I. Developments in the Real Economy

1. Overview

2021 marked the year when Taiwan recorded the fastest pace of economic growth since 2011, as robust growth in private investment and exports and a pickup in government spending helped the economy to expand by 6.45% from the 3.36% registered the year before. Meanwhile, 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) rose by 1.96%, the largest annual increase since 2009 owing to higher fuel and lubricant fees shored up by international crude oil price surges, rises in airfares and fruit and vegetable prices, and a lower base effect. The core CPI (excluding fruit, vegetables, and energy) showed a mild increase of 1.33%. The labor market was dampened by a surge in domestic COVID-19 infections around the middle of the year that hit services sector jobs with a tightening of containment measures. The unemployment rate went up to 3.95%, the highest since 2015, whereas non-farm monthly real earnings per worker still posted a 0.96% increase, taking it to a historical high of NT$53,445.

Robust Economic Growth

In the first quarter of 2021, exports and private investment both gathered steam amid a global economic recovery and strong demand for emerging technology applications, while private consumption rebounded and government spending picked up steadily. Combined, they helped drive the economic growth rate towards an all-year high of 9.20%. In the following two quarters, despite the continued expansion in exports and private investment, a domestic COVID-19 flare-up in mid-May dragged private consumption into negative growth, thus slowing down the economic expansion to a pace of 4.37% for the third quarter. In the fourth quarter, though, private consumption was reinvigorated by the lifting of pandemic restrictions after the outbreak eased and also boosted by the government's consumption stimulus measures. The rebound, along with continued export and private investment growth, brought about a faster economic expansion at 4.86% year on year. For the year as a whole, Taiwan's economy posted an annual growth rate of 6.45%, significantly higher than the previous year's 3.36%.

Among the GDP expenditure components, domestic demand played the key role in driving economic growth in 2021. With a faster pickup in fixed capital formation – fueled by increases in tech giants' capital outlays and continued progress in infrastructure projects to facilitate green energy and 5G network development – and a mild expansion in government spending, domestic demand contributed 4.55 percentage points to the GDP growth, higher than the 0.68 percentage point contribution the previous year. Regarding external demand, in addition to solid export growth, imports were also spurred markedly by derived demand from exports and investment as well as surging international raw material prices. On balance, the contribution from net foreign demand shrank to 1.90 percentage points from 2.67 percentage points the previous year.

The domestic investment rate (gross domestic investment to GDP) rose from 24.19% a year before to 26.85% in 2021, a record high unseen since 2001, thanks to a significant expansion in private investment. By contrast, a slump in private consumer spending amid domestic COVID-19 outbreaks led the national saving rate (gross national saving to gross national income) to rise from 38.39% a year ago to 42.22%. Overall, with national saving rising faster than domestic investment, the excess saving rate (the difference between saving and investment as a percentage of GDP) went up from 15.31% in 2020 to 16.19% in 2021.

Healthy BOP Surplus

In 2021, Taiwan continued to record a healthy balance of payments. The current account posted a surplus of US$116,123 million, the financial account had a net asset increase of US$104,604 million, and the Bank's reserve assets showed an increase of US$20,993 million.

On the current account, goods imports and exports both registered strong growth, with exports increasing more than imports. This led the goods trade surplus to rise from the previous year's US$75,028 million to US$90,120 million, accounting for the largest contribution to the widening of the current account surplus. The services account surplus climbed to a historical high of US$12,314 million from the previous year's US$3,754 million, mainly bolstered by a surge in freight proceeds. The primary income surplus shrank from US$19,328 million to US$16,390 million, reflecting a decrease in banks' interest income and an increase in payments for nonresidents' portfolio investment income. The secondary income deficit narrowed from US$3,154 million to US$2,701 million. For the year of 2021, the ratio of current account surplus to nominal GDP rose from the 14.2% of the previous year to 15.0%.

On the financial account, portfolio investment recorded a net asset increase of US$101,281 million. Among the components, residents' portfolio investment abroad increased by a net amount of US$81,194 million, mainly because domestic insurers and banks stepped up holdings of foreign securities. Inward portfolio investment by nonresidents posted a net decrease of US$20,087 million, mainly because foreign investors shed their local stock holdings. Direct investment registered a net increase of US$4,703 million, of which direct investment abroad by residents declined to US$10,108 million and nonresidents' inward direct investment also dropped to US$5,405 million. In terms of other investment, it posted a net asset decrease of US$1,094 million.