Developments in the Real Economy

I. Developments in the Real Economy

1. Overview

As the global economy experienced a moderate recovery, Taiwan's GDP growth reached 3.74 percent in 2014, compared to 2.23 percent the year before. The economy registered record-high levels of current account surplus and financial account net outflow for the year as a whole, and the balance of payments showed a steady surplus of US$13,015 million.

The uptrend in food prices due to supply-side factors (such as weather-induced disruptions and piglet infection) was partially offset because fuel costs were depressed by plunging global oil prices in the second half of the year and prices of consumer electronics also kept falling. For the year of 2014, the annual CPI growth rate posted a mild increase from the previous year's 0.79 percent to 1.20 percent. Although the economic pickup significantly bolstered tax revenue in 2014, a considerable decrease in revenue from fees collected led central government finances to post a slightly wider deficit of NT$127.7 billion. Labor market conditions continued to improve. Employment kept growing, and the unemployment rate averaged 3.96 percent for the year, the lowest since 2008. Growth in real monthly earnings reached a four-year high of 2.36 percent.

Steady Economy Growth

In the first three quarters of 2014, a moderate global recovery accelerated the growth momentum for Taiwan's exports of electronics, machinery, and basic metals. In addition, semiconductors and airliners increased their capital expenditure. Against such a backdrop, both private consumption and investment gathered pace, bolstering the GDP growth rate to trend up steadily and reach 4.32 percent in the third quarter. However, in the fourth quarter, food safety concerns dampened consumer spending and private investment slowed on account of a higher base, dragging the economic growth rate down to 3.35 percent. For the year as a whole, the economy expanded by 3.74 percent, the highest among the four Asian tigers.

In terms of GDP components by expenditure, domestic demand grew 3.37 percent owing to stronger pickups in government and private consumption and steady growth in private investment. Domestic demand and net external demand contributed 3.07 and 0.67 percentage points to the annual economic growth rate, respectively, higher than 1.86 and 0.37 percentage points a year earlier.

As for the sectoral components of GDP, the industrial and services sectors both registered higher growth over the previous year, contributing 1.88 and 1.53 percentage points, respectively. The agriculture, forestry, fishing and animal husbandry industries contributed only 0.06 percentage points to overall economic growth.

Healthy BOP Surplus

In 2014, the current account surplus and the net outflow in the financial account both continued to reach historical highs. Overall, the balance of payments posted a favorable surplus of US$13,015 million, greater than US$11,318 million the previous year.

In the current account, the goods trade surplus widened to US$41,488 million, reflecting a larger increase in exports over imports. The services account surplus grew to US$11,164 million, mainly accounted for by increases in travel receipts and net proceeds from merchanting. The income account recorded a surplus of US$15,472 million, mainly owing to rises in banks' interest income and residents' outward direct investment. The deficit on the current transfers balance shrank to US$2,789 million. Overall, the current account surplus grew by 18.2 percent to US$65,335 million, representing a greater share of 12.3 percent in GDP from the previous year's 10.8 percent.

The net outflow in the financial account increased to US$53,046 million, mostly because of a record-high portfolio investment net outflow. Among which, the US$57,105 million net outflow in residents' portfolio investment abroad was mainly attributable to increased securities investment overseas by insurance companies, while non-residents' portfolio investment registered a net inflow of US$12,895 million mainly owing to stronger stock buying by foreign investors. Direct investment abroad exhibited a net outflow of US$12,597 million, with Mainland China still the primary investment destination. Other investment turned into a net inflow of US$639 million as the private sector withdrew overseas deposits.

Mild Inflation

As weaker global demand drove raw material prices lower, Taiwan's import prices in NT dollar terms dropped by 2.10 percent in 2014 over the previous year. Consequently, WPI growth declined by 0.57 percent.

In terms of consumer prices, food prices were pushed up by supply-side factors, such as unfavorable weather conditions and a piglet disease outbreak. However, the increase was partially offset as fuel became cheaper amid international oil price slumps, and consumer electronics continued with a low price promotion strategy. For the year as a whole, the CPI went up by 1.20 percent, higher than the 0.79 percent of the previous year, while core CPI (excluding prices of fruits, vegetables, and energy) rose by 1.26 percent, higher than 0.66 percent a year before.

Slightly Wider Central Government Deficit

In 2014, the central government deficit widened slightly from NT$125.4 billion to NT$127.7 billion, as the reduction in revenue exceeded that in expenditure.

Tax revenue grew by 10.3 percent with rising corporate profits amid an economic pickup, constituting nearly 80 percent of total central government revenue. Fees, fines and indemnities also fell substantially by 57.6 percent as a result of a higher base with receipts from 4G mobile service license fees in the previous year.

On the expenditure side, a decrease in central government expenditure was mainly attributable to reduced spending on social welfare. By category, expenditure on social welfare remained the largest component of government spending with a share of 22.2 percent.

Despite a slightly wider deficit, debt financing needs softened to NT$191.7 billion as debt principal repayment contracted to NT$64.0 billion.

At the end of 2014, the total outstanding debt of the central government posted a new high of NT$5,373.9 billion. This represents a ratio of 36.5 percent to the average nominal GDP for the previous three fiscal years, still under the statutory limit of 40.6 percent.

Falling Unemployment Rate; Wage Growth at Four-Year High

The unemployment rate exhibited a broad downtrend throughout 2014 and reached 3.79 percent in December, the lowest since March 2007. For the year as a whole, the unemployment rate averaged at a low of 3.96 percent, unseen since 2008.

The average number of employed persons totaled 11.08 million in 2014, 112 thousand or 1.02 percent more than the previous year. Employment in the services sector increased by 68 thousand workers, or 1.06 percent, the highest among all sectors. The industrial sector hired 39 thousand more persons, an increase of 0.98 percent.

Average non-farm (industrial and services sectors) monthly earnings rose by 3.58 percent year on year to NT$47,300. The average monthly regular earnings of non-farm employees increased by

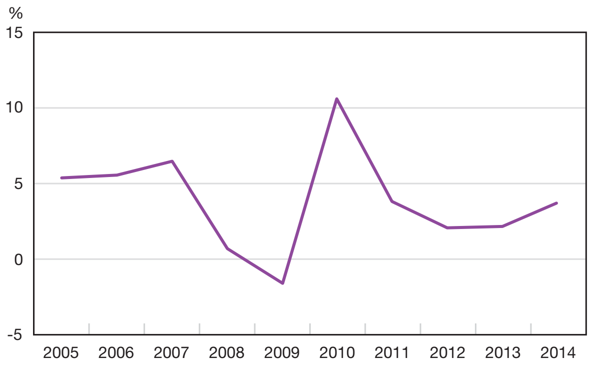
1.81 percent to NT$38,208. After adjustment for inflation, real monthly earnings grew by 2.36 percent, and real monthly regular earnings saw a four-year high increase of 0.61 percent. For the industrial sector and the manufacturing industry, labor productivity indices went up by 3.81 percent and 4.12 percent, respectively, over the previous year. Unit labor costs decreased owing to faster growth in production over total earnings, down by 1.09 percent for the industrial sector and 1.40 percent for the manufacturing industry.

2. National Output and Income

In 2014, Taiwan's economic recovery strengthened and real GDP registered a three-year high growth of 3.74 percent along with the revival in domestic demand and a robust expansion in exports. Private consumption grew firmly owing to a buoyant stock market, a modest wage increase and an improving employment situation. Fixed capital formation progressively picked up as domestic sectors, especially semiconductors, telecommunications and aviation continued to expand capital outlays. Thanks to a solid increase in global demand, exports of electronic products, machinery, and basic metals and articles thereof to major trade partners advanced briskly, providing further support to domestic economic activity throughout the year. In line with continuing economic recovery, per capita GNI in nominal terms, for the year as a whole, climbed by 3.90 percent to US$23,390.

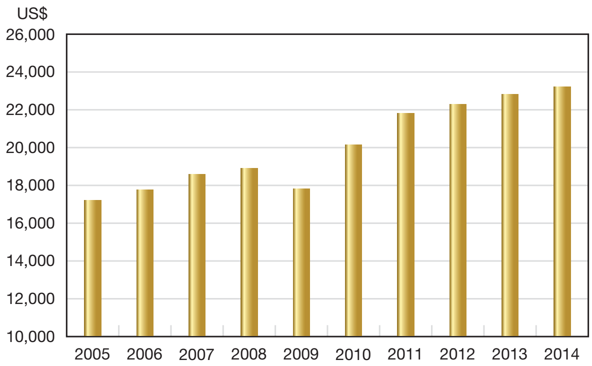
Resulting from increasing strength in economic activity at home and abroad in the first three quarters and a modest slowdown in domestic demand in the last quarter, year-on-year quarterly growth rates for real GDP exhibited an inverted V-shaped pattern during the year. In the first quarter, the GDP growth rate grew by 3.41 percent mainly because of robust growth in exports and private consumption. During the second quarter, the improvement in domestic and global economic conditions intensified momentum of GDP growth. As the pace of recovery among advanced economies accelerated, which lifted both consumer and business sentiment, growth in domestic demand picked up accordingly. The second quarter's GDP growth ascended to 3.87 percent, mainly attributed to increased travel and retail sales as well as expansion in private investment. In the third quarter, strong external demand boosted exports and drove domestic demand to rise. Moreover, improving labor market conditions together with a surge in the stock market bolstered private

Real Growth Rate of GDP



Source: *Statistical Abstract of National Income*, DGBAS, Executive Yuan, February 2015.

Per Capita GNI



Source: *Statistical Abstract of National Income*, DGBAS, Executive Yuan, February 2015.

consumption demand, encouraging capital expenditures, such as semiconductor manufacturers' continuing investment in advanced technologies and telecom companies' gradual build-up of the 4G LTE system. Since growth in consumer spending, business investment and exports all gathered pace, real GDP growth rose to 4.32 percent for the third quarter, the highest level in the year. In the fourth quarter, the real GDP growth rate edged down to 3.35 percent, attributable to the slowdown in private consumption affected by food safety issues (involving tainted lard) and the decline in investment resulting from concerns about slowing economic growth in emerging markets such as China.

Expenditure Components of GDP

All expenditure components of GDP contributed positively to GDP growth in 2014. Private consumption was the primary source of economic growth, posting the largest contribution of 1.60 percentage points for the year. Growth in gross fixed capital formation exhibited an uneven pace over the year, contributing 0.38 percentage points to GDP growth. With rising global demand, both imports and exports strengthened, leading net exports to contribute 0.67 percentage points to economic growth. Meanwhile, growth in government consumption moved from negative to positive territory and further boosted GDP growth by 0.49 percentage points. In terms of shares of GDP, exports of goods and services remained to account for the largest share of GDP at 69.98 percent, followed by private consumption at 53.2 percent and gross fixed capital formation at 21.57 percent for the year.

(1) Steady Growth in Private Consumption

In 2014, private consumption increased by 2.96 percent in real terms and contributed 1.60

Expenditure on Gross Domestic Product

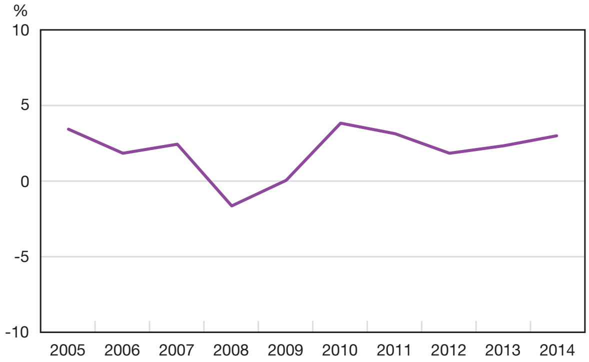
Unit: %

	2014			2013		
	Share	Real Growth Rate	Contribution to Real Growth Rate of GDP*	Share	Real Growth Rate	Contribution to Real Growth Rate of GDP*
Private Consumption	53.20	2.96	1.60	54.20	2.35	1.29
Government Consumption	14.45	3.35	0.49	14.63	-1.15	-0.18
Gross Fixed Capital Formation	21.57	1.74	0.38	22.15	4.98	1.11
Change in Inventory	0.33	-	0.59	-0.07	-	-0.36
Exports of Goods and Services	69.98	5.70	3.96	69.51	3.51	2.48
(Less : Imports of Goods and Services)	59.53	(5.44)	(3.29)	60.41	(3.34)	(2.10)
Expenditure on GDP	100.00	3.74	3.74	100.00	2.23	2.23

Note: * Percentage point.
Source: *Statistical Abstract of National Income*, DGBAS, Executive Yuan, February 2015.

percentage points to GDP growth. Overall consumer spending grew at a solid pace owing to a substantial increase in financial wealth from the stock market and a continuing boost in consumer confidence as a result of faster-than-anticipated economic recovery and improvement in labor market conditions.

Real Growth Rate of Private Consumption Expenditure



Source: *Statistical Abstract of National Income*, DGBAS, Executive Yuan, February 2015.

While real wage growth was sluggish in the first quarter, private consumption, driven by consumers' needs to replace aging vehicles, soild tourism activity and an increase in spending on retail goods, continued to grow steadily at 2.37%. In the second quarter, a further upsurge in the stock market as well as more willingness of enterprises to raise salaries lifted consumer sentiment, and thus consumer expenditures expanded by 3.30%. Along with the improvement in economic activity, a decrease in the unemployment rate and the wealth effect arising from a stock price upswing, private consumption was strengthened by an increase in demand for transportation, leisure activities and retail sales, and it registered a noticeable growth of 3.76 percent in the third quarter. Thereafter, the favorable wealth effect resulting from the stock market and continued expansion in tourism was offset by a significant drop in consumer spending on account of food safety concerns, and thus private consumption growth fell to 2.39 percent in the last quarter.

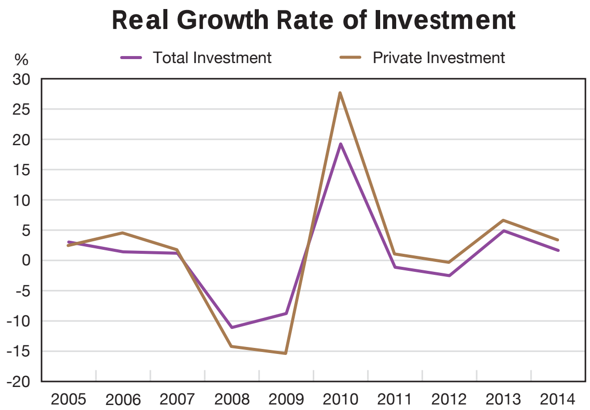
(2) Mild Growth in Fixed Capital Formation

For the year of 2014, capital outlays continued to advance steadily in line with the intensifying momentum of economic recovery, the launch of mobile devices that benefited domestic supply chains, and business opportunities brought by the Internet of Things (IoT). Fixed capital formation grew at an annual rate of 1.74 percent in real terms, contributing 0.38 percentage points to GDP growth.

While economic activity turned up progressively, growth in fixed capital formation showed swings over the year on account of a higher base effect. In the first half of the year, fixed capital outlays increased steadily as the semiconductor industry continued capacity expansion in advanced manufacturing and airline companies enlarged capital spending on aircraft to meet rising air travel demand. However, because of a higher base effect, fixed capital formation registered lackluster growth rates of 0.94 percent and 1.63 percent, respectively, in the first two quarters. In the third quarter, on the back of mounting export orders for electronics products supported by strong global demand, capital spending in the semiconductor industry speeded up, driving growth in fixed capital formation to rise to 4.83 percent. In the fourth quarter, affected by concerns about economic slowdown in Mainland China and its active development of supply chain localization, fixed capital formation posted a negative 0.42 percent growth due in part to a higher base effect.

In 2014, capital outlays by type of purchaser displayed an uneven pace of growth as well. While investment by the private sector and public enterprises registered positive growth, investment by general government was on a downward trend and posted further contraction for the year. In the first half of the year, the private sector steadily expanded new investment in semiconductor production, 4G network building, and aircraft purchasing, and its gross fixed capital formation grew by 2.85 percent. On the back of better-than-expected economic performance, capital spending on semiconductors and electronic components and machinery significantly increased and the airline industry further expanded purchases of aircraft for the launch of new budget airlines, lifting private investment growth to 6.27 percent in the third quarter. However, weighed down by worries about the weak economic outlook in the eurozone and Japan and China's slowing economy, business sentiment slipped and hence growth in private investment dropped to 1.28 percent in line with a higher base effect in the last quarter. For the year as a whole, private investment increased by 3.36 percent, adding 0.59 percentage points to real GDP growth. Meanwhile, public investment in the areas of renewable energy and public utilities increased and pushed investment by public enterprises to rise by 4.40 percent, contributing 0.06 percentage points to GDP growth for the year. In contrast, government investment continued to shrink throughout all quarters because of a limited budget and fell by 8.22 percent for the year, subtracting 0.27 percentage points from economic growth.

In terms of the type of capital formation, bolstered by vigorous growth in global travel, the largest increase was observed in outlays on transportation, resulting from increased procurement of airliners. Outlays on transportation registered a significant growth of 18.52 percent for the year. Growth in investment in intellectual property products came in second. Despite some tightening policy initiatives to contain local housing prices, private investment in the construction sector continued to rise in 2014. However, such an increase was offset by a sharp decline in government investment in construction, which caused investment in the construction sector to grow only modestly by 1.52 percent. In addition, growth in investment in machinery and equipment fell to negative territory, posting a negative 1.59 percent growth for the year.



Source: *Statistical Abstract of National Income*, DGBAS, Executive Yuan, February 2015.

This contraction, particularly in the first half of the year, reflected a gentle pickup in capital expenditures in the private sector together with a higher corresponding comparison base in the previous year.

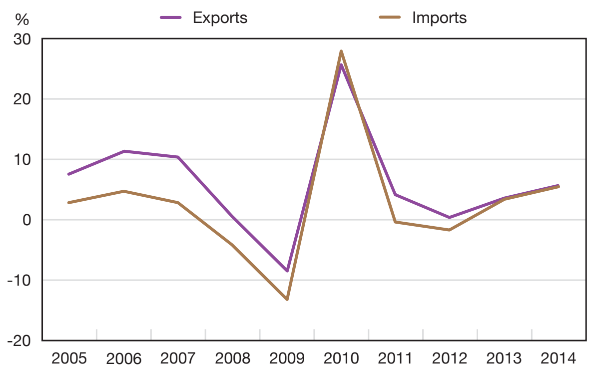
(3) Robust Growth in Exports and Imports

In 2014, exports of goods and services remained buoyant despite intense competition from the global market and China's active localization of the supply chain. With a faster-than-expected recovery in the US market, the release of iPhone 6 mobile devices, and an increase in IoT business opportunities, growth in exports kept trending upward, registering a four-year high growth rate of 5.70 percent and contributing 3.96 percentage points to economic growth for the year.

During the first two quarters, growth in exports of optical instruments, information and communications products, and mineral products all retreated, but a solid expansion in exports of electronics products, machinery, and basic metals and articles thereof led total exports to rise by 4.26 percent and 5.03 percent, respectively. Export growth in the third quarter sustained intensifying momentum from the second quarter and its pace accelerated to 7.62 percent as demand for electronics and mineral products strengthened and tourism service exports registered the third consecutive quarter of double-digit year-on-year growth. In the fourth quarter, owing to a slump in oil prices, exports of mining and petrochemical products experienced further contraction, dragging down growth in exports of goods and services to 5.74 percent.

In 2014, imports of goods and services expanded further and increased by 5.44 percent, subtracting 3.29 percentage points from economic growth. Since a great proportion of the import demand was derived from exports and capital formation, the growth trend of imports, similar to that of exports, moved upward in the first three quarters during the year. However, because of a contraction in capital outlays in the fourth quarter, growth in imports declined notably to 4.89 percent, down from the third quarter's 9.21 percent.

Real Growth Rates of Exports and Imports

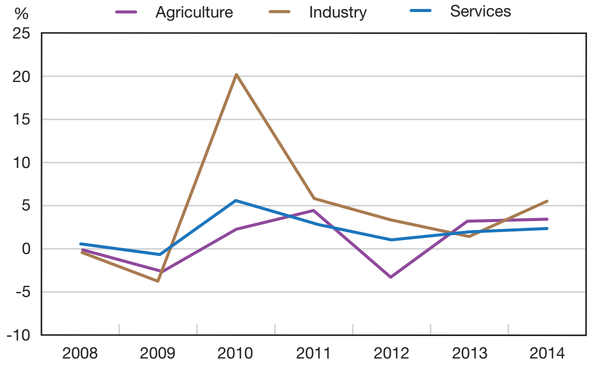


Source: Statistical Abstract of National Income, DGBAS, Executive Yuan, February 2015.

Sectoral Components of GDP

Looking at sectoral production in 2014, as growth momentum in economic activity resumed, all sectoral outputs advanced rapidly, recording higher growth rates than those in the previous year. Benefiting from improving economic conditions at home and abroad, industrial output grew strongly at 5.63 percent and became the key driver of economic growth, pitching in 1.88 percentage points to GDP growth. Services, accounting for the largest share of national output, continued to grow healthily and contributed 1.53 percentage points to economic growth for the year. Mainly attributed to an increase in external demand for agricultural products, output in the agricultural sector also added 0.06 percentage points to overall economic growth.

Sectoral Components of GDP



Source: *Statistical Abstract of National Income*, DGBAS, Executive Yuan, February 2015.

Regarding the sectoral shares of GDP in nominal terms, Taiwan's economy was dominated by the services sector with a 64.05 percent share in 2014. Driven by accelerating recovery in global demand, production in the industrial sector increased and its share of GDP rose to 34.07 percent, slightly higher than that in the previous year. Meanwhile, the ratio of agricultural output to GDP edged up to 1.88 percent.

Gross Domestic Product by Type of Activity

Unit: %

	2014			2013		
	Share	Real Growth Rate	Contribution to Real Growth Rate of GDP*	Share	Real Growth Rate	Contribution to Real Growth Rate of GDP*
Agriculture	1.88	3.49	0.06	1.70	3.45	0.06
Industry	34.07	5.63	1.88	33.20	1.62	0.54
Mining and Quarrying	0.11	-5.16	-0.01	0.10	-3.72	0.00
Manufacturing	29.08	6.34	1.80	28.37	1.54	0.44
Construction	2.73	1.71	0.05	2.71	2.50	0.07
Electricity and Gas Supply	1.54	0.96	0.04	1.35	3.45	0.03
Water Supply and Remediation Services	0.61	0.20	0.00	0.66	0.51	0.00
Services	64.05	2.38	1.53	65.10	2.20	1.44
Wholesale and Retail Trade	16.47	2.64	0.45	16.92	1.44	0.24
Transport and Storage	2.88	2.20	0.06	2.81	8.12	0.23
Information and Communications	2.92	1.40	0.04	3.07	2.93	0.09
Finance and Insurance	6.64	7.10	0.46	6.45	3.80	0.24
Real Estate and Ownership of Dwellings	8.25	0.71	0.06	8.52	2.54	0.22
Public Administration and Defense; Compulsory Social Security	6.79	0.03	0.00	7.05	-0.78	-0.06
Other Services	20.11	2.31	0.46	20.28	2.35	0.48
Gross Domestic Product	100.00	3.74	3.74	100.00	2.23	2.23

Note: * Percentage point.
Source: *Statistical Abstract of National Income*, DGBAS, Executive Yuan, February 2015.

(1) Moderate Performance in Agricultural Output

Agricultural production, including agriculture, forestry, fishing and animal husbandry industries, maintained a stable growth of 3.49 percent in 2014. The growth was associated with increased exports of agricultural products and food.

(2) Accelerating Growth in Industrial Output

The overall industrial sector, comprised of the industries of mining and quarrying, manufacturing, construction, and electricity, gas and water, grew rapidly with a significant increase in production by 5.63 percent. This brilliant performance in industrial output came largely from accelerating expansion in the manufacturing industry driven by buoyant exports throughout the year.

On the back of the recovering global economy and domestic consumption, manufacturing production witnessed an upsurge of 6.34 percent in 2014 and its output growth outperformed sectoral growth as well. Benefiting from a soaring demand for new mobile devices as well as the launch of new products, the IT industry recovered, boosting manufacturing production of computers, electronics and optical products, and electronic parts and components. Accordingly, the information and electronics industry recorded double-digit growth of 11.79 percent, the strongest since 2011. Likewise, output growth in motor vehicles and parts, and machinery and equipment improved along with the expansion in exports, and the production index of the metal and machinery industry went up by 6.21 percent for the year. In contrast, food, textile and other industries slightly rebounded by 1.55 percent and the production index of the chemical industry contracted by 0.54 percent under the negative impact of China's increasing capacity expansion in petrochemical products and the decrease in related product prices.

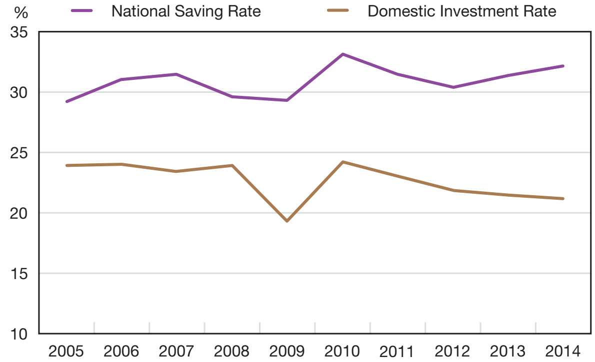
Affected by the softening real estate market, output growth in the construction industry moderated to 1.71 percent for the year. Meanwhile, output of mining and quarrying further shrank by 5.16 percent in 2014 owing to the decline in the production volume of sand and gravel.

(3) Mild Growth in the Services Sector

In 2014, services output continued to grow by 2.38 percent. The steady improvement in private consumption helped lift the growth in the services sector, of which finance and insurance as well as wholesale and retail trade services contributed significantly.

Resulting from increased interest revenue and fee income together with an upswing in the stock market from the second quarter onwards, finance and insurance services registered the largest growth in the services sector and grew by 7.10 percent for the year. Wholesale and retail trade services also posted an increase of 2.64 percent, up from the previous year's 1.44 percent growth, attributable to improving consumer confidence over the year. Transport and storage services continued to grow along with the increase in the number of visitors and export demand, but posted a moderate growth of 2.2 percent for the year owing to a higher comparison base. On the other hand, growth in real estate slowed down to 0.71 percent for the year because of the decline in housing transactions resulting from the government's continued efforts to curtail soaring housing prices.

National Saving Rate and Domestic Investment Rate



Source: *Statistical Abstract of National Income*, DGBAS, Executive Yuan, February 2015.

Further Rise in National Saving Rate

The national saving rate (the ratio of national saving to GNI measured at current prices) further rose from 31.35 percent in the previous year to 32.14 percent in 2014 as nominal national consumption (including both private consumption and government consumption expenditures) grew at a slower rate of 3.85 percent compared to the GNI growth rate of 6.23 percent. The relatively slow growth in nominal national consumption mainly resulted from the mild expansion in government and private consumption. Accordingly, the excess saving ratio, defined as the excess of national saving over gross domestic investment to GNI, climbed from 9.88 percent in 2013 to 10.96 percent in 2014, reflecting a greater increase in national saving than that in domestic investment.

3. Balance of Payments

In 2014, the current account registered a record of US$65,335 million surplus, which accounted for 12.3 percent of nominal GDP, up from 10.8 percent in the previous year, as a result of wider surpluses on the goods, services, and income accounts and a decrease in the current transfer deficit. The financial account posted a net outflow, which reached a new high of US$53,046 million as investment in overseas debt securities by residents exhibited unprecedented net outflows. Because the current account surplus was partly offset by the net outflow in the financial account, the overall balance of payments recorded a surplus of US$13,015 million, which was reflected in the increase in foreign reserve assets held by the CBC.

Wider Current Account Surplus

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

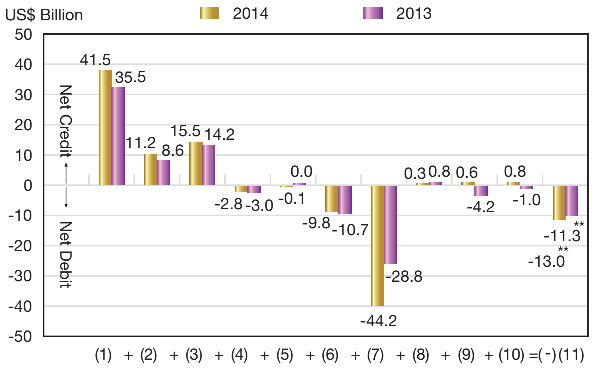
(1) Goods

Because an increase in electronics exports offset decreases in the volume and prices of mineral exports, the value of exports increased modestly by 2.7 percent to US$311,554 million. The value of imports increased by 0.9 percent to US$270,066 million, mainly accounted for by rising imports of consumer goods and capital equipment. As a result of a larger growth in exports over imports, the goods surplus widened to US$41,488 million in 2014, hitting a new high in history.

According to customs statistics, the top three export partners of Taiwan in 2014 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 57.4 percent of total exports. The top three import partners were Mainland China, Japan, and the US, with a combined share of 43.3 percent.

In terms of Taiwan's trade with Mainland China, the value of exports amounted to US$124,685 million in 2014, up by 2.9 percent

Balance of Payments



(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) 2014	(2) 2013	(1)-(2)
A. Current Account	65,335	55,257	10,078
Goods: exports f.o.b.	311,554	303,230	8,324
Goods: imports f.o.b.	-270,066	-267,778	-2,288
Balance on Goods	41,488	35,452	6,036
Services: credit	57,372	51,284	6,088
Services: debit	-46,208	-42,720	-3,488
Balance on Services	11,164	8,564	2,600
Income: credit	30,413	25,352	5,061
Income: debit	-14,941	-11,115	-3,826
Balance on Income	15,472	14,237	1,235
Current transfers: credit	6,578	6,153	425
Current transfers: debit	-9,367	-9,149	-218
Balance on Current Transfers	-2,789	-2,996	207
B. Capital Account	-76	6	-82
Total, Groups A plus B	65,259	55,263	9,996
C. Financial Account	-53,046	-42,934	-10,112
Direct investment abroad	-12,597	-14,285	1,688
Direct investment in R.O.C. (Taiwan)	2,839	3,598	-759
Portfolio investment assets	-57,105	-36,814	-20,291
Portfolio investment liabilities	12,895	7,980	4,915
Financial derivatives assets	5,689	5,851	-162
Financial derivatives liabilities	-5,406	-5,081	-325
Other investment assets	-14,614	-49,534	34,920
Other investment liabilities	15,253	45,351	-30,098
Total, Groups A through C	12,213	12,329	-116
D. Net Errors and Omissions	802	-1,011	1,813
Total, Groups A through D	13,015	11,318	1,697
E. Reserves and Related Items*	-13,015	-11,318	-1,697

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

from the previous year. Mainland China's economic slowdown, supply chain localization, and overcapacity limited Taiwan's growth in exports to Mainland China. Taiwan's electronics exports to Mainland China increased by 16.0 percent, while its exports of LCDs and chemicals substantially reduced by 10.4 percent and 5.2 percent, respectively. The share of exports to Mainland China stayed the same at 39.7 percent as last year and Mainland China remained Taiwan's largest export market in 2014.

Imports from Mainland China grew by 12.4 percent to US$49,728 million, attributable to demand for industrial raw materials such as electronic products and metals. With a share of 18.1 percent, Mainland China continued to be Taiwan's largest import partner. The trade surplus with Mainland China decreased by 2.6 percent to US$74,956 million in 2014, yet Mainland China remained the largest source of Taiwan's trade surplus.

Exports to the US recorded a total value of US$34,873 million in 2014, increasing by 7.1 percent from 2013 and comprising a higher share of 11.1 percent in total exports. Taiwan's metals exports to the US grew 15.6 percent to US$5,710 million, mainly induced by rising demand in a recovering US economy. Imports from the US grew by 8.8 percent to US$27,425 million, and their share in total imports increased to 10.0 percent, compared with 9.3 percent a year earlier. The trade surplus with the US expanded to US$7,447 million. The US remained the fourth largest source of Taiwan's trade surplus.

Exports to Japan increased by 3.6 percent to US$19,908 million, mainly spurred by robust demand for Taiwan's electronic products. The share of exports to Japan remained at 6.3 percent. Although a weaker yen lowered the cost of imports from Japan, the relocation of Japanese manufacturing firms abroad led Taiwan's imports from Japan to decrease 3.4 percent to US$41,696 million, with their share in total imports declining further to 15.2 percent. However, Japan remained Taiwan's second largest source of imports in 2014. The trade deficit with Japan narrowed to US$21,789 million.

Even though Europe's economic prospects were not yet clear, the ECB's stimulus measures bolstered its growth momentum. Therefore, Taiwan's exports to Europe rebounded by 3.5 percent to US$28,720 million in 2014, and their share in total exports slightly rose to 9.2 percent. Imports from Europe increased by 2.4 percent to US$30,707 million, with a share of 11.2 percent in total imports. The trade deficit with Europe narrowed to US$1,986 million.

Owing to the plunge in global oil prices, exports to the six countries in Southeast Asia, including Indonesia, Malaysia, the Philippines, Singapore, Thailand, and Vietnam merely increased by 1.3

Direction of Trade in Goods by Country

Unit: %

	2014			2013		
	Amount (US$ Million)	Share	Annual Change	Amount (US$ Million)	Share	Annual Change
Exports						
Mainland China (including Hong Kong)	124,685	39.7	2.9	121,222	39.7	2.2
Southeast Asia 6*	58,629	18.7	1.3	57,888	19.0	3.9
U. S. A.	34,873	11.1	7.1	32,564	10.7	-1.2
Europe	28,720	9.2	3.5	27,750	9.1	-3.5
Japan	19,908	6.3	3.6	19,222	6.3	1.2
Rest of the World	46,987	15.0	0.4	46,795	15.3	1.5
Total	313,801	100.0	2.7	305,441	100.0	1.4
Imports						
Mainland China (including Hong Kong)	49,728	18.1	12.4	44,248	16.4	1.6
Japan	41,696	15.2	-3.4	43,162	16.0	-9.3
Southeast Asia 6*	33,508	12.2	3.4	32,391	12.0	3.3
Europe	30,707	11.2	2.4	29,986	11.1	6.1
U. S. A.	27,425	10.0	8.8	25,201	9.3	6.8
Rest of the World	91,156	33.2	-4.0	94,908	35.2	-1.2
Total	274,221	100.0	1.6	269,897	100.0	-0.2

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

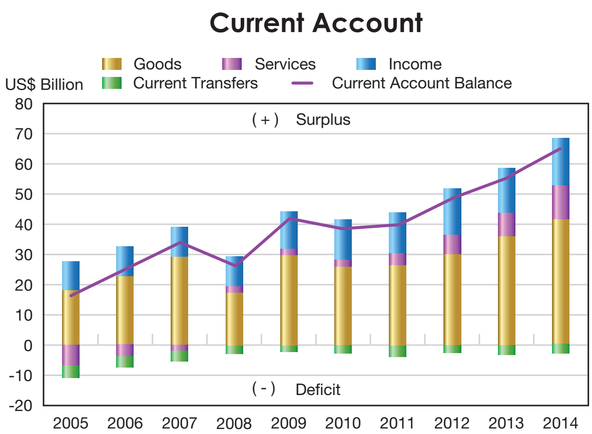
percent to US$58,629 million in 2014. The combined share of exports to these countries in total exports decreased to 18.7 percent. Imports from these countries grew by 3.4 percent to US$33,508 million, with a share of 12.2 percent in total imports. In sum, the trade surplus with these six countries reduced from US$25,497 million in 2013 to US$25,121 million, with Singapore and the Philippines the second and the third largest sources of Taiwan's trade surplus, respectively.

(2) Services

In 2014, service receipts increased by US$6,088 million to US$57,372 million, the highest level in history. Service payments increased by US$3,488 million to US$46,208 million. In all, the service surplus expanded by US$2,600 million to US$11,164 million, hitting a new record.

Of the various components of the services account, transportation receipts grew by US$999 million to US$11,109 million, reflecting increases both in international freight fares received by domestic sea carriers and in international passenger fares received by domestic air carriers. Transportation payments also grew by US$703 million to US$11,246 million, resulting mainly from higher foreign ports expenses paid by domestic carriers. Overall, net transportation payments slightly decreased to US$137 million in the year.

Travel receipts increased by US$2,330 million to US$14,653 million as the total number of inbound visitors grew 23.6 percent to a record-high level of 9.91 million, among which visitors from Mainland China accounted for 40.2 percent and grew 38.7 percent compared to the previous year. Meanwhile, travel payments increased by US$1,694 million to US$13,998 million. This was mainly due to a 7.2 percent growth in the number of outbound travelers, mostly boosted by visits to Japan to take advantage of a weaker yen. In sum, net travel receipts increased to US$655 million in 2014.



Source: Balance of Payments, CBC.

Other services receipts increased by US$2,759 million to US$31,610 million, mainly attributable to an increase in net proceeds from merchanting. Other services payments increased by US$1,091 million to US$20,964 million on account of an increase in expenditure on trade-related commissions. In all, the surplus in other services expanded to US$10,646 million in 2014.

(3) Income

In 2014, income receipts increased by US$5,061 million to US$30,413 million, mainly owing to increases in banks' interest revenues and residents' direct investment income. Meanwhile, income payments amounted to US$14,941 million, US$3,826 million more than in 2013, mostly attributable to an increase in non-residents' direct investment income. Consequently, the surplus on the income account expanded to US$15,472 million for the year of 2014.

(4) Current Transfers

For the year of 2014, current transfer receipts and payments amounted to US$6,578 million and US$9,367 million, respectively. As a whole, the deficit in current transfers shrunk to US$2,789 million in 2014, mainly owing to an increase in subsidies provided by a foreign parent company to its subsidiary in Taiwan.

Net Outflow 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 2014, the capital account posted a deficit of US$76 million, from a surplus of US$6 million the previous year, owing to decreased receipts from residents' sales of patent rights.

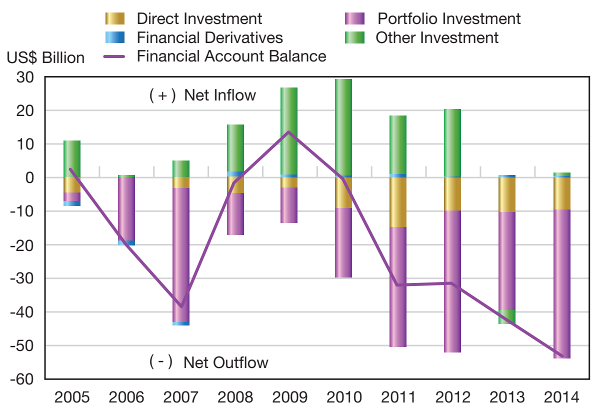
Huge Net Outflow in the Financial Account

The financial account for the year 2014 showed a record-high net outflow of US$53,046 million. In terms of sub-categories, direct investment and portfolio investment registered net outflows of US$9,758 million and US$44,210 million, respectively, while other investment registered a net inflow of US$639 million.

(1) Direct Investment

Direct investment abroad by residents registered a net outflow of US$12,597 million, a decrease of US$1,688 million compared with 2013. On the other hand, direct investment in Taiwan by non-residents registered a net inflow of US$2,839 million, US$759 million less than in the previous year. Based on approved cases, residents' direct investment in Mainland China and in other areas reported US$9,830 million and US$7,294 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

Financial Account



Source: *Balance of Payments*, CBC.

such as electronic parts and components, computers, electronics and optical products. The main target sector for inbound investments by non-residents included banking and insurance, electronic parts and components, and wholesale and retail. Overall, direct investment exhibited a net outflow of US$9,758 million in 2014, decreasing by US$929 million compared to 2013.

(2) Portfolio Investment

In 2014, portfolio investment abroad by residents showed a record-high net outflow of US$57,105 million, mostly attributable to investment in foreign securities by life insurance companies. A substantial increase was recorded in insurance companies' holdings of foreign currency denominated international bonds (including Formosa bonds) issued by non-residents throughout the year, mainly due to the easing of the *Insurance Act* in June 2014, whereby insurance companies' investments in international bonds would no longer be included in the amount subject to the overseas investment ceiling. On the other hand, local portfolio investment by non-residents exhibited a net inflow of US$12,895 million. This was due to foreign capital inflows into Taiwan's stock market. As a result, a net inflow of US$13,756 million was recorded in non-residents' equity securities investment, while a net outflow of US$861 million was recorded in non-residents' debt securities investment as foreign investors reduced holdings of government and corporate bonds. Overall, portfolio investment showed a net outflow of US$44,210 million in 2014.

(3) Financial Derivatives

Financial derivatives recorded a net inflow of US$283 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 2014, other investment abroad by residents showed a net outflow of US$14,614 million, mainly owing to increases in banks' overseas long-term loans and overseas account receivables. On the other hand, other inward investment by non-residents showed a net inflow of US$15,253 million, largely attributable to increases in borrowings from overseas branches by the banking sector and short-term loans received from abroad by the private sector. As a consequence, other investment as a whole swung into a net inflow of US$639 million in 2014.

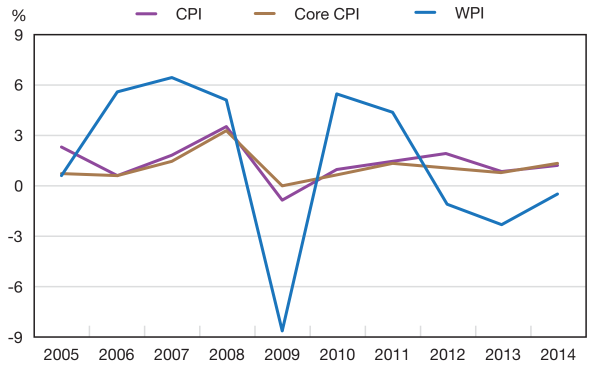
Increase in Foreign Exchange Reserves

The foreign exchange reserve assets held by the CBC increased by US$13,015 million as a result of the current account surplus.

4. Prices

In 2014, the slow recovery of the global economy led to the weakening of international primary commodity prices. As a result, Taiwan's wholesale price index (WPI) fell by 0.57 percent. Headline inflation, measured by the consumer price index (CPI), rose by 1.20 percent from the previous year's 0.79 percent increase, mainly driven by a surge in food prices, though it was partly offset by reductions in domestic retail oil prices and prices of consumer electronics products. The core CPI, which excludes fruits, vegetables and energy, rose by 1.26 percent in 2014, up from a 0.66 percent increase in the previous year.

Inflation Rates



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

Slight Decrease in Wholesale Prices

For the year 2014, the WPI edged down by 0.57 percent over the previous year, mainly owing to the falling prices for international primary materials stemming from subdued global demand. In terms of monthly movements, the annual WPI inflation rate generally exhibited an upward trend from the beginning of 2014 and registered 1.15 percent in May. Afterwards, it trended downward and turned negative from September, yet the pace of the decrease in the annual WPI inflation rate gradually accelerated on account of the oil-price plunge and the decline was 4.78 percent in December.

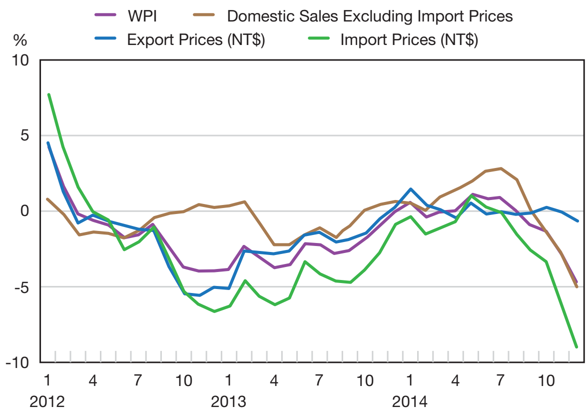
Broken down by the three major components of the WPI, the annual rate of change in prices for imports decreased moderately in 2014, whereas the annual rates of change in prices for domestic sales excluding imports and exports increased slightly.

Import prices fell by 4.03 percent in US dollar terms in 2014. The decline was mainly attributed to the falling prices of imported raw materials, such as glass, crude petroleum, iron ore, coal, cell phones and parts thereof, and electronic parts and components. As the NT dollar depreciated against the US dollar over 2014, import prices marked an annual decrease of 2.10 percent in NT dollar terms. Among the components of import prices, prices of raw materials and capital goods dropped by 2.47 percent and 1.25 percent, respectively, and accounted for 1.93 percentage points and 0.16 percentage points in the import price decrease. In contrast, prices of consumer goods slightly rose by 0.05 percent.

Export prices in US dollar terms decreased by 1.92 percent in 2014. Owing to the depreciation of the NT dollar against the US dollar, export prices mildly moved up by 0.10 percent in terms of the NT dollar. In NT dollar terms, among the basic groups, prices of prepared foodstuffs, beverages, spirits and tobacco increased by 4.51 percent. However, prices of mineral products accounted for the largest decrease at 6.00 percent, mainly attributable to declines in the prices of gasoline, diesel, and fuel oil.

Prices of domestic sales excluding imports went up by 0.28 percent in 2014. Among product groups, prices of computers, electronic and optical products, petroleum and coal products, and chemical materials decreased by 10.98 percent, 3.14 percent, and 2.47 percent, respectively.

Annual WPI Rates



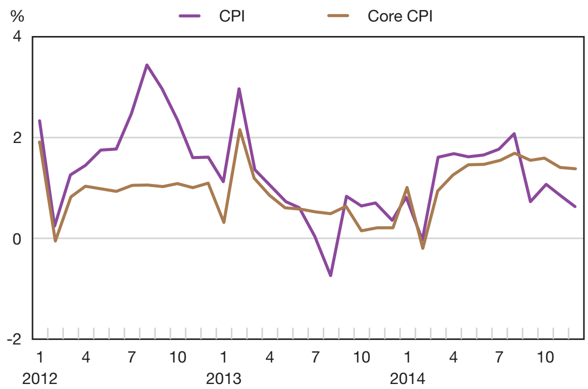
Source: *Price Statistics Monthly*, DGBAS, Executive Yuan.

Moderate Increase in Consumer Prices

The CPI rose by 1.20 percent in 2014, higher than the 0.79 percent change in the previous year. From the beginning of 2014, monthly CPI inflation rates stepped up and peaked at 2.07 percent in August, mainly attributable to high food prices affected by supply-side factors such as infected piglets and unfavorable weather conditions. Afterwards, the monthly CPI inflation rate went down to 0.60 percent in December, as prices of vegetables fell because of a higher base effect and oil prices plunged reflecting the downtrend in global oil prices.

The core CPI inflation rate was 1.26 percent in 2014. In the first two months of the year, the rate fluctuated on account of the seasonal factor of the Lunar New Year holidays. From March onwards, owing to moderate growth in the domestic economy, monthly core CPI inflation trended modestly upward and grew by 1.68 percent in August, the highest in 2014. Subsequently, the core CPI inflation rate edged down to 1.37 percent in December.

Annual CPI Rates



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

The advance in the CPI inflation rate in 2014 was largely boosted by food prices, which rose by 3.74 percent and contributed 0.97 percentage points to CPI inflation.

The main factors contributing to the rise of CPI inflation in 2014 were as follows:

(1) The rise in electricity costs and higher raw food prices such as pork, chicken and eggs, pushed up the prices of food away from home by 3.61 percent, contributing 0.36 percentage points to CPI inflation.

(2) The prices of pork soared owing to a shortage of supply caused by infected piglets and higher demand for lard oil stemming from concerns over tainted cooking oil. On the other hand, prices of chicken increased on account of the substitution effect resulting from higher pork prices. As a result, prices of meat went up by 11.11 percent and accounted for 0.22 percentage points in the CPI increase.

(3) With the supply constrained by unfavorable weather conditions such as typhoons in the second half of 2013, and severe coldness in the beginning of 2014, as well as heavy rainfall in summer, prices of fruits increased at an annual rate of 8.37 percent, contributing 0.19 percentage points to CPI inflation.

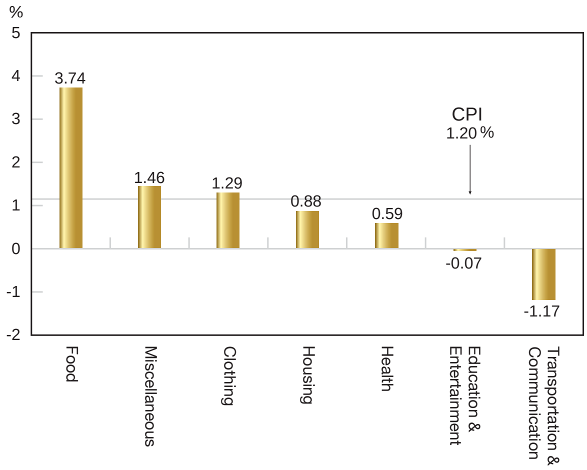
(4) Prices of residential rent mildly rose by 0.73 percent, contributing 0.13 percentage points to CPI inflation.

(5) Influenced by a decrease in the catch in offshore and deep-sea fisheries, prices of fish and shellfish continued a long-term upward trend and increased at an annual rate of 6.79 percent, accounting for 0.11 percentage points in CPI inflation.

(6) Prices of electricity moved up by 4.27 percent, attributable to the second-stage electricity price hike taking effect in October 2013, as well as a higher subsidy standard as a measure to encourage electricity saving effective from August 2014.

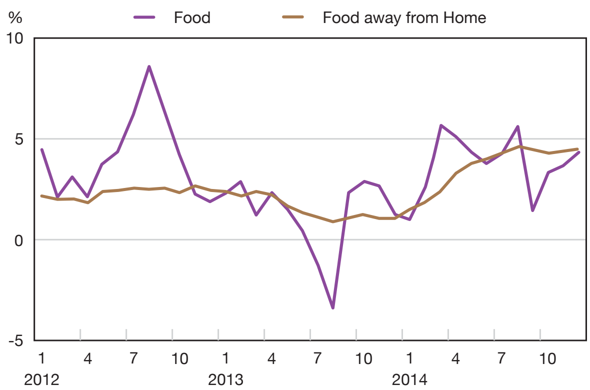
(7) In line with the increase in tour group fees, prices

CPI Inflation Rates by Basic Group in 2014



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

Annual Rates of Change in Prices of Food and Food away from Home



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

of education and entertainment services rose by 0.66 percent, contributing 0.09 percentage points to CPI inflation.

The main factors contributing to downward pressure on the CPI in 2014 were as follows:

(1) Prices of durable consumer goods, such as equipment for communication, education and entertainment, decreased by 1.92 percent as consumer electronics products retailers continued discount promotions.

(2) Since the second half of 2014, global oil prices have decelerated significantly, primarily induced by an increase in oil supply as a result of increased shale oil production in the US and the OPEC's decision to keep production quotas unchanged. In addition, weaker-than-expected global oil demand also contributed to the slump in oil prices. Reflecting the downward trend in global oil prices, prices of fuels and lubricants dropped by 3.18 percent.

(3) Prices of vegetables fell by 3.51 percent on account of a higher base effect resulting from unfavorable weather conditions in the second half of 2013.

Percentage Changes in the Major Components of the CPI in 2014

Item	Annual Rate of Change (%)	Contribution to CPI Inflation Rate (Percentage Point)
CPI	1.20	1.20
Food away from Home	3.61	0.36
Meat	11.11	0.22
Fruits	8.37	0.19
Residential Rent	0.73	0.13
Fish & Shellfish	6.79	0.11
Electricity	4.27	0.10
Education & Entertainment Services	0.66	0.09
Garments	1.72	0.05
Total		1.25
Durable Consumer Goods	-1.92	-0.15
Fuels & Lubricants	-3.18	-0.12
Vegetables	-3.51	-0.08
Total		-0.35
Others		0.30

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

5. Public Finance of the Central Government

For the year 2014, central government revenue decreased by 0.2 percent, whereas central government expenditure contracted by 0.1 percent, causing the overall central government deficit to widen slightly to NT$127.7 billion from NT$125.4 billion in 2013.

Decrease in Central Government Revenue

In 2014, central government revenue decreased by NT$4.2 billion to NT$1,726.3 billion. Of its various components, tax revenue remained the major source, with a share of 77.8 percent of the total revenue, registering a marked growth of 10.3 percent from the previous year. The increase was mainly attributable to the growing profits of enterprises, solid domestic demand, and the upward adjustment of the business tax rate for banking and insurance industries.

Surpluses of public enterprises and public utilities, accounting for 14.0 percent of the total revenue, decreased by NT$10.0 billion in 2014. The decline was mostly because the government's budget for revenue from Taiwan Sugar Corporation's capital reduction contracted in 2014. Fees, fines and indemnities decreased significantly by NT$113.6 billion, primarily owing to a higher base effect resulting from the fees that the national treasury received from the 4G mobile-phone service license auction amounting to NT$118.7 billion in 2013.

Total Revenue and Expenditure of the Central Government

Unit: NT$ Billion

Year	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014*
Total Revenue	1,464.5	1,546.4	1,635.5	1,640.9	1,553.7	1,497.4	1,671.3	1,668.3	1,730.5	1,726.3
(Ratio to GDP ; %)	12.2	12.2	12.2	12.5	12.0	10.6	11.7	11.3	11.4	10.7
Total Expenditure	1,567.0	1,529.8	1,552.0	1,617.7	1,714.8	1,654.4	1,734.4	1,882.4	1,855.9	1,854.0
(Ratio to GDP ; %)	13.0	12.1	11.6	12.3	13.2	11.7	12.1	12.8	12.2	11.5
Surplus/Deficit	-102.5	16.6	83.5	23.2	-161.1	-157.0	-63.1	-214.1	-125.4	-127.7
(Ratio to GDP ; %)	-0.8	0.1	0.6	0.2	-1.2	-1.1	-0.4	-1.5	-0.8	-0.8
Debt Repayment	64.1	65.0	6.0	65.0	65.0	66.0	66.0	94.0	77.0	64.0
Financing:	167.3	63.9	0.0	41.8	226.1	224.2	129.1	308.1	202.4	191.7
Debt Financing	167.3	63.9	0.0	0.0	164.5	224.2	129.1	288.1	202.4	191.7
Surplus of Previous Fiscal Years	0.0	0.0	0.0	41.8	61.6	0.0	0.0	20.0	0.0	0.0
Memorandum:										
Tax Dependency Ratio (%)**	68.1	71.5	77.9	76.8	61.3	65.4	69.4	64.9	65.6	72.5
Debt Dependency Ratio (%)***	10.7	4.2	0.0	0.0	9.6	13.6	7.4	15.3	10.9	10.3

Notes: * The figures for 2013 and the previous years are final audit accounts; the figures for 2014 are final accounts.
** Tax dependency ratio is defined as the ratio of annual tax revenue to total expenditure.
*** Debt dependency ratio is defined as the ratio of annual revenues from government bonds and borrowing from banks to total expenditure.

Sources: 1. Department of Statistics, MOF.
2. DGBAS, Executive Yuan.

Contraction in Central Government Expenditure

Central government expenditure reduced slightly by NT$1.9 billion to NT$1,854.0 billion. In terms of share in total expenditure, social welfare, and education, science & culture remained the largest two categories, accounting for 22.2 percent and 19.7 percent, respectively. In addition, national defense and economic development made up 15.7 percent and 14.5 percent, respectively.

Social welfare expenditure decreased by NT$27.0 billion, mainly because the budget for subsidizing insufficient funds for the national pension fund contracted in 2014. Furthermore, the decline in the budget for subsidizing the national health insurance fees for labors' dependents also played a role. Economic development expenditure increased by NT$10.7 billion, largely owing to the expansion in infrastructure projects implemented by the government. Meanwhile, expenditures on education, science & culture and national defense increased by NT$9.1 billion and NT$2.4 billion in 2014, respectively.

Rising Tax Dependency

The tax dependency ratio, defined as the ratio of annual tax revenue to total central government expenditure, rose from 65.6 percent in 2013 to 72.5 percent in 2014, indicating that tax revenue grew faster than central government expenditure.

Lessening Debt Dependency

The fiscal deficit rose slightly to NT$127.7 billion in 2014. This, combined with debt repayment,

Total Revenue and Expenditure of the Central Government by Category

Unit: NT$ Billion

Year	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014*
Total Revenue	1,464.5	1,546.4	1,635.5	1,640.9	1,553.7	1,497.4	1,671.3	1,668.3	1,730.5	1,726.3
Taxes	1,067.8	1,094.3	1,208.7	1,243.0	1,051.6	1,082.4	1,203.4	1,222.1	1,218.0	1,343.4
Surpluses of Public Enterprises and Public Utilities	243.4	289.1	271.5	253.4	318.7	264.8	264.7	262.5	251.0	241.0
Fees, Fines and Indemnities	79.0	79.0	81.1	83.1	78.1	81.6	81.0	108.2	197.3	83.7
Proceeds from Sales of Properties and Recalled Capital	52.6	58.5	51.3	40.0	53.7	46.7	64.0	60.1	52.3	43.7
Others	21.7	25.5	22.9	21.4	51.6	21.9	58.2	15.4	11.9	14.5
Total Expenditure	1,567.0	1,529.8	1,552.0	1,617.7	1,714.8	1,654.4	1,734.4	1,882.4	1,855.9	1,854.0
General Administration	165.5	167.3	168.2	170.8	168.8	170.2	176.4	176.2	172.7	174.2
National Defense	248.5	237.1	256.7	282.4	291.2	276.8	284.2	303.4	289.0	291.4
Education, Science & Culture	301.5	303.1	308.7	310.3	326.4	342.7	356.2	358.9	355.7	364.8
Economic Development	247.0	197.0	193.3	203.6	244.4	194.5	217.1	263.9	258.3	269.0
Social Welfare	285.7	303.3	305.1	298.4	320.2	327.4	348.5	420.1	438.9	411.9
Community Development & Environmental Protection	25.2	20.4	19.4	13.5	21.4	9.0	6.6	15.9	15.9	16.2
Retirement & Compassionate Aid	130.5	134.7	134.6	133.8	133.4	134.5	138.5	138.3	132.8	134.6
Interest Payments	117.9	125.2	124.0	117.4	116.7	109.8	111.8	114.5	117.4	115.1
General Subsidies and Other Expenditure	45.2	41.7	42.0	87.5	92.3	89.5	95.1	91.2	75.2	76.8

Note: * The figures for 2013 and the previous years are final audit accounts; the figures for 2014 are final accounts.
Sources: 1. Department of Statistics, MOF.
2. DGBAS, Executive Yuan.

represented that the central government needed to finance NT$191.7 billion for 2014.

With respect to the debt dependency ratio, defined as the ratio of revenues from government bonds and borrowing to total central government expenditure, it declined from 10.9 percent in the previous year to 10.3 percent in 2014, primarily because the demand for debt financing decreased in 2014 in line with the shrinkage of debt repayment.

The total outstanding debt of the central government increased by NT$210.5 billion to NT$5,373.9 billion at the end of 2014. However, the ratio of outstanding central government debt to GDP declined from 33.9 percent in 2013 to 33.4 percent in 2014, reflecting higher growth in domestic production.

Public Debt of the Central Government

Unit: NT$ Billion

End of Year	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014*
Outstanding Debt	3,549.9	3,623.0	3,718.5	3,778.7	4,127.2	4,537.7	4,764.0	5,010.7	5,163.4	5,373.9
(Ratio to GDP : %)	29.4	28.7	27.7	28.7	31.8	32.1	33.3	34.1	33.9	33.4

Note: * The figures for 2013 and the previous years are final audit accounts; the figures for 2014 are final accounts.
Sources: 1. Department of Statistics, MOF.
2. DGBAS, Executive Yuan.

6. Labor Market

Following the pattern of 2013, the unemployment rate continued to trend downward in 2014. In particular, it reached 3.79 percent in December, the lowest since March 2007. For the year as a whole, the unemployment rate was 3.96 percent, the lowest since 2008. While labor market conditions continued to improve, structural unemployment still existed. For example, the unemployment rates of young people and highly educated persons stayed elevated. Skill mismatch remains a major issue in Taiwan's labor market.

The labor participation rate increased by 0.11 parentage points to 58.54 percent, the highest since 1996. As working conditions have continued to improve, the female labor participation rate has increased for five consecutive years to 50.64 percent in 2014.

Annual average employment amounted to 11.08 million persons in 2014, which was a 1.02 percent increase from 2013. Employment in the industrial and services sectors grew by 0.98 percent and 1.06 percent, respectively. Employment in the agricultural sector also increased 0.80 percent in 2014.

The average monthly earnings per worker of the non-farm sector (the industrial and services sectors combined) was NT$47,300 in 2014, a 3.58 percent increase from 2013. Average real monthly earnings also increased by 2.36 percent. Both were significant increases, especially compared to those of the past few years.

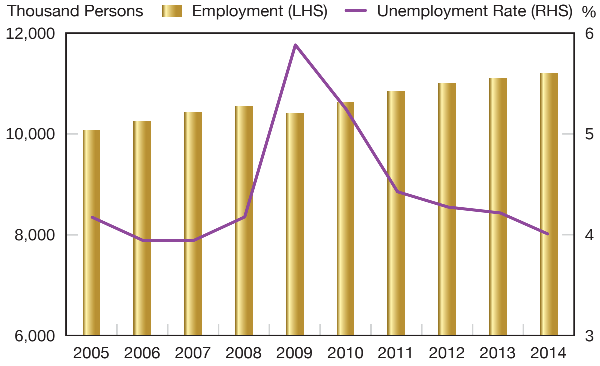
The year 2014 also witnessed rising labor productivity and reduced unit labor costs. Because the increase in total production exceeded the increase in total working hours, labor productivity of the industrial sector and the manufacturing industry increased 3.81 percent and 4.12 percent, respectively. On the other hand, unit labor costs in the industrial and services sectors decreased by 1.09 percent and 1.40 percent, respectively.

Employment Continued to Improve

Annual average employment in 2014 was 11.08 million persons, an increase of 112 thousand persons or 1.02 percent from the previous year.

In terms of employment by major sectors, employment in the agricultural sector in 2014 increased 4 thousand persons or 0.80 percent. Employment in the industrial sector increased 39 thousand persons or 0.98 percent. Within this sector, construction and manufacturing employment increased by 20 and 19 thousand people, respectively. Employment in the services sector grew by 68 thousand persons or 1.06 percent. Among which, employment in accommodation and food services increased by 17 thousand, while education services added 11 thousand jobs. Of total employment, the services sector accounted for 58.91 percent, up by 0.02 percentage points from a year before, while the agricultural and industrial sectors made up smaller shares at 4.95 percent and 36.14 percent, respectively.

Employment and Unemployment Rate



Source: DGBAS, Executive Yuan.

In terms of employed persons by occupation, employment of professionals increased 47 thousand persons or 3.60 percent, the highest among all occupations, followed by technicians and assistants with an increase of 28 thousand persons or 1.41 percent. On the other hand, employment of legislators, senior officials, and managers decreased by 10 thousand or 2.49 percent. In terms of employment ratios, skilled and machine operation related workers accounted for 31.22 percent of total employment, the largest among all occupations. Employment ratios of professionals and technicians/assistants rose by 0.30 and 0.07 percentage points to 12.03 percent and 17.96 percent, respectively, which reflected changing business demand for labor due to structural shifts.

Unemployment Rate Dropped

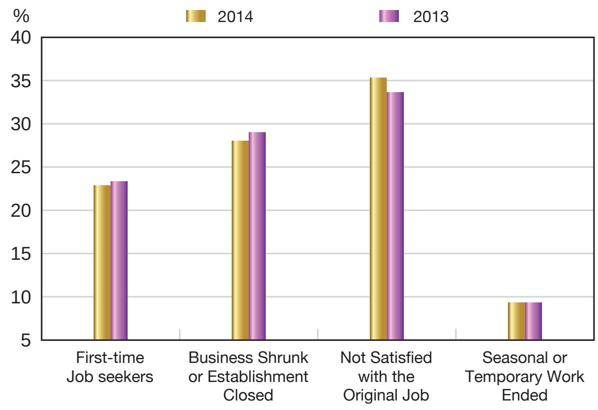
While seasonal factors resulted in temporarily higher unemployment rates in certain months, such as February and summer when more people were seeking new jobs, the unemployment rate in general continued to trend downward in 2014. It dropped to 3.79 percent in December, the lowest since March 2007. For the year as a whole, the unemployment rate was 3.96 percent, the lowest since 2008.

As the economy improved, unemployment duration reduced to 25.89 weeks, lower than the year before by 0.28 weeks. The average number of the long-term unemployed (those who were unemployed for 53 weeks or more) was 75 thousand people, the same as the previous year. Males made up 65.52 percent of the long-term unemployed, while 65.73 percent were in the age group between 25 and 44 and 51.97 percent had a college degree or above. This indicates long-term unemployment remained more serious for males aged 25-44 and those with a higher education compared to other groups.

Total unemployment decreased by 21 thousand people or 4.46 percent from the year before, mainly because involuntary unemployment from businesses shrinking or establishments closing fell by 11 thousand persons or 7.87 percent. Consequently, the ratio of such unemployment to total unemployment dropped to 28.00 percent, compared to 29.04 percent of the previous year. People who quit their jobs to seek other job opportunities made up a major portion of the unemployed. The ratio slightly increased to 35.32 percent, indicating greater willingness for job change because of a favorable economic outlook.

In terms of age groups, the unemployment rate of the age group of 15-24 decreased by 0.54 percentage points to 12.63 percent, mainly because those first-time job seekers who failed to find a job reduced 4 thousand persons. The unemployment rates of the age groups of 25-44 and 45-64 were 4.13 and 2.09 percent, respectively, representing year-on-year declines of 0.14 and 0.16 percentage points.

Causes of Unemployment



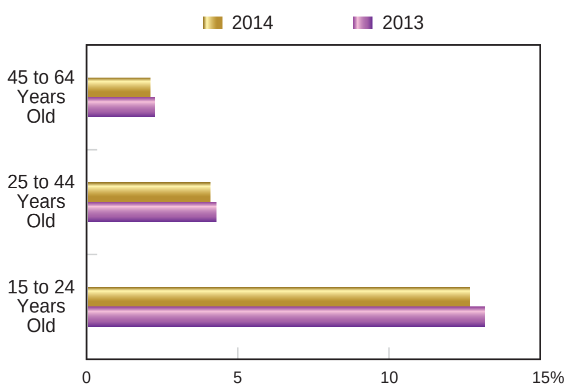
Source: DGBAS, Executive Yuan.

In terms of educational background, the unemployment rate of people with a junior high school degree or below dropped 11 thousand persons or 13.86 percent to 3.20 percent, while that of those with a middle high school or vocational school degree decreased 11 thousand persons or 6.73 percent to 3.83 percent. On the other hand, even though the unemployed with a college degree or above slightly increased by 0.5 thousand persons or 0.23 percent, the unemployment rate in this category still dropped to 4.35 percent.

Labor Force Participation Rate Rose

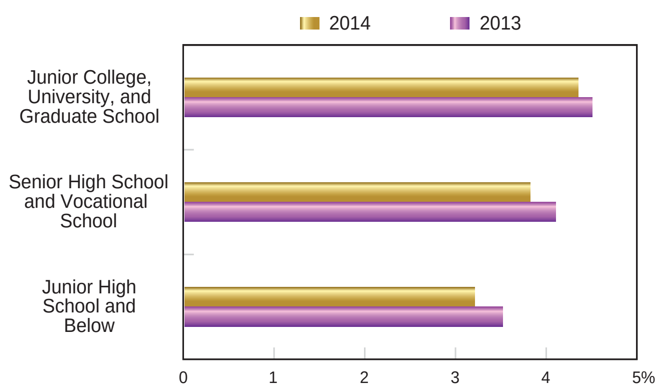
The labor force (employed and unemployed combined) rose by 90 thousand persons or 0.79 percent to 11.54 million in 2014, as more people were willing to join the labor market.

Unemployment Rate by Age



Source: DGBAS, Executive Yuan..

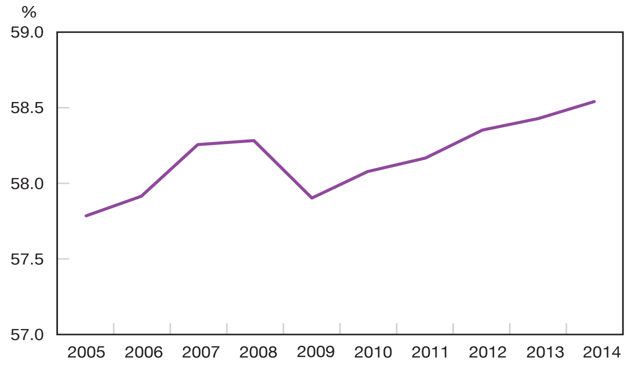
Unemployment Rate by Educational Background



Source: DGBAS, Executive Yuan.

The labor force participation rate reached 58.54 percent, 0.11 percentage points higher than the year before. In terms of gender, the male labor force participation rate increased by 0.04 percentage points from the preceding year to 66.78 percent, while the female rate also rose to 50.64 percent, up by 0.18 percentage points over the previous year. Such improvement reflected the positive effects of a strengthening economy and government efforts to promote gender equality.

Labor Force Participation Rate



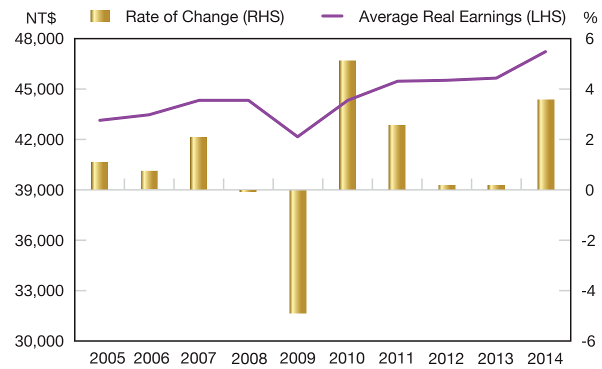
Source: DGBAS, Executive Yuan.

In terms of age group, the labor participation rates of the 25-44 and 45-64 age groups went up by 0.21 and 0.92 percentage points, respectively, to the levels of 86.85 percent and 61.65 percent, while that of the 16-24 age group went down by 0.22 percentage points to 29.36 percent. In terms of educational background, the labor participation rate of the working population with a degree higher than junior high school increased by 0.26 percentage points to 68.03 percent.

Real Earnings of Non-farm Workers Increased

In 2014 the average monthly earnings per worker of the non-farm sector reached NT$47,300, a 3.58 percent increase from the year before. After adjustment for inflation, the average real monthly earnings also increased by 2.36 percent, as favorable economic conditions contributed to the rise in wages.

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



Source: DGBAS, Executive Yuan.

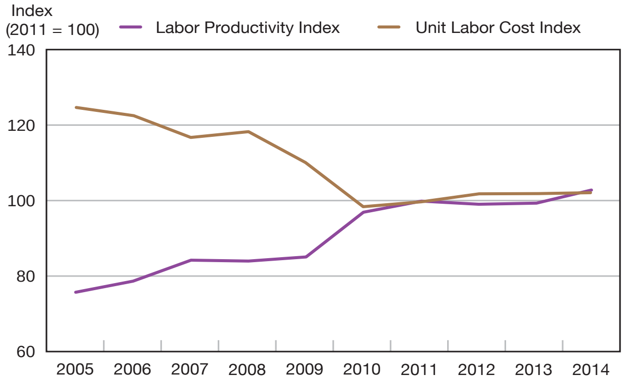
In terms of major sectors, the average monthly earnings of industrial sector workers increased by 2.95 percent over the previous year to NT$45,378, and their earnings in real terms also increased by 1.73 percent. Meanwhile, the average monthly earnings of services sector workers increased by 4.04 percent to NT$48,815, and their real earnings also went up 2.80 percent.

A further breakdown indicated finance and insurance workers' earnings experienced the largest increase at 6.70 percent, followed by 6.49 percent in the real estate industry, while earnings of workers in arts, entertainment, and leisure services decreased by 0.67 percent.

Labor Productivity Increased and Unit Labor Cost Decreased

As the increase in total production outpaced the increase in total working hours, labor productivity of the industrial sector and the manufacturing industry rose by 3.81 percent and 4.12 percent, respectively. In manufacturing, equipment maintenance registered the largest increase in labor productivity by 10.05 percent, followed by a 9.34 percent growth in computers, electronics, and opticals manufacturing. Since production grew faster than earnings, unit labor costs of the industrial and manufacturing sectors dropped by 1.09 percent and 1.40 percent, respectively. Of all the manufacturing sectors, machinery equipment experienced the largest drop in unit labor costs by 8.96 percent, and equipment maintenance came in second with a drop of 8.29 percent.

Labor Productivity and Unit Labor Cost Index of Industrial Sector



Source: DGBAS, Executive Yuan.