

# I. Developments in the Real Economy

## 1. Overview

The global economic slowdown in 2011 dented Taiwan's exports and private investment, while private consumption grew steadily. As a result, real GDP posted an annual growth rate of 4.04 percent, markedly lower than 10.72 percent in 2010. The unemployment rate declined to 4.39 percent from 5.21 percent in 2010. In terms of balance of payments, the overall surplus decreased to US\$6,239 million as the current account surplus was mostly offset by the net outflow in the financial account. Meanwhile, climbing energy and food prices led the consumer price index (CPI) to inch up by 1.42 percent. Central government finances posted a deficit of NT\$63.5 billion, much lower than the NT\$158.8 billion deficit of 2010.

### **Moderate Economic Growth**

Following an upturn in 2010, the Taiwanese economy continued to show solid growth in the first quarter of 2011. Since the second quarter, with the spread of the European sovereign debt crisis and the weakened global economy, real GDP grew at a gradually slower pace each quarter, moderating to 1.89 percent in the fourth quarter. For the entire year, real GDP grew by 4.04 percent, markedly down from 10.72 percent in 2010.

With regard to the expenditure components of GDP, all components of GDP other than government consumption posted growth rates lower than the previous year. Among them, net exports recorded a contribution of 3.72 percentage points for the year. Moreover, largely due to contracted private investment, domestic demand contributed only 0.31 of a percentage point to GDP growth, a lower contribution than that of external demand. On the production side, industrial output and services output advanced at a slower pace than the previous year, with respective contributions of 1.53 and 1.93 percentage points to GDP growth.

### **Decreasing Balance of Payments Surplus**

For the year 2011, considering the current account surplus was mostly offset by the net outflow in the financial account, the overall balance decreased to a US\$6,239 million surplus, which was reflected in the increase of foreign reserve assets held by the Bank.

The current account surplus, which accounted for 8.6 percent of nominal GNP, increased to US\$41,270 million. This represented growth of 3.5 percent and was due to greater increases in the goods and services surpluses than in the current transfer deficit, despite a decline in

the income surplus. However, the financial account still reported a net outflow of US\$31,621 million as direct investment abroad and portfolio investment by non-residents exhibited record-high net outflows of US\$14,772 million and US\$16,188 million, respectively.

### **Mild Increase in Consumer Prices**

Taiwan's wholesale price index (WPI) rose by 4.32 percent in 2011, led by international oil and commodity price rises due to surging demand from emerging markets, extreme weather conditions, and market speculation. On the other hand, the CPI edged up by 1.42 percent, higher than 2010's 0.96 percent, reflecting the pass-through of the rise in the costs of imported goods to retail prices. The core CPI, which excludes prices of fruits and vegetables, fish and shellfish, and energy, rose at an annual rate of 1.13 percent in 2011, up from a 0.44 percent increase in the previous year.

### **Narrower Fiscal Deficit**

For 2011, central government revenue and expenditure grew by NT\$174.3 billion and NT\$79.0 billion, respectively. Overall, central government finances showed an improvement as the deficit narrowed significantly by 60 percent from the previous year, with a balance of NT\$63.5 billion.

Central government revenue increased by 11.6 percent to reach NT\$1,671.4 billion. Due to better economic conditions, tax revenue rose by NT\$121.0 billion or 11.2 percent. While economic development and social welfare accounted for the largest increases in central government expenditure, growing by NT\$21.3 billion and NT\$21.2 billion, respectively, expenditure growth of 4.8 percent was slower than that in revenue.

Total outstanding debt of the central government increased significantly by NT\$230.1 billion over the previous year-end, amounting to NT\$4,759.1 billion at the end of 2011. Furthermore, the ratio of outstanding central government debt to GDP also rose from the previous year's 33.3 percent to 34.7 percent.

### **Downtrend in Unemployment Rate**

Despite economic fluctuations at home and abroad, labor market conditions in Taiwan remained favorable in 2011. In the first half of the year, business demand for labor increased as the economy continued to grow, while the government persisted with job creation programs. As a consequence, employment increased significantly and the unemployment rate recorded a considerable drop. In the second half of the year, the worsening European debt crisis and global economic slowdown caused some fluctuations in the labor market; nevertheless, in general, the unemployment rate trended downward. For the year 2011, the average unemployment rate was 4.39 percent, a 0.82 of a percentage point decrease from 2010.