I. Developments in the Real Economy

1. Overview

In 2022, Taiwan's export growth was dampened by the global economic slowdown, but steady private investment and reviving private consumption provided some support. The economy expanded by 2.45% for the year as a whole, down from the 6.53% of the previous year and hitting a record low unseen since 2017. Meanwhile, Taiwan maintained a healthy balance of payments, including a continued current account surplus and a net asset increase in the financial account. Regarding inflation, as supply-side factors pushed up domestic food prices and fuel and lubricant fees, consumer price index (CPI) inflation climbed by 2.95% year on year and core CPI inflation rose by 2.61%, both at historical highs since 2009. The unemployment rate went up owing to pandemic-related disruptions but came down later as the pandemic eased off, averaging 3.67% for the year as a whole, the lowest since 2011. In terms of wage growth, non-farm monthly real earnings per worker continued to rise, setting a new record at NT$53,741 after increasing by 0.48% year on year.

Robust Economic Growth

A quarter-by-quarter review showed that, in the first quarter of 2022, a continued upturn in private investment and exports drove the economy to grow by 3.87%, the highest growth rate of the year. In the second quarter, though COVID-19 infections rose sharply, private consumption still posted mild growth thanks to a lower base in the previous year under a level-3 pandemic lockdown, and private investment extended its uptrend; however, a softening in final demand for consumer goods weighed on export growth, slowing the GDP growth rate to 2.95%. The economy regained some momentum in the third quarter and expanded by 3.64%, mainly benefiting from a marked rebound in private consumption with pandemic impacts abating and tourism stimulus schemes in motion. In the fourth quarter, though, the economy contracted by 0.14% owing to negative export growth, the first year-on-year contraction since the first quarter of 2016. For the year as a whole, the economic growth rate was 2.45%, down by 4.08 percentage points from the previous year.

Among the GDP expenditure components, domestic demand was the driving force for the 2022 economic growth. Private consumption increased, fixed capital formation rose steadily as major tech firms raised capital outlays and green investments and 5G network infrastructure projects continued; combined with a steady increase in government consumption, the contribution of domestic demand to the GDP growth was 3.17 percentage points, slightly lower than the 4.52 percentage points the previous year. With regard to external demand, importderived demand was driven up by exports and investments. With import growth faster than export growth, net foreign demand contributed minus 0.72 percentage points to the GDP growth, down from 2.01 percentage points the previous year.

Bolstered by a further increase in private investment in 2022, the domestic investment rate (gross domestic investment to GDP) rose from 26.96% the previous year to 27.78%, the highest since 1996. As the government continued to relax pandemic containment measures, private consumption rebounded, and the national saving rate (gross national saving to gross national income) dropped from 42.91% to 41.33%. Overall, as the increase in gross national investment exceeded that in gross national saving, the excess saving rate (the difference between saving and investment as a percentage of GDP) declined from 16.85% to 14.49%.

Healthy BOP Surplus

In 2022, Taiwan continued to record a healthy balance of payments. The current account posted a surplus of US$101,731 million, the financial account had a net asset increase of US$98,103 million, and the Bank's reserve assets showed an increase of US$10,883 million.

On the current account, goods imports and exports both registered historical highs in 2022, with imports increasing more than exports. As a result, the goods trade surplus shrank from US$87,963 million to US$68,989 million, but was still the largest contributor to the current account surplus.

The services account surplus widened to a historical high of US$13,111 million from US$12,428 million owing mainly to an increase in freight proceeds. The primary income surplus widened from US$19,453 million to US$22,735 million, reflecting increases in residents' outward direct investment and banks' interest income. The secondary income deficit rose from US$2,694 million to US$3,104 million. For the year of 2022, the ratio of current account surplus to nominal GDP declined from the 15.1% of the previous year to 13.3%.

On the financial account, portfolio investment recorded a net asset increase of US$105,388 million. Among the components, residents' portfolio investment abroad rose by a net amount of US$59,674 million, mainly because banks increased holdings of foreign securities. Nonresidents' inward portfolio investment recorded a net decrease of US$45,714 million, mainly because foreign investors cut holdings of Taiwanese stocks. Direct investment posted a net increase of US$166 million, of which direct investment abroad by residents and nonresidents' inward direct investment increased to US$16,280 million and US$10,189 million, respectively, both higher than the previous year. The account of other investment showed a net asset decrease of US$18,032 million.

Rising Inflation

In 2022, global supply chain bottlenecks lingered on and international raw materials such as crude oil still faced upward price pressures as the Russia-Ukraine war continued, leading to significant rises in domestic import prices. As a result, the wholesale price index (WPI) went up by 12.42% year on year, the fastest rise since 1981. Of the components, imported goods, domestic sales excluding imports, and exported goods showed price rises of 16.07%, 8.37%, and 12.06%, respectively.

The CPI annual growth rate recorded the fastest rise since 2009, climbing by 2.95% mainly because supply-side factors drove up prices of food, fuel & lubricants, and durable consumer goods, as well as hikes in housing rent. The core CPI annual growth rate was 2.61%, the highest since 2009. Compared to the US and Europe, though, Taiwan's inflation in 2022 was milder, attributable to the government's effective supply-side controls such as energy price stabilization mechanisms, the Bank's gradual monetary tightening, and the spillover effects created by major economies as their central banks adopted hawkish monetary policy stances.

Lower Unemployment Rate; Moderate Wage Growth

The unemployment rate rose from 3.61% at the beginning of 2022 to 3.79% in August, trending up during a COVID-19 resurgence from mid-April as well as a seasonal job seeker surge during the graduation period. Thereafter, the domestic pandemic eased and economic activity picked up, helping the unemployment rate fall towards 3.52% in December and bringing the annual average to a 22-year low at 3.67%. The average labor force participation rate rose by 0.16 percentage points from the previous year to 59.18%, the highest since 1993.

The average number of employed persons was 11,418 thousand, a decrease of 29 thousand or 0.26% owing to structural headwinds such as low birth rates and an aging society. Dampened by slower export growth amid a global economic downturn, industrial sector employment declined by 17 thousand or 0.41%. Employment in the services sector decreased by one thousand persons, or 0.01%, while the agricultural sector shed 12 thousand employed persons, or 2.24%.

In terms of wages, the average non-farm (industrial and services sectors) monthly earnings per employee rose by 3.45% from the previous year to NT$57,718. Adjusted for inflation, real monthly earnings increased by a smaller 0.48% and reached a historical high of NT$53,741. As a result of higher production output and fewer total hours worked, labor productivity indices of the industrial sector and the manufacturing industry rose by 1.37% and 1.48% year on year, respectively. Meanwhile, unit labor costs increased by 4.20% in the industrial sector and 4.16% in the manufacturing sector, with total earnings growing faster than production.