

I. Developments in the Real Economy

1. Overview

Taiwan's economic growth accelerated to 5.70 percent in 2007 from the 4.03 percent in the previous year. The major driving forces were strong exports and a pickup in private investment and consumption. Although the current account surplus hit a record high, it was less than the net outflow on the financial account. The balance of payments thus exhibited a relatively small deficit. As surging international commodity prices and a typhoon-induced vegetable price hike weighed on inflationary pressure, the CPI rose by 1.80 percent, a moderate level compared with other countries. The unemployment rate was 3.91 percent, the same as in the previous year and the lowest since 2001. Moreover, central government finance continued to improve and recorded the largest budget surplus since 1999.

Solid Economic Growth

In 2007, Taiwan's GDP expanded by 5.70 percent, outperforming the 4.89 percent in the previous year. Exports remained vigorous as strong demand from emerging economies more than offset the effect of the subprime mortgage crisis-ridden U.S. and Europe. Domestic demand picked up gradually against a dwindling impact of credit card defaults. Private investment continued to grow mildly, led by semiconductor companies' capacity expansion.

Economic growth was mainly driven by external demand, which contributed 3.74 percentage points to economic growth. The manufacturing industry accounted for 2.65 percentage points of economic growth, the largest contribution among all sectoral components. The services sector grew moderately and accounted for 71.06 percent of domestic production. Per capital GNP reached US\$17,294 in 2007, an increase of US\$800 from the previous year.

Small Deficit in Balance of Payments

In 2007, the balance of payments registered record highs in both current account surplus and financial account net outflow. The current account surplus reached US\$31.7 billion or 8 percent of nominal GNP. The financial account exhibited a net outflow of US\$38.9 billion. As a result, the foreign reserve assets held by the Bank slightly decreased by US\$4 billion, which was relatively small compared with the foreign exchange reserves of Taiwan.

Increase in exports exceeded that in imports. Therefore, the trade surplus on goods grew

to a record high of US\$29.4 billion, up 25.8 percent year over year. Taiwan's exports to Vietnam and India grew notably, and Vietnam has become Taiwan's second largest export market. Due to an increase in technical service expenditures, the services account deficit went up to US\$5.4 billion. Surplus on the income account increased to US\$11.5 billion owing to growth in residents' direct investment income and investment income on foreign exchange reserves. Net current transfer payments decreased to US\$3.8 billion because of the increase in inward remittances. Capital account deficit shrank to US\$0.1 billion as acquisitions of intangible assets decreased. The financial account net outflow reached a historic high, mainly due to a surge of residents' overseas investment.

Rising Inflationary Pressure

Taiwan's wholesale price index (WPI) increased by 6.46 percent in 2007 due to a surge of international commodity prices and a depreciation of NT dollars against US dollars. The skyrocketing international raw material prices and a typhoon-induced vegetable price hike both added to inflationary pressure. The CPI inflation rate was 1.80 percent for 2007, higher than 0.6 percent of the previous year but still below the 2 percent target set by the Council for Economic Planning and Development. Core CPI (CPI excluding fresh fruits and vegetables, fish and shellfish, and energy) went up by 1.35 percent, over the 0.52 percent of 2006. Both CPI and core CPI inflation were moderate compared with other countries.

Continuously Improved Employment

Thanks to sustained economic expansion and the government's job-creating programs, labor market conditions continued to improve. The unemployment rate was 3.91 percent, the lowest since 2001. The average labor force participation rate was 58.25 percent, an increase of 0.33 of a percentage point from the previous year. The labor force participation rate for females hit another new high while that for males remained on a declining trend.

The annual average employment reached a new high of 10 million and 294 thousand persons and a growth of 1.81 percent year over year. Among the components, employment in the services sector increased by 1.8 percent and employment in the manufacturing industry rose by 2.37 percent.

The average monthly earnings of workers in the non-farm sectors increased by 2.28 percent from the previous year to NT\$45,112. After deflated by CPI, real monthly earnings rose by 0.47 percent from 2006. As the increase in total production outpaced that in total working hours, the labor production index for the manufacturing industry went up by 7.47 percent. Higher growth in labor productivity than in earnings led to a decrease of 5.37 percent in unit labor cost in the manufacturing industry, among which the drop in the electronic parts and components

industry was the most striking.

Strengthening Fiscal Position

The central government finance continued to improve. With steady economic expansion, continuous tax reform and curtailment of government expenditures, the central government's fiscal revenue outpaced its expenditure. In 2007, central government revenue increased by NT\$86.1 billion over the previous year to NT\$1,632.5 billion, mainly supported by a NT\$114.4 billion surge in tax revenue. Central government expenditure, however, increased moderately by NT\$23.1 billion over the previous year to NT\$1,552.9 billion. As a result, the central government finance exhibited the largest budget surplus of NT\$79.6 billion since 1999.

Although the general budget of the central government for 2007 did not require any debt financing, the special budget still relied on bond issuance and borrowing as financing sources. Total outstanding debt of the central government continued to increase by NT\$98.5 billion over the previous year-end to NT\$3,723.6 billion at the end of 2007. Nevertheless, the ratio of outstanding central government debt to GDP dropped to 29.6 percent, indicating better fiscal conditions with lighter debt burdens.



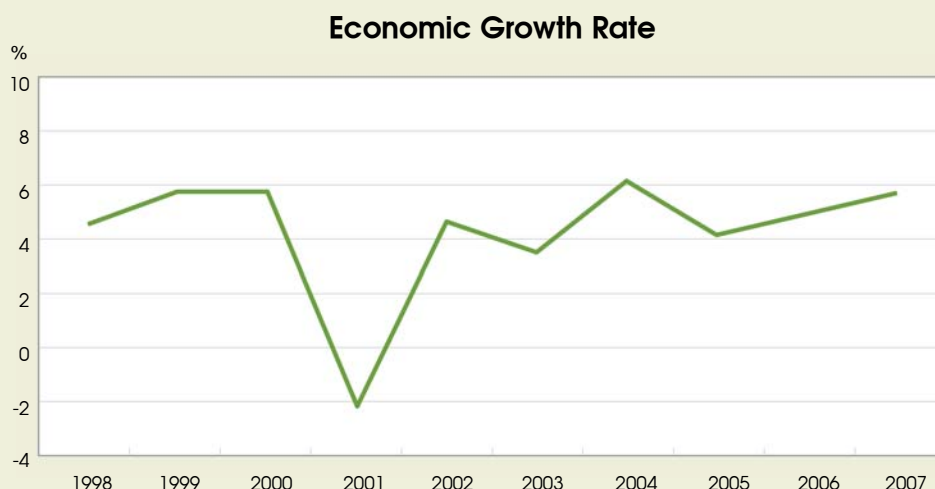
2. National Output and Income

On the back of stronger exports and a mild recovery in domestic demand, Taiwan's economic growth accelerated in 2007. External trade continued to perform favorably through most of the year although global economic expansion moderated due to a slowdown in the US economy. Domestic consumption recovered a bit as the credit and cash card debt problem gradually subsided, and business investment grew steadily as well. For the year as a whole, real GDP advanced at an annual growth rate of 5.70 percent, up from 4.89 percent in 2006.

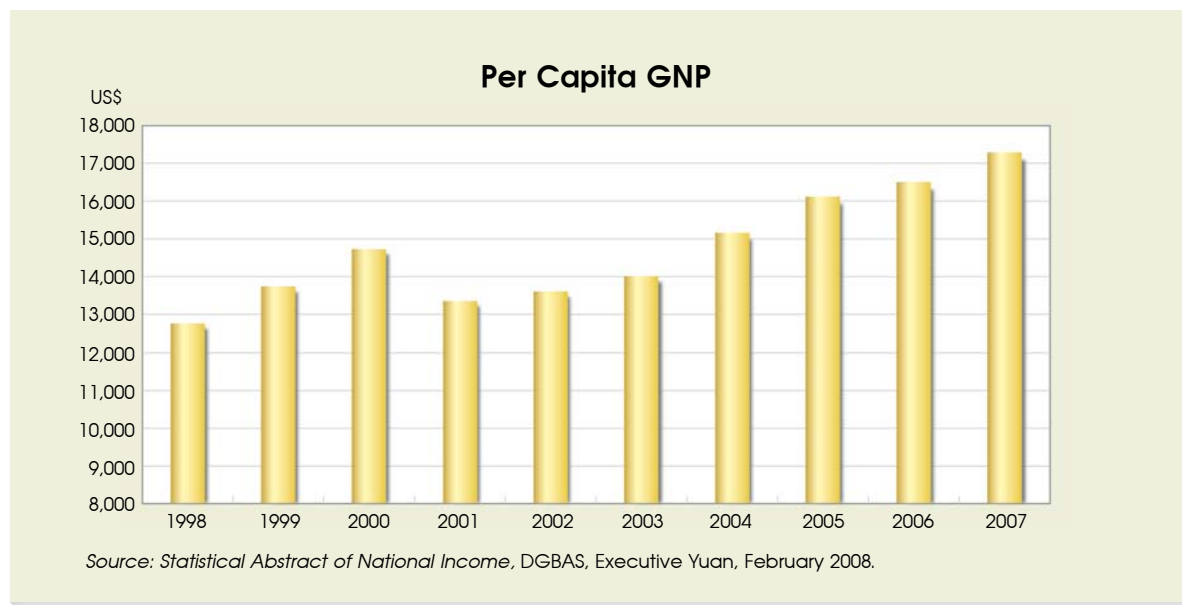
Driven by solid net exports which more than offset a subtraction from domestic demand, real GDP increased by 4.19 percent year on year in the first quarter of 2007. On account of steady expansion in external trade, improved private consumption and robust private investment, real GDP growth picked up to 5.24 percent in the second quarter. With strong exports and a continued recovery in private consumption, real GDP growth speeded up to 6.86 percent in the third quarter. Although hampered by weak investment and slower consumption, strong exports helped lift the fourth quarter's real GDP growth, which only slightly moderated to 6.39 percent. For the year, per capita GNP in nominal terms increased by US\$800, reaching US\$17,294.

Expenditure Components of GDP

On the expenditure side of GDP, external trade (net exports) expanded at a brisk pace and remained the driving force for economic growth during 2007, contributing 3.74 percentage points to real GDP growth. Meanwhile, with a modest upturn in consumption and investment,



Source: *Statistical Abstract of National Income*, DGBAS, Executive Yuan, February 2008.



domestic demand grew mildly, contributing 1.96 percentage points for the year. Among all the expenditure components of GDP, exports of goods and services still accounted for the largest share with 73.75 percent of GDP. On the other hand, due to modest expansion in domestic demand over the period, the share of private consumption in GDP slightly declined to 59.19 percent and the share of gross fixed capital formation remained flat at 21.17 percent.

Expenditure on Gross Domestic Product

Unit: %

	2007			2006		
	Share	Real Growth Rate	Contribution to Real Growth Rate of GDP*	Share	Real Growth Rate	Contribution to Real Growth Rate of GDP*
Private Consumption	59.19	2.61	1.47	60.41	1.76	1.02
Government Consumption	12.12	0.80	0.09	12.64	-0.41	-0.05
Gross Fixed Capital Formation	21.17	2.39	0.46	21.17	0.62	0.13
Change in Inventory	0.05	—	-0.07	0.10	—	0.01
Exports of Goods and Services	73.75	8.83	5.87	69.85	10.37	6.55
(Less : Imports of Goods and Services)	(66.29)	(3.96)	(2.13)	(64.17)	(5.16)	(2.77)
Expenditure on GDP	100.00	5.70	5.70	100.00	4.89	4.89

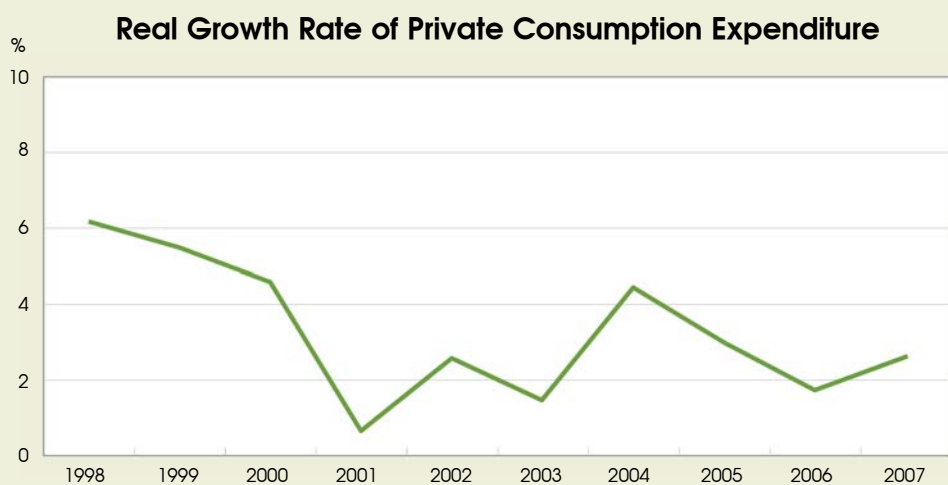
Note: * Percentage point.

Source: Statistical Abstract of National Income, DGBAS, Executive Yuan, February 2008.

(1) Mild Growth in Private Consumption

Private consumption rose at a mild rate for the year, registering an annual growth rate of 2.61 percent in real terms and contributing 1.47 percentage points to GDP growth. Over the first quarter, consumer expenditure was relatively subdued due to banks' contraction of consumer loans on concern over consumer insolvency. Thanks to a buoyant stock market and the alleviation of card debt burdens, private consumption gathered momentum and expanded by 2.57 percent in the second quarter. Later, further gains from the local stock and real estate markets as well as record cash dividends paid by listed companies encouraged consumer spending. Along with the low base effect, consumption growth progressed to 3.61 percent in the third quarter. However, rising inflationary pressure and a drop in stock prices amid worries about the US subprime mortgage crisis led to lower consumption growth of 2.15 percent in the fourth quarter.

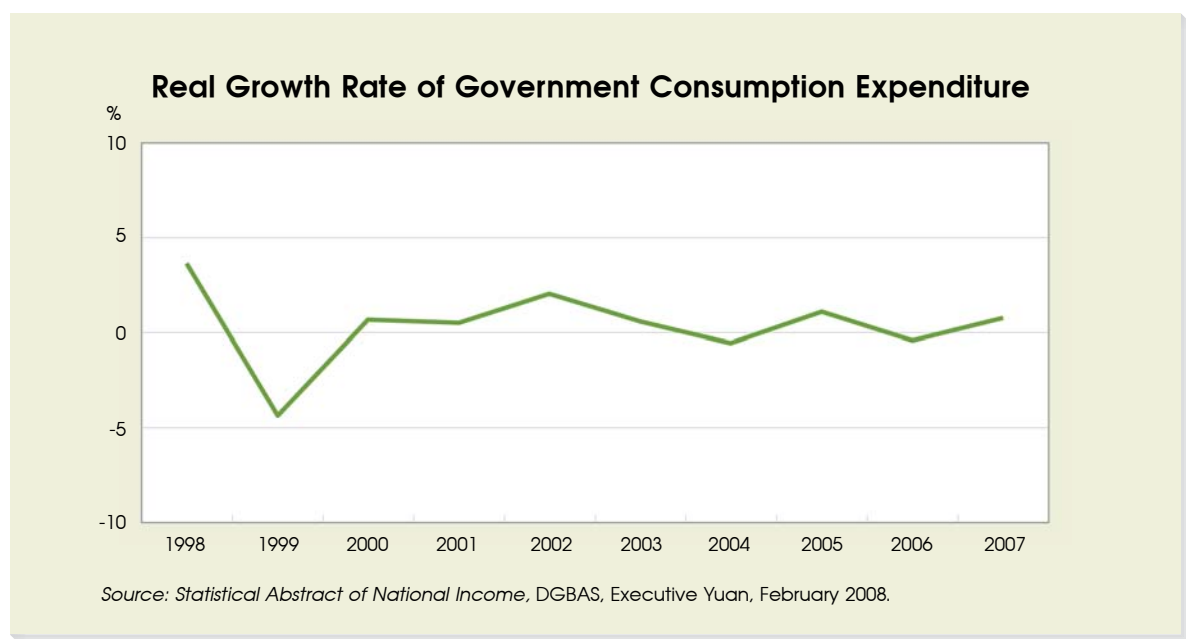
In terms of the private consumption categories, both food and non-food consumption demand increased steadily over the period with respective annual growth rates of 2.29 percent and 2.70 percent, slightly higher than those in 2006. Among the components of non-food consumption, outlays for household operation still showed the largest growth in 2007, as a sustained increase in the number of double-income families boosted the demand for housekeeping services. Moreover, driven by buoyant housing demand, additional spending on furniture, furnishings and household equipment posted the second largest growth. In contrast, household spending for transport and communication exhibited a marginal growth due to sluggish motor vehicle purchases.



Source: Statistical Abstract of National Income, DGBAS, Executive Yuan, February 2008.

(2) Slight Growth in Government Consumption

Growth in government consumption, albeit slow, moved back to positive territory in 2007. For the year as a whole, government consumption increased by 0.80 percent in real terms, which contributed 0.09 of a percentage point to GDP growth, compared with a decline of 0.41 percent and 0.05 of a percentage point contribution in the previous year. The slow growth in government expenditure mainly reflected the government's spending cut policy that aimed to improve public finance situations.

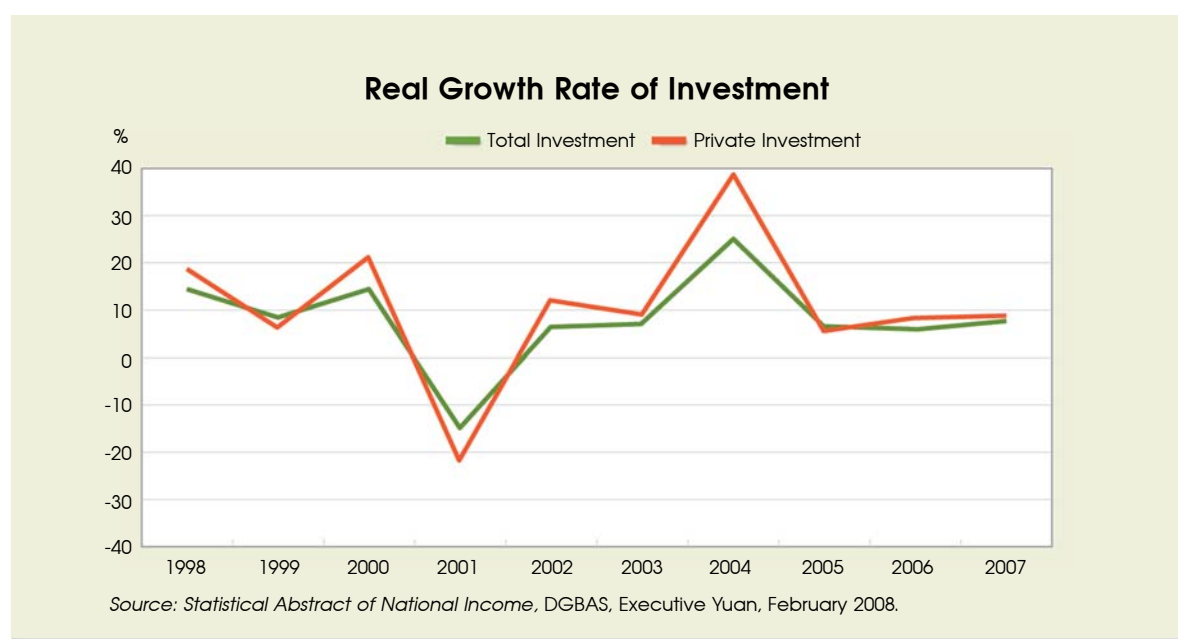


(3) Modest Growth in Fixed Capital Formation

In 2007, fixed capital formation exhibited a modest growth with an annual rate of 2.39 percent in real terms, up from 0.62 percent in 2006, and contributed 0.46 of a percentage point to economic growth. During the first three quarters, investment outlay maintained an upward trend in line with solid global demand. However, soaring international raw material and oil prices, coupled with the increasing downside risk to global economic growth sparked by the US subprime mortgage upheaval, led business activities to slow down. The fourth quarter's fixed capital formation thus declined by 1.59 percent.

Broken down by type of purchaser, the private sector, public enterprises and the general government all grew, but at an uneven pace, over the year. At the beginning of the year, private investment remained sluggish as several major investment projects, such as the high-speed rail and the sixth naphtha cracking complex, were getting close to completion. Later,

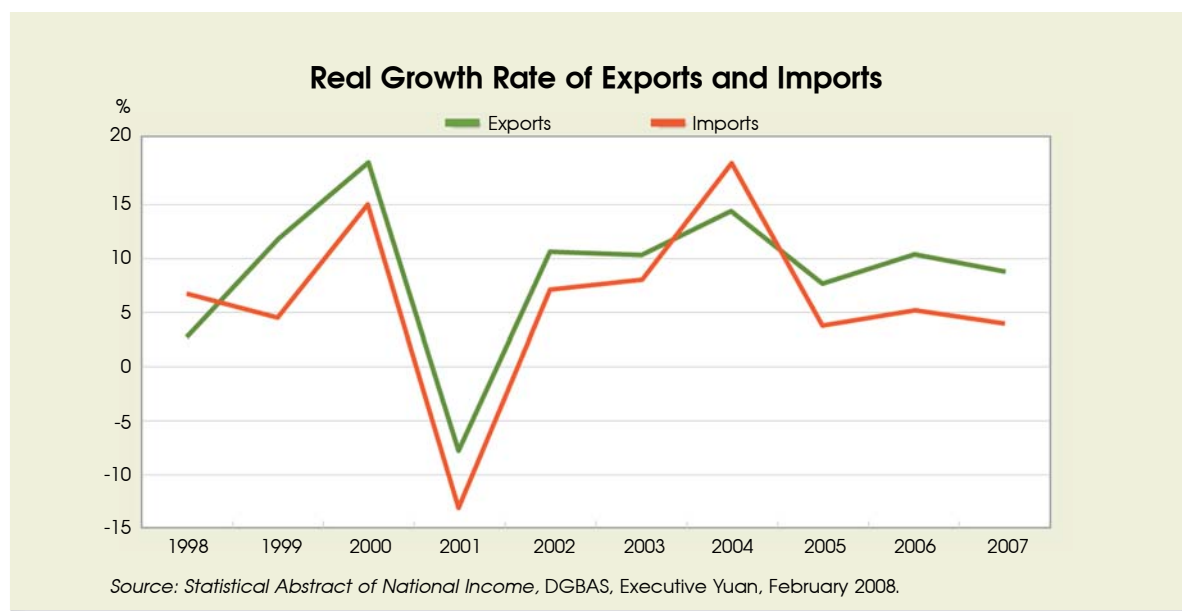
as some industries enlarged their capacity and improved their production equipment, private investment grew rapidly during the middle two quarters of the year. Nevertheless, amid concern over a slowdown in the global economy and soaring prices, private investment growth fell into negative territory in the last quarter. For the year as a whole, private investment posted an annual growth rate of 3.39 percent, contributing 0.51 of a percentage point to real GDP growth. While investment by public enterprises showed a downward trend over the year, it demonstrated a marked increase of 3.88 percent due to the expedited expansion of oil refineries and power plants. Government investment, however, continued to experience a contraction, declining by 3.91 percent over the year as major public construction projects were carried out via BOT (Build/Operate/Transfer) contracts.



Among the types of capital formation, apart from a slight decline in construction spending, outlays on machinery, transportation and intangible goods showed modest growth over the year. Investment in machinery and equipment posted the biggest growth for the year at 4.84 percent, attributable to plant expansion, production process upgrading, and robust orders for both semiconductor foundries and TFT-LCD (thin film transistor-liquid crystal display) panel makers. Meanwhile, investment in transportation equipment and intangible fixed assets registered limited growth of 1.10 percent and 0.22 percent, respectively. On the other hand, investment in the construction sector edged down 0.4 percent, partly due to a contraction of public construction.

(4) Robust Growth in Exports

Despite concerns about the impact of a moderated pace of the US expansion in the second half of 2007, exports remained robust through most of the year. Led by electrical machinery products and basic metals and articles thereof, exports expanded at a brisk pace over the year. Moreover, resilient intra-Asia trade and strong demand from Taiwan's major trading partners further pushed exports to double-digit growth rates in the last two quarters of the year. Due to a high base effect, the growth rate of exports of goods and services moderated to 8.83 percent in real terms, from 10.37 percent in 2006, contributing 5.87 percentage points to economic growth in 2007. The share of exports in GDP continued to rise to 73.75 percent, from the 69.85 percent recorded in the previous year.



(5) Moderate Growth in Imports

In line with the rapid growth of exports, imports continued to expand but at a slower pace due to a huge jump in prices of industrial supplies, particularly fuels and metals. For the year as a whole, imports of goods and services measured in NT dollars grew by 3.96 percent in real terms, subtracting 2.13 percentage points from real GDP growth. Like exports, the share of imports of goods and services in GDP increased as well, from 64.17 percent in 2006 to 66.29 percent in 2007.

Sectoral Components of GDP

On the production side, there were positive contributions from industrial and services sectors, with the agricultural sector detracting from GDP growth. The services sector remained

the key driver for economic growth, pitching in 2.95 percentage points to economic growth for the year, up from 2.70 percentage points in 2006. Likewise, the contribution of the industrial sector to overall GDP rose from 2.10 percentage points in 2006 to 2.79 percentage points in 2007, mainly attributed to an increase in output of the manufacturing industry. The contribution of agricultural production to overall GDP, however, reversed from 0.09 of a percentage point in 2006 to negative 0.04 of a percentage point in 2007.

Looking at sectoral shares of GDP in nominal terms, the services sector represented the dominant share with 71.06 percent of GDP in 2007. The industrial sector had the second largest share at 27.5 percent of GDP. In contrast, the agricultural sector's share continued to dwindle, slipping to 1.45 percent of GDP for the year.

(1) Decline in Agricultural Output

In 2007, agricultural production, covering agriculture, forestry, fishing and animal husbandry industries, decreased by 2.91 percent. The reduction was mainly due to severe typhoons and heavy rain in the second half of the year.

Gross Domestic Product by Type of Activity

Unit: %

	2007			2006		
	Share	Real Growth Rate	Contribution to Real Growth Rate of GDP*	Share	Real Growth Rate	Contribution to Real Growth Rate of GDP*
Agriculture	1.45	-2.91	-0.04	1.62	6.09	0.09
Industry	27.50	9.16	2.79	26.84	7.04	2.10
Mining & Quarrying	0.41	7.31	0.01	0.32	-10.92	-0.03
Manufacturing	23.75	10.12	2.65	22.86	7.51	1.92
Construction	2.17	3.38	0.07	2.17	6.68	0.14
Electricity, Gas & Water	1.17	2.58	0.05	1.48	3.32	0.06
Services	71.06	4.33	2.95	71.54	3.93	2.70
Trade	18.60	5.47	0.91	18.36	6.21	1.03
Accommodation & Eating-drinking Places	2.12	2.74	0.06	2.15	6.03	0.12
Transport, Storage & Communications	5.93	2.49	0.16	6.03	4.17	0.28
Finance & Insurance	10.04	7.91	0.77	9.98	1.22	0.12
Real Estate, Rental & Leasing	8.16	4.32	0.35	8.26	5.71	0.46
Professional, Scientific & Technical Services	2.70	12.05	0.28	2.51	9.15	0.20
Educational Services	1.80	2.55	0.04	1.84	3.09	0.05
Health Care & Social Welfare Services	3.01	3.64	0.10	3.05	3.05	0.08
Government Services	10.17	-0.11	-0.01	10.73	0.70	0.07
Gross Domestic Product	100.00	5.70	5.70	100.00	4.89	4.89

Note: * Percentage point.

Source: Statistical Abstract of National Income, DGBAS, Executive Yuan, February 2008.

(2) Substantial Growth in Industrial Output

Industrial production, which covered mining and quarrying, manufacturing, construction, and electricity, gas and water, turned in another solid performance in 2007. For the year as a whole, it expanded at a rate of 9.16 percent, faster than 7.04 percent in 2006. Much of the acceleration in industrial output was supported by vigorous growth in manufacturing.

In 2007, manufacturing production continued its strength, registering a double-digit growth rate of 10.12 percent, up from 7.51 percent in 2006. The increase was mainly led by the strong gain in information and electronics industries, which surged 15.26 percent in the production index during the year. In addition, production indexes of the chemical industry and metal and machinery rose 5.45 percent and 2.24 percent, respectively. Nevertheless, output in food, textile and other industries was relatively lackluster, decreasing by 0.23 percent due to sharp declines in apparel, clothing accessories and other textile products, and wood and bamboo products, as firms continued to move their manufacturing operations overseas for lower production cost.

Output in the construction industry increased by 3.38 percent, lower than the previous year's 6.68 percent. This moderation reflected a decline in construction of business buildings and a slowdown in housing demand, particularly in the second half of the year. Production in electricity, gas and water also grew moderately during 2007 at an annual rate of 2.58 percent, associated with a robust increase in industrial output.

(3) Rising Growth in the Services Sector

Production in the services sector grew 4.33 percent in 2007, slightly faster than the pace of 3.93 percent in 2006. The expansion was mainly attributable to the vigorous activities in two major subsectors, i.e. finance and insurance, and professional, scientific and technical services.

Finance and insurance services made the largest increase in growth rates, from 1.22 percent in 2006 to 7.91 percent in 2007, mainly benefiting from a buoyant stock market and brisk mutual fund sales in the second half of the year. Over the year, the professional, scientific and technical services subsector registered the fastest growth rate of 12.05 percent. This development reflects the growing importance of specialized knowledge in business activities, such as design services, computer services, consulting services, research services, and legal advice. Meanwhile, with an aging population, the health care and social welfare services industry maintained a steady growth at 3.64 percent, up from 3.05 percent in the previous year.

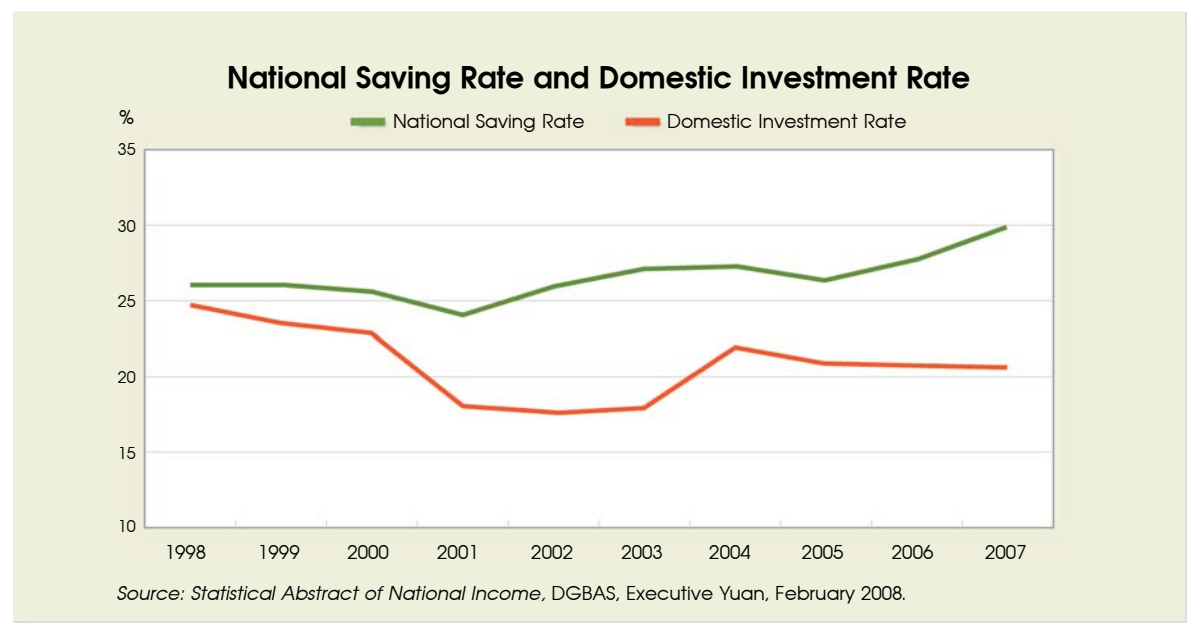
Other industries within the services sector, however, recorded lower growth rates than the previous year. For example, with merely a gentle rise in consumption expenditure, growth in the trade industry moderated to 5.47 percent in 2007, compared with the 6.21 percent in the

previous year. Growth in tourism and eating-drinking places also slowed down to 2.74 percent from 6.03 percent. Real estate, rental and leasing posted a moderate growth of 4.32 percent, lower than the previous year's 5.71 percent, reflecting a cooldown in the housing market. Moreover, largely affected by surging oil prices, expansion in the transportation, storage and communications sector slowed down to 2.49 percent, from 4.17 percent in the previous year. Finally, resulting from the government's efforts to cut expenditure, the government services sector shrank slightly by 0.11 percent for the year.

Increase in National Saving Rate

As GNP growth outpaced the increase in national consumption (including both private consumption and government consumption expenditures), the national saving rate (national saving to GNP measured at current prices) moved further up, from 29.80 percent in 2006 to 30.46 percent in 2007. For the year as a whole GNP advanced by 6.26 percent, but national consumption grew by 3.35 percent. The mild growth in national consumption mainly reflected the almost flat growth in government spending and moderate growth in private consumption.

The excess saving, defined as national saving less gross domestic investment, to GNP ratio moved up from 7.03 percent in 2006 to 9.19 percent in 2007, resulting from a greater increase in national saving than that in domestic investment.



3. BALANCE OF PAYMENTS

The balance of payments was characterized by a large current account surplus and a net outflow in the financial account in 2007. The current account surplus registered a record high of US\$31,701 million, which was up from the previous year's US\$24,661 million and accounted for 8.0 percent of nominal GNP. The capital account registered a relatively small deficit of US\$96 million. The financial account exhibited a net outflow of US\$38,926 million, which also was the highest on record. The overall balance showed a deficit of US\$4,020 million, reflecting a decrease in the Bank's reserve assets. The overall deficit accounted for 12.7 percent of the current account surplus. In light of the abundant foreign exchange reserves, the deficit in fact could help ease domestic excess savings.

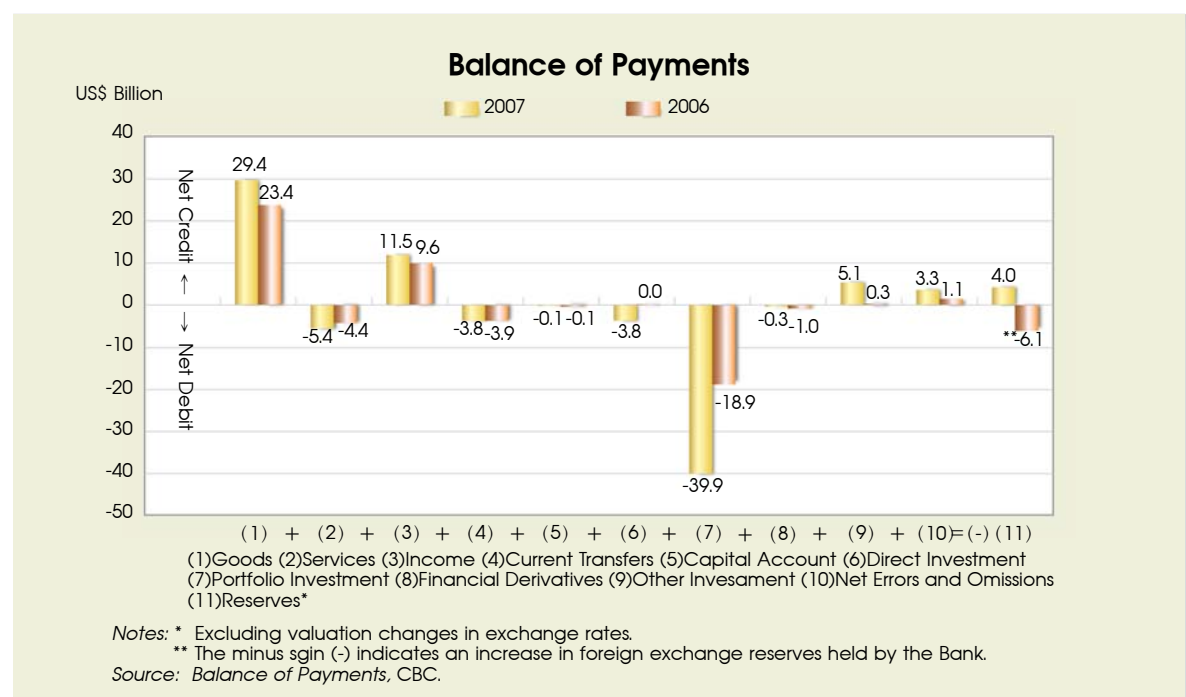
Marked Increase in Current Account Surplus

The current account consists of four major items, which are goods, services, income and current transfers. The current account surplus increased in 2007 mainly as a result of the widened surplus in both goods and income and the decline in the deficit of current transfers.

(1) Goods

For the year 2007, the value of exports and imports reached historic highs. On a balance of payments basis, the value of exports grew by 10.2 percent to US\$246,597 million, mainly

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Balance of Payments

Unit: US\$ Million

	2007	2006
A. Current Account	31,701	24,661
Goods: exports f.o.b.	246,597	223,789
Goods: imports f.o.b.	-217,160	-200,385
Balance on Goods	29,437	23,404
Services: credit	30,642	29,272
Services: debit	-36,068	-33,661
Balance on Services	-5,426	-4,389
Income: credit	24,861	19,338
Income: debit	-13,370	-9,757
Balance on Income	11,491	9,581
Current transfers: credit	4,559	3,837
Current transfers: debit	-8,360	-7,772
Balance on Current Transfers	-3,801	-3,935
B. Capital Account	-96	-118
Total, Groups A plus B	31,605	24,543
C. Financial Account	-38,926	-19,595
Direct investment abroad	-11,058	-7,399
Direct investment in R. O. C. (Taiwan)	7,272	7,424
Portfolio investment assets	-44,946	-40,754
Portfolio investment liabilities	4,999	21,814
Financial derivatives assets	3,788	1,930
Financial derivatives liabilities	-4,078	-2,895
Other investment assets	-7,435	-1,266
Other investment liabilities	12,532	1,551
Total, Groups A through C	-7,321	4,948
D. Net Errors and Omissions	3,301	1,138
Total, Groups A through D	-4,020	6,086
E. Reserves and Related Items*	4,020	-6,086

Note: * Excluding valuation changes in exchange rates.
Source: Balance of Payments, CBC.

driven by steady growth in the global economy. The value of imports rose by 8.4 percent to US\$217,160 million. It was primarily led by surging international energy, raw material and commodity prices, as well as stronger derived demand arising from the expansion in exports. The trade surplus on goods reached US\$29,437 million for the year, an increase of 25.8 percent from the previous year and the highest figure on record.

As indicated by the Customs' statistics, the top three trading partners for Taiwan in 2007 were China including Hong Kong (hereafter referred to as China), the US and Japan. Exports to these countries accounted for 60.2 percent of total exports, while imports from these three countries made up 46.6 percent of total imports.

In terms of Taiwan's trade with China, exports totaled US\$100,444 million for the year, representing a growth of 12.6 percent compared with the previous year. The marked growth

Direction of Trade in Goods by Country

Unit: %

	2007			2006		
	Amount (US\$ Million)	Share	Annual Change	Amount (US\$ Million)	Share	Annual Change
Exports						
China (including Hong Kong)	100,444	40.7	12.6	89,190	39.8	14.8
U. S. A.	32,074	13.0	-0.9	32,361	14.4	11.2
Europe	28,687	11.6	9.7	26,147	11.7	10.6
Southeast Asia 6*	35,783	14.5	16.7	30,651	13.7	13.8
Japan	15,936	6.5	-2.2	16,300	7.3	7.9
Rest of the World	33,799	13.7	15.1	29,369	13.1	13.2
Total	246,723	100.0	10.1	224,018	100.0	12.9
Imports						
Japan	45,944	20.9	-0.7	46,284	22.8	0.5
U. S. A.	26,518	12.1	17.0	22,665	11.2	7.1
Europe	23,664	10.8	9.7	21,566	10.6	-1.6
Southeast Asia 6*	23,692	10.8	1.7	23,304	11.5	10.4
China (including Hong Kong)	29,844	13.6	11.9	26,664	13.2	20.1
Rest of the World	69,685	31.8	12.0	62,215	30.7	24.0
Total	219,347	100.0	8.2	202,698	100.0	11.0

Note: * Including Indonesia, Malaysia, the Philippines, Singapore, Thailand, and Vietnam.
Source: Monthly Statistics of Exports and Imports, Ministry of Finance, R. O. C. (Taiwan).

was attributable to China's persistently strong economic growth, as well as the rising demand for IT products and plastic products and parts from Taiwanese firms operating there. The share of exports to China increased by 0.9 percentage points to 40.7 percent. China remained Taiwan's largest export market in 2007.

Imports from China totaled US\$29,844 millions, up by 11.9 percent, and its share in total imports rose to 13.6 percent in 2007, making China the second largest source of imports. The increase stemmed from the surging demand for Chinese machinery products and related parts due to the division of labor among Taiwanese industries across the Taiwan Strait. The bilateral trade surplus with China climbed to US\$70,600 million, reflecting a 12.9 percent increase. China remained the largest source of Taiwan's trade surplus.

With respect to bilateral trade with the US, exports to the US slightly decreased by 0.9 percent in 2007. The share of exports to the US in total exports had decreased since 1998, and dropped further to 13.0 percent in 2007. The continuous decline was mainly due to the competition from China's products and the resumed outward relocation (mainly to China) of local industries. Imports from the US increased by 17.0 percent and its share of total imports rose from 11.2 percent in 2006 to 12.1 percent in 2007. Because imports grew relatively faster, the bilateral trade surplus with the US decreased to US\$5,556 million, representing a cut of 42.7 percent.

Regarding bilateral trade with Japan, exports to Japan decreased by 2.2 percent in 2007, and its share in total exports declined to 6.5 percent. Imports from Japan slightly decreased by 0.7 percent compared with the previous year, with the share in total imports falling to 20.9 percent in 2007. Japan remained Taiwan's largest source of imports. The trade deficit with Japan slightly increased to US\$30,007 million for the year.

Exports to Europe increased by 9.7 percent in 2007, with the share in total exports falling to 11.6 percent. Imports from Europe increased by 9.7 percent in 2007, with the share in total imports amounting to 10.8 percent. The trade surplus with Europe increased from US\$4,581 million in 2006 to US\$5,023 million in 2007.

Owing to steady economic growth in Southeast Asia, exports to the six countries in the region, including Indonesia, Malaysia, the Philippines, Singapore, Thailand and Vietnam, increased by 16.7 percent. In particular, exports to Vietnam significantly grew by 40.9 percent, making Vietnam the second largest source of Taiwan's trade surplus for the year. The share of exports to these countries in total exports rose to 14.5 percent. Imports from these countries rose by 1.7 percent in 2007, with the share in total imports declining to 10.8 percent. The trade surplus with the six countries increased to US\$12,091 million in 2007 from US\$7,347 million in 2006. Besides, bilateral trade with India expanded. The export and import growth rates reached 59.2 percent and 104.2 percent, respectively.

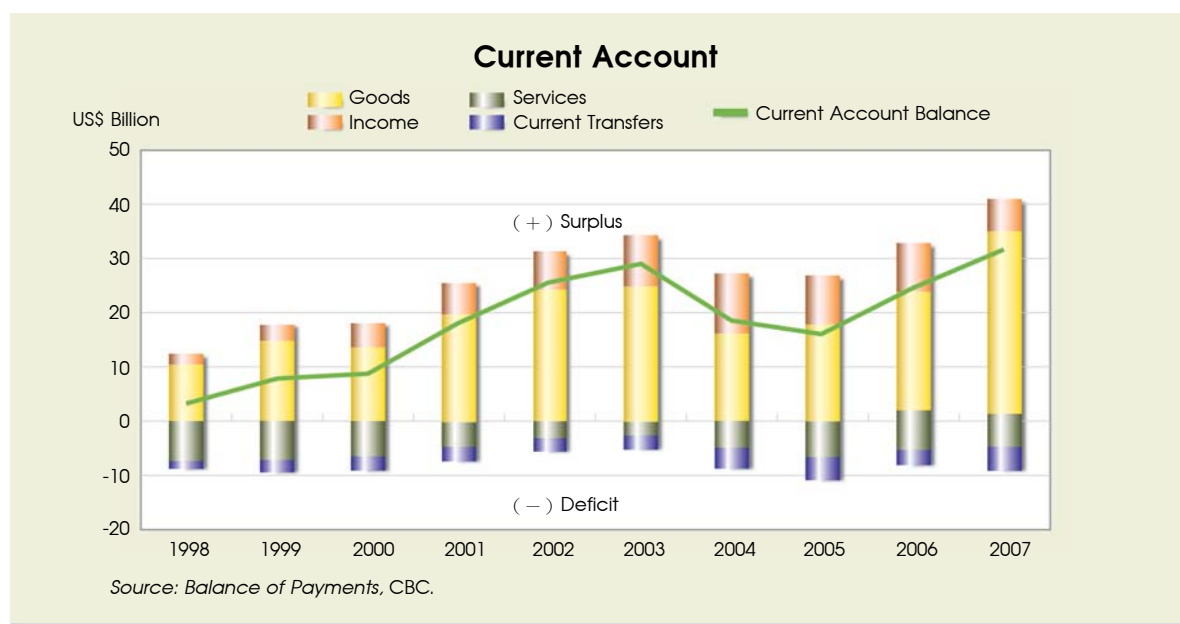
(2) Services

In 2007, both service receipts and payments registered their highest amounts in history. Service receipts increased by US\$1,370 million to US\$30,642 million, and service payments rose by US\$2,407 million to US\$36,068 million. The service deficit widened to US\$5,426 million in 2007 from the US\$4,389 million in 2006.

Of the various components of the services account, net payments with respect to transportation increased from US\$2,771 million recorded a year earlier to US\$3,393 million in 2007, largely due to the increase in import freight expenses paid to foreign carriers. Travel receipts merely increased by US\$1 million to US\$5,137 million. Travel payments for the year increased by US\$324 million to US\$9,070 million, due to an increase in overseas visits by residents. Net travel payments increased to US\$3,933 million. The surplus in net other services decreased slightly from US\$1,992 million in 2006 to US\$1,900 million in 2007, mainly resulting from the increases in brokerage, professional and technical services payments.

(3) Income

Owing to the cross-border investment boom, both income receipts and payments registered



their highest levels in 2007. Income receipts increased to US\$24,861 million, which was attributable to the increases in residents' income from direct investment and in interest earnings from residents' foreign exchange assets. Income payments for the year amounted to US\$13,370 million, resulting from the increase in non-residents' direct and portfolio investment income. The surplus on the income account increased from US\$9,581 million in 2006 to US\$11,491 million in 2007.

(4) Current Transfers

Current transfer receipts amounted to US\$4,559 million, while current transfer payments increased to US\$8,360 million in 2007. Both reached historic highs, on account of the increase in remittances to support overseas relatives. Net current transfer payments decreased from US\$3,935 million in 2006 to US\$3,801 million in 2007.

Shrinking Capital Account Deficit

The capital account includes capital transfers (debt forgiveness, ownership transfers of fixed assets and migrants' transfers), and the acquisition and disposal of non-produced, non-financial assets. In 2007, the capital account consistently exhibited a deficit, but the gap narrowed by US\$22 million to US\$96 million, as a result of the decreased acquisitions of non-produced, non-financial assets.

Net Outflow in the Financial Account

In 2007, the financial account presented a net outflow of US\$38,926 million. In terms of

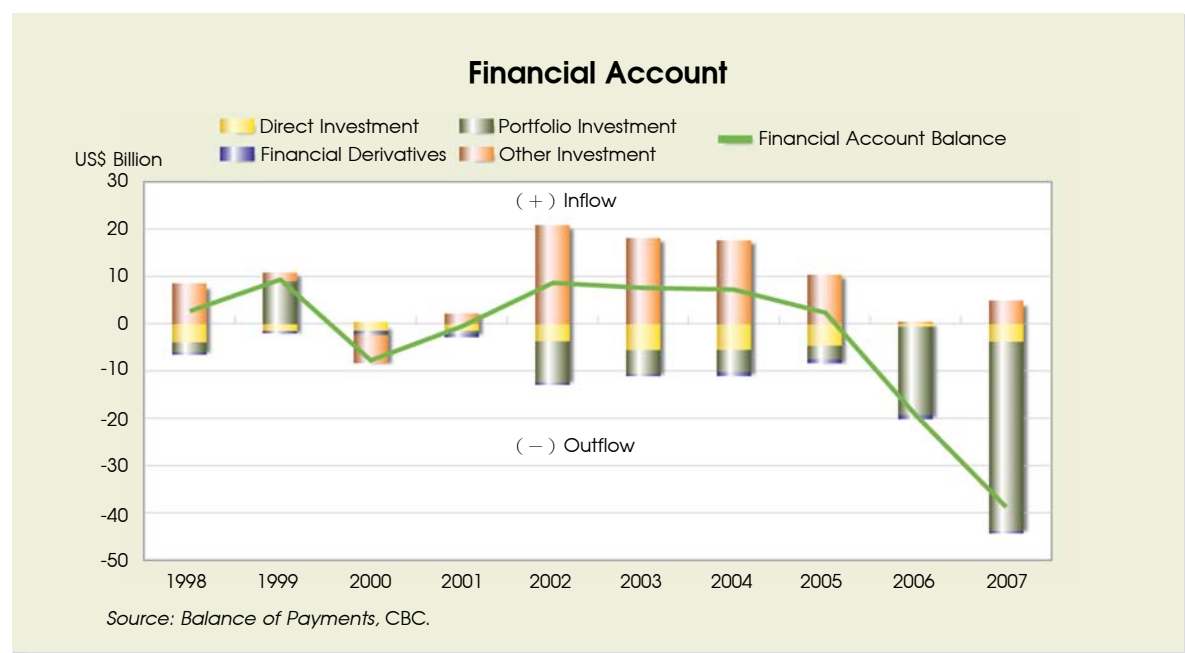
sub-categories, other investment posted a net inflow of US\$5,097 million, while direct investment, portfolio investment and financial derivatives posted net outflows of US\$3,786 million, US\$39,947 million and US\$290 million, respectively.

(1) Direct Investment

Direct investment abroad by residents showed a net outflow of US\$11,058 million, the highest in history and US\$3,659 million more than in the previous year. Main targets invested included the financial industry and the electronic parts and components manufacturing industry. Moreover, China remained the lion's share in Taiwan's direct investment abroad. Direct investment in Taiwan by nonresidents registered a net inflow of US\$7,272 million. Accordingly, direct investment registered a net outflow of US\$3,786 million in 2007, compared with a net inflow of US\$25 million in 2006.

(2) Portfolio Investment

Portfolio investment abroad by residents exhibited a net outflow of US\$44,946 million, the highest level ever recorded. It indicated an increase in residents' investment in foreign mutual funds (Box). Net inflows of local portfolio investment by nonresidents slid from US\$21,814 million in 2006 to US\$4,999 million in 2007, mainly because foreign investors sold their holdings in the local stock market to meet liquidity demands arising from the impact of the US subprime loan crisis. Portfolio investment posted a huge net outflow of US\$39,947 million in 2007.



(3) Financial Derivatives

Financial derivatives assets recorded a net inflow of US\$3,788 million, mainly due to gains from financial derivatives deals by private sectors and OBUs. Financial derivatives liabilities registered a net outflow of US\$4,078 million, reflecting the gains from financial derivatives deals by nonresidents. As a result, financial derivatives posted a net outflow of US\$290 million in 2007.

(4) Other Investment

Other investment abroad by residents recorded a net outflow of US\$7,435 million, mainly because of the increase in loans extended to foreign banks. Other local investment by nonresidents showed a net inflow of US\$12,532 million, primarily on account of the foreign funds introduced into the domestic market by the banking sector. As a consequence, the net inflow of other investment substantially increased to US\$5,097 million in 2007, compared with US\$285 million in 2006.

Decrease in Foreign Exchange Reserves

The foreign exchange reserve assets held by the Bank decreased by US\$4,020 million. Reserve assets decreased as the current account surplus was less than the net outflow in the financial account.

Box: The Overview and Impact of Investment in Foreign Mutual Funds

In the past two years, portfolio investment abroad by residents surged. Several factors that might cause the surge included: lower domestic interest rates, a weak NT dollar, relatively dim performance of Taiwan's stock market, the master agent requirements for foreign mutual funds sold in Taiwan (effective from 2006), the taxation on residents' overseas income (scheduled for 2009), continued relaxation of capital controls in Taiwan, and abolition of inheritance tax in Hong Kong. The sharp increase in investment in foreign mutual funds in particular was a reflection that these funds attracted residents for their professional management, wider scope of investment, risk diversification, higher liquidity, and tax exemption.

At the end of 2007, foreign mutual funds held by residents grew by 53.7 percent to NT\$2,102 billion. Investments through banks' non-discretionary money trusts accounted for the lion's share, reaching 83.5 percent. Broken down by type of fund, investors preferred holding equity funds and fixed income funds, which posted shares of 65.6 percent and 29.4 percent, respectively. By investment area, global funds and regional funds held by residents marked 49.1 percent and 32.7 percent, respectively, attributable to their better risk diversification. By currency, funds denominated in the US dollar and the euro exhibited shares of 79.9 percent and 16.6 percent, respectively.

Due to the continued foreign trade surplus and slower growth of domestic investment, Taiwan has accumulated massive excess savings over the past 10 years. Residents' investment in foreign mutual funds can ease the domestic excessive liquidity resulting from the current account surpluses and net inflows of foreign capital over the past years. Currently, with the Bank's reserve assets still abundant, investment abroad by private sectors helps keep the overall balance in equilibrium and stabilize domestic financial markets and NT dollar exchange rates.

Foreign Mutual Funds Held by Residents

(End of 2007)

Classification	Item		Amount (NT\$ Billion)	Share (%)
Total			2,102	100.0
Type of Beneficiary	Individual Beneficiaries		26	1.2
	Institutional Beneficiaries	Non-Omnibus Accounts	284	13.5
		Omnibus Accounts	1,754	83.5
		Non-Discretionary Money Trust	38	1.8
Fund Type	Equity Fund		1,379	65.6
	Fixed Income Fund		619	29.4
	Balance Fund		75	3.6
	Others		29	1.4
Investment Area	Global		1,031	49.1
	Single Country		383	18.2
	Regional		688	32.7
Currency	USD		1,680	79.9
	EUR		349	16.6
	Others		73	3.5

Source: Securities Investment Trust & Consulting Association of the R.O.C.

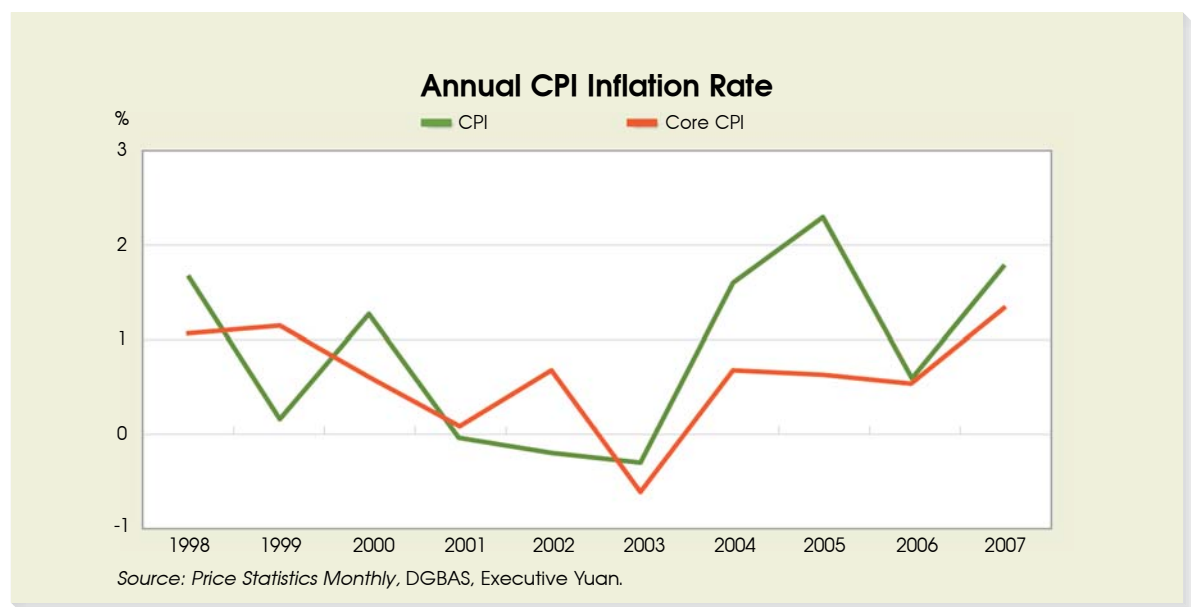
4. Prices

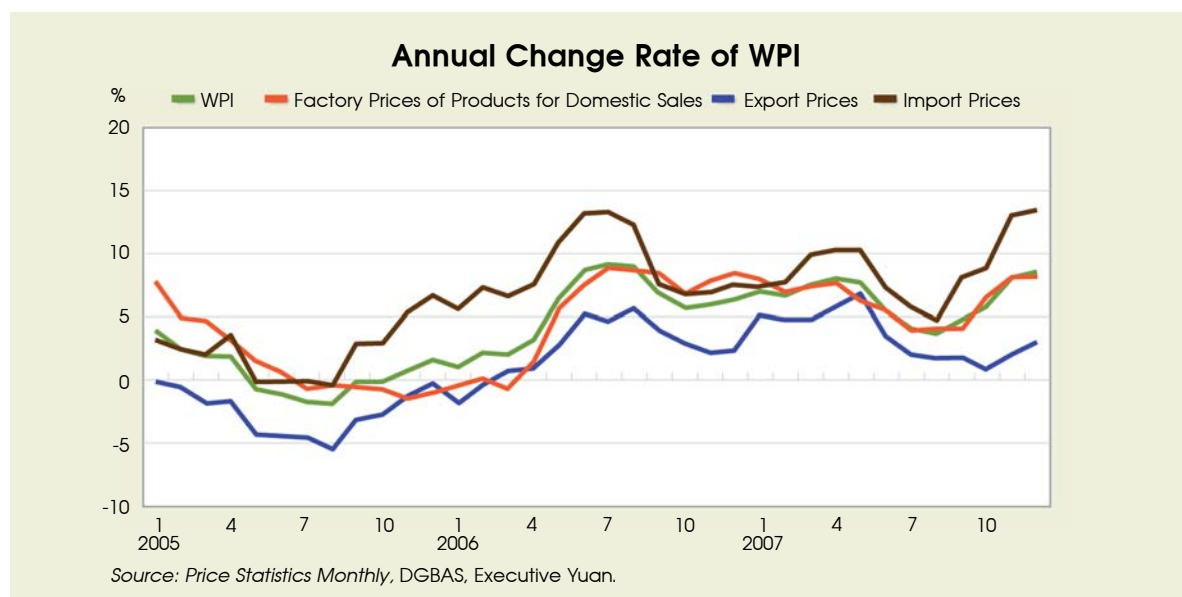
Taiwan's inflation was pushed up by soaring prices of international raw materials and crude oil in 2007. The wholesale price index (WPI) rose steeply by 6.47 percent, mainly attributable to rising global oil and commodity prices and a weak New Taiwan dollar. The headline consumer price index (CPI) went up by 1.80 percent, notably higher than the 0.60 percent increase in 2006. The hike in CPI inflation was caused by the rising import prices of oil, gas, medicine and food, and severe typhoons from August onwards. The core CPI (consumer prices excluding fruits and vegetables, fish and shellfish, and energy) rose by 1.35 percent in 2007, faster than the previous year's 0.52 percent.

Steep Increase in Wholesale Prices

The annual WPI inflation rate reached 6.47 percent in 2007, which was 0.84 of a percentage point more than in 2006. Broken down by the major components of the WPI, factory prices of products for domestic sales and import prices rose markedly, while export prices recorded a relatively moderate increase.

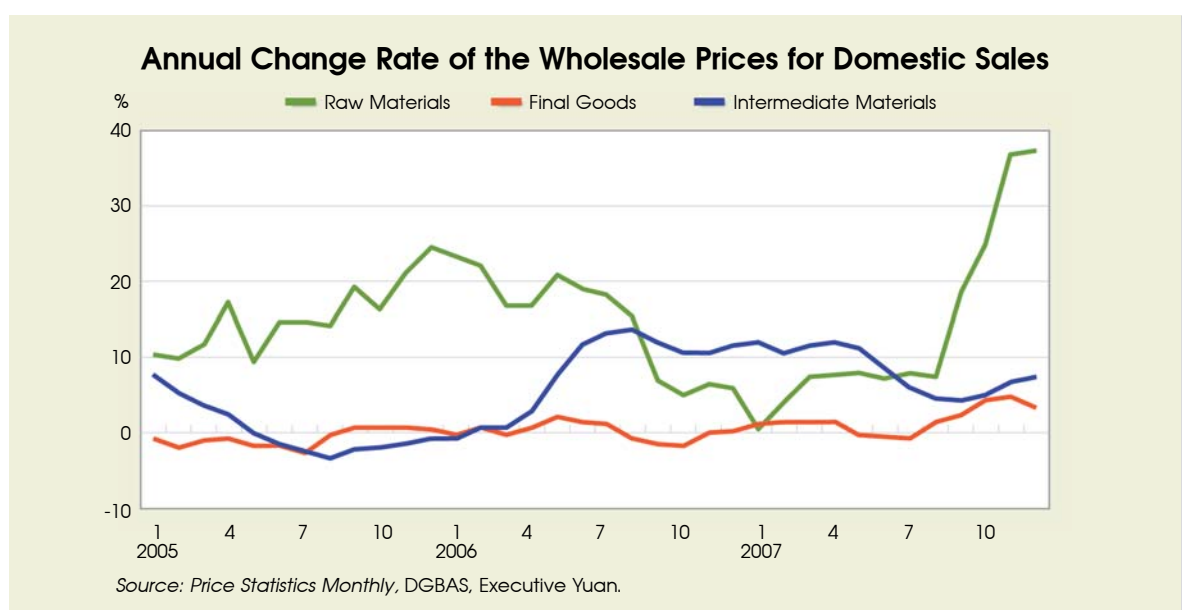
Import prices increased by 7.95 percent in US dollar terms, as prices rose sharply for grains, crude oil, chemicals, plastics and a variety of metals, such as iron, steel and copper. In local currency terms, import prices increased by 8.95 percent, with the difference largely reflecting





the depreciation of the NT dollar against the US dollar. Among the components of import prices, prices of raw materials, which weighed 70.02 percent, rose by 11.10 percent and accounted for 8.66 percentage points in the 8.95 percent increase. The prices of consumer goods rose by 4.18 percent, while the prices of capital goods decreased by 0.44 percent. In addition, export prices in terms of the US dollar and the NT dollar increased moderately by 2.59 percent and 3.56 percent, respectively.

Factory prices of products for domestic sales rose by 6.39 percent, despite the decline in the prices of domestic computers, communication and audio-video equipment, and electronic



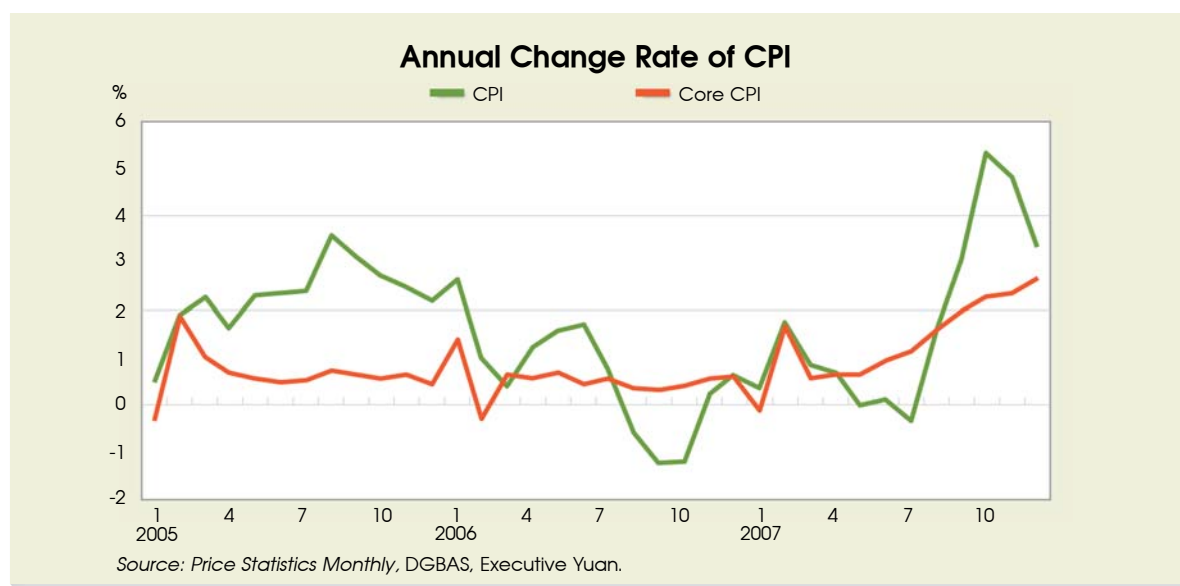
components. The rise reflected growing import costs of primary commodities, as the prices of primary metal products, mineral products, petroleum and coal products, electrical equipment and apparatus, and chemicals rose by 18.84 percent, 18.01 percent, 10.89 percent, 9.07 percent, and 8.66 percent, respectively.

Wholesale prices for domestic sales rose by 7.59 percent in 2007. Broken down by the stages of production, the prices of raw materials and intermediate materials rose by 14.04 percent and 8.32 percent, respectively. These sharp movements were associated primarily with the hiking global commodity prices brought by robust demand for crude oil, primary metals, and raw materials, especially from emerging economies such as China and India. However, fierce market competition brought by globalization and liberalization made it difficult to pass on higher production costs to customers. Therefore, prices of finished goods rose moderately by 1.77 percent.

Moderate Increase in Consumer Prices

The core CPI rose by 1.35 percent in 2007. In the first three months of 2007, the core CPI inflation rate fluctuated due to the seasonal factor of Chinese New Year holidays. From April onwards, the core CPI inflation rate went up, reflecting increasing food prices induced by rising prices of imported grains and dairy products.

The CPI rose by 1.80 percent in 2007. CPI inflation remained stable in the first half of the year due to slack domestic demand and stable prices of services. In the second half of the year, typhoons induced a surge of vegetable prices, and the low-base effect added to an upward pressure. In October, the CPI rose by 5.33 percent as vegetable prices soared by 78.63 percent and accounted for 2.63 percentage points in the 5.33 percent increase.



The main upward factors contributing to CPI inflation in 2007 were as follows:

- (1) The substantial increase in vegetable prices was the main upward pressure for CPI inflation in 2007. Due to severe damages caused by typhoons and the low-base effect, vegetable prices rose by 9.52 percent and contributed 0.32 of a percentage point to the CPI inflation rate.
- (2) The continuing hike in international petroleum prices affected domestic oil and gas prices, which rose by 6.10 percent and 9.99 percent and accounted for 0.18 and 0.11 of a percentage point in the CPI increase, respectively.
- (3) Prices of food away from home were driven up by higher raw food prices and gas costs and increased by 2.50 percent in 2007, contributing 0.18 of a percentage point to the CPI increase. The rise in feeding costs pushed up the prices of meats and dairy products by 3.26 percent and 5.78 percent, contributing 0.09 and 0.07 of a percentage point to the CPI inflation rate, respectively.
- (4) Prices of medicine rose by 18.34 percent due to the shortage of Chinese medicine materials imported from China, accounting for 0.15 of a percentage point in the CPI

Percentage Changes in the Major Components of the CPI in 2007

Item	Annual change rate (%)	Contribution to CPI inflation rate (percentage point)
CPI	1.80	1.80
Food	2.86	0.77
Vegetables	9.52	0.32
Food away from Home	2.50	0.18
Fish & Shellfish	6.19	0.11
Meat	3.26	0.09
Dairy Products	5.78	0.07
Other Cereals & Other Cereal Products	3.21	0.05
Fruits	-3.54	-0.11
Energy	5.70	0.31
Oil	6.10	0.18
Gas	9.99	0.11
Electricity	0.98	0.02
Core CPI	1.35	1.16
Education & Entertainment	1.83	0.20
Medicine	18.34	0.15
Tobacco & Betel Nut	3.83	0.10
Garment	3.17	0.10
Residential Rent	0.20	0.04
Durable Consumer Goods	-0.38	-0.03

Source: Price Statistics Monthly, DGBAS, Executive Yuan.

increase. The rising import costs of tobacco drove up tobacco and betel nut prices by 3.83 percent, which accounted for 0.10 of a percentage point in the CPI inflation rate.

- (5) Garment prices and education and entertainment prices went up 3.17 percent and 1.83 percent, contributing 0.10 and 0.20 of a percentage point to the CPI inflation rate, respectively.

During the same period, the main factors offsetting CPI inflationary pressures were as follows:

- (1) Ample supply of fruits due to good weather conditions during the first half of the year brought the year-on-year fruit prices down by 3.54 percent.
- (2) Slack domestic demand and severe market competition made it difficult for firms to pass on higher costs to consumers, causing a 0.38 percent decrease in the prices of durable consumer goods, such as motor vehicles, computers, communication and audio-video equipment.



5. Public Finance of the Central Government

For 2007, central government finance continued to improve and recorded the largest budget surplus since fiscal year 1999. Revenue climbed by 5.6 percent led by surging tax revenue, while under prudent fiscal policy expenditure increased moderately by 1.5 percent over the previous year. As a result, budget surplus expanded steeply from the previous year's NT\$16.6 billion to NT\$79.6 billion.

Steady Growth in Central Government Revenue

Central government revenue increased by NT\$86.1 billion over the previous year to NT\$1,632.5 billion in 2007. This was mainly supported by an NT\$114.4 billion surge in tax revenue with income tax revenue, in particular, rising by NT\$75.5 billion over the previous year. Higher income tax revenue reflected corporate profit gains under the robust export-driven economic growth, as well as alternative minimum tax, which was launched in 2006 and accounted for NT\$15.0 billion in the revenue increase for 2007. Also contributing to tax revenue was the NT\$38.9 billion increase in securities transaction tax revenue, as stock markets turned active with a 43.2 percent growth in the total trading value of exchange- and OTC-listed stocks.

Total Revenue and Expenditure of the Central Government

Unit: NT\$ Billion

	Fiscal Year*									
	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007**
Total Revenue	1,251.5	1,228.6	2,030.8	1,417.2	1,304.7	1,320.9	1,368.2	1,464.5	1,546.4	1,632.5
(Ratio to GDP : %)	13.9	13.0	14.2	14.4	12.7	12.6	12.4	12.8	13.0	13.0
Total Expenditure	1,083.1	1,164.0	2,230.1	1,559.7	1,551.9	1,618.1	1,564.8	1,567.0	1,529.8	1,552.9
(Ratio to GDP : %)	12.1	12.3	15.6	15.8	15.1	15.4	14.1	13.7	12.9	12.3
Surplus/Deficit	168.4	64.6	-199.3	-142.5	-247.2	-297.2	-196.6	-102.5	16.6	79.6
(Ratio to GDP : %)	1.9	0.7	-1.4	-1.4	-2.4	-2.8	-1.8	-0.9	0.1	0.6
(Ratio to Total Expenditure : %)	15.5	5.5	-8.9	-9.1	-15.9	-18.4	-12.6	-6.5	1.1	5.1
Debt Repayment	103.9	118.0	193.4	122.2	55.5	46.5	56.1	64.1	65.0	6.0
Financing:	49.9	56.6	466.1	275.8	302.7	343.7	253.5	167.3	63.9	—
Debt Financing	49.9	56.6	466.1	275.8	244.4	300.8	253.5	167.3	63.9	—
Surplus of Previous Fiscal Years	—	—	—	—	58.3	42.9	—	—	—	—
Memorandum:										
Tax Dependency Ratio*** (%)	82.7	69.5	60.9	57.6	52.9	51.2	58.6	68.1	71.5	77.8
Debt Dependency Ratio**** (%)	4.6	4.9	20.9	17.7	15.7	18.6	16.2	10.7	4.2	—

Notes: * Effective 2001, the calendar year is adopted as the fiscal year. As a transition, fiscal year 2000 begins on July 1, 1999 and ends on Dec. 31, 2000, while the other fiscal years prior to 2000 run from July 1 of the preceding year to June 30 of the designated year.

** The figures for the year 2007 are preliminary estimates.

*** Tax dependency ratio is defined as the ratio of annual tax revenue to total government expenditure.

**** Debt dependency ratio is defined as the ratio of annual issuance of government bonds and borrowing from banks to total government expenditure.

Sources: 1. Directorate-General of Budget, Accounting and Statistics, Executive Yuan.

2. Department of Statistics, Ministry of Finance.

The significant increase in tax revenue led the tax dependency ratio to rise further from 71.5 percent in the previous year to 77.8 percent in 2007. Among the sources of revenue, taxes and the surpluses of public enterprises and public utilities led the others with respective shares of 74.0 percent and 16.6 percent in total revenue.

Moderate Increase in Central Government Expenditure

Central government expenditure increased moderately by NT\$23.1 billion over the previous year to NT\$1,552.9 billion in 2007. Leading the increase was an NT\$19.6 billion rise in national defense spending mainly for arms procurement purposes. In terms of the shares in total expenditure, education, science and culture, and social welfare were the top two categories, as they had always been for years, with respective shares of 19.9 percent and 19.7 percent. Ranking third and fourth were national defense and economic development with shares of 16.5 percent and 12.4 percent, respectively. The share of economic development successively declined, mainly because public construction spending was shifted to the special budget, which is exempt from the restrictions on financing sources and debt quotas. The special budget for the Expansion of Investment in Infrastructure Construction totaled NT\$75.9 billion in 2007.

The government's continuous spending-cut efforts led the ratio of central government expenditure to GDP to drop further to 12.3 percent in 2007. The ratio of budget surplus to GDP also rose to 0.6 percent, marking improvement for four consecutive years.

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Total Revenue and Expenditure of the Central Government by Category

	Unit: NT\$ Billion									
	Fiscal Year									
	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007*
Total Revenue	1,251.5	1,228.6	2,030.8	1,417.2	1,304.7	1,320.9	1,368.2	1,464.5	1,546.4	1,632.5
Taxes	858.8	772.9	1,280.7	841.5	820.1	828.5	916.6	1,067.8	1,094.3	1,208.7
Surpluses of Public Enterprises and Public Utilities	239.9	284.1	442.4	335.8	250.7	326.5	282.2	243.4	289.1	271.6
Fees, Fines and Indemnities	34.9	29.1	103.0	72.5	123.3	77.8	76.1	79.0	79.0	81.1
Revenues from Government-owned Monopolies	37.4	35.9	77.3	57.5	0.3	—	—	—	—	—
Proceeds from Sales of Properties and Recalled Capital	60.5	91.9	88.4	80.9	73.9	65.7	70.3	52.6	58.5	50.9
Others	20.0	14.7	39.0	29.0	36.4	22.4	23.0	21.7	25.5	20.2
Total Expenditure	1,083.1	1,164.0	2,230.1	1,559.7	1,551.9	1,618.1	1,564.8	1,567.0	1,529.8	1,552.9
General Administration	112.7	134.6	234.9	167.0	162.3	167.3	164.1	165.5	167.3	168.2
National Defense	257.1	263.2	343.3	237.7	225.2	227.7	248.9	248.5	237.1	256.7
Education, Science and Culture	184.8	202.7	367.6	257.2	267.0	300.2	302.1	301.5	303.1	309.0
Economic Development	126.5	172.5	356.4	277.1	291.2	295.5	248.9	247.0	197.0	193.3
Social Welfare	150.2	157.6	411.0	293.3	262.2	284.4	279.8	285.7	303.3	305.6
Community Development & Environmental Protection	15.8	19.2	39.6	22.3	23.4	28.7	24.8	25.2	20.4	19.4
Pensions & Survivors' Benefits	139.8	129.3	195.4	122.0	124.3	125.4	123.1	130.5	134.7	134.6
Interest payments	63.5	80.3	249.6	151.2	152.2	144.6	127.1	117.9	125.2	124.0
Others	32.7	4.6	32.3	31.9	44.1	44.3	46.0	45.2	41.7	42.1

Note: * The figures for the year 2007 are preliminary estimates.

Sources: 1. Directorate-General of Budget, Accounting and Statistics, Executive Yuan.
2. Department of Statistics, Ministry of Finance.

Steep Decrease in Debt Financing Demand

After deducting NT\$60 billion debt repayment from the central government's NT\$79.6 billion fiscal surplus for 2007, the remaining surplus was still large at NT\$73.6 billion. Therefore, despite the NT\$135.0 billion debt raising plans in the budget, no actual debt financing demand occurred during 2007.

Moderate Decrease in Debt Burdens

Although the general budget of the central government for 2007 did not require any debt financing, the special budget still relied on bond issuance and borrowing as financing sources. Total outstanding debt of the central government continued to increase by NT\$98.5 billion over the previous year-end to NT\$3,723.6 billion at the end of 2007. Nevertheless, the ratio of outstanding central government debt to GDP dropped to 29.6 percent, indicating better fiscal conditions with lighter debt burdens.

Public Debt of the Central Government

Unit: NT\$ Billion

	Fiscal Year									
	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007*
Outstanding Debt	1,369.4	1,312.8	2,450.5	2,759.4	2,849.4	3,124.7	3,362.2	3,550.5	3,625.2	3,723.6
(Ratio to GDP : %)	15.3	13.9	24.4	28.0	27.7	29.7	30.4	31.0	30.5	29.6
Government Bonds	1,078.0	1,024.9	1,362.8	1,682.9	1,939.1	2,318.8	2,543.8	2,831.0	3,046.0	3,199.7
Borrowing from Banks	291.4	287.9	1,087.7	1,076.5	910.3	805.9	818.4	719.5	579.2	523.9

Note: * The figures for the year 2007 are preliminary estimates.

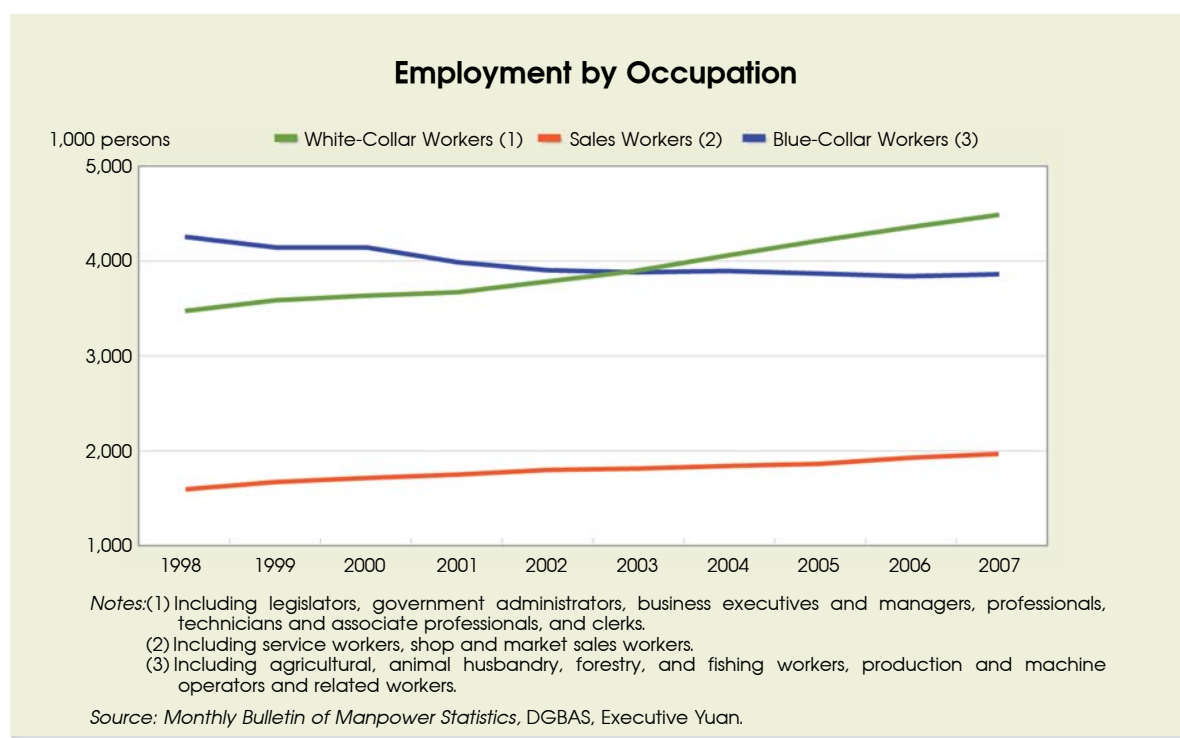
Sources: 1. Directorate-General of Budget, Accounting and Statistics, Executive Yuan.
2. Ministry of Finance.

6. Labor Market

Taiwan's labor market continued to improve in 2007, mainly attributable to steady economic expansion and ongoing implementation of the Project for the Creation of Job Opportunities in the Government Sector. The annual average employment amounted to a record high of 10,294 thousand persons, an increase of 1.81 percent over the previous year. The average unemployment rate was 3.91 percent, the same as in 2006 and the lowest since 2001, while the average labor force participation rate rose to its highest since 1998. In terms of earnings and labor cost, the average monthly earnings of the non-farm sector per worker increased by 2.28 percent over the previous year to NT\$45,112. As the growth in labor productivity outpaced that in earnings, the index of unit labor cost in the goods-producing sector decreased by 5.06 percent.

Total Employment Continued to Increase

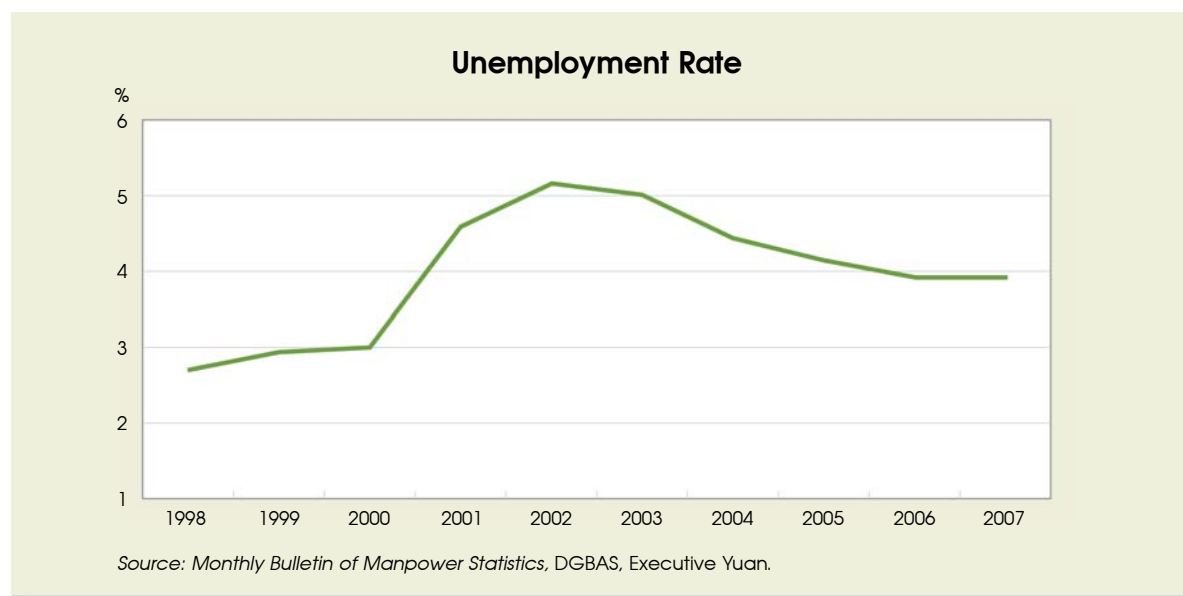
The steady economic expansion and ongoing implementation of the government's job-creating programs led to another record-breaking year for employment in 2007. The annual average employment reached a record high and showed a year-on-year increase of 1.81 percent, the highest rate of increase in three years. The bulk of job gains was attributable to the manufacturing industry.



For the year 2007, employment of white-collar and sales workers grew by 2.96 percent and 1.97 percent, respectively. Among them, employment of technicians and associate professionals increased most significantly. In the mean time, the steady economic expansion increased employment opportunities for blue-collar workers, and their job growth rate recorded the first annual increase in three years. Broken down by sector, the services-producing sector saw the largest employment gain of 105 thousand persons with an annual growth rate of 1.8 percent. Job growth occurred in several industries, including the professional, scientific and technical services and the educational services industries. Employment in the goods-producing sector grew by 88 thousand persons or 2.39 percent. Within the goods-producing sector, manufacturing employment continued to trend up and rose by 65 thousand persons over the year, supported by a pickup in external demand for consumer electronics. Construction employment grew by 17 thousand persons, thanks to steady expansion in the domestic construction industry. A further reduction was reported in the agricultural sector, which decreased by 2.03 percent over the previous year.

Unemployment Rate Remained Low

In 2007, the number of unemployed edged up to an average of 419 thousand persons, representing a slight increase of 8 thousand or 1.90 percent over the previous year. In the meantime, the number of the long-term unemployed (persons who have been continuously unemployed for 53 weeks or more) inched up by 3 thousand to 58 thousand persons. However, the unemployment rate remained at a low of 3.91 percent, unchanged from a year ago. The average duration of unemployment also showed improvement and was shortened to 24.24 weeks.



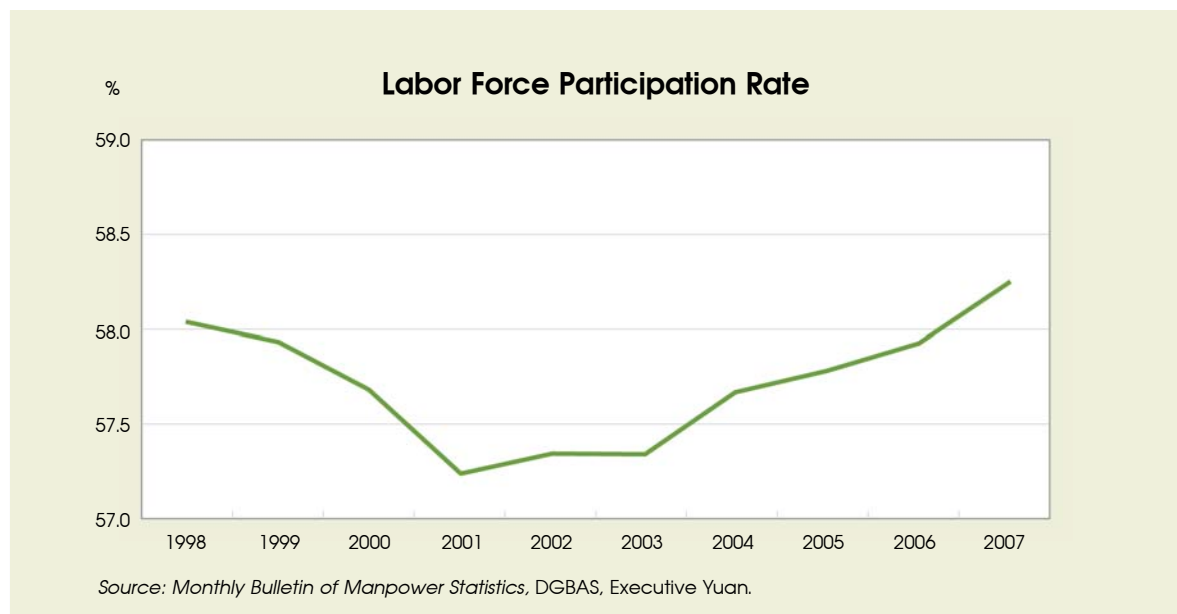
For the year 2007, the male unemployment rate remained at the previous year's 4.05 percent, while the female unemployment rate rose by 0.01 of a percentage point to 3.72 percent. According to age differences, younger persons suffered higher unemployment rates than older ones as many were inexperienced and tended to change jobs more frequently. The group with the highest unemployment rate was the age group of 15-24, with 10.65 percent, followed by the age group of 25-44, with 3.86 percent. Following the mushrooming growth in the number of universities and graduate schools, the unemployment rate of university graduates or those with advanced degrees rose by 0.15 of a percentage point to a record high of 4.51 percent, reflecting a growing unemployment problem among the highly educated. However, the joblessness with higher education, unlike other groups, tended to be short-term. The jobless people with junior high school education or below encountered the longest duration of 25.39 weeks. In contrast, the unemployed people with university education or above experienced a shorter unemployment duration of 22.43 weeks, and their share in the total number of long-term unemployed decreased by 0.83 of a percentage point to 20.66 percent. With regard to the factors behind unemployment, job dissatisfaction still accounted for the lion's share, or 33.01 percent of total unemployment.

Labor Force Participation Rate Rose

The number of labor force and non-labor force increased by 1.81 percent and 0.46 percent over the previous year, respectively, as more workers were willing to participate in the labor market when the economy expanded steadily. The annual labor force participation rate increased to a decade high of 58.25 percent in 2007, an increase of 0.33 of a percentage point from the preceding year. This was the net result of strong growth in the participation rate for women alongside a slightly declining trend for men.

In terms of gender, the female labor force participation rate reached an all-time high of 49.44 percent, while the male rate edged down to an all-time low of 67.24 percent. The participation rate growth was mainly sustained by a rise in the female participation rate of 0.76 of a percentage point. Broken down by age bracket, the participation rate for the working population aged 25-44 increased by 0.43 of a percentage point to its highest level on record of 83.41 percent, while the participation rate for the working population aged 15-24 experienced another drop. With regard to education groups, the participation rate for the working population with junior high school education or below experienced a downward trend, while the participation rates for all the other education level groups continued to rise.

Among the non-labor force population, housekeeping accounted for 31.06 percent of the total non-labor force, representing a significant decrease of 0.92 of a percentage point over the previous year. Pursuing educational attainment or preparing for school entrance examinations,



and intending to work but not actively searching for work, both dipped imperceptibly with respective shares of 28.48 percent and 2.49 percent, while the old-aged and disabled increased slightly to 27.95 percent.

Mild Increase in Earnings of Non-Farm Workers

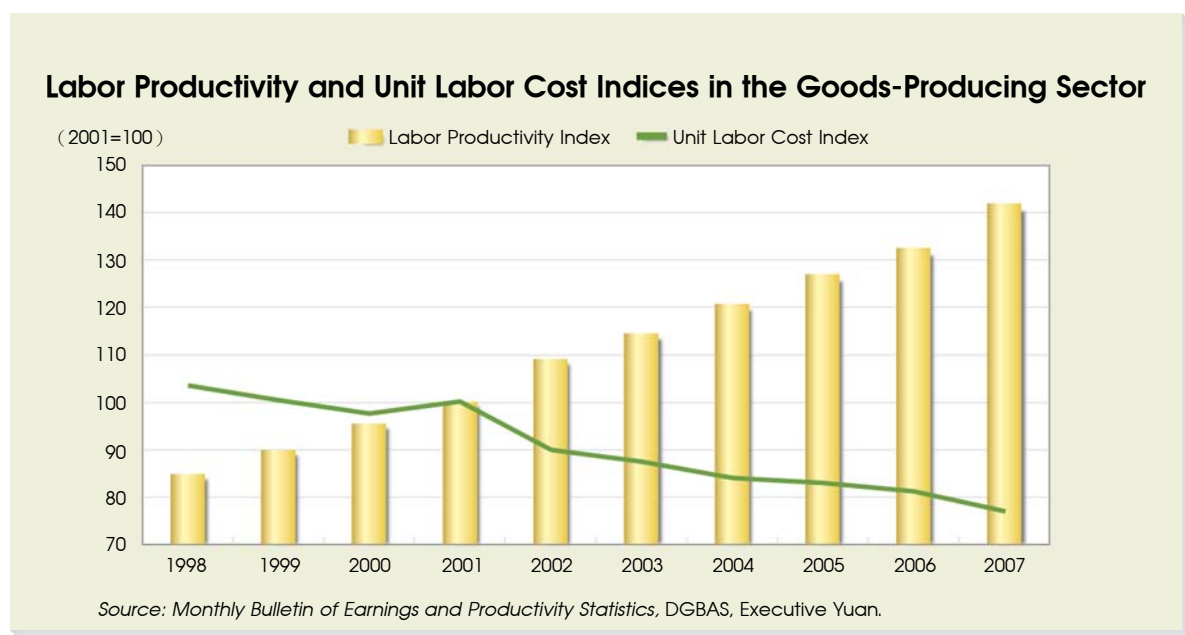
The average monthly earnings of the non-farm sector per worker increased by 2.28 percent over the previous year to NT\$45,112 in 2007. Taking into account the rise in CPI, real monthly earnings grew by 0.47 percent, similar to the growth rate of 2006.

With respect to different sectors, the services-producing sector experienced a more favorable wage adjustment than the goods-producing sector. The average monthly earnings of goods-producing sector per worker increased by 1.82 percent to NT\$43,276, and real monthly earnings inched up by 0.02 percent. The average monthly earnings of services-producing sector per worker increased by 2.67 percent to NT\$46,799, and real monthly earnings rose for the second straight year. However, the real monthly earnings performance was mixed across component industries. While the construction industry showed improvement in real monthly earnings, all the other goods component industries saw declines during 2007. In the meantime, the real monthly earnings performance was also mixed across services component industries. The finance and insurance industry showed marked improvement. Regarding real regular earnings by sector, the average monthly regular earnings of goods-producing sector per worker decreased by 0.46 percent, whereas that of services-producing sector per worker inched up by 0.32 percent over the previous year.

Rising Labor Productivity in the Goods-Producing Sector

As the increase in total production outpaced that in total working hours, the labor productivity index for the goods-producing sector rose by 7.04 percent in 2007. The gains in labor productivity were particularly noticeable in the electronic parts and components industry, which grew by 18.11 percent. However, traditional industries, such as the wood and bamboo products manufacturing industry, and the precision, optical, medical equipment, watches and clocks manufacturing industry, exhibited negative productivity growth.

The index of unit labor cost in the goods-producing sector decreased by 5.06 percent from 2006, reflecting an increase in total production which exceeded that in total labor compensation. The continuous reduction improved the overall competitiveness of Taiwan's goods-producing sector. However, the increase in unit labor cost in some industries, such as in the wood and bamboo products manufacturing industry, and the precision, optical, medical equipment, watches and clocks manufacturing industry, exceeded 10 percent, which indicated a likely weakening in the competitiveness of these industries.





Tamshui fishman's wharf in Taipei County, Taiwan, photo by I-Chum Chu