

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.