

# *Developments in the Real Economy*



# I. Developments in the Real Economy

## 1. Overview

The world entered the year 2020 faced with a growing threat from the coronavirus (COVID-19) pandemic. As lockdown measures to contain the virus dealt a heavy blow to world trade and economic activity, Taiwan's economy was affected and its pace of growth slowed gradually in the first two quarters of the year. In the second half of 2020, the domestic growth pace picked up quarter after quarter, buoyed by a gradual global reopening and domestic stimulus measures and financial relief packages. For the year as a whole, the economy expanded by 3.11%, outpacing the previous year's 2.96%, with net foreign demand contributing the most to this expansion. Taiwan maintained a healthy balance of payments, including a continued current account surplus and a net asset increase in the financial account. The consumer price index (CPI) dropped by 0.23%, its first decline since 2016, as the pandemic caused an international oil price slump and a domestic promotional race to attract tourists with lower prices. Meanwhile, the average unemployment rate rose to 3.85%, the highest since 2017. Monthly real earnings per non-farm worker increased by 1.47% to NT\$53,094, marking an all-time high.

### **Steady Economic Growth**

In the first half of 2020, Taiwan's economic growth moderated because the coronavirus led to contractions in private consumption and exports, with its pace slowing to an annual growth rate of 0.35% in the second quarter. Nevertheless, in the second half of the year, Taiwan's success in reining in the virus outbreak helped to bring private consumption closer to positive territory; export growth also gained support from stronger demand for emerging technology applications (such as 5G networks) and products needed for remote working. In addition, government investment and spending increased steadily, mainly owing to an effort to accelerate progress in infrastructure projects and an increase in coronavirus-related expenditures. As a result, the economy improved in each quarter and reached an annual growth rate of 5.09% in the fourth quarter. For 2020 as a whole, the economy expanded by 3.11% year on year, a faster pace than the previous year's 2.96%.

Among the GDP expenditure components, net foreign demand became the driving force behind the economic growth of 2020, with a significant contribution of 2.73 percentage points. This was mainly due to export growth supported by shipments of advanced semiconductor chips and rising demand for new tech applications and products associated with remote working. Regarding domestic demand, private consumption came under strain because of border controls and international travel bans during the COVID-19 outbreak. On the other hand, fixed capital formation

recorded solid growth, because semiconductor firms increased capital outlays for advanced production, the government's major investment incentives went through robust implementation, and public projects gathered steam. In all, domestic demand contributed 0.38 percentage points to GDP growth.

Meanwhile, given a year-on-year rise in the national saving rate and a generally unchanged domestic investment rate, the excess saving ratio climbed from the previous year's 11.70% to 14.87%.

### **Healthy BOP Surplus**

In 2020, Taiwan continued to run a healthy balance of payments. The current account posted a surplus of US\$94,276 million, the financial account had a net asset increase of US\$50,035 million, and the Bank's reserve assets recorded an increase of US\$48,342 million.

In terms of the current account, the goods trade surplus grew to US\$74,742 million as exports increased and imports decreased, contributing the most to a wider current account surplus. The services account, which had a deficit the previous year, posted a surplus of US\$3,315 million owing to a narrower travel deficit and an increase in freight proceeds amidst the coronavirus pandemic. The primary income surplus rose to US\$19,362 million because of inward remittances of income from residents' direct investment abroad taking advantage of incentives to encourage offshore funds repatriation, which then led to smaller declines in receipts than those in payments. Meanwhile, the secondary income deficit increased to US\$3,143 million. For the year as a whole, the ratio of current account surplus to nominal GDP rose from the 10.6% of the previous year to 14.1%.

In terms of the financial account, portfolio investment recorded a net asset increase of US\$58,543 million. Among the components, portfolio investment abroad by residents rose by a net amount of US\$36,122 million, mainly because domestic insurers and banks expanded holdings of foreign securities. Local portfolio investment by nonresidents posted a net decrease of US\$22,421 million from a net increase the previous year, mainly because foreign investors cut back their local stock holdings. Direct investment registered a net increase of US\$5,466 million, of which direct investment abroad by residents rose to US\$14,268 million and nonresidents' inward direct investment went up to the second highest amount on record at US\$8,802 million. In terms of other investment, it posted a net asset decrease of US\$14,427 million.

### **Weakened Inflation**

As the severe economic impacts from the coronavirus pandemic caused international raw material (including crude oil) prices to slump, Taiwan's wholesale price index dropped by 7.79% over the previous year. Of the components, domestic sales excluding imports, imported goods, and exported goods recorded year-on-year declines of 5.71%, 10.28%, and 7.21%, respectively.

Consumer prices were also affected by the pandemic, mainly reflected in reductions of domestic fuel and gas prices amid an international oil plunge and promotional discounts of local tourism and accommodation services. Consequently, the consumer price index dropped by 0.23% for the year as a whole, the first decline since 2016. The core CPI (excluding fruit, vegetables, and energy items) rose by 0.35%, albeit the most modest increase since 2010.

### **Rising Unemployment Rate; Slower Wage Growth**

The unemployment rate went up at the start of 2020 amid the coronavirus pandemic and reached 4.07% in May, before dropping on account of a domestic economic pickup towards the end of the year and registering 3.68% in December. It averaged 3.85% for the year as a whole, the highest since 2017. The average labor force participation rate edged down by 0.03 percentage points to 59.14%, the first decline since 2010.

The average number of employed persons merely increased by four thousand, or 0.03%, to 11.50 million. The services sector hired 30 thousand more persons, representing a 0.44% increase mainly accounted for by increases in healthcare and social work sectors. On the other hand, employment of the industrial and agricultural sectors decreased by 16 thousand, or 0.39%, and by 11 thousand, or 2.03%, respectively.

In terms of wages, non-farm (industrial and services sectors) monthly earnings per employee averaged NT\$54,320 with a smaller year-on-year increase of 1.24%. Nevertheless, real monthly earnings (adjusted for inflation) rose by 1.47% to a historical high of NT\$53,094.

Meanwhile, expanded production and fewer total working hours combined to lead to increases in labor productivity indices of the industrial sector and the manufacturing industry by 17.78% and 18.32%, respectively. Unit labor costs decreased by 13.82% in the industrial sector and 14.16% in the manufacturing sector, reflecting smaller gains in total earnings than those in production.

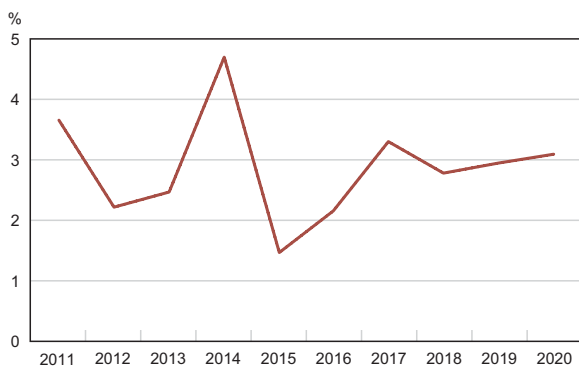
## 2. National Output and Income

In 2020, Taiwan's economy grew at an annual rate of 3.11%, slightly higher than the 2.96% of the previous year. Strong external demand served as the main engine of growth and exports benefited mostly from booming business opportunities in 5G applications, the stay-at-home economy, and higher demand for advanced semiconductor chips. Net exports contributed 2.73 percentage points to real GDP growth. In terms of domestic demand, fixed capital formation, supported by investment in public infrastructure and advanced semiconductor process technologies, experienced robust growth, while private consumption remained subdued in the light of the COVID-19 pandemic. Overall, domestic demand contributed 0.38 percentage points to real GDP growth. In the meantime, nominal GNI (gross national income, in US dollars) rose by 9.84% and per capita GNI increased from US\$26,594 to US\$29,230 over the year 2020.

In the first quarter, real GDP increased by 2.51% from the same quarter of the previous year. Government consumption grew moderately, and private investment expanded at a solid pace owing to higher demand for machinery and equipment investment. Private consumption and exports, on the contrary, were adversely affected by the outbreak of COVID-19. In the second quarter, real GDP exhibited the lowest level of growth over the year at 0.35%. Private consumption and exports deteriorated further as epidemic prevention measures, such as border controls and travel restrictions, began to weigh on domestic economic activity. Meanwhile, private investment displayed slower growth because of a decline in transportation investment, and growth in government consumption slipped into negative territory.

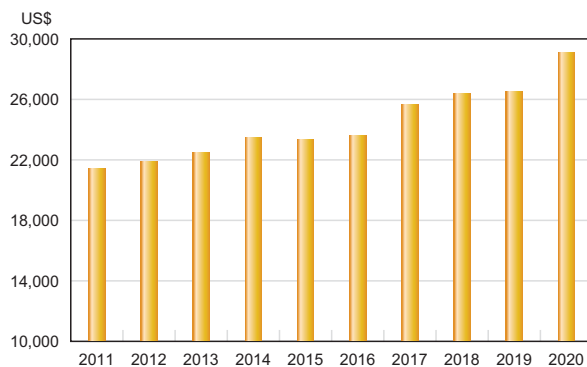
In the third quarter, real GDP expanded at an annual rate of 4.26%. Of note, the declining trend in private consumption eased, supported in part by fiscal stimulus and effective epidemic control

**Real Growth Rate of GDP**



Source: *Statistical Abstract of National Income*, DGBAS, Executive Yuan, February 2021.

**Per Capita GNI**



Source: *Statistical Abstract of National Income*, DGBAS, Executive Yuan, February 2021.

measures. Exports were driven by business opportunities arising from 5G applications and the stay-at-home economy, which created strong market demand for ICs and consumer electronics. Government consumption resumed positive growth and private investment enjoyed solid growth as demand for construction and transportation investments picked up. In the fourth quarter, real GDP growth strengthened further and reached the highest level over the year at 5.09%. Against the backdrop of strong economic growth, private consumption fell slightly, whereas private investment showed a modest uptrend because of a higher base effect. In the meantime, exports remained resilient and government consumption and investment were supported by higher spending on epidemic prevention and public infrastructure investment.

### Expenditure Components of GDP

All expenditure components of GDP, except private consumption, recorded positive growth in 2020. Among all the components, gross fixed capital formation was the primary source of economic growth and contributed 1.18 percentage points to real GDP growth for the year. Meanwhile, exports of goods and services and government consumption contributed to real GDP growth by 0.67 and 0.37 percentage points, respectively. Private consumption, on the other hand, was a drag of 1.24 percentage points on real GDP growth. With respect to shares of GDP, exports of goods and services remained to account for the largest share of GDP at 58.55%, followed by private consumption at 48.61% and gross fixed capital formation at 23.77%.

### GDP by Expenditure

Unit: %

	2020			2019		
	Share	Real Growth Rate	Contribution to Real Growth Rate of GDP*	Share	Real Growth Rate	Contribution to Real Growth Rate of GDP*
Private Consumption	48.61	-2.37	-1.24	52.21	2.26	1.18
Government Consumption	14.03	2.61	0.37	14.03	0.67	0.10
Gross Fixed Capital Formation	23.77	4.96	1.18	23.72	10.17	2.22
Change in Inventory	-0.09	-	0.07	-0.14	-	-0.80
Exports of Goods and Services	58.55	1.06	0.67	63.50	1.31	0.87
(Less : Imports of Goods and Services)	44.87	-3.86	-2.06	53.32	1.09	0.60
Expenditure-based GDP	100.00	3.11	3.11	100.00	2.96	2.96

Note: \* Percentage point.

Source: *Statistical Abstract of National Income*, DGBAS, Executive Yuan, February 2021.

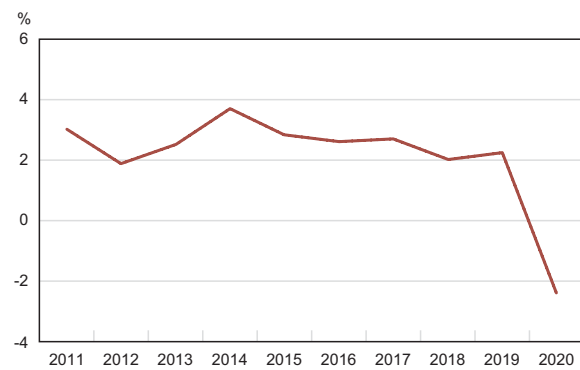
#### (1) Dismal Growth in Private Consumption

As a result of the economic dislocations caused by the pandemic, private consumption took a downturn in the beginning of the year and then recovered modestly in the second half of 2020.

For the year as a whole, private consumption grew at an annual rate of -2.37%, significantly lower than the 2.26% of 2019, and contributed -1.24 percentage points to real GDP growth.

In the first half of the year, total expenditure on outbound tourism plummeted substantially. Similarly, spending on home appliances and food away from home both fell precipitously as consumers became wary of discretionary spending. Private consumption therefore plunged by 1.74% and 5.21% in the first two quarters, respectively. In the second half of the year, the pandemic became under control and Taiwan's stock price index reached a historical high, alleviating strains in private consumption. The Triple Stimulus Voucher program launched by the government in July, in conjunction with an improvement in the automotive market, propped up sales of retail and food services. In the third and fourth quarters, private consumption declined by smaller magnitudes of 1.55% and 1.07%, respectively.

**Real Growth Rate of Private Consumption Expenditure**



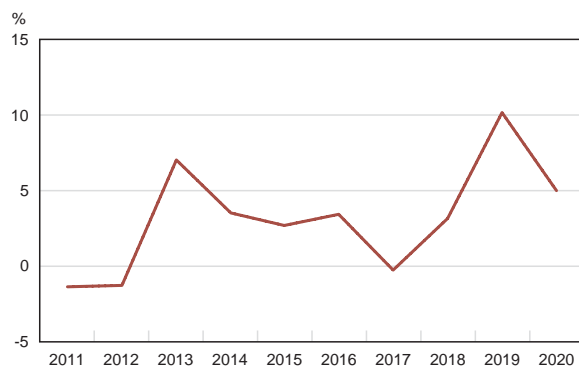
Source: *Statistical Abstract of National Income*, DGBAS, Executive Yuan, February 2021.

(2) Robust Expansion in Fixed Capital Formation

Fixed capital formation grew robustly at an annual rate of 4.96% and contributed 1.18 percentage points to real GDP growth. The expansion was attributed to higher demand for 5G infrastructure investment, continuing investment in semiconductor manufacturing, an improvement in the execution of public infrastructure projects, and the repatriation of offshore funds by overseas Taiwanese companies.

Underpinned by a rise in machinery and equipment investment, fixed capital formation increased by 6.95% in the first quarter of 2020. However, uncertainties arising from the pandemic caused the aviation industry to delay its spending on aircraft procurement in the second quarter, thereby hampering transportation investment. Growth in fixed capital formation therefore dropped to 4.11%. Nevertheless, growth rebounded to 6.12% in the third quarter owing to higher growth in construction and transportation investments. Despite continuing

**Real Growth Rate of Fixed Capital Formation**



Source: *Statistical Abstract of National Income*, DGBAS, Executive Yuan, February 2021.

growth in construction and transportation investments, a higher base effect resulted in a lower fixed capital formation growth rate of 2.96% in the fourth quarter, the lowest level over the year.

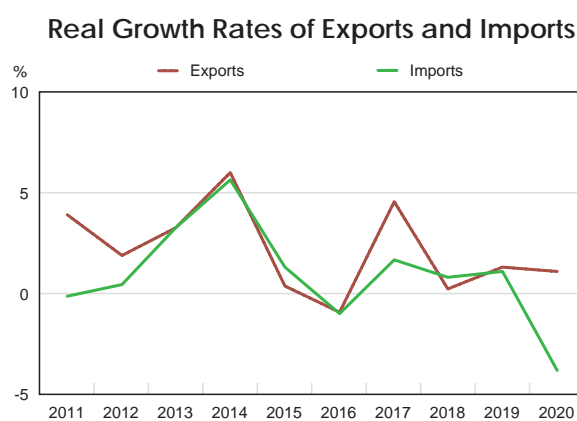
In terms of the type of capital formation, construction investment grew steadily at an annual rate of 5.90% in 2020. Although transportation investment experienced a sharp decline in the second quarter, its growth momentum recovered quickly in the second half of the year, leading to an annual growth rate of 5.65% for the entire year. In the meantime, investment in machinery and equipment grew by 4.58% owing to semiconductor equipment expenditure, the government's green energy development, and Taiwanese companies returning from overseas. Lastly, investment in intellectual property remained relatively stable and increased by 3.85% for the entire year.

### (3) Strong Upturn in Real Exports and Imports

Business opportunities arising from 5G applications and the stay-at-home economy mitigated the impacts of travel restrictions and sluggish global demand on Taiwan's exports. On balance, exports of goods and services increased moderately by 1.06% and contributed 0.67 percentage points to real GDP growth in 2020.

In the first quarter, the emergence of COVID-19 led to disruptions in global supply chains and a reduction in the number of inbound visitors, causing exports to decline by 2.09%. Epidemic containment measures, such as national lockdowns and border controls, exacerbated the slumps in global demand and the number of inbound visitors to Taiwan. Prices of raw materials, on the other hand, fluctuated at a low level. Consequently, exports dropped by 3.44% in the second quarter. In the third quarter, the reopening of economies, continuing growth in intermediary trade, and a surge in demand for ICs and consumer electronics raised exports by 3.33%. As traditional sector exports began to recover in the fourth quarter, export growth reached 5.67%, the highest growth over the year.

Turning to the imports of goods and services, significant reductions in outbound tourism expenditure and agricultural and industrial raw materials imports caused imports of goods and services to contract by 3.86% in 2020.



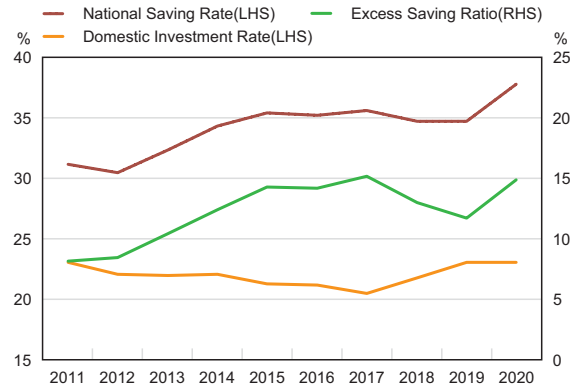
Source: *Statistical Abstract of National Income*, DGBAS, Executive Yuan, February 2021.



### Rise in Excess Saving Ratio

Domestic investment benefited from a number of positive factors, including the active development of green energy, continuing investment in advanced semiconductor manufacturing, accelerating progress in public infrastructure investment, and higher investment incentivized by the Three Major Programs for Investing in Taiwan. As a result, domestic investment as a share of GNI remained unchanged from the previous year at 23%. Meanwhile, the national saving rate (the ratio of national saving to GNI measured at current prices) increased moderately from 34.70% in 2019 to 37.86% in 2020, reflecting the adverse impact of the pandemic on consumption. Overall, the excess saving ratio, defined as the excess of gross national saving over gross domestic investment to GNI, rose from 11.70% in 2019 to 14.87% in 2020.

**National Saving Rate, Domestic Investment Rate, and Excess Saving Ratio**



Source: *Statistical Abstract of National Income*, DGBAS, Executive Yuan, February 2021.

### 3. Balance of Payments

In 2020, Taiwan's current account registered a record surplus of US\$94,276 million, which accounted for 14.1% of nominal GDP, up from 10.6% in the previous year. The financial account posted a net asset increase of US\$50,035 million. The reserves and related items recorded a surplus of US\$48,342 million, which was reflected in the increase in foreign reserve assets held by the Bank.

#### Balance of Payments

Unit: US\$ Million

	(1) 2020	(2) 2019	(1)-(2)
A. Current Account	94,276	65,161	29,115
Goods: credit (exports)	344,838	330,743	14,095
Goods: debit (imports)	270,096	273,072	-2,976
Balance on Goods	74,742	57,671	17,071
Services: credit (exports)	41,170	51,838	-10,668
Services: debit (imports)	37,855	56,905	-19,050
Balance on Services	3,315	-5,067	8,382
Primary income: credit	38,507	39,152	-645
Primary income: debit	19,145	23,756	-4,611
Balance on primary income	19,362	15,396	3,966
Secondary Income: credit	7,958	8,238	-280
Secondary Income: debit	11,101	11,077	24
Balance on secondary income	-3,143	-2,839	-304
B. Capital Account	-9	-3	-6
C. Financial Account	50,035	57,554	-7,519
Direct investment: assets	14,268	11,787	2,481
Equity and investment fund shares	10,972	10,760	212
Debt instruments	3,296	1,027	2,269
Direct investment: liabilities	8,802	8,240	562
Equity and investment fund shares	5,536	8,086	-2,550
Debt instruments	3,266	154	3,112
Portfolio investment: assets	36,122	54,877	-18,755
Equity and investment fund shares	1,974	-2,301	4,275
Debt securities	34,148	57,178	-23,030
Portfolio investment: liabilities	-22,421	8,476	-30,897
Equity and investment fund shares	-23,275	8,110	-31,385
Debt securities	854	366	488
Financial derivatives: assets	-20,563	-15,490	-5,073
Financial derivatives: liabilities	-21,016	-17,991	-3,025
Other investment: assets	2,140	12,112	-9,972
Other investment: liabilities	16,567	7,007	9,560
D. Net Errors and Omissions	4,110	9,054	-4,944
E. Reserves and Related Items*	48,342	16,658	31,684

Note: \* Excluding valuation changes in exchange rates.  
Source: *Balance of Payments*, CBC, February 2021.

## Widened Current Account Surplus

The current account consists of four major items, namely goods, services, primary income, and secondary income.

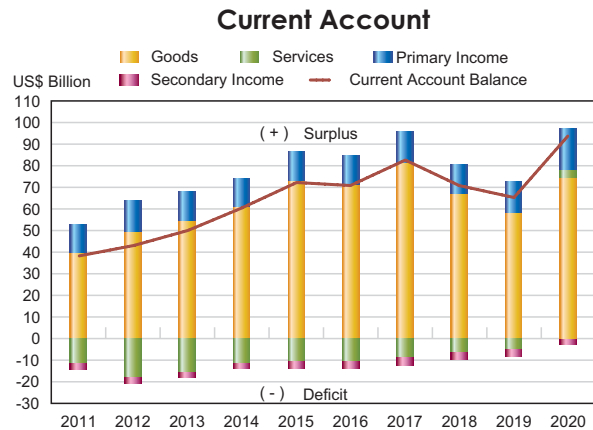
### (1) Goods

Owing to increased use of emerging technologies like 5G communications, Taiwan's external merchandise trade experienced an expansion in 2020, with the value of exports, on a BOP basis, increasing by 4.3% to US\$344,838 million from 2019. Among its components, net exports of goods under merchanting increased by 25.0% to US\$13,262 million. The value of imports decreased by 1.1% to US\$270,096 million. Overall, as a result of increased exports and decreased imports, the trade surplus widened from US\$57,671 million to US\$74,742 million. The top five trading partners of Taiwan in 2020 were Mainland China including Hong Kong (hereafter in this chapter referred to as Mainland China), ASEAN,<sup>1</sup> the US, Europe, and Japan.

In terms of Taiwan's trade with Mainland China, the value of exports amounted to US\$151,450 million in 2020, 14.6% higher than the previous year. As a manufacturing center of the world, Mainland China remained Taiwan's largest export market, and its share of total exports rose to 43.9%. Among major export products, electronic parts and components maintained the leading role, which benefited from increased use of emerging technologies. Imports from Mainland China grew by 10.8% to US\$64,779 million in 2020, comprising a larger share of 22.6% in total imports. The increase mainly came from electronic parts and components and information, communication and audio-video products as a result of stronger export-derived demand. As the increase in exports exceeded that in imports, the trade surplus with Mainland China increased to US\$86,671 million in 2020, which remained the largest source of Taiwan's trade surplus.

Exports to the ASEAN economies decreased to US\$53,240 million in 2020, down by 1.3% with a weak export performance of mineral products and textiles. Imports from the ASEAN economies increased by 2.7% to US\$35,903 million, accounting for 12.5% of total imports, mainly owing to increases in imports of electronic parts and components and information, communication and audio-video products. Overall, the trade surplus with the ASEAN economies declined to US\$17,338 million. Singapore, Vietnam, and the Philippines were the third, fourth, and fifth largest sources of Taiwan's trade surplus, respectively.

<sup>1</sup> Association of Southeast Asian Nations, including Brunei Darussalam, Cambodia, Indonesia, Laos, Myanmar, Malaysia, the Philippines, Singapore, Thailand, and Vietnam.



In 2020, Taiwan's exports to the US grew 9.3% to US\$50,554 million, comprising a larger share of 14.6% in total exports. The increase mainly came from information, communication and audio-video products. As for imports from the US, the value declined by 6.4% to US\$32,613 million, with its share in total imports decreasing to 11.4%. The major products contributing to the contraction included mineral products. Overall, the trade surplus with the US expanded to US\$17,941 million for the year, ranking second among Taiwan's surplus sources.

Exports to Europe decreased by 5.4% to US\$28,169 million, with its share of total exports falling to 8.2%. The two major products contributing to this contraction were iron and steel and articles thereof and machinery. Imports from Europe increased by 0.8% to US\$36,834 million, with the share of total imports increasing to 12.9%, mainly because of an increase in imports of mineral products and gold. In all, Taiwan's trade deficit with Europe expanded to US\$8,665 million in 2020.

Exports to Japan increased slightly by 0.5% to US\$23,402 million but its share in Taiwan's total exports decreased to 6.8%. Imports from Japan increased by 4.2% to US\$45,890 million and its share of total imports rose to 16.0%, with electronic parts and components contributing the most to this increase. The trade deficit with Japan widened to US\$22,488 million. Japan remained Taiwan's second largest source of imports and the largest source of trade deficit in 2020.

### Trade in Goods by Country

Unit: %

	2020			2019		
	Amount (US\$ Million)	Share	Annual Change	Amount (US\$ Million)	Share	Annual Change
Exports						
Mainland China (including Hong Kong)	151,450	43.9	14.6	132,115	40.1	-4.2
ASEAN	53,240	15.4	-1.3	53,935	16.4	-7.2
US	50,554	14.6	9.3	46,247	14.1	17.1
Europe	28,169	8.2	-5.4	29,770	9.0	-4.8
Japan	23,402	6.8	0.5	23,279	7.1	2.1
Rest of the World	38,458	11.1	-12.2	43,812	13.3	-1.4
Total	345,274	100.0	4.9	329,157	100.0	-1.5
Imports						
Mainland China (including Hong Kong)	64,779	22.6	10.8	58,457	20.5	5.9
Japan	45,890	16.0	4.2	44,052	15.4	-0.2
US	32,613	11.4	-6.4	34,850	12.2	5.3
Europe	36,834	12.9	0.8	36,530	12.8	5.6
ASEAN	35,903	12.5	2.7	34,965	12.2	1.2
Rest of the World	70,462	24.6	-8.2	76,797	26.9	-7.7
Total	286,481	100.0	0.3	285,651	100.0	0.3

Source: *Monthly Statistics of Exports and Imports*, Ministry of Finance, R.O.C. (Taiwan).

#### (2) Services

In 2020, services turned from a US\$5,067 million deficit to a US\$3,315 million surplus, mainly because of a smaller travel deficit and increasing freight transport receipts amid the COVID-19 pandemic.

Of the various components of the services account, receipts of manufacturing services on physical inputs owned by others, reflected by the receipts of a resident providing a nonresident with the services of processing, assembly, labeling, or packing of goods owned by the nonresident, increased by US\$590 million to US\$3,804 million in 2020. On the debit side, payments for manufacturing services, namely a resident's payments to a nonresident for providing these services for the resident who is also the owner of the goods concerned, decreased by US\$267 million to US\$1,615 million. In total, net manufacturing receipts increased from US\$1,332 million to US\$2,189 million.

In terms of maintenance and repair services n.i.e. (not included elsewhere), which covers maintenance and repair work for or by nonresidents on ships, aircraft, and other transport equipment, the receipts declined by US\$109 million to US\$1,280 million owing to decreased receipts from aircraft repairs. On the other hand, the payments thereof declined by US\$170 million to US\$752 million. In all, the surplus on this account widened to US\$528 million.

Transport receipts increased by US\$490 million to US\$11,012 million, reflecting increases in international freight proceeds owing to the transportation of products related to the pandemic response and stay-at-home economy, as well as cross-border e-commerce transactions. Transport payments declined by US\$1,915 million to US\$9,904 million as a result of decreases in passenger fares paid to foreign airlines. Overall, net transport services in 2020 turned from a US\$1,297 million deficit to a US\$1,108 million surplus.

Travel receipts decreased by US\$12,565 million to US\$1,846 million, and travel payments decreased by US\$17,350 million to US\$3,150 million. This was because the COVID-19 border control measures across the world led the numbers of inbound visitors and outbound travelers to both shrink. In all, the deficit on the travel account narrowed to US\$1,304 million.

Other services receipts grew by US\$926 million to US\$23,228 million, mainly attributable to increases in receipts from computer and information services and from professional and technical services (under other business services). Other services payments rose by US\$652 million to US\$22,434 million, owing to increases in charges for the use of intellectual property n.i.e. and payments for computer and information services. Overall, the surplus of other services widened to US\$794 million in 2020.

### (3) Primary Income

Primary income consists of compensation of employees, investment income, and other primary income. In 2020, primary income receipts decreased by US\$645 million to US\$38,507 million, mainly because of less interest received by banks. Meanwhile, primary income payments also decreased to US\$19,145 million, US\$4,611 million less than the previous year. This was mostly attributable to a reduction in interest paid by banks. After the *Management, Utilization, and Taxation of Repatriated Offshore Funds Act* took effect on August 15, 2019, some overseas direct investment income

continued to be repatriated in 2020. Consequently, the surplus on the primary income account rose to US\$19,362 million.

#### (4) Secondary Income

For the year of 2020, secondary income receipts amounted to US\$7,958 million, reflecting decreases in inward family support allowances. Secondary income payments amounted to US\$11,101 million, mainly owing to increases in outward workers' remittances. As a whole, the deficit on secondary income widened to US\$3,143 million in 2020.

### Capital Account Deficit

The capital account includes capital transfers and the acquisition and disposal of non-produced, non-financial assets. In 2020, the deficit on the capital account amounted to US\$9 million, increasing by US\$6 million.

### Net Asset Increase in Financial Account

In 2020, the financial account showed an increase of US\$50,035 million in net assets. In terms of sub-categories, direct investment, portfolio investment, and financial derivatives exhibited increases of US\$5,466 million, US\$58,543 million, and US\$453 million in net assets, respectively. Other investment exhibited a decrease of US\$14,427 million in net assets.

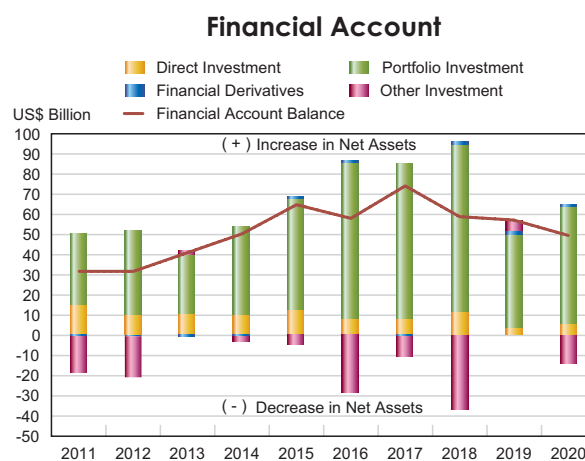
#### (1) Direct Investment

Direct investment abroad by residents exhibited an increase of US\$14,268 million in assets. Direct investment in Taiwan by nonresidents showed an increase of US\$8,802 million, the highest on record except for 2016.

#### (2) Portfolio Investment

In 2020, portfolio investment abroad by residents increased by US\$36,122 million mainly because insurance companies and banks expanded their overseas investment. Equity and investment fund shares increased by US\$1,974 million, and debt securities by US\$34,148 million.

On the other hand, local portfolio investment by nonresidents decreased by US\$22,441 million as foreign investors reduced holdings of Taiwanese stocks. Equity and investment fund shares decreased by US\$23,275 million, while debt securities increased by US\$854 million.



### (3) Financial Derivatives

Assets in financial derivatives decreased by US\$20,563 million, principally accounted for by gains on transactions of financial derivatives received by other financial corporations.

Liabilities in financial derivatives decreased by US\$21,016 million, mainly because of losses on transactions of financial derivatives paid by other financial corporations.

### (4) Other Investment

In 2020, other investment abroad by residents increased by US\$2,140 million. Of the components, currency and deposits increased by US\$9,808 million as a result of growing banks' due from overseas branches; loans exhibited an increase of US\$4,034 million because of an increase in interbank loans; trade credit decreased by US\$8,598 million, owing to a decrease in trade credit extended by corporations; other accounts receivable decreased by US\$3,109 million as a result of a decrease in banks' accounts receivable from nonresidents.

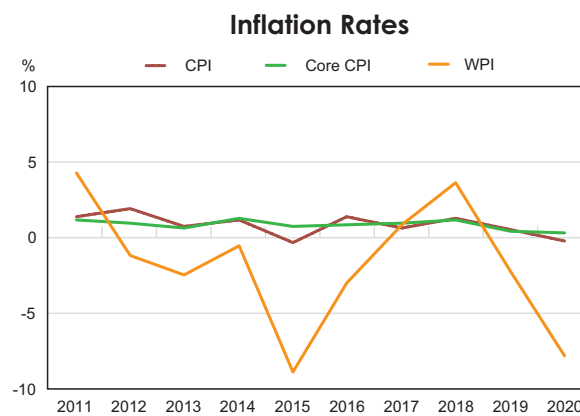
Other inward investment by nonresidents increased by US\$16,567 million. Of the components, currency and deposits increased by US\$2,126 million because of growing deposits in Offshore Banking Units by nonresidents; loans increased by US\$5,447 million because of expanded external borrowing by non-financial corporations; trade credit increased by US\$9,116 million, owing to an increase in trade credit received by corporations; other accounts payable decreased by US\$122 million.

### **Increase in Foreign Exchange Reserves**

The foreign exchange reserve assets held by the Bank increased by US\$48,432 million in 2020, mainly owing to returns from foreign exchange reserves management and the Bank's smoothing operations in response to excessive volatility caused by large capital inflows.

## 4. Prices

In 2020, with the COVID-19 pandemic battering the world economy, steep declines in international crude oil and other raw material prices dragged Taiwan's wholesale price index (WPI) down by 7.79%. Meanwhile, headline inflation, measured by the CPI, fell by 0.23% as the pandemic-induced plunge in international oil prices drove down domestic energy prices, the hospitality industry used discount offers to promote business, and communication fees stayed low. The core CPI, which excludes fruit, vegetables, and energy, increased by 0.35%, the lowest since 2010.



Source: *Price Statistics Monthly*, DGBAS, Executive Yuan.

### Further Decrease in Wholesale Prices

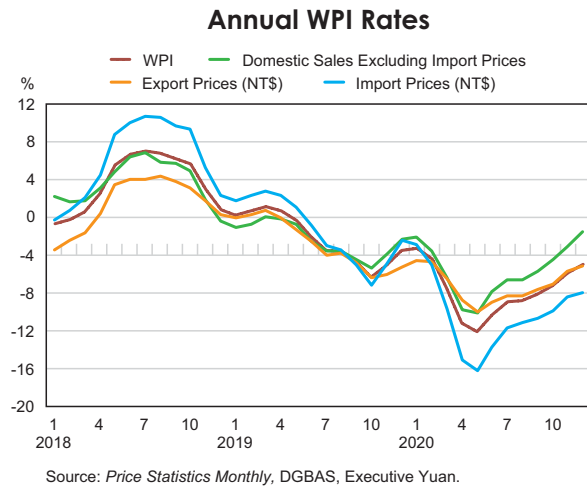
The WPI fell further by 7.79% in 2020, lower than the -2.26% of the previous year. The decrease mainly reflected sharp drops in international raw material prices amid the coronavirus pandemic. In terms of monthly movements, the annual WPI inflation rate gradually trended down from the beginning of the year and hit an all-year low of -12.19% in May because of an international oil price slump. Later, the decline in the annual WPI inflation rate abated owing to a rebound in international oil prices boosted by the resumption of economic activity across the world, and the decrease narrowed to 5.04% in December.

Broken down by the three major components of the WPI, the annual rates of change in prices for imports, domestic sales excluding imports, and exports all declined in 2020 on account of marked drops in raw material prices.

Import prices, weighted at 31.92% of the WPI, decreased by 6.13% in US dollar terms in 2020. As the NT dollar appreciated against the US dollar over 2020, the annual growth rate of import prices posted a larger decrease of 10.28% in NT dollar terms. Among the components of import prices in terms of NT dollars, prices of raw materials moved down by 13.29% and accounted for 9.44 percentage points in the import price decrease, mainly because of falling prices of mineral products and chemical products. Prices of capital goods and consumer goods also declined by 3.76% and 1.89%, respectively.



Export prices, weighted at 40.04% of the WPI, slid by 2.91% in US dollar terms in 2020. Owing to the NT dollar appreciation against the US dollar, the annual change in export prices experienced a 7.21% decline in terms of the NT dollar. Among the components of export prices in NT dollar terms, prices of raw materials went down by 7.48%, contributing 6.06 percentage points to the export price decrease, primarily reflecting lower prices of mining products, chemical products, as well as plastics and rubber products. In addition, prices of capital goods and consumer goods dropped by 3.90% and 7.16%, respectively.



As global demand weakened amid the coronavirus pandemic, pushing down import costs of primary commodities, prices of domestic sales excluding imports, weighted at 28.04% of the WPI, slipped by 5.71% in 2020. In terms of the basic groups, prices of manufacturing products fell by 5.90%, mainly attributable to a larger reduction in prices of petroleum and coal products. Prices of water, electricity, and gas supply went down by 7.15%, while prices of quarrying and mining products dropped by 1.31%. Prices of agriculture, forestry, fishing, and animal husbandry products registered a decrease of 1.28%.

### Slight Decrease in Consumer Prices

The CPI slightly fell by 0.23% in 2020, the first yearly decline since 2016. In the first two months of the year, the annual CPI inflation rate fluctuated because of the seasonal factor of the Lunar New Year holidays. From March onwards, as domestic energy prices decreased significantly amid the pandemic-induced slump in international oil prices and hospitality businesses reduced prices to attract customers, the CPI inflation rate stayed negative and slowed to an all-year low of -1.21% in May. Subsequently, the CPI inflation rate climbed back up and registered -0.33% in August, with smaller declines in prices of domestic fuels and entertainment services thanks to the reopening of economic activity around the world. In September, the CPI inflation rate moved down to -0.58% owing to a higher base effect. Afterwards, driven by rises in airfares and vegetables prices, the rate went up and turned to positive 0.09% in November, and posted a smaller increase of 0.06% in December.

Compared to the slight downtrend in the CPI, the core CPI inflation rate rose mildly by 0.35% in 2020. In the first two months of the year, the rate experienced more fluctuations on account of

the seasonal factor of the Lunar New Year holidays. From March onwards, the pace of core CPI growth slackened and slowed to 0.06% in May, mainly owing to weak domestic demand affected by the pandemic. Later, with domestic demand rebounding amid the eased pandemic situation at home, the core inflation rate trended up and recorded 0.68% in December.

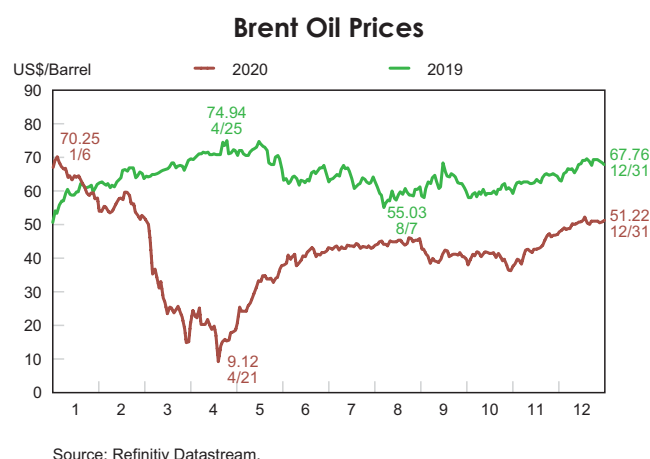
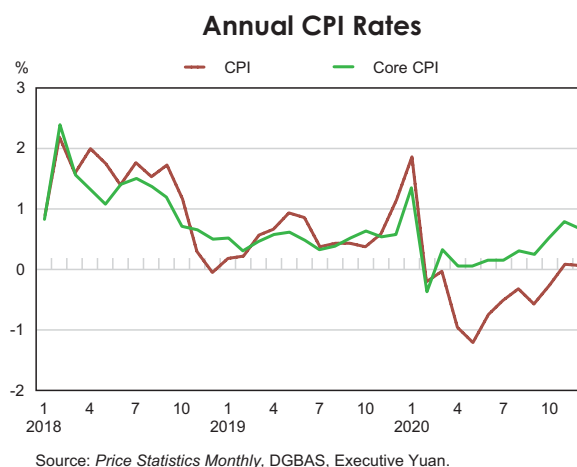
The main factors contributing to the decrease of CPI inflation in 2020 were as follows:

- (1) For 2020, Brent oil prices averaged US\$41.74 per barrel, tumbling by 35.16% from the previous year. As a result, the decline in imported costs of petroleum and natural gas lowered domestic oil and gas prices, which dropped by 17.46% and 16.45% and accounted for 0.48 and 0.07 percentage points in the CPI decrease, respectively.
- (2) Discount offers used by hospitality businesses to appeal to customers amid the pandemic pushed down prices of entertainment services by 3.19%, subtracting 0.18 percentage points from CPI inflation.

- (3) As domestic communication service providers continued with fee reductions, communication fees slipped by 3.62%, deducting 0.09 percentage points from CPI inflation.

The main upward factors contributing to CPI inflation in 2020 were as follows:

- (1) Prices of residential rent continued a mild uptrend and rose by 0.90%, contributing 0.13 percentage points to CPI inflation.
- (2) Increased prices of gold ornaments and jewelry led prices of personal effects to grow by 3.89%, accounting for 0.09 percentage points in the CPI inflation rate.
- (3) A minimum wage hike pushed up prices of food away from home by 0.95%, contributing 0.09 percentage points to CPI inflation.



(4) Less discount promotions for clothing drove up prices of garments by 1.91%, accounting for 0.06 percentage points in the CPI increase.

### Percentage Changes in the Major Components of the CPI in 2020

Item	Annual Rate of Change (%)	Contribution to CPI Inflation Rate (Percentage Point)
CPI	-0.23	-0.23
Residential Rent	0.90	0.13
Personal Effects	3.89	0.09
Food Away from Home	0.95	0.09
Garments	1.91	0.06
Total		0.37
Fuels & Lubricants	-17.46	-0.48
Entertainment Services	-3.19	-0.18
Communication Fees	-3.62	-0.09
Gas	-16.45	-0.07
Total		-0.82
Others		0.22

Source: *Price Statistics Monthly*, DGBAS, Executive Yuan.

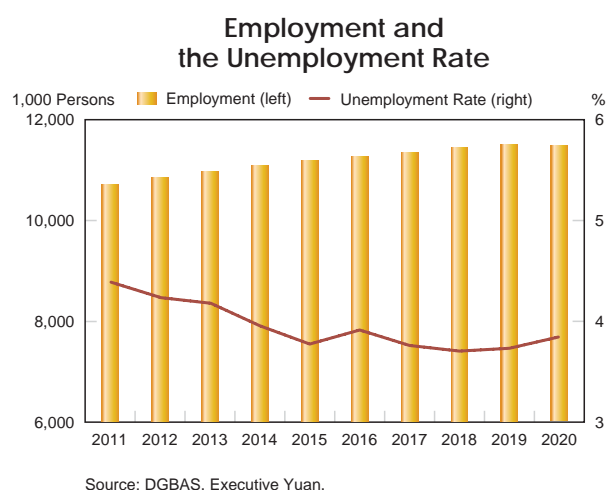
## 5. Labor Market

### Slight Increase in Employment

From the beginning of 2020, as the spread of COVID-19 dampened the hiring intentions of firms, employment trended downwards to 11.46 million persons in May. Afterwards, employment gradually picked up along with the economic recovery amid a relatively successful pandemic containment at home. For the year as a whole, annual average employment was 11.50 million persons, a slight increase of four thousand persons, or 0.03%, from the previous year.

In terms of employment by sector, the industrial sector was the most severely hit by the pandemic, with employment decreasing by 16 thousand persons or 0.39%. Within this sector, employment in manufacturing declined by 25 thousand persons or 0.82%. Employment in the agricultural sector also went down by 11 thousand persons or 2.03%. On the other hand, employment in the services sector increased by 30 thousand persons or 0.44%. Within this sector, employment in human health and social work activities grew by 13 thousand persons or 2.71%. Of total employment, the services sector accounted for 59.8%, up by 0.25 percentage points from the previous year, while the shares of the industrial and the agricultural sectors shrank to 35.43% and 4.76%, respectively.

In terms of employed persons by occupation, employment of white collar workers,<sup>2</sup> accounting for 45.19% of total employment, increased by 15 thousand persons or 0.29%. Services and sales employment made up 19.88% of total employment and increased by five thousand persons or 0.22%, while employment of blue collar workers,<sup>3</sup> accounting for 34.93% of total employment, decreased by 16 thousand persons or 0.4%. These figures indicate that employment of blue collar workers was impacted more by the pandemic.



### Rising Unemployment Rate

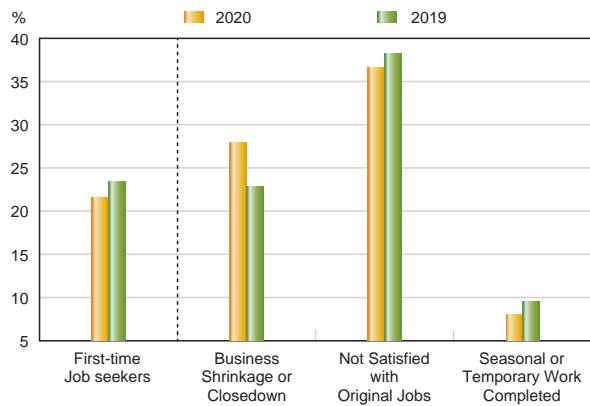
The unemployment rate exhibited an upward trend from the beginning of the year on account of the outbreak of the pandemic. It rose to 4.07% in May 2020, the highest since September 2016, and then gradually declined to 3.68% in December as economic growth regained momentum. For the year as a whole, the unemployment rate was 3.85%, the highest since 2017.

<sup>2</sup> Including legislators, senior officials, managers, professionals, technicians, associate professionals, and clerical support workers.

<sup>3</sup> Including skilled workers in agricultural, forestry, fishing, and animal husbandry industries, and craft and machinery related workers.

With the government's support measures<sup>4</sup> to mitigate the pandemic's impacts on the labor market, unemployment duration decreased marginally by 0.25 weeks to 22.63 weeks over the previous year. In terms of age groups, unemployment duration of the age group 45-64 improved the most and decreased by 0.87 weeks to 23.81 weeks, while those of the age groups 15-24 and 25-44 decreased by 0.36 and 0.15 weeks to 18.68 and 23.99 weeks, respectively. The average number of the long-term unemployed<sup>5</sup> was 55 thousand persons, a decrease of eight thousand persons compared to that in the previous year.

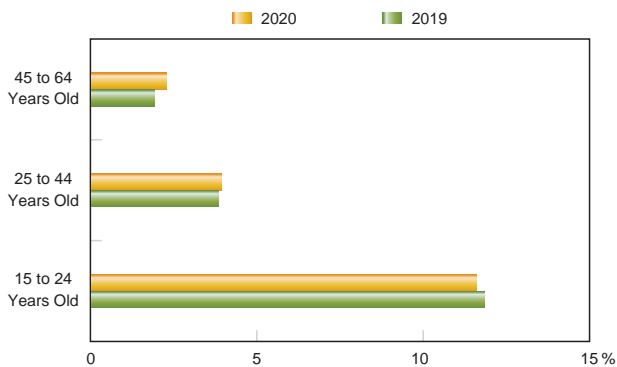
### Causes of Unemployment



Source: DGBAS, Executive Yuan.

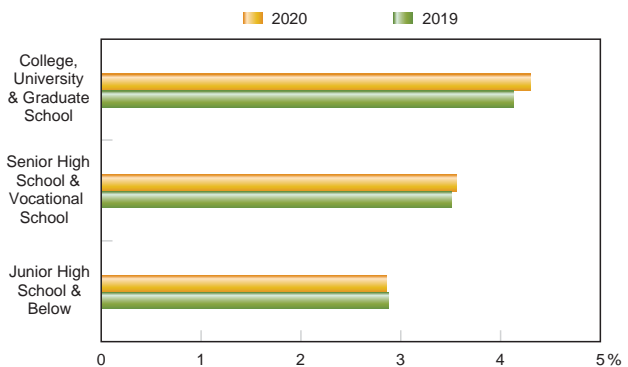
In terms of causes of unemployment, total unemployment in 2020 was 460 thousand persons, increasing by 14 thousand, or 3.28%, from the previous year, mainly because unemployment of experienced job seekers, with a share 77.87% of total unemployment, increased by 19 thousand persons or 5.74%. Among them, unemployment because of shrinkage or closedown of business recorded the greatest increase, by 27 thousand persons or 25.87%, and its share of total unemployment also increased from 23.54% the previous year to 28.69%, reflecting a rise in this type of involuntary unemployment owing to the impacts of the pandemic. By contrast, unemployment because of dissatisfaction with their original jobs still accounted for the largest share of total unemployment, with a share of 37.18%, while falling by three thousand persons or 1.56%. Meanwhile, unemployment

### Unemployment Rate by Age



Source: DGBAS, Executive Yuan.

### Unemployment Rate by Educational Background



Source: DGBAS, Executive Yuan.

<sup>4</sup> Including an immediate part-time job program for workers impacted by COVID-19, employment support measures for fresh graduates, "relief loans for workers" program, and "the Recharge and Restart Training Program" for furloughed employees.

<sup>5</sup> Referring to those who have been unemployed for 53 weeks or more.

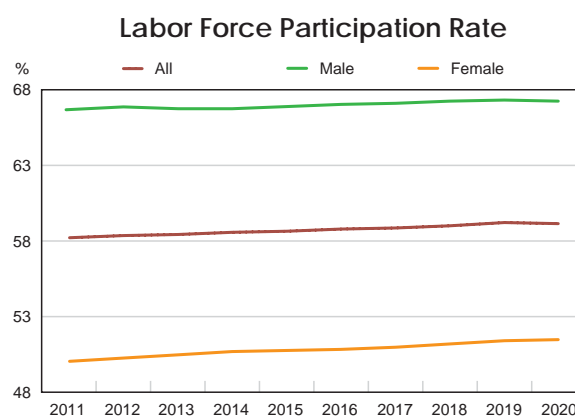
because of conclusion of seasonal or temporary work dropped by five thousand persons, or 12.72%, and made up a smaller share of 8.18%.

In terms of age groups, in the year 2020 the unemployment rates of the age groups 25-44 and 45-64 edged up by 0.07 and 0.36 percentage points from the previous year to 3.94% and 2.30%, respectively; the unemployment rate of the age group 15-24 fell by 0.27 percentage points to 11.61%, still the highest among all the age groups.

In terms of educational background, the unemployment rate of people with a senior high school or vocational school degree and that of people with a college degree or above increased by 0.05 and 0.17 percentage points to 3.56% and 4.30%, respectively. On the other hand, the unemployment rate of people with a junior high school degree or below decreased by 0.02 percentage points to 2.85%. Younger persons and highly educated people suffered higher unemployment rates in 2020, indicating a mismatch between skill acquired through tertiary education and demand for skills in the labor market.

### Labor Force Slightly Increased While Labor Force Participation Rate Edged Down

Affected by falling demand for labor amid the coronavirus pandemic, the labor force (employed and unemployed combined) grew only mildly by 18 thousand persons, or 0.15%, to 11.96 million persons in 2020, while the non-labor force grew by 24 thousand persons, or 0.3%, to 8.27 million persons. The average labor force participation rate inched down by 0.03 percentage points over the previous year to 59.14% in 2020, the first decline since 2010.



Source: DGBAS, Executive Yuan.

In terms of gender, the male labor force participation rate was 67.24%, a drop of 0.10 percentage points from the year before. The female rate has continued to increase since 2001 and reached 51.41% in 2020, reflecting that government policies have been effective in promoting gender equality, improving the work environment, and facilitating female employment in recent years.

In terms of age groups, the labor participation rates of all age groups went up in 2020, with those of the 16-24, 25-44, and 45-64 age groups increasing by 0.44, 0.02, and 0.51 percentage points to 36.53%, 89.52%, and 64.00%, respectively. Although Taiwan's total labor force participation rate has generally exhibited an upward trend since 2010, it is still lower than those of the United States (61.7%), Japan (62.0%), South Korea (62.5%), and Singapore (68.1%), attributable to the extension

of schooling and early retirement. To cope with the challenges arising from an aging population, in recent years the government has actively promoted the employment of the youth population as well as middle-aged workers. Furthermore, the enactment of *Middle-Aged and Elderly Employment Promotion Act* in December 2020, was expected to gradually bear fruit by supporting the re-employment of the elderly and constructing a friendly work environment for the middle-aged and the old.

In terms of education level, the labor force participation rates of workers with a junior high school degree or below and those with a senior high school or vocational degree dropped by 1.17 and 0.11 percentage points to 39.70% and 62.77%, respectively, while the participation rates of workers with a college degree or above rose by 0.17 percentage points to 66.00%.

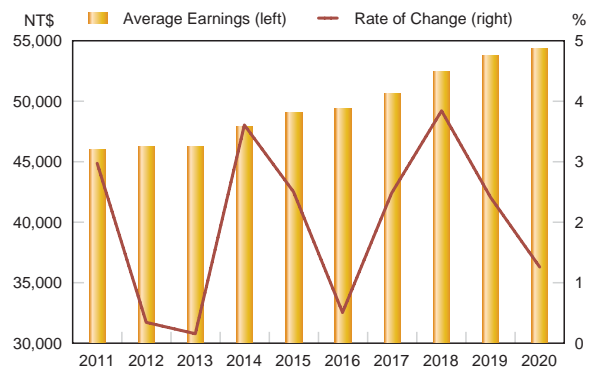
### Slower Wage Growth

For the year 2020, the average monthly earnings per worker of the non-farm sector increased by 1.24% to NT\$54,320, the lowest since 2017, mainly resulting from slower pay raises as well as reduced overtime hours caused by the pandemic. However, after adjustment for inflation, the average real monthly earnings increased by 1.47% to a historical high at NT\$53,094.

In terms of major sectors, the average monthly earnings of the industrial and services sectors increased by 0.4% and 1.84% to NT\$53,078 and NT\$55,241, respectively, while increasing by 0.64% and 2.08%, respectively, in real terms.

In terms of industrial classification, the finance and insurance sector had the highest average monthly earnings with NT\$94,413, the electricity and gas supply sector came in second with NT\$94,363. On the other hand, workers in those education services involving short-term tutoring and driving school and the accommodation and food services sector earned an average monthly wage of NT\$27,104 and NT\$35,008, respectively, the lowest two among all sectors owing to a large number of part-time employees in these sectors. In terms of growth rates, most sectors witnessed increases in average monthly earnings, with the real estate sector recording the largest increase at 7.36% and the arts, entertainment and recreation sector in second place with an increase of 2.76%.

Amount and Rate of Change of Average Earnings of Non-farm Workers



Source: DGBAS, Executive Yuan.

## Labor Productivity Significantly Increased While Unit Labor Cost Decreased

As total production increased while total working hours decreased, labor productivity of the industrial and the manufacturing sectors substantially rose by 17.78% and 18.32%, respectively. In the manufacturing sector, the manufacture of electronic parts and components registered the largest increase in labor productivity with 28.93%, followed by the computers, electronic and optical products manufacturing sector with 19.25%. The marked increase in labor productivity mainly resulted from buoyant demand for semiconductor chips as well as for information and communications products, leading to a substantial expansion in production.

Since the increase in total earnings was lower than that in production, unit labor costs of the industrial and the manufacturing sectors decreased by 13.82% and 14.16% year on year, respectively. Of all the manufacturing sectors, the electronic parts and components manufacturing sector experienced the largest decrease in unit labor cost with 20.96%, followed by computers, electronic and optical products manufacturing with a decrease of 19.86%.

