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.