

I. Developments in the Real Economy

1. Overview

The global economic recovery and robust growth in emerging markets in 2010 helped drive up Taiwan's exports and private investment significantly, while private consumption also grew steadily. Real GDP posted a 23-year record growth of 10.82 percent for the year. The balance of payments remained in good shape as the second highest current account surplus in history helped the overall balance of payments to reach the second record high surplus. Meanwhile, climbing energy prices and tour fees led consumer prices to inch up by 0.96 percent. The unemployment rate trended downwards, declining to 4.67 percent in December. Central government finances posted a deficit of NT\$158.8 billion, lower than the NT\$161.8 billion deficit recorded in 2009.

Robust Economic Growth

Following an upturn in late 2009, overall economic activity in Taiwan continued its robust recovery and expanded remarkably in 2010. External trade witnessed a strong growth during the first three quarters on the back of a broad rebound in emerging markets. Private consumption and business spending continued to expand along with a gradual improvement in the employment situation and enhanced consumer confidence. Owing to the high base effect and a moderation in the global economy, the real GDP growth rate moderated to 6.92 percent in the fourth quarter. For the entire year, real GDP growth posted a 23-year high of 10.82 percent.

With regard to the expenditure components of GDP, all components posted a positive contribution to economic growth in 2010. Among them, net exports continued to record a contribution of 2.33 percentage points for the year, while domestic demand increased its contribution to GDP growth to 8.49 percentage points. On the production side, the industrial sector recovered more strongly than the service sector with respective contributions of 7.56 and 3.69 percentage points to GDP growth.

Balance of Payments in Good Shape

For the year 2010, the overall balance of payments recorded a surplus of US\$40.2 billion, the second highest surplus ever recorded.

On the current account, the increase in imports exceeded that in exports. Therefore, the trade surplus on goods slowed to US\$26.9 billion, down by 12.1 percent year over year. The services account surplus rose to US\$2.9 billion, and the income surplus expanded to US\$13.6 billion, mainly due to an increase in residents' income from foreign exchange investments. Net current transfer payments increased to US\$2.7 billion because of the increase in outward remittances by residents to support their overseas relatives. As a result, the current account surplus was US\$40.6 billion, a decrease of 5.3 percent over the previous year.

During the same period, the capital account deficit rose to US\$113 million due to an increase in outward remittances by migrants. The financial account exhibited a mild net outflow of US\$607 million, mainly because direct investment and portfolio investment showed net outflows of US\$8.6 billion and US\$20.7 billion, respectively, while other investment showed a net inflow of US\$28.1 billion, posting a historic high.

Mild Increase in Consumer Prices

Taiwan's wholesale price index (WPI) rose by 5.46 percent in 2010, led by oil and commodity price rises due to surging demand from emerging markets, extreme weather conditions, and market speculation. However, the consumer price index (CPI) rose mildly by 0.96 percent in 2010. The rise in CPI inflation was tied partly to climbing energy and commodity prices. Moreover, tour fees picked up, with the increased demand generated by a robust domestic economy. The core CPI, which excludes prices of fruits and vegetables, fish and shellfish, and energy, rose slightly by 0.44 percent in 2010.

Narrower Fiscal Deficit

For 2010, central government revenue shrank by 3.6 percent, amounting to NT\$1,497.1 billion, mainly due to a significant decline in surpluses of public enterprises and public utilities. Central government expenditure decreased by 3.5 percent to reach NT\$1,655.9 billion, the first drop in the past four years. The decline was mainly accounted for by reductions in spending in economic development and national defense. In sum, the central government ran a deficit of NT\$158.8 billion, lower than NT\$161.8 billion in 2009.

Total outstanding debt of the central government increased significantly by NT\$424.9 billion over the previous year-end, amounting to NT\$4,557.0 billion at the end of 2010. Furthermore, the ratio of outstanding central government debt to GDP also rose markedly from the previous year's 33.1 percent to 33.5 percent.

Downtrend in Unemployment Rates

Thanks to sustained economic expansion and the government's job-creating programs, labor market conditions continued to improve, and the unemployment rate gradually trended downwards to 4.67 percent in December. As a result, the annual average unemployment rate decreased by 0.64 of a percentage point over the previous year to 5.21 percent.

