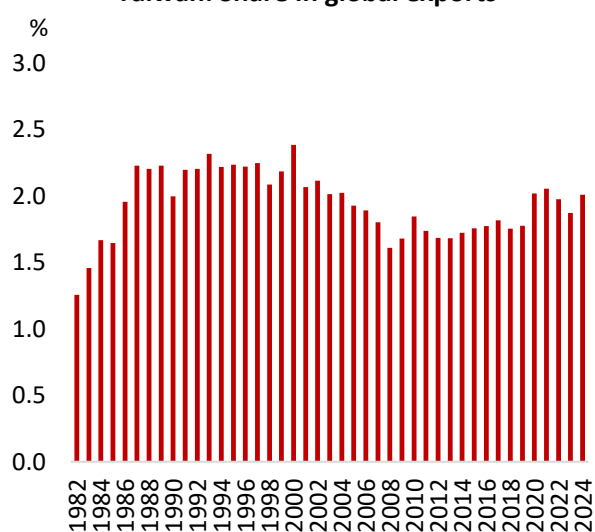
		1986	1987	1988	1989	1990	1991	1992	
Export growth	% YoY avg	29.6	34.6	13.1	9.3	1.5	13.6	7.3	
GDP growth	% YoY avg	11.5	12.8	8.0	8.7	5.5	8.4	8.3	
CPI inflation	% YoY avg	0.7	0.5	1.3	4.4	4.1	3.6	4.5	
Equity prices	% YoY avg	26.7	126.0	143.7	65.6	-21.4	-27.5	-13.1	
Policy rate	% eop	4.50	4.50	4.50	7.75	7.75	6.25	5.625	

		2008	2009	2010	2011	2020	2021	
Export growth	% YoY avg	3.7	-20.4	35.2	12.6	4.9	29.3	
GDP growth	% YoY avg	0.8	-1.6	10.2	3.7	3.4	6.7	
CPI inflation	% YoY avg	3.5	-0.9	1.0	1.4	-0.2	2.0	
Equity prices	% YoY avg	-16.8	-9.5	24.0	3.2	11.9	40.3	
Sinyi property prices	% YoY avg	3.2	4.7	17.0	13.9	4.5	11.5	
Policy rate	% eop	2.00	1.25	1.625	1.875	1.125	1.125	

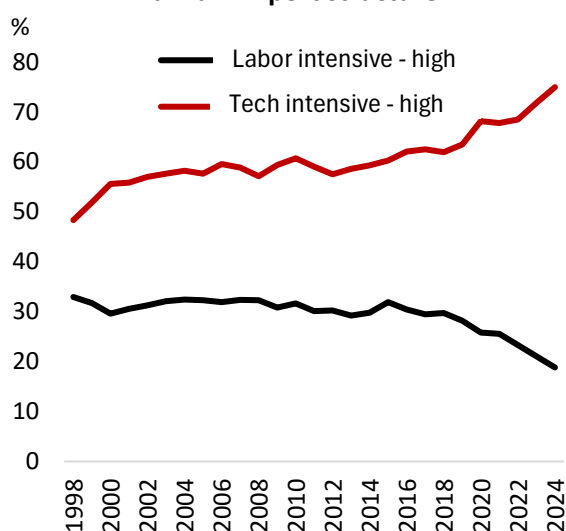
Sources: CEIC, DBS

Taiwan: Share in global exports



Sources: CEIC, IMF, DBS

Taiwan: Export structure



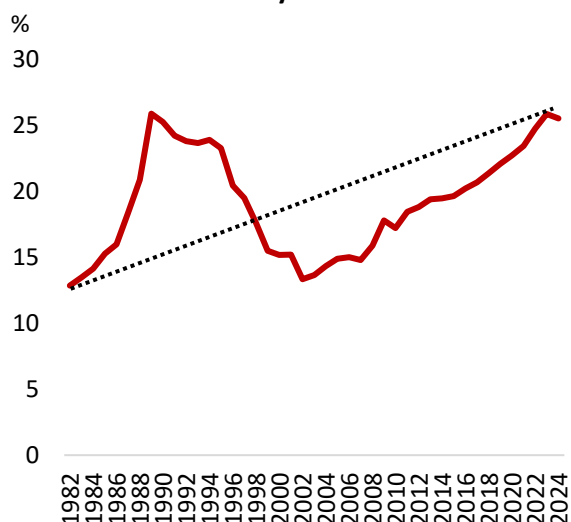
Sources: CEIC, DBS

### Monetary policy

Monetary policy responses varied across the three different episodes. The significant currency appreciation of the late 1980s posed complex challenges, requiring the central bank to balance multiple objectives: financial stability, price stability, exchange rate stability, and economic development. In contrast, monetary policy priorities during the GFC and the COVID-19 pandemic were more focused.

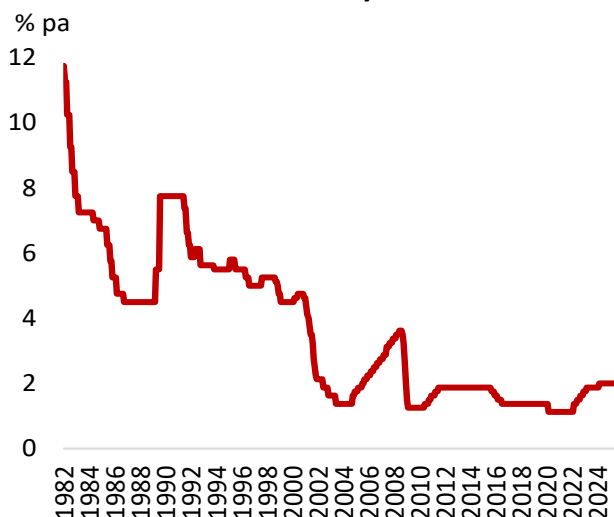
**Late 1980s:** The monetary base expanded substantially from 17% of GDP in 1986 to a peak of 27% in 1989, due to currency intervention and incomplete sterilization. Initially, the policy rate was lowered by 75 bps in 1986 and held at 4.50% through 1987-88 to mitigate currency appreciation pressures. In response to the subsequent asset price bubble and broader inflation pressures, the policy rate was raised by 325bps to a peak of 7.75% in 1989. Following the bursting of the asset bubble, the policy rate was lowered to 5.625% in 1992 to support the economy.

Taiwan: Monetary base to GDP ratio



Sources: CEIC, DBS

Taiwan: Policy rate



Sources: CEIC, DBS

**Post-GFC:** The monetary base expanded modestly from 17% of GDP in 2008 to 19% in 2011. The central bank cut the policy rate aggressively by 237.5 bps, from a peak of 3.625% in mid-2008 to a low of 1.25% by the end of 2009, in response to the contraction in GDP and deflation. As the economy recovered, the policy rate was gradually raised again to 1.875% by 2011.

**COVID-19 pandemic:** The monetary base again expanded modestly along with currency appreciation. The central bank implemented a moderate rate cut of 25 bps, from 1.375% at the start of 2020 to 1.125% by the end of 2021, in response to the temporary GDP contraction and decline in inflation.

**Asset prices**

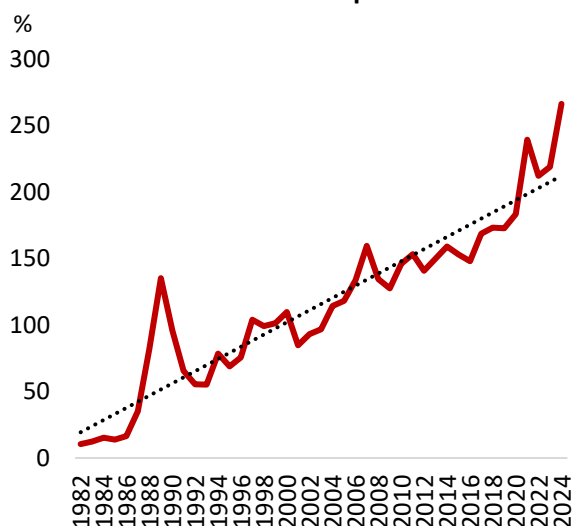
Each of the three episodes witnessed asset price rallies. The monetary factors associated with currency appreciation, such as capital flows, liquidity supply, and interest rates, significantly influenced asset price performance.

**Late 1980s:** Substantial capital inflows, a surge in the monetary base, and lower interest rates resulted in a speculative boom in the asset markets. For example, the Taiwan Stock Exchange Index soared by an extraordinary 1,000% between 1986 and 1989, from approximately 1,000 to 10,000.

**Post-GFC:** Capital repatriation, liquidity expansion, and sharply lower interest rates supported asset prices, mitigating the adverse effects of reduced corporate earnings and household income. While the TAIEX initially declined in 2008–2009, it rebounded strongly in 2010–2011. Property prices rose significantly during this period, with Sinyi housing prices increasing by a total of 44%.

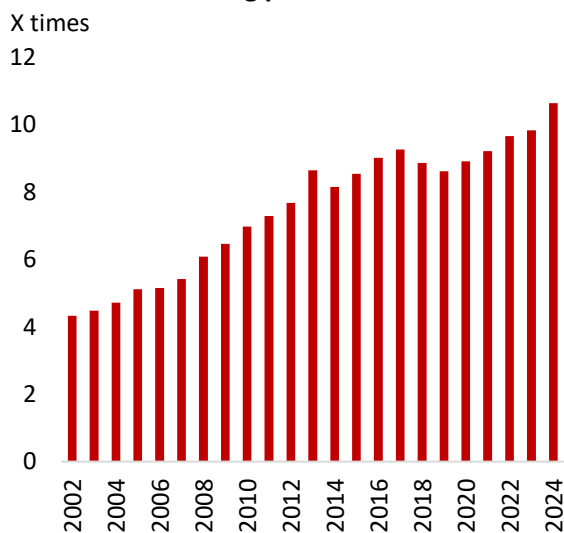
**COVID-19 pandemic:** Liquidity expansion, ultra-low interest rates, and Taiwan’s resilient economic performance provided strong support to the asset markets. The TAIEX climbed 60% during 2020–2021, while Sinyi housing prices increased by 17%.

Taiwan: Stock market cap to GDP ratio



Sources: CEIC, DBS

Taiwan: Housing price to income ratio



Sources: CEIC, DBS

**Current episode**

The current episode presents a complex picture. As of mid-year, Taiwan’s currency has appreciated by 11% against the USD. If the current level is sustained, the average annual appreciation will be approximately 5%. Multiple factors are at play: speculation surrounding currency alignment amid ongoing tariff negotiations with the US, export frontloading in anticipation of tariff implementation, the

strong demand for AI-related products, and a possible increase in capital repatriation and foreign inflows amid concerns over USD credibility and global de-dollarization trends.

Consistent with historical experiences, we expect exports and GDP to be primarily driven by global macroeconomic dynamics. A slowdown is anticipated in 2H 2025 and into 2026. Export shipments will likely experience a payback following the earlier frontloading. Global demand, including demand for AI-related products, is likely to soften as tariff increases weigh on businesses and consumers.

The negative impact of currency appreciation on exports is likely to be limited. Thanks to the further upgrading of its export structure to high value-added tech products and a leading position in global tech supply chains, Taiwan’s export pricing power is stronger than before, and industrial competitiveness has been enhanced.

Monetary policy will require careful balancing. The slowdown in GDP growth and disinflation suggests the need for rate cuts. On the other hand, the elevated asset prices – both stock market capitalization relative to GDP and housing price-to-income ratios are at historical highs – present a challenge. Modest rate cuts appear to be the most likely outcome.

Finally, asset markets are expected to remain buoyant. This considers capital repatriation, foreign inflows, increased liquidity supply, and possible modest rate cuts, which will likely offset the negative spillovers from weaker corporate earnings and household income.

**Related reports:**

[Taiwan: Appreciation impacts](#)

[Taiwan: Initial assessment of reciprocal tariff impacts](#)

[Taiwan: Tariff risk assessment](#)

[Taiwan 2025 outlook: Trade risks and five opportunities](#)

[Chartbook: Tracking US tariff impacts on Asia](#)

[Chartbook: Asia's exposure to US tariffs](#)

**Group Research****Economics & Strategy****Taimur BAIG, Ph.D.****Chief Economist**

Global

[taimurbaig@dbs.com](mailto:taimurbaig@dbs.com)**Wei Liang CHANG**

FX &amp; Credit Strategist

Global

[weiliangchang@dbs.com](mailto:weiliangchang@dbs.com)**Tracy Li Jun LIM**

Credit Analyst

USD Credit

[tracylimt@dbs.com](mailto:tracylimt@dbs.com)**Amanda SEAH**

Credit Analyst

SGD Credit

[amandaseah@dbs.com](mailto:amandaseah@dbs.com)**Nathan CHOW**

Senior Economist

China/HK SAR

[nathanchow@dbs.com](mailto:nathanchow@dbs.com)**Eugene LEOW**

Senior Rates Strategist

G3 &amp; Asia

[eugeneleow@dbs.com](mailto:eugeneleow@dbs.com)**Daisy SHARMA**

Analyst

Data Analytics

[daisy@dbs.com](mailto:daisy@dbs.com)**Han Teng CHUA, CFA**

Senior Economist

Asean

[hantengchua@dbs.com](mailto:hantengchua@dbs.com)**Teng Chong LIM**

Credit Analyst

SGD Credit

[tengchonglim@dbs.com](mailto:tengchonglim@dbs.com)**Joel SIEW, CFA**

Credit Analyst

SGD Credit

[joelsiew@dbs.com](mailto:joelsiew@dbs.com)**Mo Ji, Ph.D.**

Chief Economist

China/HK SAR

[mojim@dbs.com](mailto:mojim@dbs.com)**Tieying MA, CFA**

Senior Economist

Japan, South Korea, Taiwan

[matieying@dbs.com](mailto:matieying@dbs.com)**Mervyn TEO**

Credit Strategist

USD Credit

[mervynteo@dbs.com](mailto:mervynteo@dbs.com)**Byron LAM**

Economist

China/HK SAR

[byronlamfc@dbs.com](mailto:byronlamfc@dbs.com)**Radhika RAO**

Senior Economist

Eurozone, India, Indonesia

[radhikarao@dbs.com](mailto:radhikarao@dbs.com)**Samuel TSE**

Senior Economist

China/HK SAR

[samueltse@dbs.com](mailto:samueltse@dbs.com)**Violet LEE**

Associate

Publications

[violetleeyh@dbs.com](mailto:violetleeyh@dbs.com)**Philip WEE**

Senior FX Strategist

Global

[philipwee@dbs.com](mailto:philipwee@dbs.com)

---

**Sources:** Data for all charts and tables are from CEIC, Bloomberg and DBS Group Research (forecasts and transformations)

### **GENERAL DISCLOSURE/ DISCLAIMER (For Macroeconomics, Currencies, Interest Rates)**

The information herein is published by DBS Bank Ltd and/or DBS Bank (Hong Kong) Limited (each and/or collectively, the "Company"). It is based on information obtained from sources believed to be reliable, but the Company does not make any representation or warranty, express or implied, as to its accuracy, completeness, timeliness or correctness for any particular purpose. Opinions expressed are subject to change without notice. This research is prepared for general circulation. Any recommendation contained herein does not have regard to the specific investment objectives, financial situation and the particular needs of any specific addressee. The information herein is published for the information of addressees only and is not to be taken in substitution for the exercise of judgement by addressees, who should obtain separate legal or financial advice. The Company, or any of its related companies or any individuals connected with the group accepts no liability for any direct, special, indirect, consequential, incidental damages or any other loss or damages of any kind arising from any use of the information herein (including any error, omission or misstatement herein, negligent or otherwise) or further communication thereof, even if the Company or any other person has been advised of the possibility thereof. The information herein is not to be construed as an offer or a solicitation of an offer to buy or sell any securities, futures, options or other financial instruments or to provide any investment advice or services. The Company and its associates, their directors, officers and/or employees may have positions or other interests in, and may effect transactions in securities mentioned herein and may also perform or seek to perform broking, investment banking and other banking or financial services for these companies. The information herein is not directed to, or intended for distribution to or use by, any person or entity that is a citizen or resident of or located in any locality, state, country, or other jurisdiction (including but not limited to citizens or residents of the United States of America) where such distribution, publication, availability or use would be contrary to law or regulation. The information is not an offer to sell or the solicitation of an offer to buy any security in any jurisdiction (including but not limited to the United States of America) where such an offer or solicitation would be contrary to law or regulation.

[#for Distribution in Singapore] This report is distributed in Singapore by DBS Bank Ltd (Company Regn. No. 196800306E) which is Exempt Financial Advisers as defined in the Financial Advisers Act and regulated by the Monetary Authority of Singapore. DBS Bank Ltd may distribute reports produced by its respective foreign entities, affiliates or other foreign research houses pursuant to an arrangement under Regulation 32C of the Financial Advisers Regulations. Where the report is distributed in Singapore to a person who is not an Accredited Investor, Expert Investor or an Institutional Investor, DBS Bank Ltd accepts legal responsibility for the contents of the report to such persons only to the extent required by law. Singapore recipients should contact DBS Bank Ltd at 65-6878-8888 for matters arising from, or in connection with the report.

DBS Bank Ltd., 12 Marina Boulevard, Marina Bay Financial Centre Tower 3, Singapore 018982. Tel: 65-6878-8888. Company Registration No. 196800306E.

DBS Bank Ltd., Hong Kong Branch, a company incorporated in Singapore with limited liability. 18th Floor, The Center, 99 Queen's Road Central, Central, Hong Kong SAR.

DBS Bank (Hong Kong) Limited, a company incorporated in Hong Kong with limited liability. 11th Floor, The Center, 99 Queen's Road Central, Central, Hong Kong SAR.

Virtual currencies are highly speculative digital "virtual commodities", and are not currencies. It is not a financial product approved by the Taiwan Financial Supervisory Commission, and the safeguards of the existing investor protection regime does not apply. The prices of virtual currencies may fluctuate greatly, and the investment risk is high. Before engaging in such transactions, the investor should carefully assess the risks, and seek its own independent advice.