

*Developments in
the Real Economy*



I. Developments in the Real Economy

1. Overview

Throughout 2023, the world economy exhibited tepid recovery momentum, dragging Taiwan's exports and private investment towards negative growth, whereas private consumption became the driving force of economic growth. The GDP growth rate slowed to 1.31% in 2023, the weakest since 2010. The balance of payments maintained a healthy status, with a continued current account surplus and a net asset increase on the financial account. In respect of inflation, domestic services prices surged but commodity prices posted slower rises owing to declining import prices of crude oil and other raw materials. The 2023 CPI annual growth rate was 2.49%, and the annual growth rate of the core CPI, which excludes fruit, vegetables, and energy items, was 2.58%, both coming down from year 2022. In the labor market, reviving domestic demand helped bring down the unemployment rate to a yearly average of 3.48%, the lowest since 2001. Non-farm payroll real monthly earnings, however, shrank by 1.79% year on year to NT\$55,369.

Slower Economic Growth

In the first quarter of 2023, private consumption rose steadily, whereas exports and private investment were both dampened by soft global final demand and continuous manufacturing inventory adjustments. The annual GDP growth rate thus decreased to minus 3.49%. In the following months, despite still weak exports and investment, private consumption gained additional momentum from life gradually returning to pre-pandemic normalcy with COVID-related restrictions lifted and the government's one-off universal tax rebate payment of NT\$6,000. Consequently, the economic growth rate picked up in the second quarter and further rose to 2.15% in the third quarter. The fourth quarter recorded even faster economic growth at a pace of 4.93% as exports resumed positive growth. For the year as a whole, the GDP growth rate was 1.31%, albeit 1.28 percentage points less than the 2.59% of 2022.

Among the GDP expenditure components, domestic demand contributed 1.03 percentage points to the real GDP growth rate of 1.31% in 2023, reflecting solid private consumption growth despite soft exports and lukewarm private investment. With import-derived demand weakening on anemic export and investment growth, exports and imports both contracted; as a result, net external demand contributed 0.28 percentage points to GDP growth.

Looking at private investment, its growth momentum slackened in 2023 and the domestic investment rate (gross domestic investment to GDP) decreased to 24.82%, lower than 28.15% in 2022.

The national saving rate (gross national saving to gross national income) dropped from 41.53% to 37.75%, reflecting a surge in consumption expenditure in the post-pandemic era. Overall, as the decrease in gross national investment was smaller than that in gross national saving, the excess saving rate (the difference between saving and investment as a percentage of GDP) slightly dropped from 14.66% in 2022 to 14.06% in 2023.

Healthy BOP Surplus

In 2023, Taiwan continued to record a healthy balance of payments. The current account posted a surplus of US\$105,329 million, the financial account had a net asset increase of US\$84,946 million, and the Bank's reserve assets showed an increase of US\$14,342 million.

On the current account, goods imports and exports both shrank in 2023 compared to 2022. As the decrease in imports exceeded that in exports, the goods trade surplus widened from US\$68,238 million in 2022 to US\$95,859 million in 2023, still the largest contributor to the current account surplus.

The services account recorded a deficit of US\$9,969 million in 2023 compared to the US\$12,597 million surplus in 2022. This was mainly due to an increase in travel expenditures and a decrease in freight proceeds. The primary income surplus widened from US\$23,308 million to US\$24,343 million, mainly because the increase in receipts significantly exceeded that in payments. The secondary income deficit expanded from US\$3,217 million to US\$4,904 million. For year 2023 as a whole, the ratio of the current account surplus to nominal GDP was 13.9%.

On the financial account, portfolio investment recorded a net asset increase of US\$62,383 million. Among the components, residents' portfolio investment abroad increased by a net amount of US\$69,725 million, mainly because of increases in foreign securities holdings by banks, domestic investment and trust funds, and pension funds. Nonresidents' inward portfolio investment posted a net increase of US\$7,342 million, mainly because foreign investors stepped up holdings of Taiwanese stocks. Direct investment recorded a net increase of US\$19,014 million, of which direct investment abroad by residents and nonresidents' inward direct investment posted net increases of US\$24,714 million and US\$5,700 million, respectively. The account of other investment had a net asset increase of US\$2,508 million.

Modest Slowdown in Inflation

The easing in global supply chain bottlenecks and in Russia-Ukraine war-related impacts, as well as a slowing global economy owing to the cumulative effects of major central banks' monetary tightening to restrain demand, resulted in a decline in international raw material prices.

Consequently, domestic import prices and producer prices both trended downwards. In NT dollar terms, the import price index and the producer price index dropped by 3.59% and 0.56%, respectively, in 2023 compared to 2022.

Regarding the CPI, domestic services prices rose significantly in 2023, reflecting a post-pandemic demand boom for eating out and face-to-face leisure and entertainment services, which was insufficiently met owing to a labor shortage. On the other hand, domestic commodity prices recorded slower gains as prices of imported crude oil and other raw materials came down. For 2023 as a whole, the CPI annual growth rate decreased from 2.95% in 2022 to 2.49%, and the core CPI annual growth rate was 2.58%, slightly lower than 2.61% in 2022.

Unemployment Rate Dropping to New Record Low Since 2001; Slower Wage Growth

With domestic demand picking up after the pandemic receded, the unemployment rate broadly showed a downtrend in 2023 except in the Feb.-Mar. period (after the Lunar New Year Holidays) and the Jun.-Jul. period (during the summer vacation), reflecting seasonal factors of existing workers switching jobs and newly-graduated students seeking work. After dropping to 3.33% in December, the unemployment rate averaged 3.48% for year 2023 as a whole, hitting a new low since 2001.

The average number of employed persons in 2023 was 11,528 thousand, an increase of 110 thousand or 0.96%. Industrial sector employment increased by a modest two thousand persons or 0.06%, as the increase in the construction works industry offset the decrease in manufacturing. Services employment surged by 128 thousand persons, or 1.87%, whereas the agricultural sector shed 21 thousand employed persons, or 3.92%.

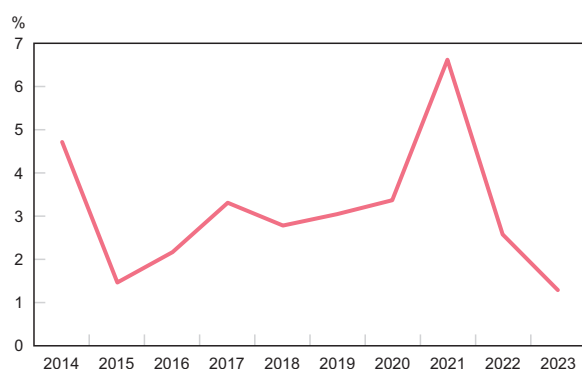
In respect of wage growth, the average non-farm (industrial and services sectors) monthly earnings per employee rose by 0.65% from the previous year to NT\$58,420 in 2023, the smallest increase since 2017. Adjusted for inflation, real monthly earnings decreased by 1.79% year on year to NT\$55,369. Labor productivity indices of the industrial sector and the manufacturing industry recorded year-on-year declines by 11.08% and 11.78%, respectively, because production output fell and the total hours worked were approximately the same as the previous year. Meanwhile, unit labor costs increased by 11.14% in the industrial sector and 11.96% in the manufacturing sector, with total earnings rising and production dropping.

2. National Output and Income

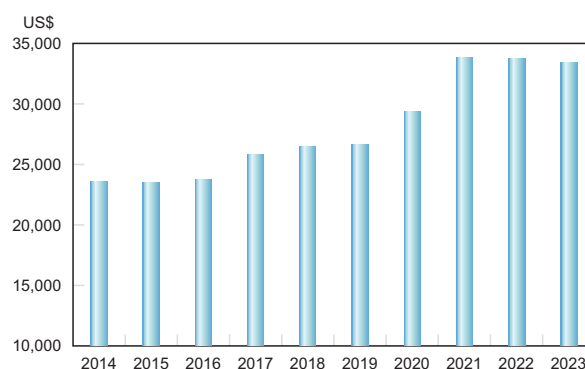
In 2023, Taiwan's economy grew at an annual rate of 1.31%. Domestic demand, driven mainly by private consumption, contributed 1.03 percentage points to real GDP growth. In terms of external demand, lackluster performance in both exports and investment reduced derived demand for imports, and thus, net exports contributed 0.28 percentage points to real GDP growth. In the meantime, nominal GNI (gross national income, in US dollars) fell by 0.78%, and GNI per capita declined from US\$33,624 to US\$33,299 over the year 2023.

In the first quarter, real GDP contracted by 3.49%. Private consumption expanded robustly because of higher spending on domestic travel and outbound tourism as the government continued to lift COVID-19 pandemic restrictions. Nevertheless, weak global final demand in response to the cumulative effects of monetary policy tightening by major central banks since 2022, coupled with the ongoing inventory adjustments in the manufacturing sector, resulted in lower private investment. In the second quarter, real GDP grew by 1.41%. Private consumption gained growth momentum owing to strong demand for catering, tourism, and entertainment services and the government's one-off universal cash payment of NT\$6,000 as part of the post-pandemic special budget. On the contrary, anemic global final demand and the lingering effects of inventory destocking continued dampening growth in private investment and exports.

In the third quarter, real GDP growth rose to 2.15%. Consumer spending and demand for outbound travel stayed elevated, further supported by the peak season for summer travel, sustaining the growth momentum of private consumption. Private investment, on the other hand, remained subdued as firms revised down their capital expenditures under a dismal economic outlook. In the meantime, slower-than-expected global final demand recovery and inventory adjustments further restrained export growth momentum. In the fourth quarter, real GDP expanded by 4.93%. Growth in private consumption was driven by surging demand for outbound travel, a persistent post-pandemic consumption trend, and continued growth of sales in the services industry, such as the accommodation, dining, and retail industries. As for private investment, firms' willingness to invest stayed downbeat because global economic recovery fell short of expectations, and the manufacturing sector kept reducing the levels of production and inventory. However, exports exhibited positive growth owing to a lower base effect, a surge in inbound visitors for tourism and business, and the shipment of emerging technology products, such as artificial intelligence (AI) and high-performance computing (HPC) applications.

Real Growth Rate of GDP

Source: *Statistical Abstract of National Income*, DGBAS, Executive Yuan, February 2024.

Per Capita GNI

Source: *Statistical Abstract of National Income*, DGBAS, Executive Yuan, February 2024.

Expenditure Components of GDP

Of all expenditure components of GDP, private consumption was the primary source of economic growth and contributed 3.80 percentage points to real GDP growth for 2023. Government consumption, on the other hand, contributed 0.12 percentage points to real GDP growth. Gross fixed capital formation and exports of goods and services contributed -2.44 percentage points and -3.02 percentage points to real GDP growth, respectively. With respect to shares of GDP, exports of goods and services continued to account for the largest share of GDP at 63.35%, followed by private consumption at 48.65%, and gross fixed capital formation at 25.28%.

GDP by Expenditure

Unit: %

	2023			2022		
	Share	Real Growth Rate	Contribution to Real Growth Rate of GDP*	Share	Real Growth Rate	Contribution to Real Growth Rate of GDP*
Private Consumption	48.65	8.32	3.80	45.69	3.75	1.68
Government Consumption	13.68	0.88	0.12	13.92	4.83	0.66
Gross Fixed Capital Formation	25.28	-8.69	-2.44	28.11	7.78	2.04
Change in Inventory	-0.46	--	-0.45	0.04	--	-0.74
Exports of Goods and Services	63.35	-4.32	-3.02	69.94	1.75	1.14
(Less: Imports of Goods and Services)	50.49	-5.73	-3.30	57.69	4.32	2.18
Expenditure on GDP	100.00	1.31	1.31	100.00	2.59	2.59

Note: * Percentage point.

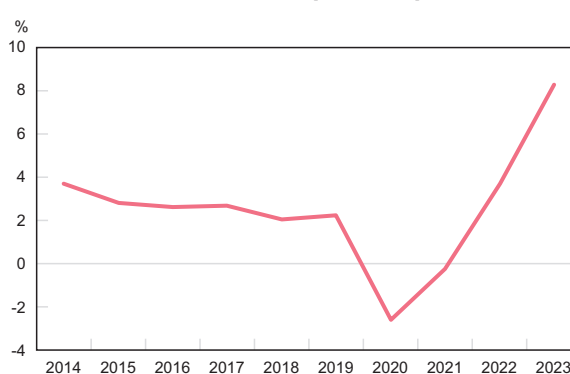
Source: *Statistical Abstract of National Income*, DGBAS, Executive Yuan, February 2024.

(1) Robust Growth in Private Consumption

Private consumption picked up as life gradually returned to normal when the government eased domestic pandemic-related restrictions and border controls. In addition, an upward adjustment of the basic living expense per person and the nationwide government distribution of a one-time cash payment propped up disposable income, providing further impetus to private consumption growth. Against this backdrop, private consumption grew at an annual rate of 8.32% and contributed 3.80 percentage points to real GDP growth in 2023.

After the government loosened epidemic control measures, consumer confidence stabilized, and private consumption regained growth momentum, growing by 6.41% in the first quarter. In the second quarter, with a complete phase-out of epidemic control measures and a significant increase in people's willingness to consume and engage in outdoor events, coupled with the nationwide government distribution of a one-time cash payment, private consumption rose by 12.94%. The third quarter coincided with the summer vacation period, witnessing continuous demand for consumption spending and outbound travel. At the same time, the government introduced public transportation subsidies in July to promote the use of public transit, leading to an annual growth rate of 9.28% in private consumption. In the fourth quarter, surging demand for outbound travel, a persistent post-pandemic consumption trend, and a rally in the stock market bolstered private consumption by 5.07%. Overall, private consumption remained strong throughout the entire year.

**Real Growth Rate
of Private Consumption Expenditure**



Source: *Statistical Abstract of National Income*, DGBAS, Executive Yuan, February 2024.

(2) Significant Contraction in Fixed Capital Formation

Fixed capital formation contracted significantly by an annual rate of 8.69% and contributed -2.44 percentage points to real GDP growth in 2023. The decline was caused mainly by major technology firms deferring and lowering capital expenditures.

Sluggish export growth and slower-than-expected inventory adjustments prompted businesses to hold back investment, reducing machinery and equipment investment and construction investment in the first half of the year. Gross fixed capital formation decreased by 2.64% and 7.55% in the first two quarters, respectively. The dismal economic outlook further exacerbated the decline in machinery

and equipment investment, while construction investment remained subdued in the second half of the year. The fixed capital formation growth rates for the last two quarters of the year were -11.85% and -12.24%, respectively.

In terms of the type of fixed capital formation, machinery and equipment investment experienced a double-digit decline of 21.88% in 2023, while construction investment contracted moderately by 3.93%. On the other hand, transportation investment increased by 10.67%. Lastly, investment in intellectual property remained relatively stable and expanded by 2.80% for the entire year.

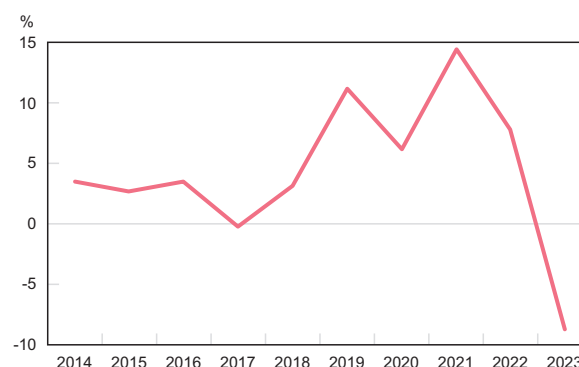
(3) Mild Decline in Real Exports

The cumulative effects of monetary policy tightening by major central banks and the shift in consumer spending towards services led to a slowdown in global demand. As a result, exports of goods and services fell by 4.32% and contributed -3.02 percentage points to real GDP growth in 2023.

From the first to the third quarter of the year, the global economic and trade growth momentum faltered owing to the spillover effects of monetary policy tightening by major central banks and the cumulative effects of interest rate hikes. Taiwan's exports of goods and services, therefore, decreased by 11.86%, 7.75%, and 1.41% in the first three quarters, respectively. However, exports resumed positive growth at 3.72% in the fourth quarter, benefiting from a lower base effect, a wider expansion of applications in emerging technologies (e.g., AI and HPC), favorable driving forces from new consumer electronic products, as well as a continued increase in inbound visitors to Taiwan.

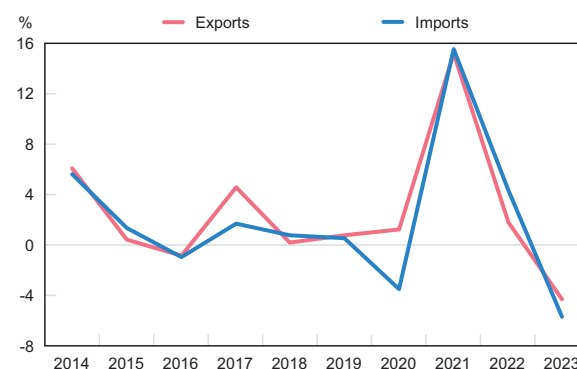
Turning to imports of goods and services, the combination of weak demand for capital equipment and a reduction in export-derived demand caused imports to contract by 5.73% for the entire year.

Real Growth Rate of Fixed Capital Formation



Source: Statistical Abstract of National Income, DGBAS, Executive Yuan, February 2024.

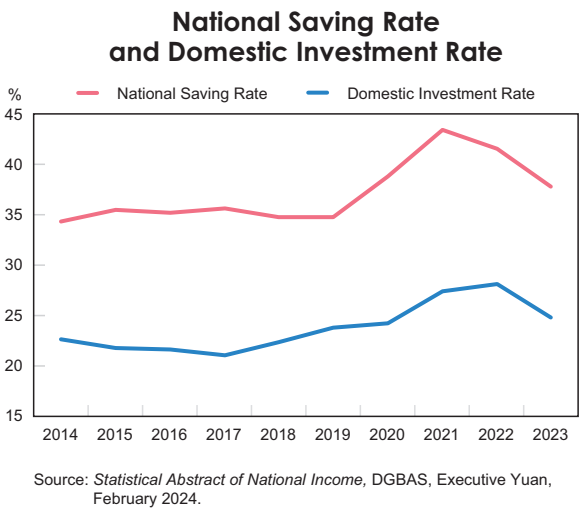
Real Growth Rates of Exports and Imports



Source: Statistical Abstract of National Income, DGBAS, Executive Yuan, February 2024.

Minor Reductions in National Saving Rate and Domestic Investment Rate

The national saving rate (the ratio of national savings to GNI measured at current prices) declined slightly from 41.53% in 2022 to 37.75% in 2023, reflecting a significant increase in consumption expenditures as life returned to pre-pandemic normalcy. Meanwhile, weak private investment growth caused the domestic investment rate (the ratio of domestic investment to GDP measured at current prices) to fall to 24.82% in 2023, lower than 28.15% of the previous year.



3. Balance of Payments

In 2023, Taiwan's current account registered a surplus of US\$105,329 million, which accounted for 13.9% of nominal GDP. The financial account posted a net asset increase of US\$84,946 million. Reserve assets increased by US\$14,342 million.

Balance of Payments

Unit: US\$million

	(1) 2023	(2) 2022	(1)-(2)
A. Current account	105,329	100,926	4,403
Goods: credit (exports)	383,644	427,894	-44,250
Goods: debit (imports)	287,785	359,656	-71,871
Balance on goods	95,859	68,238	27,621
Services: credit (exports)	54,552	57,204	-2,652
Services: debit (imports)	64,521	44,607	19,914
Balance on services	-9,969	12,597	-22,566
Primary income: credit	60,733	51,756	8,977
Primary income: debit	36,390	28,448	7,942
Balance on primary income	24,343	23,308	1,035
Secondary income: credit	8,683	9,376	-693
Secondary income: debit	13,587	12,593	994
Balance on secondary income	-4,904	-3,217	-1,687
B. Capital account	-38	-46	8
C. Financial account	84,946	94,711	-9,765
Direct investment: assets	24,714	15,589	9,125
Equity and investment fund shares	24,956	13,828	11,128
Debt instruments	-242	1,761	-2,003
Direct investment: liabilities	5,700	10,158	-4,458
Equity and investment fund shares	4,785	6,215	-1,430
Debt instruments	915	3,943	-3,028
Portfolio investment: assets	69,725	59,674	10,051
Equity and investment fund shares	14,593	7,756	6,837
Debt securities	55,132	51,918	3,214
Portfolio investment: liabilities	7,342	-45,714	53,056
Equity and investment fund shares	7,182	-44,608	51,790
Debt securities	160	-1,106	1,266
Financial derivatives: assets	-20,225	-21,700	1,475
Financial derivatives: liabilities	-21,266	-26,356	5,090
Other investment: assets	-5,681	-23,226	17,545
Other investment: liabilities	-8,189	-2,462	-5,727
D. Net errors and omissions	-6,003	4,714	-10,717
E. Reserves and related items*	14,342	10,883	3,459

Note: * Excluding valuation changes in exchange rates.

Source: *Balance of Payments Quarterly, Republic of China (Taiwan)*, CBC, February 2024.

Wider Current Account Surplus

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

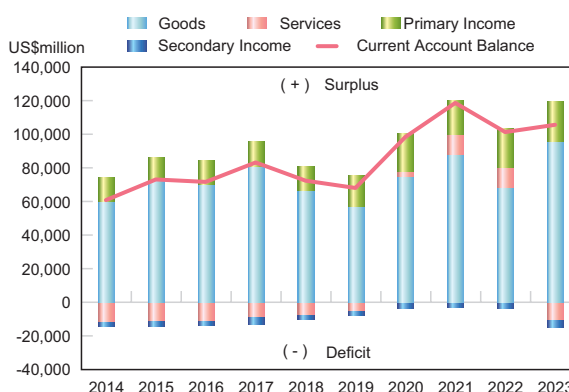
(1) Goods

Because of slower global economic growth and lower international raw material prices, Taiwan's external merchandise trade experienced a slowdown in 2023, with the value of exports, on a BOP basis, decreasing by 10.3% from 2022 to US\$383,644 million. Among its components, net exports of goods under merchanting decreased by 3.5% to US\$14,777 million. The value of imports decreased by 20.0% to US\$287,785 million. Overall, as the decrease in imports exceeded that in exports, the trade surplus widened from US\$68,238 million in 2022 to US\$95,859 million. The top five trading partners of Taiwan in 2023 were Mainland China including Hong Kong (hereafter in this chapter referred to as Mainland China), ASEAN,¹ the US, Europe, and Japan.

In terms of Taiwan's trade with Mainland China, the value of exports amounted to US\$152,249 million in 2023, 18.1% lower than the previous year. Among major export products, parts of electronic products contributed the most to this negative growth in Taiwan's exports to Mainland China, causing Mainland China's share of total exports to drop to 35.2%, the lowest in nearly 21 years. As a manufacturing center of the world, Mainland China remained Taiwan's largest trading partner. Imports from Mainland China fell by 16.1% to US\$71,699 million in 2023, mainly because import of parts of electronic products declined more markedly as a result of weaker export-derived demand. Nevertheless, Mainland China's share of total imports slightly increased to 20.4%. As the decrease in exports exceeded that in imports, the trade surplus with Mainland China shrank to US\$80,550 million in 2023, still the largest source of Taiwan's trade surplus.

Exports to the ASEAN economies increased to US\$76,275 million in 2023, down by 5.4% with a weak export performance of mineral products and chemicals. Imports from the ASEAN economies decreased by 24.0% to US\$41,017 million, accounting for a declining share of 11.7% of total imports as imports of parts of electronic products and mineral products decreased. Overall, the trade surplus with the ASEAN economies rose to US\$35,257 million. Singapore, Vietnam, and the Philippines were the third, fourth, and fifth largest sources of Taiwan's trade surplus, respectively.

Current Account



Source: Balance of Payments Quarterly, Republic of China (Taiwan), CBC, February 2024.

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

In 2023, Taiwan's exports to the US grew 1.6% to US\$76,241 million, and its share of total exports rose to a record high in nearly 21 years, reaching 17.6%. The increase mainly came from information, communication and audio-video products. As for imports from the US, the amount decreased by 10.9% to US\$40,696 million, with its share in total imports increasing to 11.6%. The main contributor to the contraction was parts of electronic products. The trade surplus with the US expanded to US\$35,545 million for the year, ranking second among Taiwan's surplus sources.

Exports to Europe increased by 2.9% to US\$42,288 million, with its share of total exports rising to 9.8%. The major products contributing to this expansion were information, communication and audio-video products. Imports from Europe decreased by 8.6% to US\$46,672 million and the share of total imports increased to 13.3%, with machinery being the main source of this decrease. In all, Taiwan's trade deficit with Europe shrank to US\$4,384 million in 2023.

Exports to Japan decreased by 6.5% to US\$31,441 million and its share in Taiwan's total exports slightly increased to 7.3%. Of all major products exported to Japan, chemicals and base metals and articles of base metal contributed the most to the decline. Imports from Japan decreased by 18.9% to US\$44,319 million and its share of total imports decreased to 12.6%, with machinery and parts of electronic products being the main sources of this decrease. The trade deficit with Japan narrowed to US\$12,879 million. Japan remained the largest source of trade deficit in 2023.

Trade in Goods by Country

Unit: %

	2023			2022		
	Amount (US\$million)	Share	Annual Change	Amount (US\$million)	Share	Annual Change
Exports						
Mainland China (including Hong Kong)	152,249	35.2	-18.1	185,875	38.8	-1.6
ASEAN	76,275	17.6	-5.4	80,609	16.8	14.8
US	76,241	17.6	1.6	75,052	15.7	14.3
Europe	42,288	9.8	2.9	41,099	8.6	6.8
Japan	31,441	7.3	-6.5	33,609	7.0	15.1
Rest of the World	53,976	12.5	-14.6	63,171	13.2	17.2
Total	432,469	100.0	-9.8	479,415	100.0	7.4
Imports						
Mainland China (including Hong Kong)	71,699	20.4	-16.1	85,508	20.0	1.6
Europe	46,672	13.3	-8.6	51,072	11.9	7.9
Japan	44,319	12.6	-18.9	54,626	12.8	-2.7
ASEAN	41,017	11.7	-24.0	53,937	12.6	14.2
US	40,696	11.6	-10.9	45,691	10.7	16.4
Rest of the World	107,479	30.5	-21.7	137,248	32.1	27.3
Total	351,883	100.0	-17.8	428,083	100.0	12.1

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

(2) Services

In 2023, services turned from a surplus to a deficit of US\$9,969 million, mainly because of an increase in travel payments and a decrease in transport receipts.

Of the various components of the services account, receipts of manufacturing services on physical inputs owned by others² decreased by US\$333 million to US\$3,993 million in 2023. On the debit side, payments for manufacturing services declined by US\$321 million to US\$1,610 million. In total, the surplus of manufacturing services on physical inputs owned by others recorded a narrower surplus of US\$2,383 million, down from US\$2,395 million.

In terms of maintenance and repair services n.i.e. (not included elsewhere), which covers maintenance and repair work by residents on goods that are owned by nonresidents (and vice versa), the receipts rose by US\$340 million to US\$1,505 million owing to increased receipts from aircraft repair. On the other hand, the payments rose by US\$217 million to US\$1,467 million, also owing to increased payments from aircraft repair. In all, the repair services account turned from a deficit to a surplus of US\$38 million.

Transport receipts decreased by US\$10,475 million to US\$11,111 million, reflecting a decreases in international freight proceeds. Transport payments rose by US\$2,998 million to US\$13,080 million as a result of increased passenger fares paid to foreign airlines. Overall, the transport services turned from a surplus to a deficit of US\$1,969 million.

Travel receipts increased by US\$6,966 million to US\$8,748 million mainly because the number of cross-border tourists rose as many countries lifted border controls. Meanwhile, travel payments increased by US\$12,991 million to US\$15,519 million. In all, the deficit on the travel account widened to US\$6,771 million.

In terms of other services, the receipts grew by US\$850 million to US\$29,195 million, mainly attributable to an increase in receipts from financial services. The payments grew by US\$4,029 million to US\$32,845 million, owing to increases in payments for financial services and professional and management consulting services. Overall, the deficit on the other services account increased to US\$3,650 million.

(3) Primary Income

Primary income consists of compensation of employees, investment income, and other primary income. In 2023, primary income receipts increased by US\$8,977 million to US\$60,733 million, mainly

² Manufacturing services on physical inputs owned by others includes the processing, assembly, labeling, and packing undertaken by a service provider that does not own the goods; namely a resident's payments to a nonresident for providing these services for the resident who is also the owner of the goods concerned.

because of an increase in banks' interest receipts. Meanwhile, primary income payments increased to US\$36,390 million, US\$7,942 million more than the previous year. This was mainly attributable to an increase in banks' interest payments. Consequently, the surplus on the primary income account widened to US\$24,343 million.

(4) Secondary Income

For the year of 2023, secondary income receipts amounted to US\$8,683 million, reflecting a decrease in gifts and samples. Secondary income payments amounted to US\$13,587 million, mainly owing to an increase in outward workers' remittances. As a whole, the deficit on the secondary income account widened to US\$4,904 million in 2023.

Capital Account Deficit

The capital account includes capital transfers and the acquisition and disposal of non-produced, non-financial assets. In 2023, the capital account deficit decreased to US\$38 million.

Net Asset Increase in Financial Account

In 2023, the financial account showed an increase of US\$84,946 million in net assets. In terms of sub-categories, direct investment, portfolio investment, financial derivatives and other investment exhibited increases of US\$19,014 million, US\$62,383 million, US\$1,041 million and US\$2,508 million in net assets, respectively.

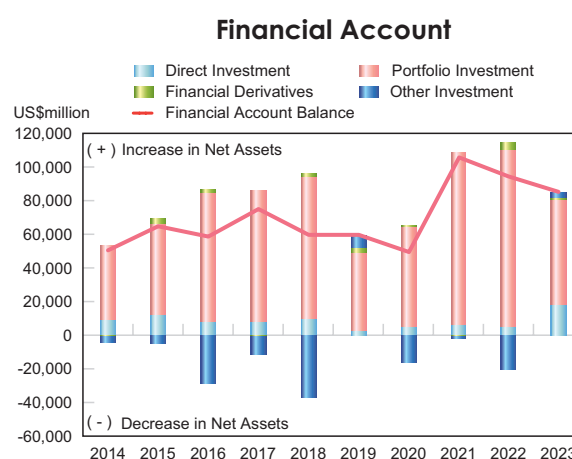
(1) Direct Investment

Direct investment abroad by residents exhibited an increase of US\$24,714 million. Direct investment in Taiwan by nonresidents showed an increase of US\$5,700 million.

(2) Portfolio Investment

In 2023, portfolio investment abroad by residents increased by US\$69,725 million. Equity and investment fund shares grew by US\$14,593 million mainly because pension funds increased holdings of foreign equity securities, and debt securities rose by US\$55,132 million mainly because banks and onshore funds increased holdings of foreign debt securities.

On the other hand, local portfolio investment by nonresidents increased by US\$7,342 million.



Source: *Balance of Payments Quarterly, Republic of China (Taiwan)*, CBC, February 2024.

Equity and investment fund shares grew by US\$7,182 million as foreign investors increased holdings of Taiwanese stocks. Debt securities rose by US\$160 million.

(3) Financial Derivatives

Assets in financial derivatives decreased by US\$20,225 million, principally because of gains on transactions of financial derivatives received by other financial corporations.

Liabilities in financial derivatives decreased by US\$21,266 million, mainly because of losses on transactions of financial derivatives paid by other financial corporations.

(4) Other Investment

In 2023, other investment abroad by residents decreased by US\$5,681 million. Of the components, currency and deposits decreased by US\$13,573 million as the private sector withdrew overseas deposits; loans decreased by US\$6,226 million because of a decline in overseas interbank loans; trade credit grew by US\$9,168 million, owing to an increase in trade credit extended by corporations; other accounts receivable increased by US\$4,941 million.

Other inward investment by nonresidents decreased by US\$8,189 million. Of the components, currency and deposits declined by US\$8,307 million because of declining deposits from overseas branches; loans rose by US\$11,377 million due to banks increasing borrowings from overseas banks; trade credit declined by US\$10,139 million, owing to a decrease in trade credit received by corporations; other accounts payable decreased by US\$1,120 million.

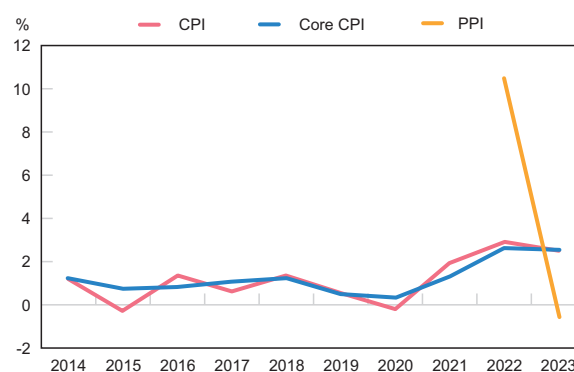
Increase in Foreign Exchange Reserves

The foreign exchange reserve assets held by the Bank increased by US\$14,342 million in 2023, mainly owing to returns from foreign exchange reserves management.

4. Prices

For the year 2023, with the easing of global supply chain bottlenecks, the impact from the Russia-Ukraine war waning, and major central banks' monetary tightening continuing to weigh on demand, the global economy experienced slower growth, pushing down import prices of international crude oil and other raw materials. As a result, Taiwan's Producer Price Index (PPI) decreased by 0.56% over the previous year. Headline inflation, measured by the CPI, increased by 2.49%, primarily driven by price rises in food and entertainment services, as well as higher residential rent. The core CPI, which excludes fruit, vegetables, and energy, stood at 2.58%.

Inflation Rates



Note: As the PPI was first compiled in January 2021, the annual PPI growth rate was calculated from January 2022.

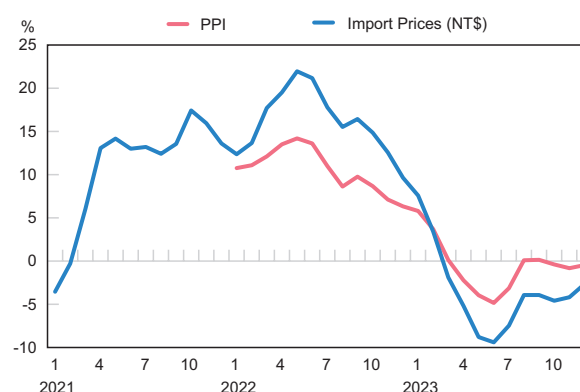
Source: *Price Statistics Monthly* (January 2024), DGBAS, Executive Yuan.

Slight decline in Producer Prices

Taiwan's import prices dropped by 3.59% in 2023, receding from an increase of 16.07% in 2022. In terms of monthly movements, the annual growth rate of import prices in NT dollar terms trended downwards from the beginning of the year on account of international raw material prices coming down and reached an all-year low of -9.40% in June. Later, with increases in prices of transportation equipment and prices of optical, measuring, medical instruments, musical instruments, and parts thereof, the decrease in import prices abated and narrowed to 2.64% in December.

The PPI declined by 0.56% in 2023, down from an increase of 10.51% in 2022, indicating softening pressures of imported inflation. In terms of monthly movements, the annual PPI inflation rate went down from the beginning of the year and fell by 4.84% in June, the lowest level of the year. Subsequently, driven by price rises in parts of electronic products and transportation equipment, the annual PPI inflation rate posted a slower decline of 0.47% in December. Among the components of the

Annual Growth of Import Prices and PPI



Note: As the PPI was first compiled in January 2021, the annual PPI growth rate was calculated from January 2022.

Source: *Price Statistics Monthly* (January 2024), DGBAS, Executive Yuan.

basic groups, prices of manufacturing products declined by 1.54%, contributing 1.38 percentage points to the PPI decrease, mainly attributable to price declines in four categories including chemical material, other chemical products, and pharmaceuticals, petroleum and coal products, base metal products, and fabricated metal products. However, prices of water, electricity, and gas supply, prices of agriculture, forestry, fishing, and animal husbandry products, and prices of quarrying and mining products went up by 10.39%, 4.77%, and 2.19%, respectively.

Broken down by the two major components of the PPI, prices of domestic sales excluding imports and prices of exports slid by 0.25% and 1.90% year on year, respectively, on account of falling prices of international raw materials.

As the downtrend in primary commodity prices amid slowing global demand helped alleviate cost pressures for importers, prices of domestic sales excluding imports slightly dropped by 0.25% in 2023. In terms of the basic groups, prices of manufacturing products declined by 2.34%, reflecting decreases in prices of chemical material, other chemical products, and pharmaceuticals, prices of base metal products, and prices of fabricated metal products. On the other hand, prices of water, electricity, and gas supply and prices of agriculture, forestry, fishing, and animal husbandry products rose by 10.40% and 5.39%, respectively. Prices of quarrying and mining products registered an increase of 2.19%.

Export prices trended down by 6.22% in US dollar terms in 2023. Owing to NT dollar depreciation against the US dollar, the annual change in export prices recorded a smaller decrease of 1.90% in terms of the NT dollar. Among the components of export prices in NT dollar terms, prices of raw materials moved down by 2.42% with a contribution of -2.10 percentage points which primarily reflected lower prices of mineral products, plastics and rubber products, chemical products, as well as base metal products. Prices of consumer goods also decreased by 1.13%. In contrast, prices of capital goods rose by 3.64%.

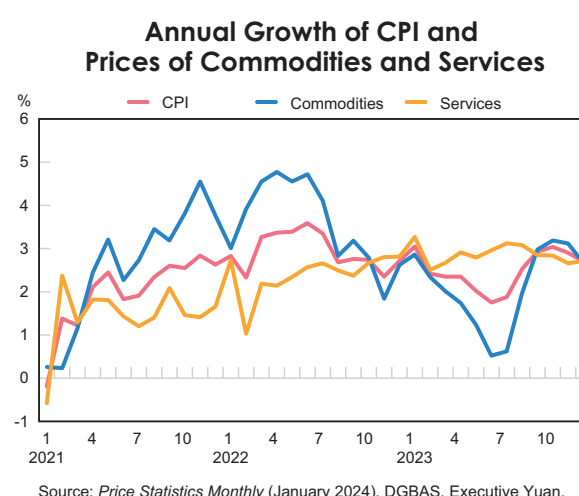
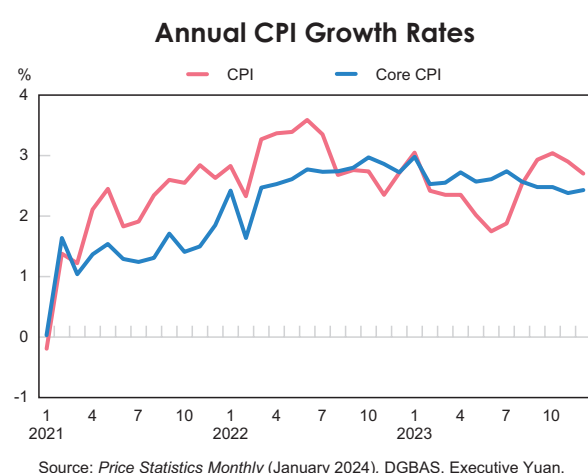
Softer Consumer Prices

The CPI rose by 2.49% in 2023, lower than 2.95% in 2022. From the beginning of the year, the annual CPI inflation rate edged down on account of milder increases in domestic prices of food such as vegetables and fruit and subdued fuel and lubricant fees, and slowed to 1.75% in June. Then, as supply shocks from weather events including successive strikes of typhoons and torrential rain pushed up the prices of vegetables and fruit, causing food inflation to gather steam, the annual CPI inflation rate trended upwards and reached 3.04% in October. Afterwards, the rate went down and posted 2.70% in December, mainly owing to falling prices of vegetables and slower growth in entertainment services prices.

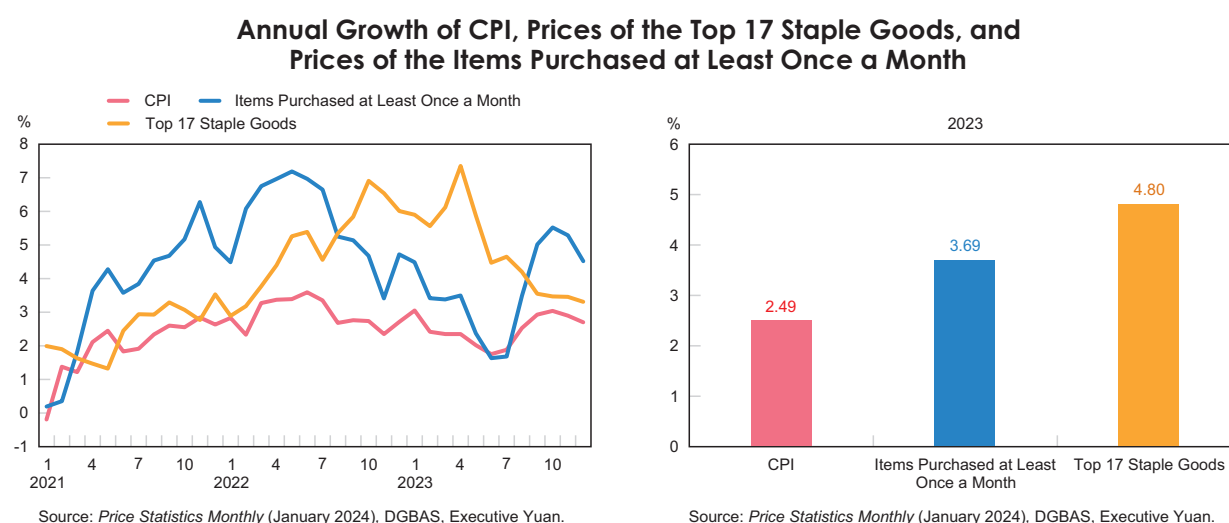
The core CPI grew at an average pace of 2.58% year on year in 2023, slightly lower than 2.61% of the previous year. In terms of monthly movements, as prices of food/beverage and travel/accommodation services were buttressed by booming demand and continued labor shortage in services industries amid the post-pandemic reopening period, the core CPI annual growth rate

abated rather slowly and reached 2.74% in July. Later, the annual core CPI inflation rate continued to fall gradually to 2.38% in November, the lowest since March 2022, as prices of entertainment services rose at a softer pace. The rate moved up to 2.43% in December, mainly owing to a larger increase in prices of garments.

By type of items, the annual growth rate in commodity prices slipped from 3.56% in 2022 to 2.11% in 2023 as prices of crude oil and other raw materials trended below the levels of 2022, bringing down related import prices for Taiwan. However, domestic services prices stayed elevated and went up by 2.87% in 2023, higher than 2.40% in 2022, owing to rising residential rent and demand-driven price rises in entertainment and food services.



As prices of the items purchased at least once a month and of the top 17 staple goods rose by 3.69% and 4.80% in 2023, respectively, with both significantly outpacing the overall CPI inflation of 2.49%, consumers tended to be more conscious of the price uptrends.



In 2023, Taiwan's CPI increased by 2.49%. Around 66% of this increase came from price rises in food and entertainment services, as well as higher residential rent, with a combined contribution of 1.65 percentage points in the annual CPI inflation rate.

The main factors contributing to the rise of CPI inflation in 2023 were as follows:

- (1) Prices of food went up by 4.03% and accounted for 1.05 percentage points in the annual CPI inflation rate. Among the components of the food group, the rise in wages and higher raw food costs brought up prices of food away from home by 4.28%, contributing 0.43 percentage points to CPI inflation. With rising feed and production costs, prices of meats, cereals and cereal products, and eggs rose by 6.12%, 4.04%, and 10.72%, and accounted for 0.15, 0.06, and 0.04 percentage points in CPI inflation, respectively. With supply restrained by unfavorable weather conditions in the second half of the year, prices of vegetables and fruit moved up by 3.90% and 1.22%, respectively, both contributing 0.05 percentage points to CPI inflation.
- (2) Reflecting the rise in housing prices, as well as higher prices of maintenance and repair of dwellings, prices of residential rent grew by 2.16%, contributing 0.33 percentage points to CPI inflation.
- (3) Increases in accommodation and group travel fees on account of robust post-pandemic demand for travel and entertainment services caused prices of entertainment services to go up further by 7.08%, accounting for 0.27 percentage points in CPI inflation.
- (4) As elevated international gold prices brought prices of gold ornaments and jewelry higher, prices of personal effects climbed by 4.45%, contributing 0.10 percentage points to CPI inflation.
- (5) Increased prices of vehicle parts and higher wages for vehicle maintenance workers drove up prices of vehicle parts and maintenance by 3.92%, accounting for 0.07 percentage points in CPI inflation.
- (6) The caregiver shortage and a resultant rise in their wages pushed up prices of services for nursery and nursing care by 5.19%, accounting for 0.07 percentage points in CPI inflation.
- (7) Affected by higher prices of herbal medicines, cold medicines, and other health food, prices of medicines and health food moved up by 2.91% and accounted for 0.05 percentage points in CPI inflation.
- (8) Owing to rising prices of cosmetic and hair appliances, bath products, and tooth pastes, prices of cosmetic items increased by 1.78%, contributing 0.05 percentage points to CPI inflation.

Percentage Changes in the Major Components of the CPI in 2023

Item	Annual Rate of Change (%)	Contribution to CPI Inflation Rate (Percentage Point)
CPI	2.49	2.49
Food	4.03	1.05
Food Away from Home	4.28	0.43
Meats	6.12	0.15
Cereals & Cereal Products	4.04	0.06
Vegetables	3.90	0.05
Fruit	1.22	0.05
Cooked Food	5.15	0.05
Eggs	10.72	0.04
Fish & Seafood	3.54	0.04
Residential Rent	2.16	0.33
Entertainment Services	7.08	0.27
Personal Effects	4.45	0.10
Vehicle Parts & Maintenance	3.92	0.07
Services for Nursery & Nursing Care	5.19	0.07
Medicines & Health Food	2.91	0.05
Cosmetic Items	1.78	0.05
Maintenance & Repair of Dwellings	3.20	0.04
Vehicles	0.91	0.04
Medical Care Services	1.98	0.04
Total		2.11
Others		0.38

Source: *Price Statistics Monthly* (January 2024), DGBAS, Executive Yuan.

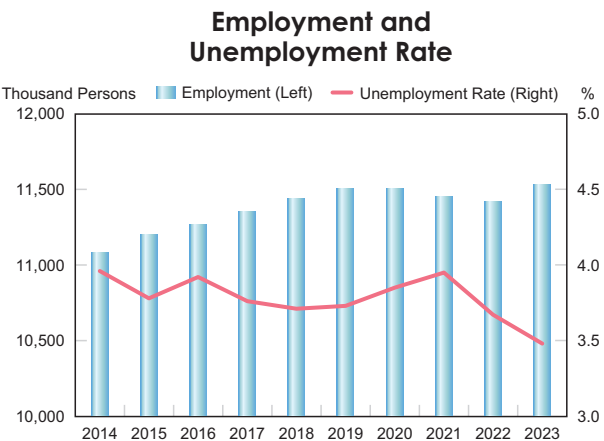
5. Labor Market

Increase in Employment

Labor market conditions were stable in 2023 amid recovered domestic demand. For the year as a whole, annual average employment was 11.53 million persons, an increase of 110 thousand persons or 0.96% from the previous year.

In terms of employment by sector, the industrial sector saw a slight increase of two thousand persons, or a 0.06% rise, on average throughout the year. Notably, within this sector, the construction sector experienced the most substantial job growth, adding 11 thousand persons. Conversely, the manufacturing sector faced the largest job loss, affecting 11 thousand persons due to a decline in export growth amid a global economic slowdown. Meanwhile, driven by expanding domestic demand, employment in the services sector witnessed a notable upturn in employment with 128 thousand additional persons employed, reflecting a 1.87% increase compared to the previous year. Specifically, the accommodation and food services sector within this category experienced the most significant surge, adding 34 thousand jobs. On the other hand, employment in the agricultural sector declined by 3.92% with a decrease of 21 thousand individuals. Of total employment, the services sector accounted for the major share at 60.5%, up by 0.54 percentage points from the previous year, while the shares of the industrial and the agricultural sectors edged down by 0.32 and 0.22 percentage points to 35.08% and 4.42%, respectively.

In terms of employed persons by occupation, employment of white-collar workers,³ accounting for 46.38% of total employment, increased by 122 thousand persons or 2.28%. Services and sales employment made up 20.02% of total employment and increased by 33 thousand persons or 1.48%, while the employment of blue-collar workers,⁴ accounting for 33.60% of total employment, decreased by 47 thousand persons or 1.21%.



Source: DGBAS, Executive Yuan.

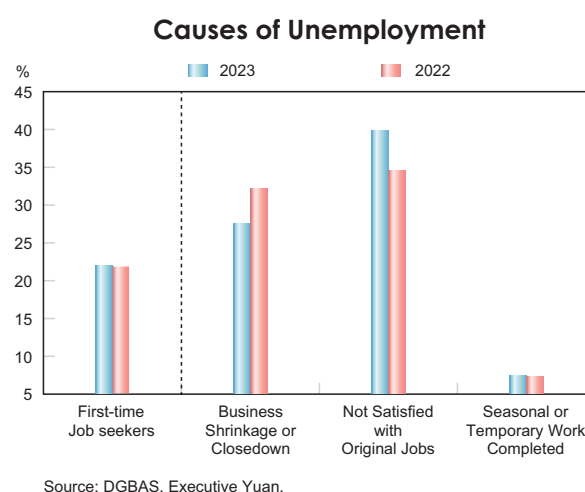
³ Including legislators, senior officials, managers, professionals, technicians, associate professionals, and clerical support workers.

⁴ Including skilled workers in agricultural, forestry, fishing, and animal husbandry industries, and craft and machinery related workers.

Lowest Unemployment Rate Since 2001

Throughout 2023, the unemployment rate generally trended down to 3.33% in December, except for temporary fluctuations due to seasonal factors such as a typical wave of post-Lunar New Year job switching (February to March) and the influx of new graduates entering the job market (June to July). For the year as a whole, the unemployment rate was 3.48%, the lowest since 2001.

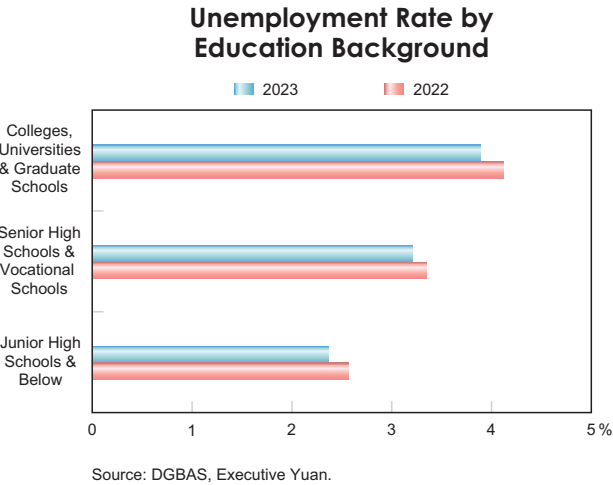
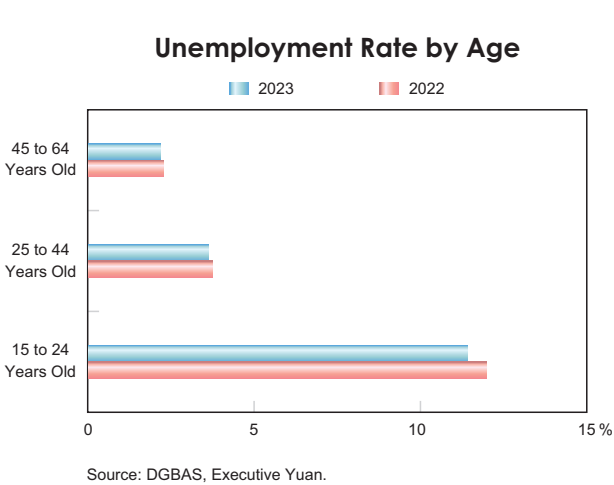
Reflecting the improvement in the labor market, unemployment duration ticked down by 0.06 weeks over the previous year to 21.19 weeks. In terms of age groups, unemployment duration of the age group 15-24 decreased the most by 1.30 weeks to 16.33 weeks, followed by 21.72 weeks for the age group 45-64 with a decrease of 1.18 weeks. However, the unemployment duration of the age group 25-44 mildly increased by 0.77 weeks to 23.09 weeks. In addition, the average number of the long-term unemployed⁵ was 49 thousand persons, a decrease of nine thousand persons compared to that in the previous year.



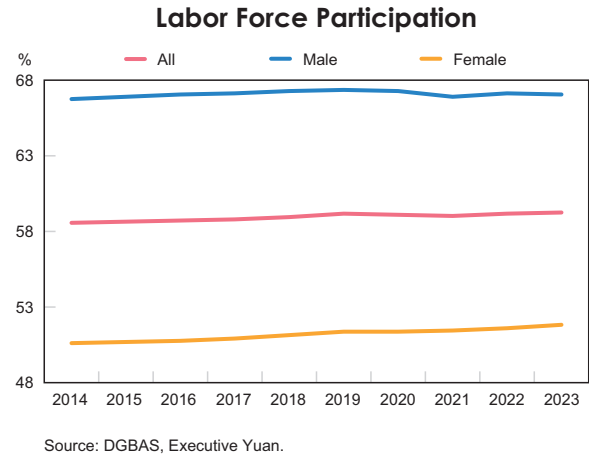
In terms of causes of unemployment, total unemployment in 2023 was 415 thousand persons, decreasing by 19 thousand or 4.38% from the previous year, mainly because unemployment of experienced job seekers, with a share 78.08% of total unemployment, decreased by 16 thousand persons or 4.56%. Among them, unemployment because of shrinkage or closedown of business recorded the largest decline by 26 thousand persons or 18.22%, and its share of total unemployment also decreased from 32.13% the previous year to 27.48%, mainly because of the post-pandemic recovery of domestic demand and a decrease in the number of involuntary unemployment cases. Meanwhile, unemployment because of dissatisfaction with their original jobs surged by 15 thousand persons or 10.3%, with a share 39.82% of total unemployment. Unemployment because of conclusion of seasonal or temporary work decreased by two thousand persons or 4.29%.

In terms of age groups, in the year 2023 the unemployment rates of the age groups 25-44 and 45-64 dropped by 0.11 and 0.09 percentage points from the previous year to 3.61% and 2.17%, respectively. The unemployment rate among the age group 15-24, although still the highest among all age groups, decreased by 0.58 percentage points to 11.39%, marking the most significant decline among these groups.

⁵ Referring to those who have been unemployed for 53 weeks or more.



In terms of educational background, the unemployment rates for three groups—those with a junior high school degree or below, a senior high school or vocational school degree, and a college degree or higher—saw declines of 0.20, 0.14, and 0.23 percentage points to 2.36%, 3.20%, and 3.88%, respectively. Younger persons and highly educated people suffered higher unemployment rates in 2023, reflecting a mismatch between skills acquired through tertiary education and demand for skills in the labor market.



Both Labor Force and Labor Participation Rate Increased

The labor force (employed and unemployed combined) increased by 90 thousand persons, or 0.76%, to 11.94 million persons in 2023, and the non-labor force also increased by 50 thousand persons, or 0.6%, to 8.23 million persons. The average labor force participation rate went up by 0.04 percentage points over the previous year to 59.22% in 2023, the highest since 1993.

In terms of gender, the male labor force participation rate edged down to 67.05%, a decrease of 0.09 percentage points from the previous year, while the female labor force participation rate has continued to grow since 2001 and increased by 0.21 percentage points to 51.82% in 2023, showing 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 the age groups 25-44 and 45-64 increased

by 0.28 and 0.86 percentage points to 90.26% and 66.35%, respectively, while that of the age group 16-24 decreased by 0.34 percentage points to 36.39%. Although the labor force participation rate has increased for two consecutive years, it remains lower than those of the United States (62.6%), Japan (62.9%), South Korea (64.3%), and Singapore (68.6%).

This discrepancy can be attributed to several structural factors, including extended schooling and early retirement. Recently, the government has implemented several measures⁶ to address the challenges posed by an aging labor force, and it is anticipated that these efforts will yield positive results in the future.

In terms of education background, the labor force participation rate of workers with a college degree or above rose by 0.66 percentage points to 67.26%, while the participation rates of workers with a junior high school degree or below and those with a senior high school or vocational degree dropped by 1.19 and 0.56 percentage points to 36.37% and 61.66%, respectively.

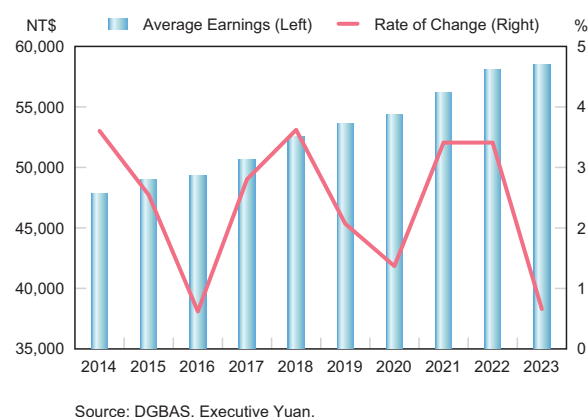
Lower Wage Growth

For the year 2023, the average monthly earnings per worker of the non-farm sector grew by 0.65% to NT\$58,420, the smallest increase since 2017. Accounting for the inflation rate, the average real monthly earnings decreased by 1.79% to NT\$55,369.

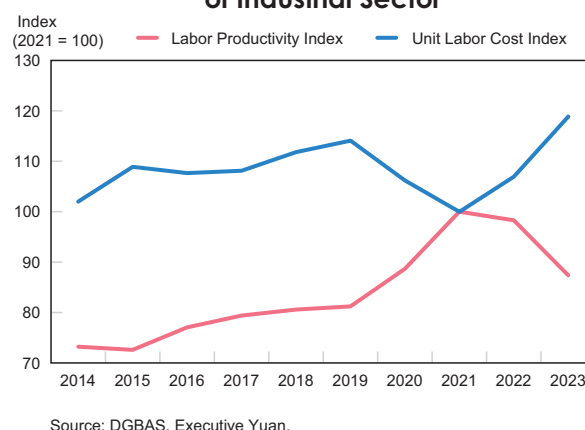
In terms of major sectors, wage growth in the industrial sector hit a 14-year low, primarily attributable to stagnant export growth. Conversely, the services sector saw mild wage growth owing to rising domestic consumer spending and the easing of border controls.

The average monthly earnings of the industrial and services sectors grew by -0.94% and 1.93% to

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



Labor Productivity and Unit Labor Cost of Industrial Sector



⁶ The government launched the "Middle-aged and Elderly Employment Promotion Project" in 2023, aiming to increase the middle-aged and elderly labor force by 100 thousand individuals annually.

NT\$60,832 and NT\$56,744, and both dropped by 3.34% and 0.54% in real term respectively.

In terms of industrial classification, the finance and insurance sector had the highest average monthly earnings with NT\$98,243, and the electricity and gas supply sector came in second with NT\$96,596. On the other hand, the education sector⁷ and the accommodation and food services sector earned average monthly wages of NT\$33,433 and NT\$37,662, respectively, the lowest two among all sectors owing to a large number of part-time employees in these sectors. In terms of growth rates, the accommodation and food services sector saw the highest increase of 4.30%, followed by the sector of other service activities at 4.08%.

Declined Labor Productivity and Increased Unit Labor Cost

As total production declined while total working hours remained similar to the previous year, the labor productivity of the industrial and the manufacturing sectors dropped by 11.08% and 11.78%, respectively, compared with the previous year. Within the manufacturing sector, manufacturing of wearing apparel and clothing accessories experienced the most significant decline in labor productivity at 26.02%, followed by manufacturing of textiles at 19.48%. Furthermore, manufacturing of electronic parts and components also dropped by 15.58%.

With an increase in total earnings and a decline in production, unit labor costs of the industrial and the manufacturing sectors increased by 11.14% and 11.96% year on year, respectively. Of all the manufacturing sectors, manufacturing of wearing apparel and clothing accessories registered the largest increase in unit labor cost with 35.96%, followed by other transport equipment and parts at 23.97%.

⁷ Excluding schools at all levels within the formal education system (except preschools).