

Developments in the Real Economy

I. Developments in the Real Economy

1. Overview

During the first half of 2012, Taiwan's foreign trade and private investment contracted and private consumption growth slowed, as external demand remained weak amid sluggish global economic growth. However, external demand gradually stabilized in the second half of the year, boosting both exports and investment back to positive growth, and the economy picked up steadily. For the year as a whole, GDP grew at a pace of 1.26 percent.

The balance of payments registered a larger surplus of US\$15,484 million as a record-high current account surplus of US\$49,550 million more than offset a net financial account outflow of US\$31,503 million. In terms of price trends, the annual growth rate of the CPI rose to 1.93 percent over the previous year, mainly reflecting fuel and electricity price hikes and weather-related price fluctuations for fruits and vegetables. Central government revenue showed only a marginal decline, but the marked increase in expenditure on social welfare and economic development led to a larger government deficit of NT\$215.9 billion. Conditions in the labor market improved further. The unemployment rate fell to 4.18 percent in December 2012, bringing the annual average to 4.24 percent.

Economic Growth Decelerated Markedly

For the first half of 2012, with lackluster global economic growth and feeble external demand, the domestic economy experienced tepid export growth, slowing private investment and more conservative consumer spending. As a result, the economy contracted by 0.12 percent year on year in the second quarter. Over the next six months of the year, the global economy gradually stabilized, Taiwan's external trade grew at a faster pace, and private investment and consumer confidence rose steadily. Against this backdrop, GDP growth firmed up to a 3.72 percent year-on-year increase in the fourth quarter. For the year as a whole, the economy expanded by 1.26 percent, lower than the 4.07 percent of the previous year.

In terms of GDP components by expenditure, both external and domestic demand declined in comparison with the previous year. Domestic demand contributed merely 0.11 percentage points to the annual economic growth rate, while net external demand recorded a higher contribution of 1.14 percentage points. On the output side of GDP, the industrial and services sectors grew by 0.94 percent and 0.83 percent, respectively, affected by weak demand both at home and abroad. Their respective contributions to the GDP growth rate were 0.33 and 0.52 percentage points. The

agricultural sector growth was dragged down by unfavorable weather conditions to negative 5.82 percent, contributing -0.08 percentage points to the growth in GDP.

BOP Surplus Widened

In 2012, the record-high surplus in the current account helped to offset the net outflow in the financial account. The overall balance of payments showed a larger surplus of US\$15,484 million, compared to US\$6,239 million a year earlier.

In the current account, goods exports and imports both shrank, reflecting the impact of waning external demand. Exports fell by 2.4 percent, compared to the 3.6 percent drop in imports. As the decline in exports was smaller than that in imports, the trade in goods surplus increased to US\$30,735 million in 2012 from US\$27,848 million in 2011. The services account also recorded a wider surplus of US\$6,137 million, mainly owing to gains both in the receipts of merchanting trade and in travel receipts. As for the income account, as the revenue from residents' investments in foreign exchange assets and portfolio investments increased and the payments for non-residents' income from equity security investments decreased, the income account surplus rose to US\$15,277 million. Combined with a narrower current transfer deficit, the overall current account surplus grew by 20.2 percent to US\$49,550 million, rising to a share of 9.8 percent in GNP.

The financial account recorded a net outflow of US\$31,503 million. Among the components, portfolio investments exhibited a record-high net outflow of US\$42,447 million, mainly accounted for by a higher net outflow in residents' portfolio investments abroad. The net outflow of direct investment abroad observed another new high because investment in the mainland area continued to increase, as against a net inflow of inward direct investment. Overall, direct investment showed a smaller net outflow of US\$9,826 million. Furthermore, other investment had a net inflow of US\$20,442 million, mainly attributable to withdrawal of overseas deposits by the private sector and increased foreign borrowing by the banking sector.

Prices Rose Mildly

In 2012, international raw material prices trended lower on account of weak demand, leading Taiwan's import prices in NT dollar terms to fall by 1.28 percent, while prices for domestic sales and exports fell 0.59 percent and 1.62 percent, respectively. Consequently, the WPI decreased by 1.16 percent.

In terms of consumer prices, retail prices of some goods and services went up to reflect the price hikes in fuel and electricity. Prices of fruits and vegetables also climbed higher in the second half of 2012, caused by typhoons and torrential rain. For the year as a whole, the CPI grew by 1.93 percent. However, the core CPI (excluding prices of fruits, vegetables, and energy) edged up by

1.00 percent, a milder increase compared to the previous year.

Government Deficit Mounted

As tax revenue was squeezed by the economic slowdown and government-owned enterprises kept running up losses, total central government revenue declined in 2012. On the other hand, fiscal spending further increased during the year to support social welfare, transportation infrastructure, and environmental protection. As a result, the central government deficit did not continue to shrink as in the prior three years but widened instead to NT\$215.9 billion, the largest deficit in the past nine years.

In regard to revenue, income tax revenue was significantly boosted by an increase in dividend income, whereas the majority of those tax revenues susceptible to economic moderation did not fare well in 2012. Consequently, overall tax revenue edged up 1.6 percent from the previous year, accounting for 73.3 percent of total central government revenue.

In 2012, central government expenditure built up, mainly attributable to the considerably greater spending on social welfare and economic development. By category, social welfare made up the top share of total expenditure at 22.3 percent, followed by education, science and culture at 19.1 percent, and then by national defense at 16.1 percent. The proportion of spending on economic development grew from the 12.5 percent of 2011 to 14.0 percent.

The widened fiscal deficit also represented a stronger need for debt financing. At the end of 2012, the total outstanding debt of the central government rose by NT\$247.0 billion to a record NT \$5.01 trillion, and its ratio to GDP went up further from the 34.8 percent of the previous year end to 35.7 percent.

Labor Market Conditions Continued to Improve

Entering 2012, an increase in employment caused the unemployment rate to trend down to 4.10 percent in April, the lowest since August 2008. Afterwards, slowing economic growth and a seasonal effect of fresh graduates surging into the job market combined to drive the unemployment rate up to 4.40 percent in August. However, a subsequent economic pickup led the pace of unemployment growth to moderate. For the year as a whole, the unemployment rate was 4.24 percent, 0.15 percentage points lower than the year before.

Considering a sustained business demand for labor, the number of employed persons averaged 10.86 million for the year of 2012, up by 1.41 percent from the previous year. By sector, services employment increased the most, at 1.68 percent, while employment in the industrial sector and agriculture rose by 1.12 percent and 0.39 percent, respectively.

The average monthly earnings of non-farm (industrial and services sectors) workers were NT \$45,888 per person in 2012, slightly higher by 0.30 percent over the previous year. The average regular earnings of non-farm workers increased by 1.28 percent to NT\$37,346. In real terms, a year-on-year decline of 1.60 percent was recorded. The real regular earnings of non-farm workers fell by 0.64 percent compared to a year earlier. Unit labor cost advanced by 2.37 percent, reflecting a 0.75 percent drop in the labor productivity index of the industrial sector and an increase in total employee earnings.



2. National Output and Income

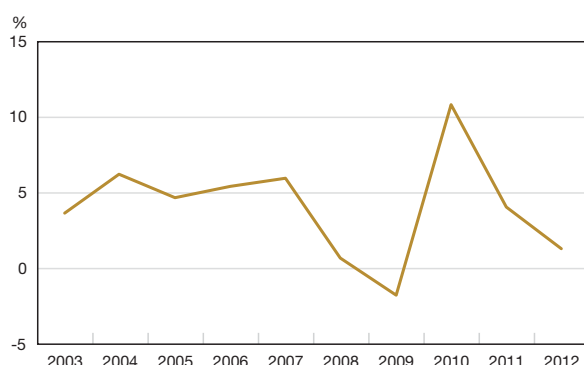
In 2012, the Taiwanese economy expanded at a relatively mild pace, with real GDP rising only 1.26 percent over the previous year after having grown by 4.07 percent in 2011. The growth was the weakest after the 2008-2009 global financial crisis as the recovery in advanced economies suffered setbacks. Adverse trade spillovers from weakness in the euro area and beyond weighed on the performance of industry and services in Taiwan. In particular, manufacturing registered a negative growth in the first half of the year on account of a weak export growth.

Economic growth continued to moderate during the first three quarters of the year owing to the weak external demand of advanced economies and a soft landing of China's economy. Mainly driven by low wage growth and weak stock market performance, private consumption grew at a sluggish pace. On the other hand, global economic slowdown suppressed private investment. Private consumption and private investment did not pick up until the recovery of the global economy in the fourth quarter. Meanwhile, owing to a mild increase in economic activity, per capita GNP in nominal terms increased modestly from US\$20,574 to US\$21,035.

Expenditure Components of GDP

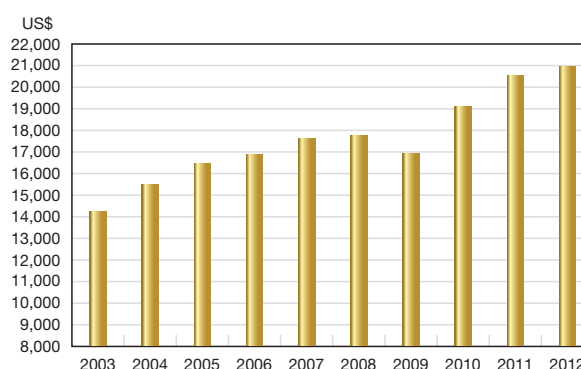
Amid the downturn of the global economy in 2012, all expenditure components of GDP posted growth rates lower than the previous year. Among them, private consumption recorded a positive contribution of 0.80 percent for the year, replacing exports as the primary source of economic growth. Gross fixed capital formation registered a negative contribution to GDP growth of 0.74 percentage points, mainly owing to a sharp curtailment in capital expenditures induced by the declining external demand for hi-tech products. Government consumption and exports contributed

Real Growth Rate of GDP



Source: Statistical Abstract of National Income, DGBAS, Executive Yuan, February 2013.

Per Capita GNP



Source: Statistical Abstract of National Income, DGBAS, Executive Yuan, February 2013.

0.04 and 0.09 percentage points to economic growth, respectively. In terms of shares of GDP, exports and imports shares decreased further as a consequence of the contraction of global demand, accounting for 73.66 percent and 66.20 percent, respectively. The share of gross fixed capital formation went down to 19.52 percent from the previous year's 20.79 percent. On the other hand, the share of private consumption slightly increased from 60.22 percent of GDP to 60.30 percent. Nevertheless, its real growth rate declined to 1.49 percent from 3.13 percent in 2011 because of the limited increase in household spending.

(1) Small Increase in Private Consumption

Consumption spending, a category that makes up about 60 percent of GDP, rose only modestly in 2012, as real wages shrank, the improvement of labor market conditions remained sluggish, car sales contracted, and stock market performance proved to be fragile.

In the beginning of the year, consumption momentum was partly suppressed by a decline in the stock market and sluggish growth in general wages. However, with the gradual improvement of labor market conditions and an increase in the number of visitors travelling abroad, consumption expanded at an annual rate of 1.92 percent in the first quarter. In the second quarter, private consumption was boosted by the progression of spending in the retail sector and restaurant business and the increase in domestic and outbound visitor numbers. However, the debate on the reintroduction of capital gains tax on income from securities impacted the stock market; this, combined with hikes in gasoline and electricity prices, dragged down the annual growth rate of consumption to 1.61 percent. With a sharp shrinkage in the stock market's transaction volume, the third quarter witnessed the lowest annual growth rate for private consumption since the third quarter of 2009. With stock

Expenditure on Gross Domestic Product

Unit: %

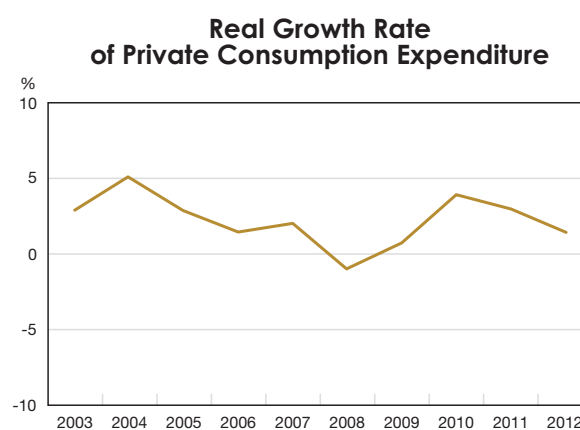
	2012			2011		
	Share	Real Growth Rate	Contribution to Real Growth Rate of GDP*	Share	Real Growth Rate	Contribution to Real Growth Rate of GDP*
Private Consumption	60.30	1.49	0.80	60.22	3.13	1.69
Government Consumption	12.38	0.39	0.04	12.42	2.25	0.25
Gross Fixed Capital Formation	19.52	-4.39	-0.74	20.79	-3.10	-0.56
Change in Inventory	0.33	—	0.02	-0.05	—	-0.89
Exports of Goods and Services	73.66	0.13	0.09	76.06	4.45	3.30
(Less : Imports of Goods and Services)	66.20	(-1.87)	(-1.05)	69.44	(-0.47)	(-0.28)
Expenditure on GDP	100.00	1.26	1.26	100.00	4.07	4.07

Note: * Percentage point.

Source: Statistical Abstract of National Income, DGBAS, Executive Yuan, February 2013.

market resilience and a stable price level, private consumption increased at an annual rate of 1.55 percent in the final quarter. For the year as a whole, private consumption grew by 1.49 percent, lower than the figure of 3.13 percent registered in the previous year, contributing 0.80 percentage points to GDP growth.

Food consumption rose by 2.53 percent compared with an increase of 1.77 percent in 2011, while non-food consumption grew by 1.35 percent, lower than the growth rate of 3.31 percent registered in the previous year. Among the components of non-food consumption, outlays on communications recorded the largest growth of 7.02 percent for the year, reflecting an increasing demand for internet games and cellular phones as well as the continual growth of home-based businesses. Moreover, consumer spending on recreation and culture increased further, registering the second largest growth of 5.15 percent. This was primarily the consequence of an increasing demand for recreation in a more developed economy.



Source: Statistical Abstract of National Income, DGBAS, Executive Yuan, February 2013.

(2) Modest Growth in Government Consumption

Government consumption expenditure slightly increased by 0.39 percent in real terms and contributed 0.04 percentage points to GDP growth for the year. As a consequence of a limited budget, many programs were downscaled, leading to a slightly lower share of government consumption in GDP than the previous year.

(3) Moderate Decline in Fixed Capital Formation

Fixed capital formation shrank at a 4.39 percent annual rate for the year of 2012, after contracting by 3.10 percent in 2011. On the other hand, affected by global economic upheaval and a contraction in exports through to the middle of the year, gains over the year remained uneven. However, fixed capital investment in the semiconductor industry and public transportation expanded in the second half of the year, posing a positive growth in the fourth quarter after contracting for five consecutive quarters. For the year as a whole, fixed capital formation subtracted 0.74 percentage points from GDP growth in 2012.

Regarding expenditure by type of purchaser, investment by private businesses declined by 2.25

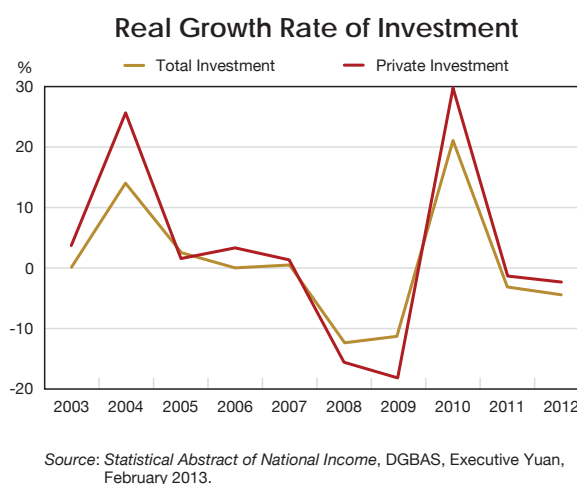
percent for the year, subtracting 0.29 percentage points from real GDP growth, following the contraction of the previous year. In the first half of the year, sinking global business sentiment accompanied by the uncertain economic outlook and the spread of the European sovereign debt crisis suppressed private investment. In the second half, as some semiconductor companies and public transport firms increased capital spending, private investment growth turned positive. Furthermore, as some public enterprises delayed project execution, investment by public enterprises decreased by 9.03 percent, subtracting 0.11 percentage points from economic growth in 2012. Government investment contracted throughout all quarters as the peak of public construction had passed. Therefore, for the year as a whole, government investment went down by 12.77 percent, subtracting 0.34 percentage points from economic growth.

In terms of the type of capital formation, the largest decrease was observed in outlays on machinery and other equipment, registering a contraction of 9.88 percent. The curtailment in investment was primarily attributable to a decrease in export orders and dropping capital utilization. As a consequence of weak external demand driven by a pessimistic global business climate, some firms were hesitant about increasing capital investment, and a double-digit dip was seen in the first two quarters. With the mitigation of the European sovereign debt crisis, investment in machinery regained its momentum in the last two quarters. Therefore, the contraction of overall capital investment narrowed.

Transportation spending decelerated in the first half of the year as a result of a poor domestic business climate and a higher base effect. With more investment in aircraft and railway industries, the growth of transportation spending turned positive in the second half amid economic recovery. Transportation spending posted a modest growth of 0.14 percent for the year as a whole. Additionally, investment in construction contracted by 1.10 percent, while investment in intangible fixed assets grew by 1.11 percent.

(4) Minor Expansion in Exports and Mild Contraction in Imports

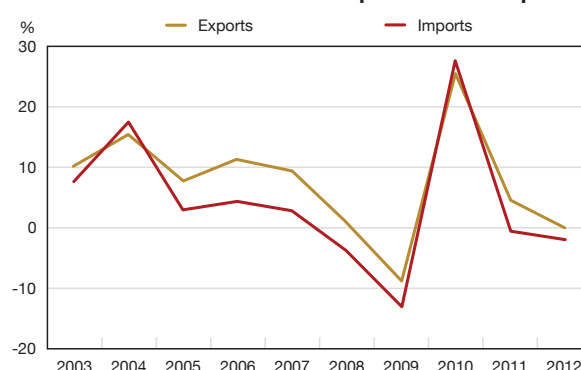
Against the backdrop of a weaker global business climate, exports and imports of goods and services posted negative growth in the first half of the year. A significant decline was witnessed in exports of electronic products, information and telecommunications products, plastic articles and



optical instruments. In the third quarter, exports of information and telecommunications products and primary metal-related articles continued to shrink, whereas those of mineral products grew, leading to a 2.28 percent growth of exports of goods and services. With the recovery of the global economy, a lower base effect, and higher demand before the Christmas and Chinese New Year holidays, exports of goods and services expanded at an annual rate of 3.95 percent in the fourth quarter. For the year as a whole, exports of goods and services grew by 0.13 percent, contributing 0.09 percentage points to economic growth.

Since a large proportion of the import demand is derived from exports, the growth trends of imports and exports move together. Import growth was negative in the first half of the year, while it turned positive in the second half. During the year as a whole, imports of goods and services decreased by 1.87 percent, thus subtracting 1.05 percentage points from economic growth.

Real Growth Rates of Exports and Imports



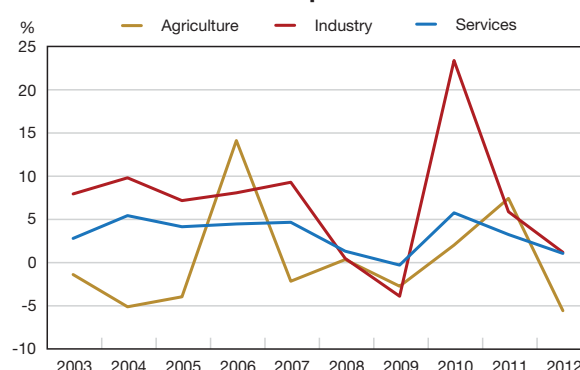
Source: Statistical Abstract of National Income, DGBAS, Executive Yuan, February 2013.

Sectoral Components of GDP

On the output side, while agricultural output contracted by 5.82 percent as a consequence of unfavorable weather conditions, industrial output and services advanced at a slower pace than the previous year amid a weaker global economy. Industry and services, accounting for major shares of national output, were key forces behind economic growth, contributing 0.33 and 0.52 percentage points, respectively, to economic growth for the year. Agricultural output, on the other hand, subtracted 0.08 percentage points from economic growth.

Regarding the sectoral shares of GDP in nominal terms, Taiwan's economy was dominated by the services sector with a 69.16 percent share in 2012. The industrial sector accounted for 28.97 percent of GDP, lower than the share in the previous year as a consequence of sluggish export momentum. Meanwhile, the ratio of agricultural output to GDP slightly increased to 1.87 percent.

Sectoral Components of GDP



Source: Statistical Abstract of National Income, DGBAS, Executive Yuan, February 2013.

Gross Domestic Product by Type of Activity

Unit: %

	2012			2011		
	Share	Real Growth Rate	Contribution to Real Growth Rate of GDP*	Share	Real Growth Rate	Contribution to Real Growth Rate of GDP*
Agriculture	1.87	-5.82	-0.08	1.81	7.19	0.10
Industry	28.97	0.94	0.33	29.76	5.65	1.97
Mining & Quarrying	0.33	10.43	0.04	0.22	2.37	0.01
Manufacturing	24.26	0.98	0.30	25.11	6.42	1.95
Construction	2.85	-0.96	-0.02	2.85	-0.07	0.00
Electricity, Gas, Water and Remediation Services	1.53	0.84	0.01	1.58	0.64	0.01
Services	69.16	0.83	0.52	68.43	3.00	1.92
Wholesale and Retail Trade	18.74	0.11	0.02	18.86	4.00	0.69
Transport & Storage	3.03	1.01	0.03	2.99	2.44	0.07
Information and Communications	3.59	3.89	0.14	3.54	4.19	0.15
Finance and Insurance	6.52	-0.13	-0.01	6.51	3.65	0.23
Real Estate	8.67	0.94	0.08	8.58	1.18	0.10
Administration and Defense	7.45	0.96	0.06	7.26	0.28	0.02
Education	4.70	1.15	0.05	4.62	1.27	0.05
Other Services	16.45	1.09	0.16	16.08	4.15	0.60
Gross Domestic Product	100.00	1.26	1.26	100.00	4.07	4.07

Note: * Percentage point.

Source: *Statistical Abstract of National Income*, DGBAS, Executive Yuan, February 2013.

(1) Significant Decline in Agricultural Output

During 2012, all agricultural production subsectors, namely agriculture, forestry, fishing and animal husbandry, decreased owing to unfavorable weather conditions, which led agricultural output to contract by 5.82 percent.

(2) Scant Growth in Industrial Output

The industrial sector, comprised of the industries of mining and quarrying, manufacturing, construction, and electricity, gas and water, grew by 0.94 percent in 2012, a modest growth compared with the previous year's 5.65 percent increase. The modest growth in industrial output this year was consistent with the weak performance of exports.

In 2012, manufacturing output exhibited an upward trend from a trough of a 2.11 percent decline in the first quarter to a 5.57 percent expansion in the fourth quarter. For the year as a whole, the manufacturing industry grew a mere 0.98 percent, in contrast to the 6.42 percent surge of the previous year, which was primarily because the global economic downturn dampened export demand. Specifically, the production index of the information and electronics industry grew moderately by 1.89 percent, compared with an 8.91 percent increase in the previous year. The index of the chemical industry increased only by 0.21 percent on account of weakened oil demand.

The production index of metal and machinery contracted by 4.64 percent from the previous year's 6.64 percent increase.

As the government imposed the Specifically Selected Goods and Service Tax in 2011 to cool the overheated housing market, along with weaker demand for commercial construction induced by an uncertain economic outlook, construction output posted a decline of 0.96 percent for the year. In contrast to a moderate growth of 2.37 percent in the previous year, output of mining and quarrying grew considerably by 10.43 percent for the year, which was primarily attributable to a price hike in natural gas and a lower base effect.

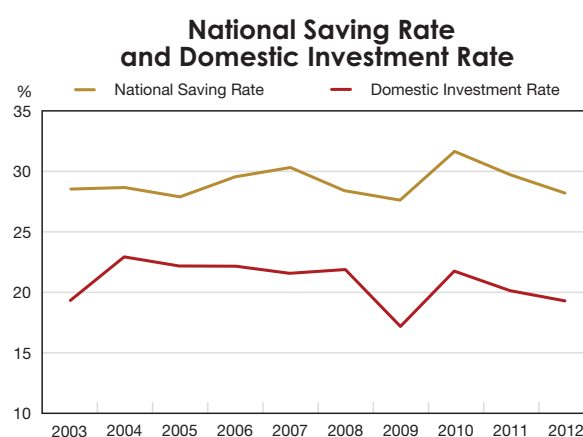
(3) Weak Performance in the Services Sector

In 2012, services output recorded a modest growth rate of 0.83 percent, lower than the growth rate of 3.00 percent of the previous year. Declining business sentiment cooled growth in all the services subsectors other than public administration and national defense.

Among the services subsectors, information and communication topped the growth among all subsectors, registering an increase of 3.89 percent for the year, reflecting the expansion of home-based businesses as well as increasing demand for smartphones, online virtual shops and internet games during the economic slowdown. Moreover, education services and transport and storage services grew by 1.15 percent and 1.01 percent, respectively. Finance and insurance services contracted by 0.13 percent, primarily owing to decreased financial trading activity and fee income amid the re-emergence of the European sovereign debt crisis.

Slight Decline in National Saving Rate

Because of the gradual improvement in labor market conditions, national consumption (including both private consumption and government consumption expenditures) grew by 2.71 percent in nominal terms for the year. As a consequence, the national saving rate (the ratio of national saving to GNP measured at current prices) declined from 29.77 percent in 2011 to 28.20 percent in 2012. The excess saving ratio, defined as the excess of national saving over gross domestic investment to GNP, declined from 9.60 percent in 2011 to 8.97 percent in 2012, reflecting the decline in national saving outpaced that in domestic investment.



Source: Statistical Abstract of National Income, DGBAS, Executive Yuan, February 2013.

3. Balance of Payments

In 2012, the current account surplus, which accounted for 9.8 percent of nominal GNP, increased to US\$49,550 million. This represented growth of 20.2 percent and was due to increases in goods, services and income surpluses, and a decrease in the current transfer deficit. However, the financial account still reported a net outflow of US\$31,503 million, as direct investment abroad and portfolio investment by residents exhibited record-high net outflows of US\$13,031 million and US\$45,361 million, respectively. Considering the current account surplus was partly offset by the net outflow in the financial account, the overall balance recorded a surplus of US\$15,484 million, which was reflected in the increase in foreign reserve assets held by the Bank.

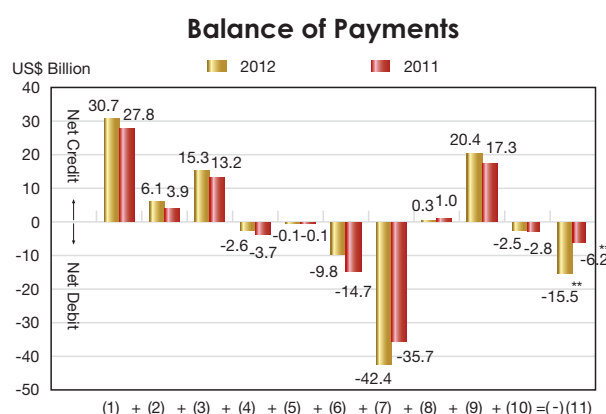
Widening Current Account Surplus

The current account consists of four major items, namely goods, services, income, and current transfers. In 2012, the surpluses of goods, services and income all reached historical highs.

(1) Goods

With a weakened global economy and a high base effect, both Taiwan's exports and imports registered negative growth in 2012. The value of exports decreased by 2.4 percent to US\$299,756 million, mainly driven by soft global demand for ICT products. The value of imports decreased by 3.6 percent to US\$269,021 million, mainly accounted for by declines in the chemicals, basic metals, machinery, and electronics categories. Owing to a larger contraction in imports over exports, the goods surplus widened to US\$30,735 million, an increase of 10.4 percent from the previous year.

As indicated by customs statistics, the top three export partners of Taiwan in 2012 were Mainland China including Hong Kong (hereafter in this chapter referred to as Mainland China), the US, and Singapore, accounting for 57.0 percent of total exports. Furthermore, the top three importing partners were Japan, Mainland China, and the US, with a combined share of 42.4 percent.



(1) Goods (2) Services (3) Income (4) Current Transfers (5) Capital Account
(6) Direct Investment (7) Portfolio Investment (8) Financial Derivatives
(9) Other Investment (10) Net Errors and Omissions (11) Reserves *

Notes: * Excluding valuation changes in exchange rates.

** The minus sign (-) indicates an increase in foreign exchange reserves held by the Bank.

Source: Balance of Payments, CBC.

Balance of Payments

Unit: US\$ Million

	2012	2011
A. Current Account	49,550	41,230
Goods: Exports f.o.b.	299,756	307,030
Goods: Imports f.o.b.	-269,021	-279,182
Balance on Goods	30,735	27,848
Services: Credit	49,046	45,920
Services: Debit	-42,909	-42,026
Balance on Services	6,137	3,894
Income: Credit	25,861	24,833
Income: Debit	-10,584	-11,654
Balance on Income	15,277	13,179
Current Transfers: Credit	5,446	5,547
Current Transfers: Debit	-8,045	-9,238
Balance on Current Transfers	-2,599	-3,691
B. Capital Account	-100	-119
Total, Groups A plus B	49,450	41,111
C. Financial Account	-31,503	-32,046
Direct Investment Abroad	-13,031	-12,766
Direct Investment in R.O.C. (Taiwan)	3,205	-1,957
Portfolio Investment Assets	-45,361	-19,503
Portfolio Investment Liabilities	2,914	-16,188
Financial Derivatives Assets	4,526	5,777
Financial Derivatives Liabilities	-4,198	-4,739
Other Investment Assets	5,771	-7,988
Other Investment Liabilities	14,671	25,318
Total, Groups A through C	17,947	9,065
D. Net Errors and Omissions	-2,463	-2,826
Total, Groups A through D	15,484	6,239
E. Reserves and Related Items*	-15,484	-6,239

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

In terms of Taiwan's trade with Mainland China, the value of exports amounted to US\$118,646 million in 2012, down by 4.4 percent from the previous year. As a result of Mainland China rolling out measures aimed at industrial upgrade, intermediate goods imported from Taiwan were substituted by Mainland China's local industry chain, reducing the share of exports to Mainland China by 0.8 percentage points to 39.4 percent. Nevertheless, Mainland China remained Taiwan's largest export market in 2012.

Imports from Mainland China decreased by 3.8 percent to US\$43,567 million, attributable to weak demand for industrial raw materials, such as chemicals and steel. With a share of 16.1 percent, Mainland China remained Taiwan's second largest source of imports. The value of exports and imports both shrank in 2012, lowering Taiwan's foreign trade dependence on Mainland China. The trade surplus with Mainland China dropped by 4.7 percent to US\$75,079 million in 2012. However, Mainland China remained the largest source of Taiwan's trade surplus.

Direction of Trade in Goods by Country

Unit: %

	2012			2011		
	Amount (US\$ Million)	Share	Annual Change	Amount (US\$ Million)	Share	Annual Change
Exports						
Mainland China (including Hong Kong)	118,646	39.4	-4.4	124,044	40.2	8.1
Southeast Asia 6*	55,713	18.5	9.8	50,738	16.5	22.7
U. S. A.	32,976	10.9	-9.3	36,364	11.8	15.6
Europe	28,765	9.6	-7.8	31,204	10.1	6.2
Japan	18,989	6.3	4.2	18,228	5.9	1.2
Rest of the World	46,091	15.3	-3.3	47,678	15.5	20.2
Total	301,181	100.0	-2.3	308,257	100.0	12.3
Imports						
Japan	47,574	17.6	-8.9	52,200	18.5	0.5
Mainland China (including Hong Kong)	43,567	16.1	-3.8	45,272	16.1	20.5
Southeast Asia 6*	31,364	11.6	-3.9	32,636	11.6	13.4
Europe	28,266	10.5	-4.5	29,586	10.5	13.8
U. S. A.	23,604	8.7	-8.4	25,759	9.2	1.5
Rest of the World	96,098	35.5	0.1	95,985	34.1	17.7
Total	270,473	100.0	-3.9	281,438	100.0	12.0

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

Exports to the US recorded a total value of US\$32,976 million in 2012, decreasing by 9.3 percent from 2011, comprising a lower share in total exports of 10.9 percent. Taiwan's ICT products exports to the US almost reduced by half, from US\$9,158 million in 2011 to US\$4,599 million in 2012, mainly induced by a downturn in US demand for smart phones. Imports from the US slipped by 8.4 percent, and their share in total imports dropped further to 8.7 percent, compared with 9.2 percent a year earlier. The trade surplus with the US narrowed to US\$9,372 million. The US, Taiwan's second largest source of trade surplus in the prior year, became the third in 2012.

Exports to Japan posted a record high value of US\$18,989 million, reflecting a growth of 4.2 percent and a share of 6.3 percent in total exports in 2012, mainly spurred by the demand for electronics products. Imports from Japan slipped by 8.9 percent to US\$47,574 million, with its share in total imports further declining to 17.6 percent. However, Japan remained Taiwan's largest source of imports. The trade deficit with Japan decreased to US\$28,585 million for the year.

Sustained fiscal austerity measures executed by European countries continued to suppress the region's consumption. Exports to Europe decreased by 7.8 percent in 2012, and their share in total exports fell to 9.6 percent. Imports from Europe declined by 4.5 percent, with their share in total imports remaining at 10.5 percent. Therefore, the trade surplus with Europe reduced substantially, from US\$1,618 million in 2011 to US\$499 million as a result of a larger decrease in exports over imports.

Triggered by Southeast Asia's solid economic growth, exports to the six countries in Southeast Asia, including Indonesia, Malaysia, the Philippines, Singapore, Thailand, and Vietnam, increased

by 9.8 percent to US\$55,713 million in 2012, hitting a new high in 2012. The combined share of exports to these countries in total exports topped 18.5 percent. Imports from these countries went down by 3.9 percent, with a share of 11.6 percent in total imports. In sum, the trade surplus with these six countries expanded from US\$18,103 million in 2011 to US\$24,349 million, with Singapore and the Philippines being the second and the fourth largest sources of Taiwan's trade surplus.

(2) Services

In 2012, both receipts and payments of trade in services presented historical highs. Service receipts grew by US\$3,126 million to US\$49,046 million, while payments increased by US\$883 million to US\$42,909 million.

Of the various components of the services account, transportation receipts grew by US\$273 million to US\$9,969 million, reflecting an increase in international passenger fares received by domestic air carriers. Transportation payments also grew by US\$268 million to US\$10,536 million, resulting mainly from higher passenger fares paid to foreign airlines. Overall, net transportation payments slightly decreased to US\$567 million in the year from the US\$572 million of the previous year.

Travel receipts increased by US\$642 million to US\$11,707 million as the total number of visitors registered a record-high figure of 7.31 million, of which arrivals from Mainland China, Taiwan's largest source of visitors, grew the most with a 45.0 percent gain in 2012. Meanwhile, travel payments increased by US\$518 million to US\$10,630 million. The main reason was a modest 6.8 percent growth in the number of overseas visits by residents, encouraged by visits to Japan, which witnessed the largest increase at 37.3 percent. Both receipts and payments of trade in travel showed record-high figures. In sum, net travel receipts grew from US\$953 million in 2011 to US\$1,077 million in 2012.

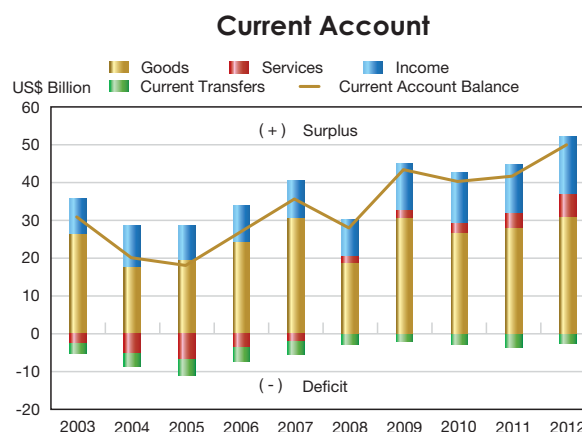
Other services receipts increased by US\$2,211 million to US\$27,370 million, mainly attributable to increases in net proceeds from merchanting. Other services payments slightly increased by US\$97 million to US\$21,743 million, mainly because of payments for professional and technical services. In all, the surplus in net other services expanded from US\$3,513 million in 2011 to US\$5,627 million in 2012.

(3) Income

In 2012, income receipts rose by US\$1,028 million to a historical high of US\$25,861 million, mainly attributable to the increases in interest earnings generated by residents' foreign exchange assets and in dividends of residents' portfolio investments. Meanwhile, income payments amounted to US\$10,584 million, US\$1,070 million less than in 2011, mostly attributable to the decrease in non-residents' investment income in local equity securities. Consequently, the surplus on the income account expanded from US\$13,179 million in 2011 to US\$15,277 million for the year of 2012, the highest level on record.

(4) Current Transfers

For the year of 2012, the respective figures of current transfer receipts and payments amounted to US\$5,446 million and US\$8,045 million. As a whole, the deficit in net current transfers shrank to US\$2,599 million in 2012 from the US\$3,691 million of the previous year when anti-trust penalties imposed by the US and European countries on Taiwan's major LCD panel producers and residents' increased outward remittances as relief donations in response to the Japanese earthquake pushed up current transfer payments in 2011.



Source: Balance of Payments, CBC.

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 2012, the capital account continued to exhibit a deficit, but the gap narrowed by US\$19 million to US\$100 million, mainly owing to decreased outward remittances by migrants.

Net Outflows in the Financial Account

The financial account for the year 2012 recorded a significant net outflow of US\$31,503 million, mainly because residents increased their overseas portfolio investments. In terms of sub-categories, direct investment and portfolio investment registered net outflows of US\$9,826 million and US\$42,447 million, respectively, while other investment posted a net inflow of US\$20,442 million.

(1) Direct Investment

Direct investment abroad by residents recorded a net outflow of US\$13,031 million, an increase of US\$265 million compared with 2011. According to the statistics of approved cases, residents' direct investment in Mainland China and in other areas reported US\$10,924 million and US\$8,099 million, respectively, suggesting that Mainland China remained a major recipient of Taiwan's direct investment abroad after the implementation of the Economic Cooperation Framework Agreement in early 2011. The main investment target sectors included banking and insurance, wholesale and retail, electronic parts and components manufacturing, information and communications, and real estate. On the other hand, direct investment in Taiwan by non-residents reverted to a net inflow of US\$3,205 million, an increase of US\$5,162 million compared with a net outflow of US\$1,957 million in 2011. The main reason behind the marked increase was that for the year of 2011, foreign enterprises

transferred their equity holdings to local enterprises. Overall, direct investment exhibited a net outflow of US\$9,826 million in 2012 compared with US\$14,723 million in 2011.

(2) Portfolio Investment

In 2012, portfolio investment abroad by residents showed a record net outflow of US\$45,361 million, mostly attributable to investment in overseas debt securities by insurance companies and overseas mutual funds investment by residents. On the other hand, local portfolio investment by non-residents swung to a net inflow of US\$2,914 million, as the US quantitative easing policy triggered massive foreign capital inflows for investment in Taiwan's stock market, resulting in a net inflow of US\$2,906 million in non-residents' equity securities investments. As a whole, the net outflow of portfolio investment reached a historical high of US\$42,447 million, compared to US\$35,691 million in 2011.

(3) Financial Derivatives

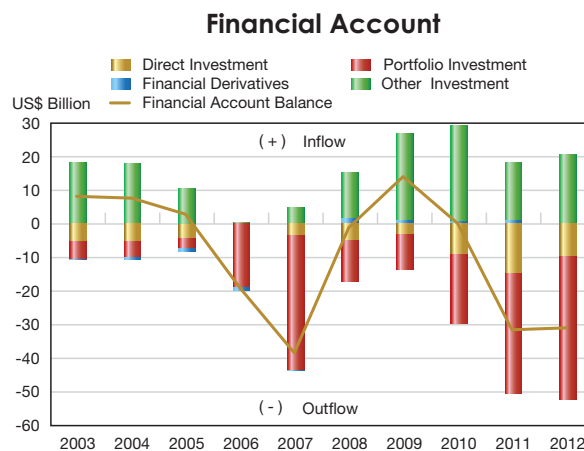
Financial derivatives recorded a net inflow of US\$328 million, due in large part to gains reaped by the banking sector from transactions of derivative instruments involving foreign exchange swaps, cross currency swaps (CCS), and interest rate swaps (IRS).

(4) Other Investment

In 2012, other investment abroad by residents turned to a net inflow of US\$5,771 million from a net outflow of US\$7,988 million a year earlier. The main reason was that the US Federal Reserve further expanded its quantitative easing policy, boosting expectations of a weaker US dollar. Consequently, the private sector withdrew their overseas deposits. Meanwhile, other inward investment by non-residents also showed a net inflow of US\$14,671 million, largely attributable to the borrowings from overseas affiliates by the banking sector, short-term liabilities of the private sector, and the cash collateral deposited by foreign investors for local securities lending. To sum up, the net inflow of other investment increased to US\$20,442 million in 2012.

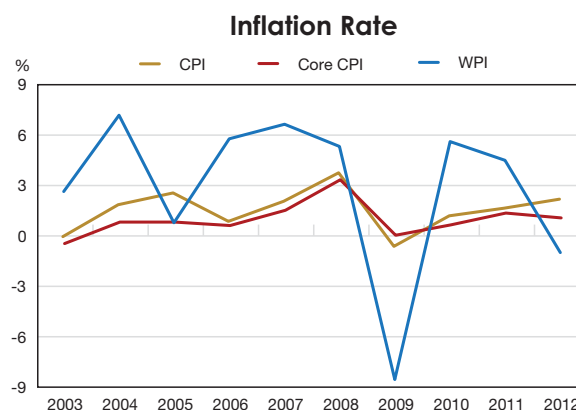
Increase in Foreign Exchange Reserves

The foreign exchange reserve assets held by the Bank increased by US\$15,484 million as a result of the current account surplus.



4. Prices

In 2012, the weakened global economy led to a decline in international primary commodity prices. As a result, Taiwan's wholesale price index (WPI) fell by 1.16 percent in 2012, down from a 4.32 percent rise in 2011. Headline inflation, measured by the consumer price index (CPI), rose by 1.93 percent, 0.51 percentage points more than the previous year, mainly owing to the weather-induced surge in vegetable and fruit prices in the second half of the year. The core CPI, which excludes fruits, vegetables, and energy, rose at an annual rate of 1.00 percent in 2012, down from a 1.26 percent increase in the previous year.



Source: Price Statistics Monthly, DGBAS, Executive Yuan.

Slight Decrease in Wholesale Prices

The WPI slightly decreased at an annual rate of 1.16 percent in 2012, reflecting the deceleration of international raw materials prices resulting from a slowdown in global demand. In terms of monthly movements, the annual WPI inflation rate turned negative from March and exhibited a downward trend to the end of the year. In December, the annual WPI inflation rate fell to an all-year low of -3.95 percent.

Broken down by the three major components of the WPI, the annual rates of change in import prices, domestic sales excluding import prices, and export prices all decreased moderately in 2012 owing to the falling prices of international commodities.

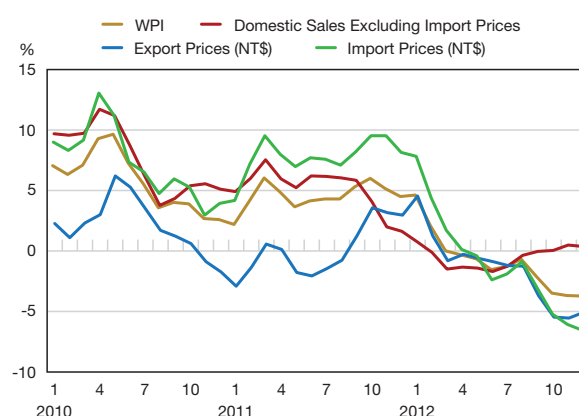
Import prices decreased by 1.91 percent in US dollar terms in 2012, compared with a 15.39 percent increase in the previous year. The decline in import prices mainly resulted from the falling prices of imported raw materials, such as cotton, iron and steel, copper, aluminum and chemical materials. As the NT dollar depreciated against the US dollar over 2012, the annual rate of change in import prices decreased by only 1.28 percent in NT dollar terms. Among the components of import prices, prices of raw materials, with a weight of 78.12 percent in the whole index, decreased by 1.86 percent and accounted for 1.48 percentage points in the 1.28 percent decrease. In contrast, prices of capital goods and consumer goods rose by 1.22 percent and 0.38 percent, respectively.

Export prices in US dollar terms decreased by 2.25 percent in 2012, down from an increase of 7.37 percent the year before. Owing to the depreciation of the NT dollar against the US dollar,

export prices fell by 1.62 percent in terms of the NT dollar. In NT dollar terms, among the basic groups, prices of chemical and industrial products accounted for the largest decline at 7.91 percent, whereas prices of primary metals and articles thereof decreased by 7.76 percent. In contrast, prices of animal products rose by 7.31 percent in 2012, mainly attributable to lower supply of eels and other frozen fish.

With the decrease in prices of primary commodities imports, prices of domestic sales excluding import prices went down 0.59 percent in 2012, compared with a 5.04 percent rise in the previous year. In terms of product group, prices of primary metal products, textile products and chemical materials fell by 7.80 percent, 5.83 percent, and 5.25 percent, respectively. In contrast, prices of petroleum and coal products rose by 7.16 percent in the year, as higher costs of crude oil were passed through to domestic oil, diesel and fuel oil prices.

Annual Rates of WPI



Source: Price Statistics Monthly, DGBAS, Executive Yuan.

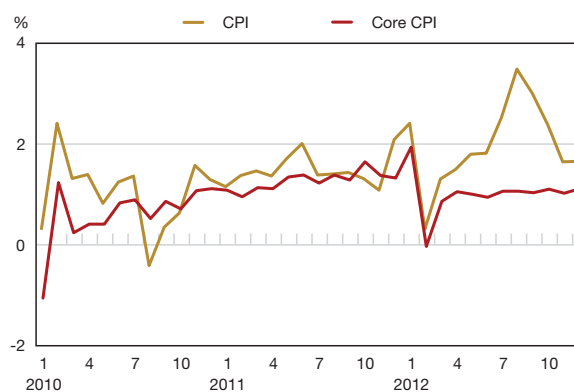
Moderate Increase in Consumer Prices

The CPI rose by 1.93 percent in 2012. The rise in CPI inflation was mainly caused by the fuel and electricity price hikes and the ensuing increase in related retail prices. In addition, typhoons and heavy rainfall induced a surge in vegetable and fruit prices, and a lower base effect added to the upward pressure on prices. After remaining stable in the first quarter of the year, monthly CPI inflation rates stepped up and peaked at 3.43 percent in August, as prices of vegetables and fruits soared because of weather-related disruptions. Subsequently, CPI inflation moderated to 1.60 percent in December.

The core CPI inflation rate was 1.00 percent in 2012. In the first two months of the year, the rate fluctuated on account of the seasonal factor of the Chinese New Year holidays. From March onwards, the core CPI remained moderate between 0.84 percent and 1.10 percent.

From 1998 to 2012, Taiwan's annual CPI inflation rate averaged merely 1.06 percent,

Annual Rates of CPI



Source: Price Statistics Monthly, DGBAS, Executive Yuan.

and the standard deviation of the annual CPI inflation rate was also subdued at only 1.17 percent. Compared with major economies, Taiwan's inflation remained low and stable, conducive to maintaining the purchasing power of money and helping the general public make appropriate economic decisions.

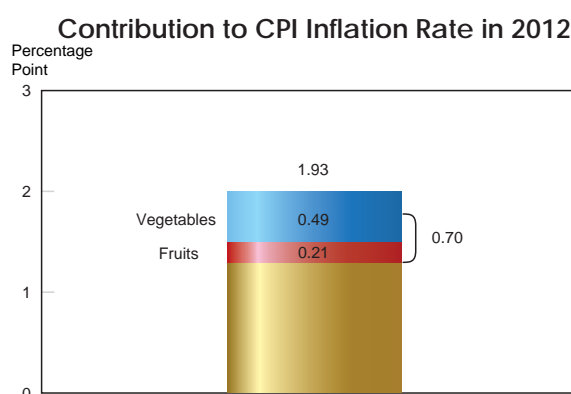
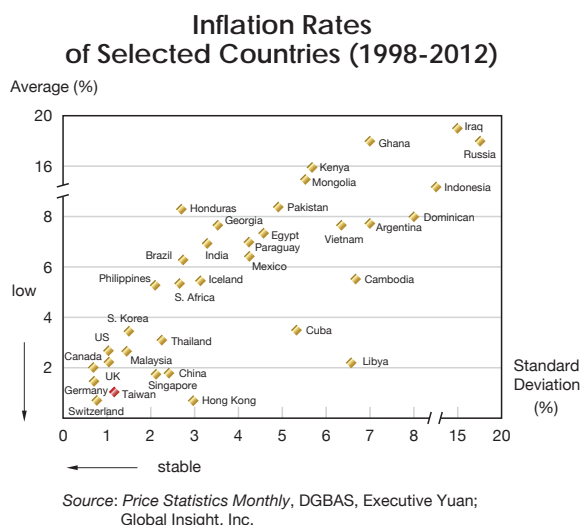
The advance in the CPI inflation rate in 2012 was mainly boosted by food and energy prices. Food prices rose at an annual rate of 4.16 percent and contributed 1.16 percentage points to CPI inflation. The main factors contributing to the rise of CPI inflation in 2012 were as follows:

(1) Owing to severe damage caused by typhoons and torrential rain as well as a lower base effect, prices of vegetables and fruits remarkably rose by 22.18 percent and 7.74 percent and accounted for 0.49 and 0.21 percentage points in the CPI increase, respectively.

(2) The rise in oil, electricity, and gas costs and higher raw food prices pushed up the prices of food away from home by 2.32 percent in 2012, contributing 0.22 percentage points to CPI inflation.

(3) International petroleum prices rose in early 2012, but the uptrend was later reversed and remained relatively flat through the second half of the year because of weak demand caused by slack global economic growth and abundant supply of shale oil from the US. Reflecting higher imported prices for petroleum and natural gas as well as the domestic oil and electricity price hikes announced in April, prices for domestic fuels and lubricants and gas moved up by 5.78 percent and 7.97 percent and accounted for 0.21 and 0.09 percentage points in the CPI increase, respectively.

(4) In line with the increase in tour group fees, prices of education and entertainment services rose by 1.47 percent, contributing 0.19 percentage points to CPI inflation.



The main factors contributing to downward pressure on the CPI in 2012 were as follows:

- (1) Prices of communication fees declined by 6.57 percent during 2012, as fees for cell phones, the internet, and telephones adjusted downward.
- (2) Prices of meat fell by 2.28 percent in 2012 owing to weak demand resulting from concerns over ractopamine-contaminated meat and a bird flu outbreak.

Percentage Changes in the Major Components of the CPI in 2012

Item	Annual Rate of Change (%)	Contribution to CPI Inflation Rate (Percentage Point)
CPI	1.93	1.93
Vegetables	22.18	0.49
Food away from Home	2.32	0.22
Fruits	7.74	0.21
Fuels & Lubricants	5.78	0.21
Education & Entertainment Services	1.47	0.19
Residential Rent	0.62	0.11
Gas	7.97	0.09
Fish & Shellfish	3.80	0.08
Garments	2.86	0.08
Tobacco & Betel Nuts	4.28	0.08
Cereals & Cereal Products	2.20	0.06
Electricity	2.40	0.05
Total		1.87
Communication Fees	-6.57	-0.17
Meat	-2.28	-0.06
Total		-0.23
Others		0.29

Source: *Price Statistics Monthly*, DGBAS, Executive Yuan.

5. Public Finance of the Central Government

For the year 2012, with central government revenue contracting by 0.3 percent while expenditure increased by 8.6 percent, overall central government finances remained in deficit for the fourth consecutive year, and the size of the deficit increased to NT\$215.9 billion from NT\$63.1 billion in 2011.

Slight Decline in Central Government Revenue

In 2012, central government revenue decreased by NT\$4.2 billion to NT\$1,667.1 billion. Tax revenue was the major source of central government revenue, followed by surpluses of public enterprises and public utilities, with respective shares of 73.3 percent and 15.7 percent of the total revenue.

Among different types of taxes, income tax revenue increased by NT\$45.5 billion, mainly bolstered by rising corporate dividend distribution in 2011. However, revenue from securities transactions tax decreased by NT\$22.1 billion from the previous year, affected by a plunge in local stock markets amid an economic slowdown. As a result, overall tax revenue increased by a mere NT\$18.7 billion over the previous year. In terms of surpluses of public enterprises and public utilities, a decrease of NT\$2.4 billion was recorded for 2012, mainly caused by continuous losses in some public enterprises. Moreover, revenues from others sharply declined by NT\$43.6 billion owing to a higher base in the

Total Revenue and Expenditure of the Central Government

Unit: NT\$ Billion

Year	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012*
Total Revenue	1,320.9	1,368.2	1,464.5	1,546.4	1,635.5	1,640.9	1,553.7	1,497.4	1,671.3	1,667.1
(Ratio to GDP : %)	12.3	12.0	12.5	12.6	12.7	13.0	12.4	11.0	12.2	11.9
Total Expenditure	1,618.1	1,564.8	1,567.0	1,529.8	1,552.0	1,617.7	1,714.8	1,654.4	1,734.4	1,883.0
(Ratio to GDP : %)	15.1	13.8	13.3	12.5	12.0	12.8	13.7	12.2	12.7	13.4
Surplus/Deficit	-297.2	-196.6	-102.5	16.6	83.5	23.2	-161.1	-157.0	-63.1	-215.9
(Ratio to GDP : %)	-2.8	-1.7	-0.9	0.1	0.6	0.2	-1.3	-1.2	-0.5	-1.5
Debt Repayment	46.5	56.1	64.1	65.0	6.0	65.0	65.0	66.0	66.0	94.0
Financing:	343.7	253.5	167.3	63.9	0.0	41.8	226.1	224.2	129.1	309.9
Debt Financing	300.8	253.5	167.3	63.9	0.0	0.0	164.5	224.2	129.1	288.1
Surplus of Previous Fiscal Years	42.9	0.0	0.0	0.0	0.0	41.8	61.6	0.0	0.0	21.8
Memorandum:										
Tax Dependency Ratio**(%)	51.2	58.6	68.1	71.5	77.9	76.8	61.3	65.4	69.4	64.9
Debt Dependency Ratio***(%)	18.6	16.2	10.7	4.2	0.0	0.0	9.6	13.6	7.4	15.3

Notes: * The figures for the year 2012 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. DGBAS, Executive Yuan.

2. Department of Statistics, MOF.

previous year resulting from the huge surplus of NT\$39.0 billion from the National Stabilization Fund set up by the Executive Yuan.

As the increase in government expenditure outpaced that in tax revenue, the ratio of tax revenue to government expenditure, denoted by the tax dependency ratio, dropped to 64.9 percent in 2012 from 69.4 percent in 2011.

Expansion in Central Government Expenditure

Central government expenditure increased by NT\$148.6 billion over the previous year to NT\$1,883.0 billion in 2012. Leading the increase was a NT\$71.9 billion rise in social welfare expenditure, mainly owing to mounting expenditure on legal obligations such as subsidies for social insurance programs and less-advantaged people in response to social transformation. The second largest increase was an extra NT\$46.8 billion spent on economic development, primarily aimed at promoting economic development via infrastructure projects such as mass rapid transit systems.

In terms of share in total government expenditure, social welfare and education, science and culture were the top two categories, accounting for 22.3 percent and 19.1 percent, respectively, followed by national defense with 16.1 percent. The share of social welfare in total expenditure exceeded that of education, science and culture for the first time since 2007 and ranked first among all categories. Ranking fourth was economic development spending with a share of 14.0 percent, rising from the previous year's 12.5 percent.

Total Revenue and Expenditure of the Central Government by Category

Unit: NT\$ Billion

Year	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012*
Total Revenue	1,320.9	1,368.2	1,464.5	1,546.4	1,635.5	1,640.9	1,553.7	1,497.4	1,671.3	1,667.1
Taxes	828.5	916.6	1,067.8	1,094.3	1,208.7	1,242.9	1,051.6	1,082.4	1,203.4	1,222.1
Surpluses of Public Enterprises and Public Utilities	326.5	282.2	243.4	289.1	271.5	253.4	318.7	264.8	264.7	262.3
Fees, Fines and Indemnities	77.8	76.1	79.0	79.0	81.1	83.1	78.1	81.6	81.1	108.1
Proceeds from Sales of Properties and Recalled Capital	65.7	70.3	52.6	58.5	51.3	40.0	53.7	46.7	64.0	60.1
Others	22.4	23.0	21.7	25.5	22.9	21.4	51.6	21.9	58.1	14.5
Total Expenditure	1,618.1	1,564.8	1,567.0	1,529.8	1,552.0	1,617.7	1,714.8	1,654.4	1,734.4	1,883.0
General Administration	167.3	164.1	165.5	167.3	168.2	173.0	168.8	170.2	176.4	176.1
National Defense	227.7	248.9	248.5	237.1	256.7	282.4	291.2	276.8	284.2	303.4
Education, Science and Culture	300.2	302.1	301.5	303.1	308.7	310.4	326.4	342.7	356.2	359.3
Economic Development	295.5	248.9	247.0	197.0	193.3	201.3	244.4	194.5	217.1	263.9
Social Welfare	284.4	279.8	285.7	303.3	305.1	298.4	320.2	327.4	348.5	420.4
Community Development & Environmental Protection	28.7	24.8	25.2	20.4	19.4	13.5	21.4	9.0	6.6	15.9
Retirement & Compassionate Aid	125.4	123.1	130.5	134.7	134.6	133.8	133.4	134.5	138.5	138.2
Interest Payments	144.6	127.1	117.9	125.2	124.0	117.4	116.7	109.8	111.7	114.5
General Subsidies and Other Expenditure	44.3	46.0	45.2	41.7	42.0	87.5	92.3	89.5	95.2	91.3

Note: * The figures for the year 2012 are preliminary estimates.

Sources: 1. DGBAS, Executive Yuan.

2. Department of Statistics, MOF.

In sum, the ratio of central government expenditure to GDP rose from 12.7 percent in the previous year to 13.4 percent. The ratio of the fiscal deficit to GDP also moved up from 0.5 percent in 2011 to 1.5 percent, partly reflecting the economic slowdown in 2012.

Greater Demand for Debt Financing

The demand for debt financing increased in 2012 in line with the widening fiscal deficit. The NT\$215.9 billion fiscal deficit and a NT\$94.0 billion debt principal repayment combined to represent a need for the central government to finance NT\$309.9 billion for 2012. Of this amount, NT\$288.1 billion was raised through issuing government bonds and borrowing from banks, while the remaining NT\$21.8 billion was financed with surpluses from previous fiscal years. The debt dependency ratio, i.e. the ratio of annual government bond issuance and borrowing from banks to total government expenditure jumped from 7.4 percent to 15.3 percent in 2012.

Continued Increase in Outstanding Debt Obligations

The general budget and the special budget combined to require debt financing from government bond issuance and borrowing from banks. The total outstanding debt of the central government increased by NT\$247.0 billion over the previous year end, amounting to NT\$5,011.6 billion at the end of 2012. Furthermore, the ratio of outstanding central government debt to GDP rose from the previous year's 34.8 percent to 35.7 percent in 2012.

Public Debt of the Central Government

Unit: NT\$ Billion

End of Year	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012*
Outstanding Debt	3,124.7	3,362.1	3,549.9	3,623.0	3,718.6	3,778.8	4,127.4	4,538.0	4,764.6	5,011.6
(Ratio to GDP : %)	29.2	29.6	30.2	29.6	28.8	29.9	33.1	33.5	34.8	35.7

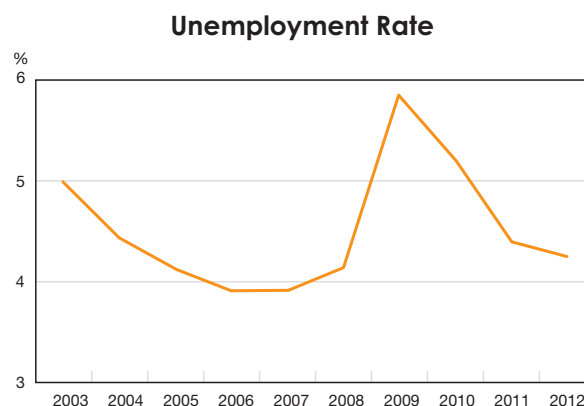
Note: * The figures for the year 2012 are preliminary estimates.

Sources: 1. DGBAS, Executive Yuan.

2. Department of Statistics, MOF.

6. Labor Market

In early 2012, as business demand for labor increased, the unemployment rate dropped to 4.10 percent in April. However, with the graduation season approaching, the unemployment rate started to rise in May and hit 4.40 percent in August before declining gradually to 4.18 percent in December. For the year 2012, the average unemployment rate was 4.24 percent, the lowest since 2009.



Source: Monthly Bulletin of Manpower Statistics, DGBAS, Executive Yuan.

Annual average employment was 10.86 million persons in 2012, a 1.41 percent increase from 2011. Employment in the industrial and services sectors continued to grow at 1.12 percent and 1.68 percent, respectively. Employment in the agricultural sector increased 0.39 percent from the year before.

In terms of earnings and labor cost, monthly earnings per worker in the non-farm sector (the industrial and services sectors) averaged NT\$45,888 in 2012, which was a slight increase of 0.30 percent from the previous year. As total working hours increased while total production decreased, labor productivity of the industrial sector and, in particular, the manufacturing subsector fell by 0.75 percent and 0.73 percent, respectively. Additionally, unit labor cost of the industrial and services sectors increased by 2.37 percent and 2.47 percent, respectively.

Employment Continued to Grow

Despite the economic slowdown, labor market conditions in Taiwan remained favorable in the year 2012. Annual average employment in 2012 was 10.86 million, an increase of 151 thousand or 1.41 percent from the previous year.

Broken down by sector, employment in the agricultural sector increased by two thousand people or 0.39 percent. The industrial sector saw total employment increase by 43 thousand or 1.21 percent. Within this sector, manufacturing employment registered the largest increase of 26 thousand people, while construction employment also increased by 14 thousand people. Employment in the services sector grew by 106 thousand persons or 1.68 percent. Of this increase, 37 thousand were in the wholesale and retail services, the largest gain within the services sector.

Unemployment Rate Declined

In early 2012, greater business demand for labor led the unemployment rate to drop to 4.10 percent in April. However, with an increasing turnout of job seekers around the graduation season, the unemployment rate started to rise in May and peaked at 4.40 percent in August before gradually declining to 4.18 percent in December. For the year as a whole, the average unemployment rate was 4.24 percent, the lowest since 2009.

Improving labor market conditions shortened the duration of unemployment by 1.63 weeks from the year before (26.04 weeks versus 27.67 weeks). The average number of long-term unemployed (those who were unemployed for 53 weeks or more) also declined to 77 thousand people, a decrease of 3,711 persons over the previous year. Of the long-term unemployed, 63.07 percent were male, of which 68.19 percent was in the age group between 25 and 44 and 49.42 percent held a college degree or above. This indicates that male being aged between 25 and 44 and having a higher education degree were major factors for long-term unemployment.

Total unemployment decreased by 10 thousand people or 2.15 percent from the year before. A major factor contributing to this decline was a decrease by 11 thousand in the number of unemployed persons who were laid off involuntarily because of shrinking business or temporary shutdown. Consequently, the proportion of the aforementioned group relative to the total unemployed went down to 28.46 percent compared to 30.10 percent the year before.

On the other hand, favorable labor market conditions raised people's willingness to change jobs. People who quit their jobs to seek other job opportunities made up a major part of the unemployed, with its share rising by 1.09 percentage points from the previous year to 33.72 percent.

In terms of age, the unemployment rate of the age group 15-24 was still the highest at 12.66 percent as people in this group are generally inexperienced and tend to change jobs more frequently. The unemployment rate of the age group 25-44 was 4.38 percent, while the unemployment rate of the 45-64 age group was 2.31 percent, representing respective year-on-year declines of 0.08 and 0.33 percentage points.

In terms of educational background, the unemployment rate of people with a college degree or above increased to 4.58 percent, indicating there was an excess supply of highly educated labor. On the other hand, the unemployment rates of the other two groups decreased. For people with a junior high school degree or below, the unemployment rate dropped to 3.52 percent, while that of those with a middle high school or vocational school degree decreased to 4.22 percent.

Labor Force Participation Rate Rose Modestly

The labor force rose by 1.26 percent to 11.34 million in 2012 as labor market conditions continued

to improve. Total employment amounted to 10.86 million, with an annual growth rate of 1.41 percent, while the number unemployed dropped by 2.15 percent to 481 thousand people.

The labor force participation rate reached 58.35 percent, a 0.18 percentage point increase compared to the year before. In terms of gender, the male labor force participation rate increased by 0.16 percentage points from the preceding year to 66.83 percent, while the female rate reached an all-time high of 50.19 percent, up

by 0.22 percentage points over the previous year. As the government continued to improve the working environment, the willingness of females to work also increased. The labor participation rates of all age groups went up across the board, with the group aged 25-44 posting the largest increase of 0.77 percentage points to 86.33 percent. In terms of educational background, the labor participation rates for the working population with a college degree or above increased by 0.22 percentage points to 64.35 percent.

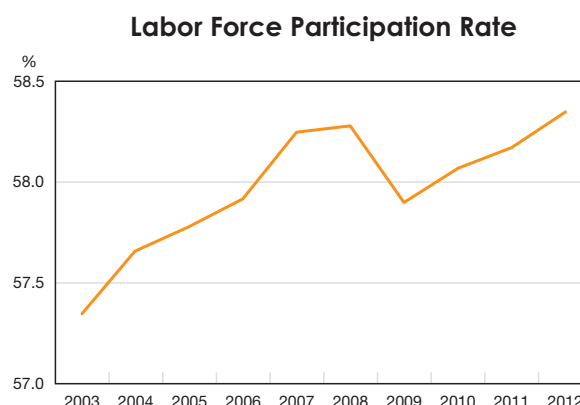
The non-labor force population totaled 8.10 million, representing a year-on-year rise of 43 thousand persons, or 0.52 percent. The ratio of those of old age and with disability to total non-labor force increased by 0.29 percentage points to 29.71 percent, an indication that Taiwan has moved toward an aging society. On the other hand, as job opportunities increased, the ratio of people in school to total non-labor force decreased 0.25 percentage points to 26.67 percent.

Earnings of Non-farm Workers Increased

The average monthly earnings per worker of the non-farm sector reached NT\$45,888 in 2012, representing a 0.30 percent increase from the year before. However, after adjustment for inflation, the average real monthly earnings actually decreased by 1.60 percent.

The average monthly earnings of industrial sector workers increased by 0.76 percent over the previous year to NT\$44,280, while their average monthly real earnings decreased by 1.15 percent. Meanwhile, the average monthly earnings of services sector workers decreased by 0.08 percent to NT\$47,233, and their average monthly real earnings also went down 1.97 percent.

A further breakdown showed that the real estate business experienced the largest real decrease in average monthly earnings, at 7.50 percent, as the government implemented several measures to cool the housing market. The water supply and pollution remediation industry also saw a 6.65 percent decrease from the previous year. On the other hand, government support for the cultural



Source: Monthly Bulletin of Manpower Statistics, DGBAS, Executive Yuan.

creative industry and tourism contributed to a 4.33 percent increase in average monthly real earnings in the arts, entertainment, and leisure services industry, the largest among all industries. In terms of real regular monthly earnings per worker, the industrial sector decreased by 0.70 percent, while that of the services sector also decreased by 0.63 percent. Together, the two sectors exhibited a 0.64 percent decrease in their real regular monthly earnings compared with the previous year.

Labor Productivity Edged Down

Labor productivity declined owing to increases in total working hours and decreases in total production. The labor productivity index of the industrial sector and the manufacturing industry dropped by 0.75 and 0.73 percent, respectively. Within the manufacturing industry, the largest decrease was from machinery equipment manufacturing, which fell by 11.40 percent compared to the year before.

On the other hand, as total labor compensation grew while total production decreased, the unit labor cost in the industrial sector and the manufacturing subsector went up by 2.37 and 2.47 percent, respectively, in 2012.

Labor Productivity and Unit Labor Cost Indices in the Industrial Sector



Source: Monthly Bulletin of Earnings and Productivity Statistics, DGBAS, Executive Yuan.

