

Developments in the Real Economy



I. Developments in the Real Economy

1. Overview

In 2013, Taiwan's GDP growth rate expanded from the 1.48 percent of the previous year to 2.11 percent, supported by a gradual advance in external and domestic demand amid improving economic conditions in the US and Europe. The balance of payments registered a surplus of US\$11,318 million and the current account surplus and the net outflow in the financial account reached concurrent historical highs. In terms of prices, the CPI annual growth rate dropped to 0.79 percent, compared to 1.93 percent the previous year, as reductions in communications fees and consumer electronics prices partially offset fuel and food price rises. Central government revenue gained by NT\$62.1 billion over the previous year, underpinned mainly by receipts from 4G mobile spectrum license fees. Combined with a NT\$26.1 billion decrease in expenditure, the 2013 government deficit narrowed considerably by NT\$88.2 billion to NT\$125.9 billion. Labor market conditions continued to improve, and the unemployment rate edged down during the year to reach a five-year low at an annual average of 4.18 percent.

Moderate Economic Growth

In the first half of 2013, against a backdrop of a slow global recovery, Taiwan registered steady trade growth owing to a lower base the previous year. Entering the second half of the year, though Europe and the US showed more signs of strength, Taiwan's export growth slackened in the third quarter on weaker demand from Mainland China. However, in the fourth quarter, exports rebounded thanks to greater demand for electronics products, and private investment and consumer confidence both picked up, leading the economy to grow at a faster pace of 2.95 percent. For the year as a whole, Taiwan's economy expanded by 2.11 percent, higher than the 1.48 percent of the previous year.

In terms of GDP components by expenditure, 2013 witnessed faster private investment growth, steady private consumption, and slower net export growth. Domestic demand contributed 1.48 percentage points to the annual economic growth rate, greater than the 0.63 percentage points by net external demand. As for the sectoral components of GDP, the industrial sector grew by 1.78 percent with a contribution of 0.63 percentage points, while the service sector expanded 1.68 percent with a contribution of 1.06 percentage points, both higher than the previous year. The agricultural sector turned from contraction to positive growth of 0.23 percent, albeit with a rather limited contribution to the overall economic growth.

Steady BOP Surplus

In 2013, both the current account surplus and the net outflow in the financial account reached historical highs, with the former greater than the latter. As a result, the overall balance of payments in 2013 showed a continued surplus of US\$11,318 million, narrowing from US\$15,484 million the previous year.

In the current account, the goods trade surplus widened from US\$31,608 million in 2012 to US\$37,014 million, reflecting an increase in exports and a decline in imports. The services account also recorded a wider surplus of US\$9,269 million owing to increased travel receipts and reduced expenditure on trade commissions. The surplus on the income account narrowed to US\$14,093 million, mainly because the revenue from residents' investment in foreign exchange assets decreased and the payments for non-residents' income from equity securities investment increased. Meanwhile, the current transfers balance showed a larger deficit of US\$2,996 million. Overall, the current account surplus grew by 13.2 percent to US\$57,380 million, representing a greater share of 11.3 percent in GNP compared to the previous year.

In terms of the financial account, the net outflow increased from US\$31,673 million in 2012 to US\$41,164 million, mostly accounted for by larger net outflows in direct investment abroad, debt securities investment, and banks' deposits with overseas branches. Among the components, direct investment abroad posted a new record-high net outflow of US\$14,336 million, mainly owing to expanded investment in Mainland China. Portfolio investment exhibited a net outflow of US\$29,197 million. Residents' portfolio investment abroad showed a net outflow of US\$37,177 million mainly because of debt securities investment overseas by insurance companies, while non-residents' portfolio investment registered a net inflow of US\$7,980 million owing to increased stock market investment by foreign investors. Moreover, other investment turned from a net inflow of US\$20,020 million the previous year into a net outflow of US\$2,396 million as a result of an increase in redeposits with overseas bank branches after they began to accept renminbi deposits.

Mild Price Uptrend

In 2013, international raw material prices declined and a weaker yen reduced the cost of equipment imported from Japan. Therefore, Taiwan's import prices in NT dollar terms dropped by 4.45 percent, while prices for domestic sales and exports fell 0.71 percent and 2.06 percent, respectively. As a consequence, the WPI growth rate went down by 2.43 percent.

In terms of consumer prices, fuel, gas, and electricity for households all experienced rate hikes, as well as a rise in food prices. However, these were partially offset by lower communications fees and price reductions of consumer electronics to stimulate sales. For the year as a whole, the CPI went up by 0.79 percent, lower than the 1.93 percent of the previous year, while the core CPI

(excluding prices of fruits, vegetables, and energy) recorded a modest increase of 0.66 percent, lower than the 1.00 percent of the previous year.

Narrower Government Deficit

Boosted by higher-than-expected receipts from 4G license auctions, the 2013 total central government revenue recorded an increase of NT\$62.1 billion or 3.7 percent, whereas expenditure fell by NT\$26.1 billion or 1.4 percent. As a result, the central government deficit shrank remarkably by NT\$88.2 billion over the previous year to a total of NT\$125.9 billion.

On the revenue side, a series of tax cuts and a lackluster economic recovery led to a 0.3 percent decline in tax revenues, still representing a large share of 70.4 percent in total central government revenue. As the Taiwan Power Company and the Taiwan Railways Administration continued to suffer losses in 2013, surpluses of public enterprises and public utilities narrowed by 4.3 percent, accounting for 14.5 percent in total central government revenue. Fees, fines and indemnities took up a larger share of 11.4 percent in total revenue, with an increase of 4.9 percentage points thanks mostly to 4G mobile spectrum license fees.

Central government expenditure registered a decrease as a result of spending cuts in national defense, and general subsidies and other expenditure. By category, expenditure on social welfare continued to mount up and, at 23.7 percent, remained the largest component of government spending. The category of education, science and culture took up a share of 19.2 percent, national defense, 15.6 percent, and economic development, slightly down to 13.9 percent.

A narrower fiscal deficit and reduced debt principal repayment softened the need for debt financing. At the end of 2013, the total outstanding debt of the central government rose to NT\$5,214.8 billion, up by NT\$203.3 billion over the previous year. As a percentage of GDP, its share increased modestly from 35.6 percent to 35.8 percent.

Improvements in Labor Market Conditions

In 2013, the unemployment rate continued along a broad downtrend. The rate was 4.06 percent in May and then slightly went up to 4.33 percent in August after the graduation season. As the economy picked up, the unemployment rate edged down to 4.08 percent in December. For the year as a whole, the unemployment rate reached a five-year low at 4.18 percent, though structural unemployment remained a task to be tackled.

In terms of employment, the total number of employed persons averaged 10.97 million in 2013, up by 0.99 percent from the previous year. The services sector had the largest increase, hiring 1.21 percent more people compared to the previous year, while employment of the industrial sector rose by 0.77 percent.

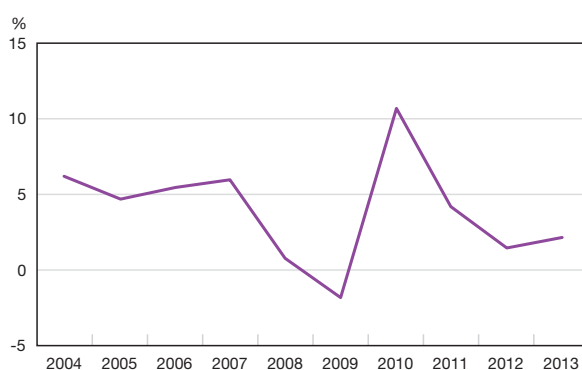
Average non-farm (industrial and services sectors) employee earnings were NT\$45,965, a modest increase of 0.17 percent over the previous year. The average regular earnings of non-farm employees rose by 0.99 percent to NT\$37,716. Earnings in real terms posted a year-on-year decrease of 0.62 percent, while real regular earnings showed a 0.19 percent increase. Moreover, labor productivity index of the industrial sector grew by 0.09 percent, yet unit labor cost increased 0.14 percent in 2013 as the increase in total employee earnings outpaced that in total production.

2. National Output and Income

Following an upturn in late 2012, the Taiwanese economy continued its mild recovery and expanded modestly in 2013. This was driven by moderate growth in the global economy and further supported by increased consumer spending and business investment. External trade witnessed stable growth during the first half of the year mainly owing to a lower base effect. Over the next six months, bolstered by an improvement in advanced economies along with solid consumer electronics demand abroad in the fourth quarter, exports gradually gained momentum. In addition, private consumption grew at a mild pace in the first three quarters on account of low wage growth and concerns about food safety, while the growth rose markedly in the fourth quarter on the back of a buoyant stock market and strong car sales. Moreover, private investment resumed healthy growth after two consecutive years of declines as semiconductor enterprises continued to increase capacity in advanced manufacturing. For the entire year, real GDP expanded at an annual growth rate of 2.11 percent, up from 1.48 percent in 2012.

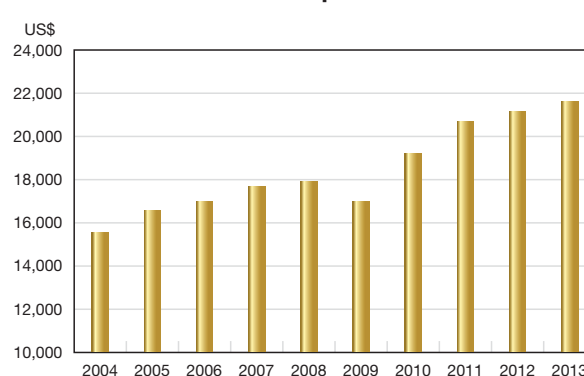
The pace of economic expansion decelerated during the first quarter with real GDP growth down to 1.44 percent as private consumption lost steam and a decrease in net exports partially offset private investment growth. On account of steady expansion in external trade, improved private consumption and a continued increase in private investment, real GDP growth picked up to 2.69 percent in the second quarter. Nevertheless, hampered by slowing consumption, falling capital expenditure and declining exports resulting from softening demand from China, the third quarter's real GDP growth moderated to 1.31 percent. The domestic economy expanded the most during the fourth quarter as a pickup in the global economy boosted external trade and enhanced consumer confidence and business investment. Consequently, GDP growth firmed to 2.95 percent

Real Growth Rate of GDP



Source: *Statistical Abstract of National Income*, DGBAS, Executive Yuan, February 2014.

Per Capita GNP



Source: *Statistical Abstract of National Income*, DGBAS, Executive Yuan, February 2014.

in the fourth quarter. Meanwhile, owing to a mild increase in economic activity, per capita GNP in nominal terms increased by a modest 2.25 percent from US\$21,082 to US\$21,557.

Expenditure Components of GDP

Against the backdrop of a modest gain in demand both at home and abroad, all expenditure components of GDP except government consumption posted growth rates higher than the previous year. Among them, private consumption recorded a positive contribution of 0.95 percentage points for the year, remaining the primary source of economic growth. Gross fixed capital formation also saw its contribution to GDP growth increased to 0.85 percentage points owing to a pickup in capital expenditures. Although exports posted a lower growth rate than imports, net exports continued to record a contribution of 0.63 percentage points to economic growth. On the contrary, affected by a limited fiscal budget, government consumption declined mildly, dragging GDP growth down by 0.04 percentage points. In terms of shares of GDP, all expenditure components decreased further in 2013. Exports of goods and services accounted for the largest share of GDP at 72.98 percent, followed by private consumption at 59.51 percent and gross fixed capital formation at 19.42 percent.

1. Modest Growth in Private Consumption

During 2013, consumer spending progressed at a cautious pace mainly owing to subdued income growth and concerns over food safety. For the entire year, private consumption rose by 1.77 percent in real terms, slightly higher than the previous year's 1.62 percent, accounting for 0.95 percentage points of GDP growth.

In the beginning of the year, consumer sentiment was dampened by a contraction in real wage

Expenditure on Gross Domestic Product

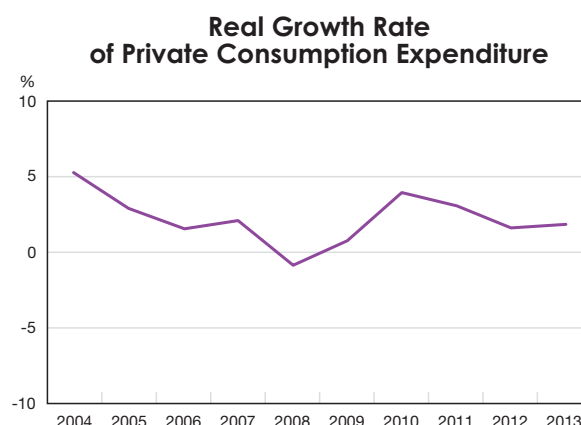
Unit: %

	2013			2012		
	Share	Real Growth Rate	Contribution to Real Growth Rate of GDP*	Share	Real Growth Rate	Contribution to Real Growth Rate of GDP*
Private Consumption	59.51	1.77	0.95	60.13	1.62	0.87
Government Consumption	11.86	-0.33	-0.04	12.41	0.96	0.11
Gross Fixed Capital Formation	19.42	5.26	0.85	19.69	-4.01	-0.68
Change in Inventory	-0.16	-	-0.29	0.15	-	-0.10
Exports of Goods and Services	72.98	3.81	2.80	73.35	0.11	0.08
(Less : Imports of Goods and Services)	63.61	(4.01)	(2.17)	65.74	(-2.16)	(-1.21)
Expenditure on GDP	100.00	2.11	2.11	100.00	1.48	1.48

Note: * Percentage point.

Source: Statistical Abstract of National Income, DGBAS, Executive Yuan, February 2014.

growth, shrinking financial wealth resulting from low trading activities in the stock market, and expectation of further depreciation of the Japanese yen, which delayed household purchases of vehicles. As a result, private consumption growth markedly weakened to 0.39 percent in the first quarter, in contrast to the 1.69 percent growth in the fourth quarter of the previous year. In the second quarter, with a buoyant stock market, a rebound in car sales and stronger retail sales, consumption expanded at an annual rate of 1.98 percent, even though food safety concerns, which suppressed spending in restaurants, partially offset it. During the third quarter, despite further gains in the stock market and an increase in the number of visitors travelling to Japan owing to the weakening of the Japanese yen, private consumption growth edged down to 1.45 percent on account of waning consumer sentiment in the face of lackluster wage growth. Later, supported by a surge in stock prices, a stronger demand for motor vehicles boosted by promotional sales and the release of new car models, and continued expansion in tourism, consumer spending in the retail sector and restaurant business rose significantly, leading private consumption to increase by a remarkable 3.28 percent in the final quarter, the highest annual growth since the fourth quarter of 2011.



Source: *Statistical Abstract of National Income*, DGBAS, Executive Yuan, February 2014.

In terms of the private consumption categories, food consumption rose by 2.28 percent, slightly lower than the growth rate of 2.47 percent registered in 2012, while non-food consumption grew by 1.71 percent compared with an increase of 1.51 percent in the previous year. Among the components of non-food consumption, outlays for transportation posted the largest growth of 3.96 percent for the year, primarily as a consequence of heated demand for car purchases. Moreover, owing to higher demand for leisure activities, consumer spending on recreation and culture increased further, registering the second largest growth of 3.17 percent for the year.

2. Slight Decline in Government Consumption

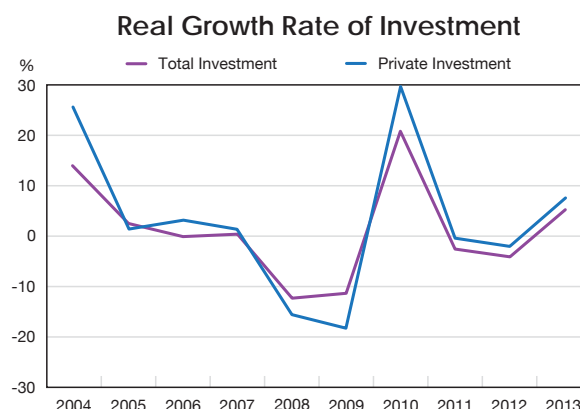
After trending upward for six years, the growth rate of government consumption expenditure slid into negative territory in 2013. This expenditure slightly declined by 0.33 percent in real terms for the year, subtracting 0.04 percentage points from GDP growth. This was mainly associated with continuous curtailment of government expenditure that aimed to improve public finance situations.

3. Moderate Rebound in Fixed Capital Formation

Fixed capital formation exhibited modest growth with an annual rate of 5.26 percent in real terms for the year of 2013, reversing its negative growth of 4.01 percent in the previous year, and contributing 0.85 percentage points to economic growth. During the first two quarters, as semiconductor companies accelerated capacity expansion in advanced manufacturing and the Japanese yen depreciation prompted manufacturers to import more capital equipment, fixed capital formation expanded by 5.88 percent. Although fixed capital formation posted slower growth in the third quarter as a result of weaker economic activity and a higher base effect, fixed capital investment grew by 4.69 percent in the second half of the year. This was mainly attributable to a pickup in capital spending led by the semiconductor industry on the back of mounting export orders for electronics products in the fourth quarter.

Regarding expenditure by type of purchaser, investment by private businesses increased by 7.38 percent after two consecutive years of decline, adding 0.94 percentage points to real GDP growth. In the first half of the year, as semiconductor manufacturers increased capital spending, private investment exhibited stable growth. In the third quarter, although capital spending on semiconductors continued to expand, it was restrained by a higher base. Concurrently, with weaker business sentiment amid uncertainties over the Fed's QE tapering and the slowdown of China's economy, most industries lacked investment momentum. During the fourth quarter, benefiting from vigorous worldwide demand for consumer electronics products, private investment resumed growth and posted a double-digit increase of the year. Furthermore, as the execution of several investment projects by public enterprises was ahead of schedule, investment by public enterprises increased by 3.84 percent, contributing 0.04 percentage points to economic growth for the year. Government investment, however, continued to shrink throughout all quarters because of a limited budget and went down by 5.93 percent over the year, subtracting 0.13 percentage points from economic growth.

In terms of the type of capital formation, the largest increase was observed in outlays on machinery and other equipment, registering a growth of 12.31 percent, in sharp contrast to the contractions of the last two years. This significant growth was largely generated by new investment in semiconductor production bolstered by successive releases of new ICT products, as well as with the effect of the Japanese yen depreciation. Meanwhile, the growth rate of investment by the



Source: Statistical Abstract of National Income, DGBAS, Executive Yuan, February 2014.

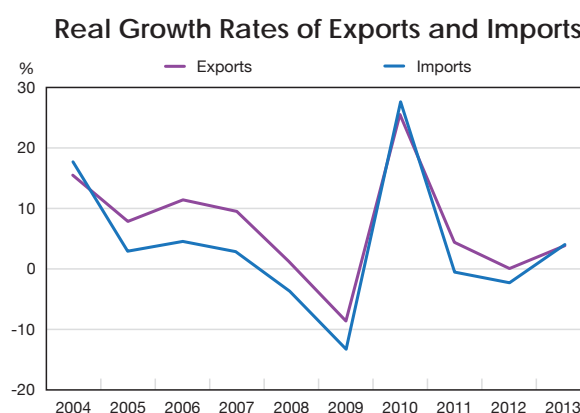
construction sector returned to positive territory and was up to 1.73 percent. This moderate growth, particularly in the first half of the year, reflected increasing construction of residential buildings driven by the solid demand in the housing market. Likewise, transportation spending accelerated in the first half of the year as a result of increased procurement of airliners and passenger trains, while it slightly contracted in the second half mostly owing to a higher base effect, registering a modest growth of 2.83 percent for the year as a whole. Additionally, investment in intangible fixed assets slowed and posted a decline of 5.33 percent over the previous year.

4. Modest Lift in Exports and Imports

Despite competitive pressure from China's supply chain localization policy and intense competition from abroad in information and communications products, the growth of exports still outpaced that in 2012, registering a mild growth of 3.81 percent and contributing 2.80 percentage points to economic growth for the year as a whole. The increase in exports was mainly due to an improvement in the US and European economies in the second half of the year as well as a lower base effect.

For the first quarter, with a weaker-than-expected global recovery, China's continuing capacity expansion in the petrochemical industry and the weakening of the Japanese yen, exports of information and communications products, petrochemicals and machinery shrank, whereas those of electronics, mineral products and optical instruments grew, leading to a 4.53 percent growth in exports of goods and services. In the second quarter, owing to the lessening of global economic uncertainty, growth in exports of goods and services accelerated to 5.05 percent. The advance was mainly supported by the continual growth in exports of electronics and mineral products, together with the expansion of tourism service exports. Nevertheless, real exports of goods and services slowed to a 1.74 percent annual rate in the third quarter as commodity exports registered negative growth as a result of China's structural reform and its gradual localization of the supply chain. A significant contraction was witnessed in exports of optical instruments and mineral products. During the fourth quarter, underpinned by brisk demand from advanced economies for consumer electronics and higher demand for goods before the Chinese New Year holidays, the exports of goods and services expanded at an annual rate of 4.03 percent.

Following a modest growth in business investment spending, the growth of imports reversed its decline of the previous year and outpaced that of exports in 2013. The increase

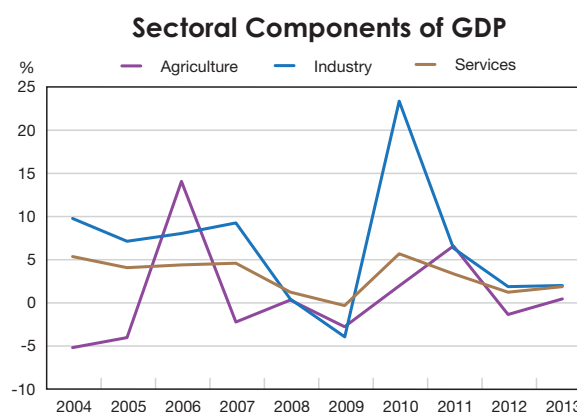


Source: Statistical Abstract of National Income, DGBAS, Executive Yuan, February 2014.

in imports was more notable in the first half of the year as capital outlays on machinery and electrical equipment rose with mounting external demand. Similar to exports, import growth trended down in the third quarter, and then picked up in the fourth quarter on the back of significantly improved domestic demand and exports. For the year as a whole, imports of goods and services increased by 4.01 percent, thus subtracting 2.17 percentage points from economic growth.

Sectoral Components of GDP

On the output side, in 2013, both industrial output and services exhibited continuous expansion, albeit at a relatively mild pace amid modest recovery at home and abroad, while agricultural output remained subdued as a consequence of unstable weather conditions. Industry and services, accounting for major shares of national output, were key forces behind economic growth, contributing 0.63 and 1.06 percentage points, respectively, to economic growth for the year. Agricultural output, on the



Source: Statistical Abstract of National Income, DGBAS, Executive Yuan, February 2014.

Gross Domestic Product by Type of Activity

Unit: %

	2013			2012		
	Share	Real Growth Rate	Contribution to Real Growth Rate of GDP*	Share	Real Growth Rate	Contribution to Real Growth Rate of GDP*
Agriculture	1.69	0.23	0.00	1.78	-1.57	-0.02
Industry	30.02	1.78	0.63	29.08	1.67	0.59
Mining & Quarrying	0.42	-5.71	-0.02	0.32	10.13	0.03
Manufacturing	24.88	2.02	0.63	24.37	1.81	0.56
Construction	2.87	0.82	0.02	2.85	-2.31	-0.05
Electricity, Gas, Water and Remediation Services	1.84	0.24	0.00	1.54	2.59	0.04
Services	68.29	1.68	1.06	69.14	1.01	0.64
Wholesale and Retail Trade	18.47	1.03	0.18	18.90	-0.19	-0.03
Transport & Storage	2.97	2.72	0.08	3.07	0.86	0.03
Information and Communications	3.40	1.58	0.06	3.53	3.75	0.14
Finance and Insurance	6.52	2.52	0.16	6.54	0.83	0.05
Real Estate	8.75	2.84	0.23	8.69	2.19	0.17
Administration and Defense	7.05	-0.67	-0.04	7.38	0.83	0.05
Education	4.54	0.69	0.03	4.66	0.96	0.04
Other Services	16.59	2.57	0.37	16.37	1.33	0.19
Gross Domestic Product	100.00	2.11	2.11	100.00	1.48	1.48

Note: * Percentage point.

Source: Statistical Abstract of National Income, DGBAS, Executive Yuan, February 2014.

other hand, posted negligible contribution to overall economic growth.

Regarding the sectoral shares of GDP in nominal terms, Taiwan's economy was dominated by the services sector with a 68.29 percent share in 2013. The industrial sector accounted for 30.02 percent of GDP, slightly higher than the share in the previous year as a consequence of stronger export momentum. Meanwhile, the ratio of agricultural output to GDP slightly decreased to 1.69 percent.

1. Scant Growth in Agricultural Output

During 2013, agricultural production, including agriculture, forestry, fishing and animal husbandry industries, was dragged down by unfavorable weather conditions such as severe coldness and torrential rain. Nevertheless, owing to a lower base effect, agricultural output grew by 0.23 percent.

2. Steady Growth in Industrial Output

The industrial sector, comprised of the industries of mining and quarrying, manufacturing, construction, and electricity, gas and water, displayed a similar level of growth to the previous year with an increase of 1.78 percent in 2013. The steady growth in industrial output reflected increasing competitive pressure on the manufacturing sector from abroad.

Manufacturing production in 2013 grew by 2.02 percent, mainly led by the information and electronics industries, which showed a moderate growth of 1.21 percent in the production index during the year. The gain in the information and electronics industries was mostly attributed to a boom in semiconductor-related exports, driven by increased demand for mobile devices as well as the launch of new products. Nevertheless, the production of display panels saw a drop on account of intensifying competition with China and languid demand for panels for TVs as well as PCs. By contrast, output growth in other manufacturing industries was relatively weak. The production index of the chemical industry inched up a mere 0.73 percent under the impact of domestic production capacity adjustment in response to China's increasing capacity expansion in petrochemical products in the first half of the year and the decrease in related product prices. However, the production indices of the metal and machinery industry, and food, textile and other industries decreased by 0.34 percent and 0.08 percent, respectively.

In contrast to the previous year's 2.31 percent decrease, output in the construction industry increased by 0.82 percent for the year, mainly attributable to a buoyant housing market in the first half of the year, along with the affordable housing scheme promoted by the government to tackle the issue of housing price surges in metropolitan areas. Meanwhile, output of mining and quarrying decreased by 5.71 percent in 2013, which was a sharp drop compared with the previous year's growth of 10.13 percent, owing to the decline in the production volume of sand and gravel, as well as a higher base effect.

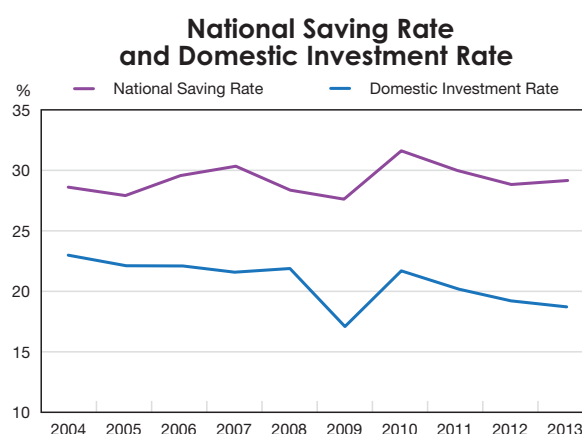
3. Moderate Performance in the Services Sector

In 2013, services output increased mildly and recorded a modest growth rate of 1.68 percent, higher than the growth rate of 1.01 percent of the previous year. The decent upturn in private consumption, particularly a marked improvement in the fourth quarter, helped drive the growth in the services sector, of which transport and storage, finance and insurance, and wholesale and retail trade services exhibited larger increases.

Among the services subsectors, real estate topped the growth among all subsectors, registering an increase of 2.84 percent for the year, reflecting vigorous housing transactions along with optimism for the real estate market during the first half of the year. Driven by increases in domestic and outbound visitor numbers, combined with stronger export demand in line with the revival of global trade in the fourth quarter, transport and storage services grew by 2.72 percent, compared with a mere 0.86 percent posted in 2012. Likewise, finance and insurance services continued their upward trend over the previous year, registering an increase of 2.52 percent for the year resulting from increased interest revenue and fee income. The growth in finance and insurance services was also due to a rebound in stock trading activity from the second quarter onwards, spurred by easing rules on a capital gains tax and measures aimed at stimulating trading volume. In addition, wholesale and retail trade services posted a growth rate of 1.03 percent, reversing from the previous year's 0.19 percent decline, primarily owing to significantly improved consumer confidence at the end of the year. On the other hand, administration and defense services shrank slightly by 0.67 percent for the year, reflecting the government's continued efforts to curtail expenditure.

Rise in National Saving Rate

The national saving rate (the ratio of national saving to GNP measured at current prices) increased from 28.83 percent in the previous year to 29.12 percent in 2013 as nominal national consumption (including both private consumption and government consumption expenditures) grew by a relatively moderate rate of 1.80 percent compared to the GNP growth rate of 3.09 percent. The mild growth in nominal national consumption mainly resulted from the contraction in government spending and moderate growth in private consumption. The excess saving ratio, defined as the excess of national saving over gross domestic investment to GNP, climbed up from 9.60 percent in 2012 to 10.40 percent in 2013, reflecting a greater increase in national saving than that in domestic investment.



Source: Statistical Abstract of National Income, DGBAS, Executive Yuan, February 2014.

3. Balance of Payments

In 2013, the current account surplus, which accounted for 11.3 percent of nominal GNP, increased to a historical high of US\$57,380 million. This represented growth of 13.2 percent as record increases in the goods and services surpluses more than offset a wider current transfer deficit and a narrower income surplus. The net outflow on the financial account reached a new high of US\$41,164 million, as direct investment abroad, investment in overseas debt securities by residents, and banks' deposits with overseas branches all exhibited record-high net outflows. Because the current account surplus was partly offset by the net outflow in the financial account, the overall balance recorded a surplus of US\$11,318 million, which was reflected in the increase in foreign reserve assets held by the CBC.

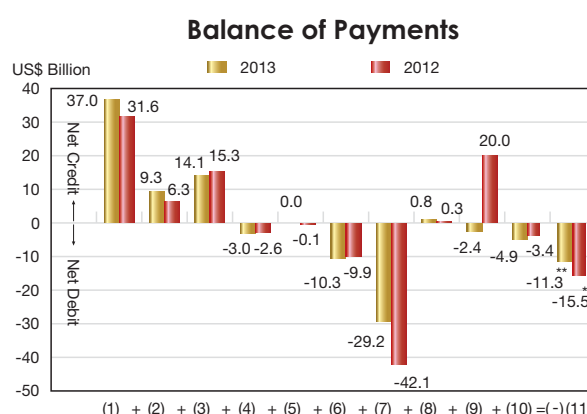
Widening Current Account Surplus

The current account consists of four major items, namely goods, services, income, and current transfers.

1. Goods

Affected by the weakened economic conditions of advanced economies, the value of exports only increased modestly by 1.4 percent to US\$304,633 million. The value of imports decreased by 0.4 percent to US\$267,619 million, mainly accounted for by declines in imports of crude oil and basic metals. As a result of an increase in exports and a decrease in imports, the goods surplus widened to US\$37,014 million in 2013, hitting a new high in history.

As indicated by customs statistics, the top three export partners of Taiwan in 2013 were Mainland China including Hong Kong (hereafter in this chapter referred to as Mainland China), the US, and Singapore, accounting for a combined share of 56.7 percent of total exports. The top three import partners were Mainland China, Japan, and the US, with a combined share of 41.7 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 CBC.

Source: Balance of Payments, CBC.

Balance of Payments

Unit: US\$ Million

	(1) 2013	(2) 2012	(1)-(2)
A. Current Account	57,380	50,672	6,708
Goods: exports f.o.b.	304,633	300,430	4,203
Goods: imports f.o.b.	-267,619	-268,822	1,203
Balance on Goods	37,014	31,608	5,406
Services: credit	51,640	49,111	2,529
Services: debit	-42,371	-42,763	392
Balance on Services	9,269	6,348	2,921
Income: credit	25,169	25,833	-664
Income: debit	-11,076	-10,497	-579
Balance on Income	14,093	15,336	-1,243
Current transfers: credit	6,154	5,445	709
Current transfers: debit	-9,150	-8,065	-1,085
Balance on Current Transfers	-2,996	-2,620	-376
B. Capital Account	6	-83	89
Total, Groups A plus B	57,386	50,589	6,797
C. Financial Account	-41,164	-31,673	-9,491
Direct investment abroad	-14,336	-13,137	-1,199
Direct investment in R.O.C. (Taiwan)	3,996	3,207	789
Portfolio investment assets	-37,177	-45,304	8,127
Portfolio investment liabilities	7,980	3,213	4,767
Financial derivatives assets	5,851	4,526	1,325
Financial derivatives liabilities	-5,082	-4,198	-884
Other investment assets	-50,037	4,746	-54,783
Other investment liabilities	47,641	15,274	32,367
Total, Groups A through C	16,222	18,916	-2,694
D. Net Errors and Omissions	-4,904	-3,432	-1,472
Total, Groups A through D	11,318	15,484	-4,166
E. Reserves and Related Items*	-11,318	-15,484	4,166

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\$121,226 million in 2013, up by 2.2 percent from the previous year. As a result of Mainland China's measures aimed at industrial upgrade, intermediate goods imported from Taiwan were partly substituted by those produced by Mainland China's local industrial chain. This constituted the main reason for the slowdown of Taiwan's exports to Mainland China in the second half of the year. However, the share of exports to Mainland China still increased by 0.3 percentage points to 39.7 percent. Furthermore, Mainland China remained Taiwan's largest export market in 2013.

Imports from Mainland China grew by 1.6 percent to US\$44,251 million, attributable to demand for industrial raw materials such as steel. With a share of 16.4 percent, Mainland China became Taiwan's largest source of imports. The trade surplus with Mainland China increased by 2.5 percent

to US\$76,976 million in 2013, and Mainland China remained the largest source of Taiwan's trade surplus.

Exports to the US recorded a total value of US\$32,564 million in 2013, decreasing by 1.2 percent from 2012 and comprising a lower share in total exports of 10.7 percent. Taiwan's ICT products exports to the US reduced by 8.8 percent to US\$4,196 million, mainly induced by a downturn in US demand for smart phones. Imports from the US grew by 6.8 percent to US\$25,220 million, and their share in total imports increased to 9.3 percent, compared with 8.7 percent a year earlier. The trade surplus with the US narrowed to US\$7,345 million. The US, Taiwan's third largest source of trade surplus in the prior year, became the fourth in 2013.

Exports to Japan increased by 1.2 percent to US\$19,221 million, mainly boosted by the demand for Taiwan's electronics products. The share of exports to Japan remained at 6.3 percent. Imports from Japan slipped by 9.2 percent to US\$43,174 million, with their share in total imports further declining by 1.6 percentage points to 16.0 percent. Furthermore, Japan became Taiwan's second largest source of imports in 2013, after being the largest in 2012. The trade deficit with Japan decreased to US\$23,952 million.

Following a recession in the euro area caused by prolonged financial turmoil, exports to Europe decreased by 3.5 percent to US\$27,754 in 2013, and their share in total exports fell to 9.1 percent. Imports from Europe increased by 6.1 percent to US\$29,994 million, with their share in total imports growing to 11.1 percent. Therefore, the trade balance with Europe turned from a surplus of US\$499 million in 2012 to a deficit of US\$2,240 million in 2013.

Exports to the six countries in Southeast Asia, including Indonesia, Malaysia, the Philippines, Singapore, Thailand, and Vietnam, increased by 3.9 percent to US\$57,888 million in 2013. The combined share of exports to these countries in total exports increased to 19.0 percent. Imports from these countries grew by 3.4 percent to US\$32,431 million, with a share of 12.0 percent in total imports. In sum, the trade surplus with these six countries expanded from US\$24,349 million in 2012 to US\$25,457 million, with Singapore and the Philippines being the second and the third largest sources of Taiwan's trade surplus, respectively.

Direction of Trade in Goods by Country

Unit: %

	2013			2012		
	Amount (US\$ Million)	Share	Annual Change	Amount (US\$ Million)	Share	Annual Change
Exports						
Mainland China (including Hong Kong)	121,226	39.7	2.2	118,646	39.4	-4.4
Southeast Asia 6*	57,888	19.0	3.9	55,713	18.5	9.8
U. S. A.	32,564	10.7	-1.2	32,976	10.9	-9.3
Europe	27,754	9.1	-3.5	28,765	9.6	-7.8
Japan	19,221	6.3	1.2	18,989	6.3	4.2
Rest of the World	46,798	15.3	1.5	46,091	15.3	-3.3
Total	305,452	100.0	1.4	301,181	100.0	-2.3
Imports						
Mainland China (including Hong Kong)	44,251	16.4	1.6	43,567	16.1	-3.8
Japan	43,174	16.0	-9.2	47,574	17.6	-8.9
Southeast Asia 6*	32,431	12.0	3.4	31,364	11.6	-3.9
Europe	29,994	11.1	6.1	28,266	10.5	-4.5
U. S. A.	25,220	9.3	6.8	23,604	8.7	-8.4
Rest of the World	95,002	35.2	-1.1	96,098	35.5	0.1
Total	270,071	100.0	-0.1	270,473	100.0	-3.9

Note: * Including Indonesia, Malaysia, the Philippines, Singapore, Thailand, and Vietnam.

Source: *Monthly Statistics of Exports and Imports*, Ministry of Finance, R. O. C. (Taiwan).

2. Services

In 2013, service receipts increased by US\$2,529 million to US\$51,640 million, the largest-ever level in history. Service payments fell by US\$392 million to US\$42,371 million. Therefore, the service surplus greatly expanded by US\$2,921 million to US\$9,269 million, hitting a new high.

Of the various components of the services account, transportation receipts grew by US\$72 million to US\$10,058 million, reflecting an increase in international freight fares received by domestic sea carriers and international passenger fares received by domestic air carriers. Transportation payments also grew by US\$62 million to US\$10,544 million, resulting mainly from higher foreign ports expenses paid by domestic sea carriers. Overall, net transportation payments slightly decreased to US\$486 million in the year from the US\$496 million of the previous year.

Travel receipts increased by US\$907 million to US\$12,677 million as the total number of inbound visitors registered a record-high figure of 8.02 million, which included 2.88 million visitors from Mainland China, Taiwan's largest source of visitors. Meanwhile, travel payments increased by US\$1,674 million to US\$12,304 million. The main reason was a modest 7.9 percent growth in the number of overseas visits by residents, mainly boosted by visits to Japan. In sum, net travel receipts contracted from US\$1,140 million in 2012 to US\$373 million in 2013.

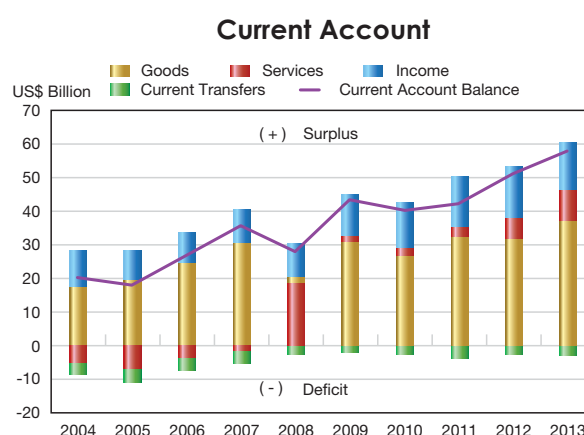
Other services receipts increased by US\$1,550 million to US\$28,905 million, mainly attributable to increases in net proceeds from merchanting. Other services payments declined by US\$2,128 million to US\$19,523 million on account of a decrease in expenditure on trade-related commissions. In all, the surplus in net other services expanded from US\$5,704 million in 2012 to US\$9,382 million in 2013.

3. Income

In 2013, income receipts declined by US\$664 million to US\$25,169 million, mainly owing to decreases in interest earnings generated by residents' foreign exchange assets. Meanwhile, income payments amounted to US\$11,076 million, US\$579 million more than in 2012, mostly attributable to an increase in non-residents' investment income from local equity securities. Consequently, the surplus on the income account shrunk from US\$15,336 million in 2012 to US\$14,093 million for the year of 2013.

4. Current Transfers

For the year of 2013, the respective figures of current transfer receipts and payments amounted to US\$6,154 million and US\$9,150 million. As a whole, the deficit on net current transfers expanded to US\$2,996 million in 2013 from the US\$2,620 million of the previous year, mainly owing to greater outward remittances for family support as well as anti-trust penalty payments.



Source: Balance of Payments, CBC.

A Net Inflow in the Capital Account

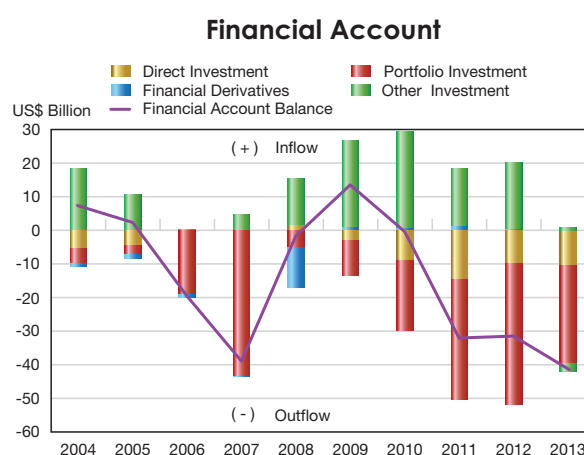
The capital account includes capital transfers (debt forgiveness, ownership transfers of fixed assets and migrants' transfers) and the acquisition and disposal of non-produced, non-financial assets. In 2013, the capital account posted a surplus of US\$6 million from a deficit of US\$83 million the previous year, owing to the increased receipts from residents' sales of patent rights.

A Huge Net Outflow in the Financial Account

The financial account for the year 2013 showed a record-high net outflow of US\$41,164 million. In terms of sub-categories, direct investment, portfolio investment and other investment registered net outflows of US\$10,340 million, US\$29,197 million and US\$2,396 million, respectively.

1. Direct Investment

Direct investment abroad by residents exhibited a record net outflow of US\$14,336



Source: Balance of Payments, CBC.

million, an increase of US\$1,199 million compared with 2012. On the other hand, direct investment in Taiwan by non-residents registered a net inflow of US\$3,996 million, US\$789 million more than in the previous year. According to the statistics of approved cases, residents' direct investment in Mainland China and in other areas reported US\$8,685 million and US\$5,232 million, respectively, suggesting that Mainland China remained the major recipient of Taiwan's direct investment abroad. The main investment target sectors included banking and insurance, wholesale and retail, and manufacturing sectors such as basic metals, computers, electronic and optical products, and electronic parts and components. Overall, direct investment exhibited a net outflow of US\$10,340 million in 2013, US\$410 million more than in 2012.

2. Portfolio Investment

In 2013, portfolio investment abroad by residents showed a net outflow of US\$37,177 million, mostly attributable to investment in overseas securities by life insurance companies. On the other hand, local portfolio investment by non-residents exhibited a net inflow of US\$7,980 million. This was due to quantitative easing monetary policies implemented by the Fed, the ECB and the BOJ, which led to massive foreign capital inflows into Asia's emerging economies, including Taiwan's stock market. As a result, a net inflow of US\$9,618 million was recorded in non-residents' equity securities investment. Overall, portfolio investment showed a net outflow of US\$29,197 million in 2013.

3. Financial Derivatives

Financial derivatives recorded a net inflow of US\$769 million, mainly owing to gains reaped by the banking sector from transactions of derivative instruments involving foreign exchange swaps, cross currency swaps, and interest rate swaps.

4. Other Investment

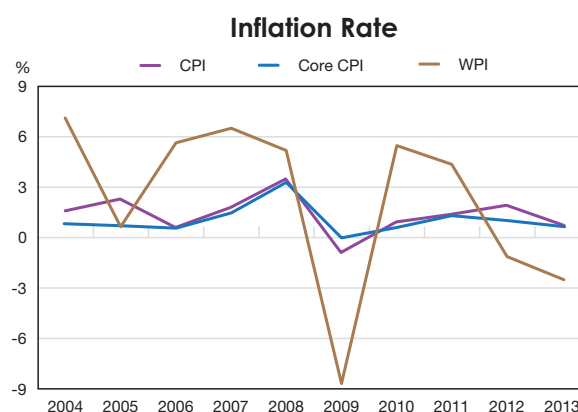
In 2013, other investment abroad by residents shifted to a net outflow of US\$50,037 million from a net inflow of US\$4,776 million a year earlier. The main reason was that banks' deposits with overseas branches increased following the substantial growth of the renminbi deposit business throughout the year. On the other hand, other inward investment by non-residents showed a net inflow of US\$47,641 million, largely attributable to the borrowings from overseas affiliates by the banking sector and short-term liabilities of the private sector. As a consequence, other investment swung to a net outflow of US\$2,396 million in 2013.

Increase in Foreign Exchange Reserves

The foreign exchange reserve assets held by the CBC increased by US\$11,318 million as a result of the current account surplus.

4. Prices

Taiwan's wholesale price index (WPI) fell by 2.43 percent in 2013, showing a further decline over the 1.16 percent decrease last year. The drop in WPI inflation was largely attributable to lower international primary commodity prices owing to a slow recovery in the global economy, as well as the falling imported costs of machinery and equipment from Japan resulting from the depreciation of the Japanese yen. Headline inflation, measured by the consumer price index (CPI), increased moderately at an annual rate of 0.79 percent in 2013, down from a rise of 1.93 percent over 2012, mainly owing to fuel, gas, and electricity price hikes and a surge in food prices, though these were partly offset by reductions in communication fees and consumer electronics products. The core CPI, which excludes fruits, vegetables, and energy, also rose slightly by 0.66 percent in 2013, compared with a 1.00 percent increase in the previous year.



Source: Price Statistics Monthly, DGBAS, Executive Yuan.

Moderate Decrease in Wholesale Prices

The WPI decreased at an annual rate of 2.43 percent in 2013, mainly driven by the decline in international raw materials prices resulting from a slowdown in global demand caused by slack global economic growth, as well as lower imported costs of machinery and equipment from Japan on account of the depreciation of the Japanese yen against the NT dollar. In terms of monthly movements, the annual WPI inflation rate generally exhibited a downward trend for the whole year compared with the same period in 2012, yet the pace of the decrease in the annual WPI inflation rate gradually abated, and the decline was only 0.01 percent in December.

Broken down by the three major components of the WPI, the annual rates of change in prices for imports, domestic sales excluding imports, and exports continued their downward trends in 2013 owing to lower international commodity prices.

Import prices decreased by 4.81 percent in US dollar terms in 2013. However, as the NT dollar slightly depreciated against the US dollar over 2013, the annual rate of change in import prices decreased by 4.45 percent in NT dollar terms. The decline in import prices was mainly led by the falling prices of imported raw materials, such as glass, coal, copper, crude petroleum and liquefied natural gas. In addition, import prices were dragged down by declining import costs of machinery

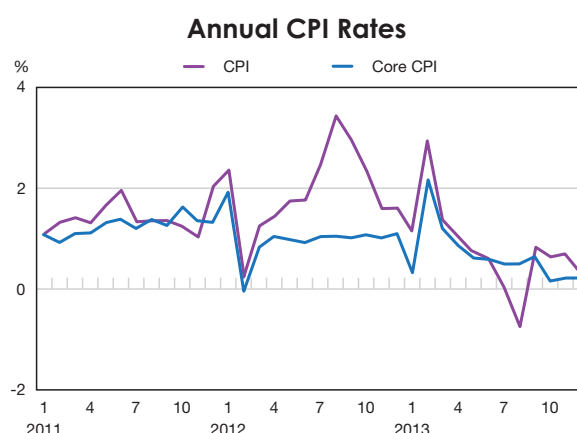
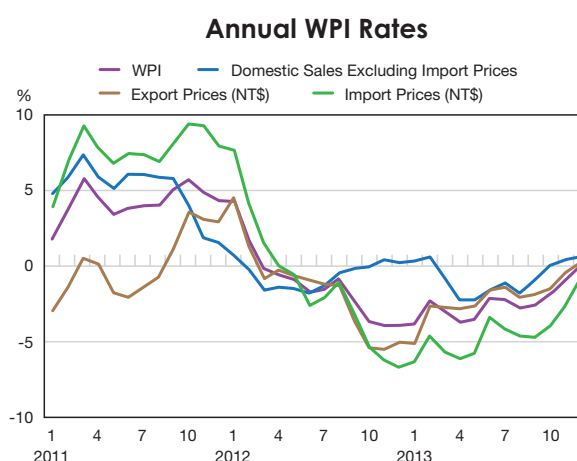
and equipment from Japan as a result of the depreciation of the Japanese yen. Among the components of import prices, prices of raw materials, capital goods and consumer goods fell by 3.94 percent, 7.80 percent and 3.20 percent, respectively, and accounted for 3.08 percentage points, 1.03 percentage points, and 0.28 percentage points in the import price decrease, respectively.

Export prices in US dollar terms dropped by 2.43 percent in 2013. Owing to the mild depreciation of the NT dollar against the US dollar, export prices fell by 2.06 percent in terms of the NT dollar. In NT dollar terms, among the basic groups, prices of animal products accounted for the largest decline at 18.76 percent, mainly attributable to the falling prices of frozen fish. Prices of primary metals and articles thereof and mineral products both decreased by 3.77 percent.

Prices of domestic sales excluding imports went down 0.71 percent in 2013. Among product groups, prices of computer, electronics and optical products, primary metal products, and non-metallic mineral products decreased by 10.13 percent, 6.88 percent, and 5.15 percent, respectively. In contrast, prices of furniture and fixtures rose by 4.80 percent in the year owing to the rising prices of wooden and metallic furniture.

Mild Increase in Consumer Prices

The CPI rose by 0.79 percent in 2013, down from an increase of 1.93 percent in the previous year. Owing to an increase in prices of fuel, fruits and tour group fees, the annual rate of change in the CPI in the first quarter rose to 1.80 percent. From April onwards, monthly CPI inflation rates continued the downward trend and lowered to -0.78 percent in August, influenced by a higher base effect stemming from the fuel and the first-stage electricity price hikes and weather-related factors in the previous year. Subsequently, monthly CPI inflation rates went up, as prices of vegetables soared following typhoons and heavy rainfall and the second-stage electricity price increase which took effect in October.



The core CPI inflation rate was 0.66 percent in 2013. 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 pace of the core CPI slackened and slowed to 0.21 percent in December, owing to constrained private consumption caused by subdued growth in the domestic economy.

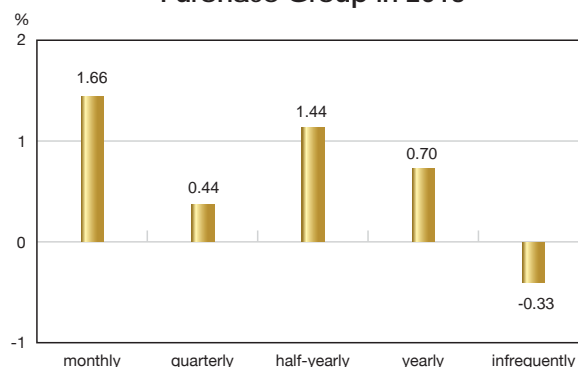
Compared with major economies, Taiwan's inflation remained low and stable during 2009 to 2013. Such an environment is conducive to maintaining the purchasing power of money and decreasing future economic uncertainties in order to help the general public arrange their economic activities such as production, consumption, saving and investment. This stable foundation should foster further economic growth.

Among the five components by frequency of purchase groups, the annual rate of change in prices of the most frequently purchased goods or services was pushed up by 1.66 percent due to a 1.27 percent rise in food prices that contributed 0.33 percentage points to CPI inflation.

The main factors contributing to the rise of CPI inflation in 2013 were as follows:

1. The rise in oil, electricity, and gas costs and higher raw food prices pushed up the prices of food away from home by 1.54 percent, contributing 0.16

CPI Inflation Rate by Frequency of Purchase Group in 2013



Source: Price Statistics Monthly, DGBAS, Executive Yuan.

Inflation Rates of Selected Countries

	2009	2010	2011	2012	2013	Average Annual Inflation Rate
World	1.64	2.87	4.10	3.23	2.98	2.96
United States	-0.32	1.64	3.14	2.08	1.47	1.60
Eurozone	0.24	1.51	2.55	2.32	1.29	1.58
Switzerland	-0.48	0.69	0.23	-0.69	-0.22	-0.09
Japan	-1.34	-0.70	-0.30	-0.03	0.03	-0.41
China	-0.70	3.32	5.40	2.65	2.62	2.66
Taiwan	-0.86	0.96	1.42	1.93	0.79	0.85
South Korea	2.76	2.95	3.99	2.21	1.32	2.64
Hong Kong	0.59	2.31	5.28	4.07	4.33	3.32
Singapore	0.59	2.83	5.25	4.53	2.39	3.12
Indonesia	4.81	5.13	5.36	4.28	6.98	5.31
Malaysia	0.58	1.73	3.17	1.66	2.11	1.85
Philippines	4.21	3.78	4.72	3.17	2.93	3.76
Thailand	-0.85	3.28	3.81	3.01	2.18	2.29
Vietnam	7.05	8.86	18.68	9.09	6.59	10.06

Sources : DGBAS; Global Insight.

percentage points to CPI inflation.

2. In line with the increase in tour group fees, prices of education and entertainment services rose by 1.12 percent, contributing 0.14 percentage points to CPI inflation.
3. Reflecting higher import prices for petroleum and natural gas, prices for domestic fuels and lubricants and gas rose by 2.70 percent and 4.29 percent and accounted for 0.10 and 0.05 percentage points in the CPI increase, respectively.
4. Owing to a shortage of supply caused by a bird flu outbreak, a ban on slaughtering poultry in traditional markets effective from May 17, and rising feed costs, prices of meat went up by 4.30 percent and accounted for 0.08 percentage points in the CPI increase.
5. With the supply constrained by typhoons and torrential rain in summer, prices of vegetables increased at an annual rate of 2.45 percent, contributing 0.06 percentage points to CPI inflation.
6. Prices of electricity moved up by 2.20 percent owing to the second-stage electricity price hike taking effect in October 2013 after the first hike launched in June 2012.

The main factors contributing to downward pressure on the CPI in 2013 were as follows:

1. Consumer electronics products retailers continued discount promotions because of slack domestic demand, causing a 1.84 percent decrease in the prices of durable consumer goods, such as equipment for communication, education and entertainment.
2. Prices of fruits fell by 2.58 percent owing to a higher base effect resulting from unfavorable weather conditions in the second half of 2012.

Percentage Changes in the Major Components of the CPI in 2013

Item	Annual Rate of Change (%)	Contribution to CPI Inflation Rate (Percentage Point)
CPI	0.79	0.79
Food away from Home	1.54	0.16
Education & Entertainment Services	1.12	0.14
Residential Rent	0.68	0.12
Fuels & Lubricants	2.70	0.10
Meat	4.30	0.08
Vegetables	2.45	0.06
Electricity	2.20	0.05
Gas	4.29	0.05
Fish & Shellfish	2.49	0.04
Tobacco & Betel Nuts	3.54	0.04
Total		0.84
Durable Consumer Goods	-1.84	-0.14
Fruits	-2.58	-0.06
Total		-0.20
Others		0.15

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

5. Public Finance of the Central Government

For the year 2013, with central government revenue increasing by 3.7 percent while expenditure contracted by 1.4 percent, overall central government finances remained in deficit for the fifth consecutive year, but the deficit narrowed to NT\$125.9 billion from NT\$214.1 billion in 2012.

Growth in Central Government Revenue

In 2013, central government revenue increased by NT\$62.1 billion to NT\$1,730.4 billion. Tax revenue remained the major source of central government revenue, followed by surpluses of public enterprises and public utilities, with respective shares of 70.4 percent and 14.5 percent of the total revenue.

The growth in central government revenue was mainly because the fees, fines and indemnities increased significantly by NT\$89.1 billion, resulting predominantly from the higher-than-expected total bid price for Taiwan's fourth generation (4G) mobile communication services. Of the components of tax revenues, income tax revenue decreased by NT\$15.0 billion, because of less profits made by enterprises in the prior year. Revenue from securities transactions tax decreased by NT\$0.5 billion over the previous year, affected by still weak local stock markets. However, business tax revenue

Total Revenue and Expenditure of the Central Government

Unit: NT\$ Billion

Year	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013*
Total Revenue	1,368.2	1,464.5	1,546.4	1,635.5	1,640.9	1,553.7	1,497.4	1,671.3	1,668.3	1,730.4
(Ratio to GDP ; %)	12.0	12.5	12.6	12.7	13.0	12.4	11.0	12.2	11.9	11.9
Total Expenditure	1,564.8	1,567.0	1,529.8	1,552.0	1,617.7	1,714.8	1,654.4	1,734.4	1,882.4	1,856.3
(Ratio to GDP ; %)	13.8	13.3	12.5	12.0	12.8	13.7	12.2	12.7	13.4	12.7
Surplus/Deficit	-196.6	-102.5	16.6	83.5	23.2	-161.1	-157.0	-63.1	-214.1	-125.9
(Ratio to GDP ; %)	-1.7	-0.9	0.1	0.6	0.2	-1.3	-1.2	-0.5	-1.5	-0.9
Debt Repayment	56.1	64.1	65.0	6.0	65.0	65.0	66.0	66.0	94.0	77.0
Financing:	253.5	167.3	63.9	0.0	41.8	226.1	224.2	129.1	308.1	202.9
Debt Financing	253.5	167.3	63.9	0.0	0.0	164.5	224.2	129.1	288.1	202.9
Surplus of Previous Fiscal Years	0.0	0.0	0.0	0.0	41.8	61.6	0.0	0.0	20.0	0.0
Memorandum:										
Tax Dependency Ratio**(%)	58.6	68.1	71.5	77.9	76.8	61.3	65.4	69.4	64.9	65.6
Debt Dependency Ratio***(%)	16.2	10.7	4.2	0.0	0.0	9.6	13.6	7.4	15.3	10.9

Notes: * The figures for 2012 and the previous years are final audit accounts; the figures for 2013 are final accounts.

** 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.

increased by NT\$12.9 billion, mainly owing to the growth in consumption. As a result, overall tax revenue decreased by NT\$4.0 billion over the previous year. Moreover, in terms of surpluses of public enterprises and public utilities, a decrease of NT\$11.4 billion was recorded for 2013, mainly caused by continuous losses in some public enterprises.

Reduction in Central Government Expenditure

Central government expenditure decreased by NT\$26.1 billion over the previous year to NT\$1,856.3 billion in 2013 after two consecutive years of increases. The contraction was primarily led by a decline of NT\$16.0 billion in general subsidies and other expenditure, resulting from a reduction in general and specific subsidies for local government units. The second largest decrease was a NT\$14.4 billion decline in national defense, mainly owing to less expenditure on barrack reconstruction. However, social welfare continued its expansion with an increase of NT\$19.0 billion because expenditure on the government's legal obligations for social insurance programs, such as subsidies for national pension, labor insurance, and national health insurance, grew.

In terms of share in total government expenditure, social welfare, and education, science and culture remained the top two categories, accounting for 23.7 percent and 19.2 percent, respectively, followed by national defense with 15.6 percent.

As the decrease in government expenditure was larger than that in tax revenue, the ratio of tax revenue to government expenditure, denoted by the tax dependency ratio, rose to 65.6 percent in 2013 from 64.9 percent in 2012.

Total Revenue and Expenditure of the Central Government by Category

Unit: NT\$ Billion

Year	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013*
Total Revenue	1,368.2	1,464.5	1,546.4	1,635.5	1,640.9	1,553.7	1,497.4	1,671.3	1,668.3	1,730.4
Taxes	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	1,218.1
Surpluses of Public Enterprises and Public Utilities	282.2	243.4	289.1	271.5	253.4	318.7	264.8	264.7	262.5	251.1
Fees, Fines and Indemnities	76.1	79.0	79.0	81.1	83.1	78.1	81.6	81.0	108.2	197.3
Proceeds from Sales of Properties and Recalled Capital	70.3	52.6	58.5	51.3	40.0	53.7	46.7	64.0	60.1	52.2
Others	23.0	21.7	25.5	22.9	21.4	51.6	21.9	58.2	15.4	11.7
Total Expenditure	1,564.8	1,567.0	1,529.8	1,552.0	1,617.7	1,714.8	1,654.4	1,734.4	1,882.4	1,856.3
General Administration	164.1	165.5	167.3	168.2	173.0	168.8	170.2	176.4	176.2	172.7
National Defense	248.9	248.5	237.1	256.7	282.4	291.2	276.8	284.2	303.4	289.0
Education, Science and Culture	302.1	301.5	303.1	308.7	310.4	326.4	342.7	356.2	358.9	355.9
Economic Development	248.9	247.0	197.0	193.3	201.3	244.4	194.5	217.1	263.9	258.3
Social Welfare	279.8	285.7	303.3	305.1	298.4	320.2	327.4	348.5	420.1	439.1
Community Development & Environmental Protection	24.8	25.2	20.4	19.4	13.5	21.4	9.0	6.6	15.9	15.9
Retirement & Compassionate Aid	123.1	130.5	134.7	134.6	133.8	133.4	134.5	138.5	138.3	132.8
Interest Payments	127.1	117.9	125.2	124.0	117.4	116.7	109.8	111.8	114.5	117.4
General Subsidies and Other Expenditure	46.0	45.2	41.7	42.0	87.5	92.3	89.5	95.1	91.2	75.2

Note: * The figures for 2012 and the previous years are final audit accounts; the figures for 2013 are final accounts.

Sources: 1. DGBAS, Executive Yuan.

2. Department of Statistics, MOF.

In sum, the ratio of central government expenditure to GDP declined from 13.4 percent in the previous year to 12.7 percent. The ratio of the fiscal deficit to GDP also decreased from 1.5 percent in 2012 to 0.9 percent in 2013.

Less Demand for Debt Financing

The demand for debt financing decreased in 2013 in line with the shrinkage of the fiscal deficit. The NT\$125.9 billion fiscal deficit and a NT\$77.0 billion debt principal repayment combined to represent a need for the central government to finance NT\$202.9 billion for 2013. This amount was wholly raised through issuing government bonds and borrowing from banks. The debt dependency ratio (i.e., the ratio of annual government bond issuance and borrowing from banks to total government expenditure) declined from 15.3 percent to 10.9 percent in 2013.

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\$153.3 billion over the previous year end, amounting to NT\$5,164.0 billion at the end of 2013. Furthermore, the ratio of outstanding central government debt to GDP declined slightly from the previous year's 35.6 percent to 35.5 percent in 2013.

Public Debt of the Central Government

Unit: NT\$ Billion

End of Year	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013*
Outstanding Debt	3,362.1	3,549.9	3,623.0	3,718.5	3,778.7	4,127.2	4,537.7	4,764.0	5,010.7	5,164.0
(Ratio to GDP : %)	29.6	30.2	29.6	28.8	29.9	33.1	33.5	34.8	35.6	35.5

Note: * The figures for 2012 and the previous years are final audit accounts; the figures for 2013 are final accounts.

Sources: 1. DGBAS, Executive Yuan.

2. National Treasury Administration, MOF.

6. Labor Market

In 2013, the unemployment rate continued to decline gradually. It was 4.06 percent in May, the lowest since August 2008. The unemployment rate climbed up from June to August as more fresh graduates sought job opportunities around the graduation season. As this seasonal effect disappeared after August, the unemployment rate started to decline again and reached 4.08 percent in December. For the year as a whole, the unemployment rate averaged 4.18 percent. Although labor market conditions continued to improve, structural unemployment persisted. The unemployment rates of youth and highly educated persons both remained high. Skill mismatch is still a major issue in Taiwan's labor market.

The labor participation rate increased to 58.43 percent, 0.08 percentage points higher than that in 2012 and also the highest since 1997. The female labor participation rate increased for the fourth consecutive year to 50.46 percent, indicating continuing improvement in the work environment for females, while the male labor participation rate dropped to 66.74 percent.

Annual average employment was 10.97 million persons in 2013, a 0.99 percent increase from 2012. Employment in the industrial and services sectors continued to grow at 0.77 percent and 1.21 percent, respectively. Employment in the agricultural sector remained the same as that in 2012.

Monthly earnings per worker in the non-farm sector (the industrial and services sectors) averaged NT\$45,965 in 2013. It was a slight increase of 0.17 percent from 2012. However, after adjustment for inflation, average real monthly earnings decreased by 0.62 percent.

As the increase in total production outpaced that in total working hours, labor productivity of the industrial sector and the manufacturing industry increased by 0.09 percent and 0.03 percent, respectively. Unit labor cost in the industrial and manufacturing sectors, on the other hand, increased by 0.14 percent and 0.27 percent, respectively.

Employment Continued to Grow

Annual average employment in 2013 was 10.97 million, an increase of 107 thousand or 0.99 percent from the previous year.

In terms of employment by major sectors, employment in the agricultural sector in 2013 maintained the same level as that in the year before. Employment in the industrial sector increased by 30 thousand persons or 0.77 percent. Within this sector, construction and manufacturing employment increased by 16 thousand and 13 thousand people, respectively. Employment in the services sector grew by 77 thousand persons or 1.21 percent. Broken down further, employment in accommodation

and food services increased by 25 thousand, while wholesale and retail services employed 17 thousand more persons. Overall, services sector employment accounted for 58.89 percent of total employment, up by 0.14 percentage points. The employment ratios of agriculture and the industrial sector were 4.96 percent and 36.16 percent, respectively, both slightly down from the year before.

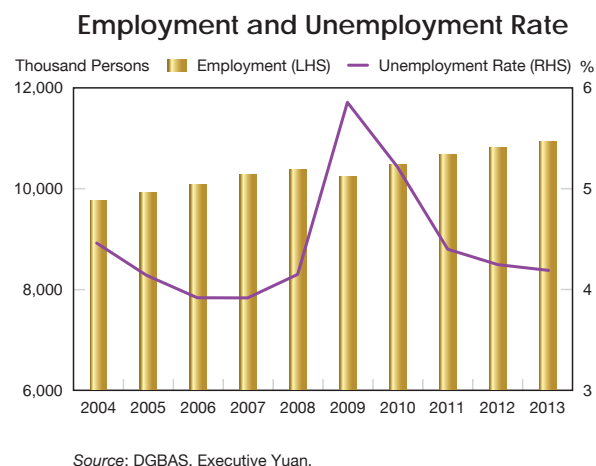
In terms of employed persons by occupation, employment of professionals saw the largest increase of 42 thousands or 3.38 percent. Services and sales workers came second with an increase of 37 thousands or 1.74 percent. On the other hand, employment of legislators, executive officers, and managers decreased by 18 thousand or 4.18 percent. While skilled workers and machine operators combined to account for the largest share of total employment at 31.32 percent, the ratio of employment of professionals to total employment increased the most to 11.73 percent, up by 0.27 percentage points, indicating a higher demand for professionals due to structural change.

Unemployment Rate Dropped

The unemployment rate exhibited a slow downward trend in early 2013. It dropped to 4.06 percent in May, the lowest since August 2008. The unemployment rate climbed up from June to August as more students fresh from graduation sought job opportunities. As the seasonal effect disappeared after August, the unemployment rate started to decline again and reached 4.08 percent in December. For the year as a whole, the average unemployment rate was 4.18 percent, the lowest in the recent five years.

While the unemployment rate decreased in 2013, unemployment duration increased to 26.18 weeks, slightly higher than the year before by 0.14 weeks. The average number of the long-term unemployed (those who were unemployed for 53 weeks or more), however, declined to 75 thousand people, a decrease of 2 thousand persons over the previous year. Males made up 60.81 percent of the long-term unemployed, of which 67.08 percent were in the group aged between 25 and 44 and 54.21 percent held a college degree or above. This indicates those aged 25-44 and those with high education remained the main constituents of the long-term unemployed group.

Total unemployment decreased by 3 thousand people or 0.54 percent from the year before, mainly because there was a decrease by 6 thousand people or 12 percent in involuntary unemployment associated with the conclusion of seasonal or temporary work. As a consequence, the ratio of such

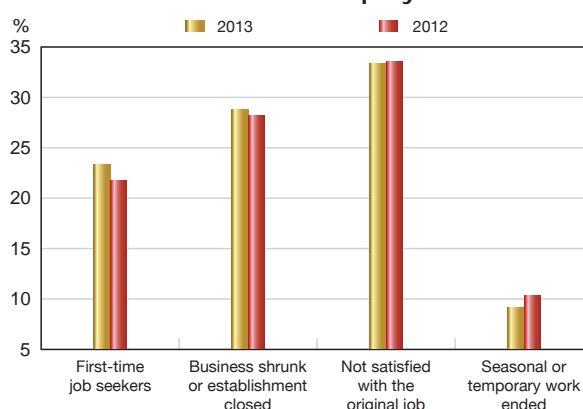


unemployment to total unemployment dropped to 9.17 percent, compared to 10.42 percent of the previous year. People who quit their jobs in search of other job opportunities made up a major portion of the unemployed, but the ratio slightly dropped, for the first time since 2010, to 33.59 percent, indicating lower willingness to change jobs amid a tepid economy.

In terms of age, the unemployment rate of the age group of 15-24 increased by 0.51 percentage points to 13.17 percent, still the highest among all age groups. Insufficient job experiences as well as gaps between school learning and occupational requirements were the main reasons behind the high proportion of unemployment of this age group. The unemployment rates of the age groups 25-44 and 45-64 were 4.27 percent and 2.25 percent, respectively, representing year-on-year declines of 0.11 and 0.06 percentage points.

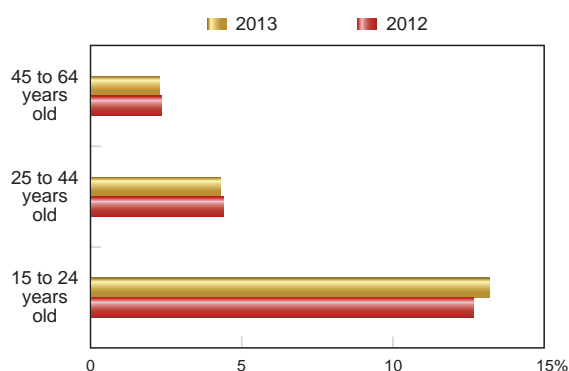
In terms of educational background, while the unemployment rate of people with a college degree or above decreased to 4.50 percent, the number of unemployed of this group increased by 3.8 thousand persons or 1.62 percent. It indicates skill mismatch of highly educated labor was still a major issue. On 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 3.53 percent, while that of those with a middle high school or vocational school degree decreased to 4.11 percent.

Causes of Unemployment



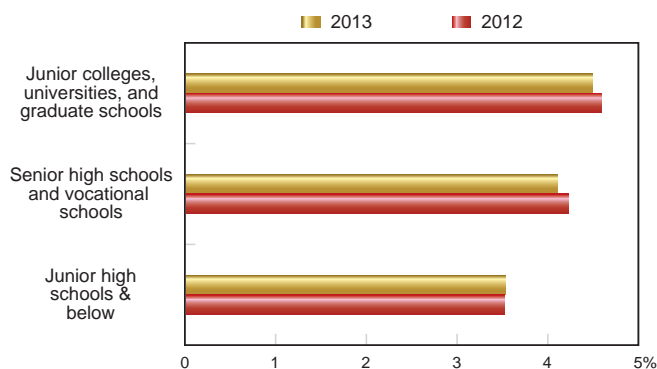
Source: DGBAS, Executive Yuan.

Unemployment Rate by Age



Source: DGBAS, Executive Yuan.

Unemployment Rate by Educational Background



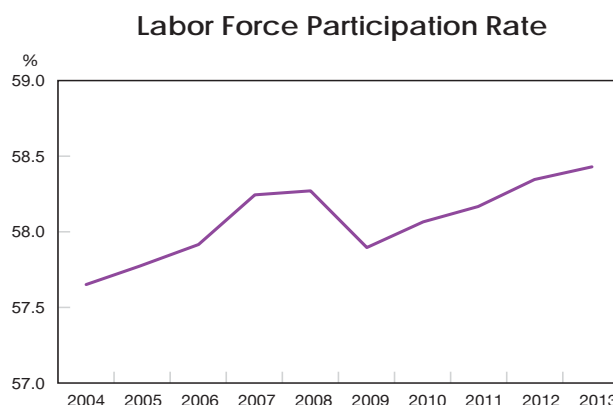
Source: DGBAS, Executive Yuan.

Labor Force Participation Rate Slightly Rose

The labor force rose by 0.92 percent to 11.45 million in 2013, as more people were willing to join the labor market. Total employment amounted to 10.97 million, with an annual growth rate of 0.99 percent, while the number of these unemployed dropped by 0.54 percent to 478 thousand people.

For the entire year, the labor force participation rate averaged 58.43 percent, 0.08 percentage points higher than the year before. In terms of gender, the male labor force participation rate decreased by 0.09 percentage points from the preceding year to 66.74 percent, while the female rate continued to rise by 0.27 percentage points to 50.46 percent. This indicates the female labor force is playing a gradually greater role in economic development as the government continues to improve the working environment and promote gender equality. Labor participation rates of all age groups went up, with the rate of the group aged 15-24 posting the largest increase of 0.50 percentage points to 29.58 percent. In terms of educational background, the labor participation rate for the working population with a degree of junior high school or below registered the largest increase of 0.25 percentage points to 41.50 percent. However, labor participation rates for those with a high school education or above dropped.

The non-labor force population in 2013 reached 8.14 million, representing an increase of 46 thousand persons or 0.57 percent compared to the year before. The ratio of people in school or preparing for higher education to total non-labor force decreased by 0.56 percentage points to 26.11 percent. On the other hand, the ratio of the elderly and the disabled to total non-labor force rose by 0.28 percentage points to 29.99 percent, a sign that Taiwan's society is increasingly aging.



Source: DGBAS, Executive Yuan.

Real Earnings of Non-farm Workers Decreased

In 2013, the average monthly earnings per worker of the non-farm sector reached NT\$45,965, a 0.17 percent increase from the year before. However, after adjustment for inflation, the average real monthly earnings decreased by 0.62 percent, indicating the nominal increase in earnings was outpaced by prices.

In terms of major sectors, the average monthly earnings of industrial sector workers increased

by 0.14 percent over the previous year to NT\$44,342 per worker, while their real earnings decreased by 0.65 percent. Meanwhile, the average monthly earnings per worker of the services sector increased by 0.17 percent to NT\$47,311, but their real earnings also went down 0.62 percent.

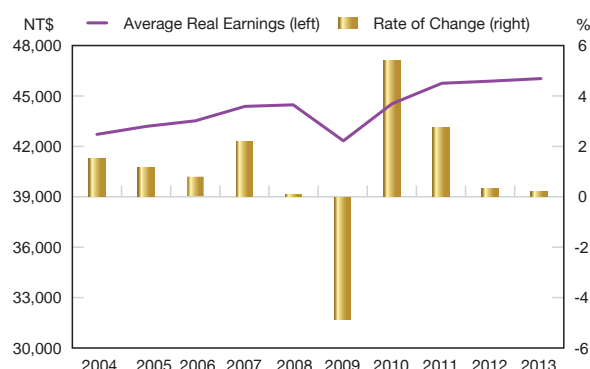
In terms of real regular monthly earnings per worker, the industrial sector registered an increase of 0.33 percent, while the services sector posted an increase of 0.05 percent. Together, the two sectors exhibited a 0.19 percent increase in their real regular monthly earnings compared with the previous year.

A further breakdown showed the earnings of the apparel and clothing accessories manufacturing industry experienced the largest decrease in real terms, at 7.38 percent, while the printing and reproduction of recorded media industry saw the largest increase in real earnings at 5.46 percent.

Labor Productivity Slightly Went Up

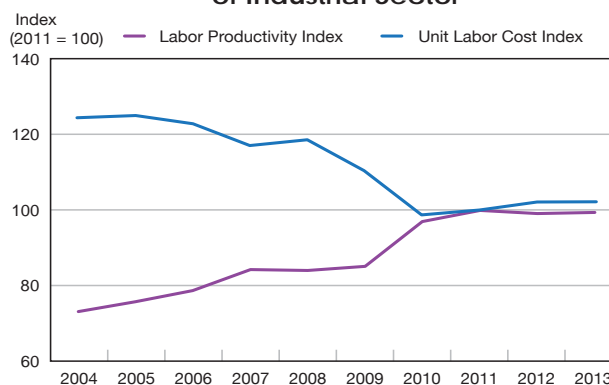
As the increase in total production outpaced that in total working hours, labor productivity of the industrial sector and the manufacturing industry increased by 0.09 percent and 0.03 percent, respectively. The petroleum and coal products manufacturing sector registered the largest increase in labor productivity of 7.52 percent. Since the increase in earnings outpaced that in production, unit labor cost of the industrial and manufacturing sectors increased by 0.14 percent and 0.27 percent, respectively. The wood and bamboo products manufacturing sector experienced the largest increase in unit labor cost of 13.39 percent, while the sector of computers, electronic and optical products manufacturing came second with an increase of 10.84 percent.

Average Real Earnings of Non-farm Workers and Their Rate of Change



Source: DGBAS, Executive Yuan.

Labor Productivity and Unit Labor Cost of Industrial Sector



Source: DGBAS, Executive Yuan.

