

I. Developments in the Real Economy

1. Overview

In 2015, a slow global economic recovery and low commodity prices dampened Taiwan's export growth and caused the domestic economy to stagger along at a pace of 0.75% year on year, whereas the balance of payments stayed healthy owing to a wider current account surplus. The average annual growth rate of the consumer price index (CPI) fell 0.31% over the previous year, as fuel, gas, and electricity prices trended down following the plunge in international energy prices. The central government deficit shrank markedly to NT\$11.0 billion, helped mainly by a significant pickup in government tax revenue as well as fee income from second-round 4G mobile spectrum auctions. Amid the economic slowdown, the unemployment rate began to edge up from June onwards; nonetheless, at an average annual rate of 3.78%, the unemployment rate was the lowest in fifteen years. In addition, average non-farm (industrial and services sectors) monthly real earnings rose by 2.83% year on year, the highest in the past five years.

Modest Economic Growth

Taiwan's economy gained momentum in the first quarter of 2015, mainly because private consumption rose steadily and exports were bolstered by increased profit margins from merchandising. The annual GDP growth rate was 4.04%, outpacing all the other quarters in 2015. However, economic growth languished from the second quarter on and even slipped into negative territory in the last two quarters of the year. This downtrend was primarily due to export contraction driven by diminishing demand from Mainland China and a cyclical downturn in the technology industry, as well as Taiwan's own structural concerns. The economy expanded by 0.75% for the year as a whole.

In terms of GDP components by expenditure, domestic demand increased by a mere 1.57% year on year, owing to slowing private consumption and negative growth in government expenditure. Domestic demand contributed 1.41 percentage points to GDP growth, while the contribution from net external demand shrank to negative 0.67 percentage points.

Broken down by type of activity, only the services sector recorded modest growth and made a positive contribution to GDP growth at 0.24 percentage points. The agriculture and industry sectors both slipped into contraction, contributing -0.06 and -0.32 percentage points to GDP growth, respectively.

Healthy BOP Surplus

In 2015, the current account surplus and the net outflow in the financial account both reached historical highs. Overall, the balance of payments stayed healthy with a surplus of US\$15,011 million, increasing by US\$1,996 million from the previous year.

In the current account, the goods trade surplus widened to US\$53,341 million, reflecting a greater decline in imports over exports. The services account surplus waned to US\$9,406 million as travel expenses and expenditure on trade commissions both increased. The income account surplus expanded to US\$16,791 million, mainly owing to a decrease in outward payments for non-residents' direct investment income. The deficit on the current transfers balance rose to US\$3,373 million. Overall, the current account surplus widened by 19.4% to US\$76,165 million, representing a greater share of 14.5% in GDP from the previous year's 12.0%.

In 2015, the financial account recorded a net outflow of US\$68,041 million, mostly accounted for by a record-high portfolio investment net outflow. Of the components, the net outflow in residents' portfolio investment abroad rose to US\$56,535 million, mainly reflecting increased portfolio investment abroad by insurance companies. As foreign investors shed their domestic bond holdings, non-residents' portfolio investment posted a net outflow of US\$1,181 million in contrast to a net inflow the previous year. Direct investment abroad exhibited a wider net outflow of US\$14,773 million, with Mainland China remaining the top destination. Direct investment in Taiwan by non-residents showed a net inflow of US\$2,415 million. Other investment recorded a net inflow of US\$3,283 million, mainly because the private sector withdrew overseas deposits.

Stable Price Trends

In 2015, international commodity prices continued to fall, dragging import prices in NT dollar terms lower by 12.93%. In addition, a downward price trend in consumer electronics and reduction in electricity rates combined to result in an 8.84% decrease in wholesale price index (WPI) growth, the steepest decline ever recorded.

In terms of CPI growth, food prices went up but prices of fuel, gas, and electricity came down as a result of international energy price slumps. Meanwhile, domestic demand remained soft. Reflecting these influences, the CPI annual growth rate fell into negative territory for the first time in six years and registered -0.31%. Core inflation (excluding fruit, vegetable, and energy prices) gained by a mild 0.79%, slightly lower than the 1.26% of 2014.

Significant Reduction in Central Government Deficit

In 2015, the central government deficit narrowed significantly as the increase in revenue exceeded a smaller increase in expenditure.

Nearly 80% of total central government revenue came from tax revenue, which recorded a 9.1% increase thanks to rising corporate profits in the previous year. Revenue from fees, fines, and indemnities gained substantially by 43.7%, boosted by fee receipts from second-round 4G mobile service licensing. By contrast, surpluses of public enterprises and public utilities decreased marginally by 1.4% over a year ago.

Central government expenditure increased in 2015. The largest category remained social welfare expenditure, whose share grew to 23.2% owing to budgets drawn up to cover the shortfall in the government's required contribution to the national insurance budget and to subsidize insufficient funds for the National Pension Insurance Fund. Expenditure on education, science, and culture constituted the second largest share at 20.0%, owing to a budget increase for the use of the National Science and Technology Development Fund.

At the end of 2015, the total outstanding debt of the central government posted a lower ratio of 34.6% to the average nominal GDP for the previous three years, under the statutory limit of 40.6%

Further Decline in Unemployment Rate; Wage Growth at Five-Year High

In 2015, the monthly figure of the unemployment rate inched down to 3.62% in May, a new low since February 2001. As economic growth weakened, the unemployment rate began to trend up from June onwards and reached 3.87% in December. However, the annual average unemployment rate was 3.78%, still the lowest since 2001.

The average number of employed persons totaled 11.2 million in 2015, 1.08% more than the previous year. Employment in the services sector rose by 1.26%, the highest among all sectors, whereas the industrial sector recorded an increase of 0.76%. The monthly figures of employment growth rates (year on year) showed a downward trend from March onwards, in stark contrast to the broadly upward climb in the previous year.

Average non-farm (industrial and services sectors) monthly earnings grew by 2.52% year on year to NT\$48,490, while average monthly regular earnings of non-farm employees increased by 1.33% to NT\$38,716. Adjusted for inflation, real monthly earnings posted a five-year high growth rate at 2.83%, and real monthly regular earnings also rose by 1.64%, the largest increase in the past 16 years.

Labor productivity indices of the industrial sector and the manufacturing industry exhibited year-on-year declines of 1.29% and 0.91%, respectively. Unit labor costs increased by 6.61% in the industrial sector and by 6.22% in manufacturing, reflecting an increase in total earnings while production decreased.