

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 airlines 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.