The Economist

The Editor

Re: “The hidden risks in Taiwan’s boom”

Dear Editor,

We read with great interest your recent coverage on Taiwan’s economy, specifically the article “The hidden risks in Taiwan's boom” published on November 13, 2025, which uses the Big Mac Index to infer that the New Taiwan Dollar (NTD) is significantly undervalued. Its central argument posits that Taiwan’s central bank (CBC), on account of the pressure faced by exporters, persistently intervenes in the foreign exchange market to deliberately suppress the NTD exchange rate. It claims this has led to a large trade surplus and the accumulation of substantial foreign exchange reserves, which in turn releases excess liquidity, creating a domestic environment of low interest rates. The article suggests that in order to generate surplus earnings for the national treasury the CBC keeps exchange rates undervalued and interest rates low, but these policies drive up housing and import prices, weaken consumer purchasing power, erode the labor share of income, and hinder industrial upgrading. Furthermore, it alleges that the CBC cleverly channels Taiwan's large current account surplus to the life insurance industry and intervenes in the swap market to lower their FX hedging costs, encouraging overseas investment and leading to currency mismatches on insurers' balance sheets. It concludes that a sharp appreciation of the NTD could trigger a financial crisis. In response to your specious analysis, we offer a more nuanced assessment below:

The NTD Exchange Rate and Purchasing Power Parity (PPP)

Since the implementation of a managed floating exchange rate regime in April 1989, the CBC has intervened in the foreign exchange market only when necessary—in accordance with our statutory mandate—to maintain the dynamic stability of the NTD exchange rate. We do not engage in deliberate suppression of the exchange rate. Over the long term, the NTD has exhibited two-way fluctuations and a general trend of appreciation. Furthermore, using Purchasing Power Parity (PPP) concepts, including the Big Mac Index, to gauge the equilibrium exchange rate is inappropriate. International institutions, such as the World Bank and the United Nations, estimate PPP through the International Comparison Program (ICP). The ICP website, the World Bank, and the OECD all emphasize that PPP is designed to gauge price levels and purchasing power across countries. They explicitly state that PPP is not an equilibrium exchange rate and should not be used to measure currency under or overvaluation—let alone relying on a single commodity to assess a nation's exchange rate valuation.

Exchange Rate and Export Competitive-ness

Regarding the claim that the CBC suppresses the NTD due to lobbying by exporters, it must be stated that following financial deregulation, there are many distinct types of participants in the domestic foreign exchange market. The NTD exchange rate is determined jointly by a group of diverse players and cannot be adjusted to target a single industry or sector. While the CBC intervenes in the market when necessary to maintain dynamic stability of NTD exchange rate based on our statutory duties, these actions have never been part of Taiwan's industrial policy. The CBC does not suppress the NTD exchange rate to maintain competitiveness for exporters.

Current Account and Trade Surpluses

Following financial liberalization, transactions in the financial account have come to comprise over 90% of foreign exchange transactions—both globally and in Taiwan—becoming the primary determinant of exchange rates. The link between exchange rates and the current account balance has consequently weakened.

Regarding the current account surplus, Taiwan has long exhibited excess savings characterized by a high savings rate and a low investment rate, due to an aging population and insufficient domestic investment. The growth of the current account surplus reflects structural economic issues such as long-term high domestic savings and low investment. Furthermore, the production of Taiwan's exports relies heavily on imported raw materials; agricultural and industrial raw material imports account for approximately two-thirds of total imports. Appreciation or depreciation of the NTD affects not only export prices but also import costs, leading to a partial offset. This weakens the impact of exchange rate fluctuations on exports, making the exchange rate an increasingly blunt tool for adjusting trade imbalances.

Notably, since the escalation of US-China trade conflicts in 2018, the expansion of Taiwan's trade surplus has been primarily driven by the growth of foreign demand, global supply chain adjustments, the upgrading of Taiwan's industrial structure, and the rising international competitiveness of high-tech products. The exchange rate is not the primary instigating factor.

Foreign Exchange Reserves

The increase in Taiwan's foreign exchange reserves stems partly from the CBC's market interventions to maintain exchange rate stability—a statutory duty—and partly from investment returns on reserve assets. Since the 1997 Asian Financial Crisis, the central banks of most small open economies, particularly those in Asia, have built up reserves as a buffer against the adverse impact of massive capital flows. This is particularly relevant to Taiwan, as foreign portfolio investors often move large volumes of funds in or out of Taiwan over narrow time windows in a synchronized fashion. Ample foreign exchange reserves allow the CBC to manage the impact of large-scale capital flows and high geopolitical uncertainty more effectively in our effort to maintain the dynamic stability of the NTD.

With regard to domestic liquidity and housing prices, the CBC employs various sterilization instruments to properly manage the liquidity released into the banking system from our foreign exchange market operations. Consequently, the growth of reserve money has remained stable and has not climbed alongside foreign exchange reserves. Taiwan's low and stable interest rates primarily reflect long-term inflation rates that are lower and more stable than in advanced economies.

Housing prices, on the other hand, are influenced by several factors, interest rates being only one of them. Addressing housing affordability issues requires a joint effort across central ministries and local governments. Since 2020, the CBC has adjusted our selective credit control measures seven times to curb the flow of credit into the real estate market. As a result, the concentration of bank credit in real estate lending has gradually been diluted, residential real estate transaction volume has slowed, the rise in housing prices has moderated, and public expectation of future price increases has softened, demonstrating the growing effectiveness of these policies. The CBC's interest rate policy therefore remains primarily focused on inflation control.

Purchasing Power and Labor Share

The article mentions that purchasing power in Taiwan has been eroded. In fact, Taiwan's inflation rate has long been low and stable. Looking at the Nominal Effective Exchange Rate (NEER) and Real Effective Exchange Rate (REER) indices compiled by the Bank for International Settlements (BIS) for 64 economies: from 1995 to October 2025, the NTD NEER appreciated by 9.6% compared to 1995, while the REER decreased by 18.9% over the same period. The difference between the two primarily reflects that Taiwan's price increases were approximately 35.2% lower than those of its major trading partners, indicating that domestic prices are relatively low and stable over the long term, which contributes to an increase in purchasing power.

Additionally, since the end of 2021, to cope with supply-side shocks such as the COVID-19 pandemic and the Russia-Ukraine war, the government has successively implemented various price stabilization measures. These include stabilizing fuel and electricity prices and reducing customs duties, commodity taxes, and business taxes. These measures have alleviated domestic inflationary pressure and helped maintain the real purchasing power of the people.

Furthermore, according to the World Bank's 2021 ICP estimates, the price level of household consumption in Taiwan is significantly lower than that of G7 countries, as well as South Korea, Singapore, and Hong Kong. According to IMF estimates, Taiwan's nominal GDP per capita in 2025 is US$37,827; however, GDP per capita calculated by Purchasing Power Parity (PPP) reaches US$85,127, which is higher than Hong Kong (US$78,919), Canada (US$65,500), South Korea (US$65,080), the UK (US$63,739), and Japan (US$54,815). The aforementioned data all indicate that Taiwan benefits from a low and stable price environment and steady economic growth, resulting in a continuous rise in overall real purchasing power. There is no evidence of the "eroded purchasing power" claimed in the article.

The Economist's use of declining unit labor costs to explain the reduction in Taiwan's labor share of income is inappropriate. The decline in Taiwan's unit labor costs reflects the ebb and flow of different industries and the substantial productivity growth in the Information and Communication Technology (ICT) sector. The decrease in Taiwan's labor share is mainly due to globalization, technological progress, financialization, and the domestic manufacturing sector's shift toward high capital-intensive industries; it is unrelated to the NTD exchange rate.

Life Insurance Industry and SWAPs

The currency mismatch on the balance sheet of Taiwan's life insurance industry is primarily because their funding sources are dominated by long-term NTD insurance liabilities. However, due to the government's strict fiscal discipline the issuance of government bonds is limited, leading to a shortage of domestic long-term investment instruments. Consequently, insurers invest overseas to match asset-liability durations and mitigate negative interest rate spreads; this is not deliberately guided by the CBC.

As for foreign exchange swaps, they are one of the CBC's monetary policy tools. By participating in the interbank swap market, the CBC provides US dollar liquidity and lower the cost of foreign currency funding for domestic borrowers, consistent with our mandate of fostering economic development. Therefore, the asset-liability currency mismatch and the expansion of overseas investments by life insurers are unrelated to the CBC's provision of FX SWAPs. Furthermore, the life insurance industry has already adopted various strategies to manage exchange rate risk. Additionally, the Financial Supervisory Commission (FSC) continues to promote measures to strengthen the financial soundness of the life insurance industry, which will enhance the sector's resilience against financial shocks and prevent systemic financial crises.

Finally, remitting surplus earnings to the national treasury is not a statutory goal of the CBC, nor is it a key indicator used for CBC performance evaluation. According to Taiwan's Central Bank Act, gains or losses resulting from exchange rate fluctuation in valuing foreign currency assets held by the CBC can not be listed in the current year's profit or loss. Therefore, the CBC does not need to, nor would it, suppress the NTD exchange rate to increase contributions to the Treasury.

Conclusion

In summary, following financial liberalization, the exchange rate is no longer determined solely by current account transactions, and CBC's intervention in the foreign exchange market is not part of Taiwan's industrial policy. Furthermore, given that the U.S. Treasury closely monitors the exchange rate policies of its major trading partners through semi-annual FX reports, it is virtually impossible for Taiwan to engage in currency manipulation. The CBC's exchange rate policy goal has always been to maintain the dynamic stability of the NTD to promote financial stability, thereby assisting Taiwan's continued economic development. We hope these clarifications provide a more comprehensive perspective on the structure and resilience of the Taiwan economy.

Sincerely,

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