

# 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.