

3. Balance of Payments

In 2015, the current account registered a record surplus of US\$76,165 million, which accounted for 14.5% of nominal GDP, up from 12.0% in the previous year, as a result of wider surpluses on the goods and income accounts. The financial account posted a net outflow, which reached a new high of US\$68,041 million as investment in overseas debt securities by residents exhibited record-high 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\$15,011 million, which was reflected in the increase in foreign reserve assets held by the CBC.

Balance of Payments

Unit: US\$ Million

	(1) 2015	(2) 2014	(1)-(2)
A. Current Account	76,165	63,812	12,353
Goods: exports f.o.b.	284,934	317,845	-32,911
Goods: imports f.o.b.	-231,593	-277,742	46,149
Balance on Goods	53,341	40,103	13,238
Services: credit	56,779	56,793	-14
Services: debit	-47,373	-45,747	-1,626
Balance on Services	9,406	11,046	-1,640
Income: credit	29,753	30,402	-649
Income: debit	-12,962	-14,945	1,983
Balance on Income	16,791	15,457	1,334
Current transfers: credit	6,612	6,624	-12
Current transfers: debit	-9,985	-9,418	-567
Balance on Current Transfers	-3,373	-2,794	-579
B. Capital Account	-82	-76	-6
Total, Groups A plus B	76,083	63,736	12,347
C. Financial Account	-68,041	-53,304	-14,737
Direct investment abroad	-14,773	-12,711	-2,062
Direct investment in R.O.C. (Taiwan)	2,415	2,839	-424
Portfolio investment assets	-56,535	-57,064	529
Portfolio investment liabilities	-1,181	12,840	-14,021
Financial derivatives assets	10,675	5,690	4,985
Financial derivatives liabilities	-11,925	-5,406	-6,519
Other investment assets	15,375	-14,243	29,618
Other investment liabilities	-12,092	14,751	-26,843
Total, Groups A through C	8,042	10,432	-2,390
D. Net Errors and Omissions	6,969	2,583	4,386
Total, Groups A through D	15,011	13,015	1,996
E. Reserves and Related Items*	-15,011	-13,015	-1,996

Note: * Excluding valuation changes in exchange rates.
Source: *Balance of Payments*, CBC, February 2016.

Wider Current Account Surplus

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

(1) Goods

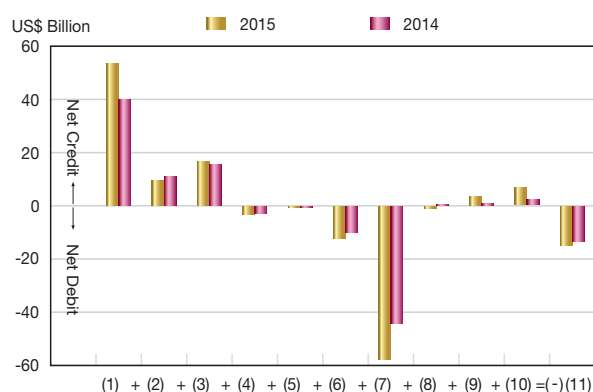
Global demand for semiconductors softened, and falling oil prices dragged down the export prices of petrochemical products. As a result, the value of exports dropped 10.4% to US\$284,934 million in 2015. The value of imports fell sharply by 16.6% to US\$231,593 million, mainly accounted for by decreasing import prices of raw materials. As a result of a larger reduction in imports over exports, the goods surplus widened to US\$53,341 million in 2015, hitting a new record high.

According to customs statistics, the top three export partners of Taiwan in 2015 were Mainland China including Hong Kong (hereafter in this chapter referred to as Mainland China), the US, and Japan, accounting for a combined share of 58.4% of total exports. The top three import partners were Mainland China, Japan, and the US, with a combined share of 48.3%.

In terms of Taiwan's trade with Mainland China, the value of exports amounted to US\$112,580 million in 2015, slipping by 12.4% from the previous year. China's economic growth slowdown, supply chain localization, and overcapacity limited Taiwan's growth in exports to Mainland China. Major export products exported to Mainland China declined, with the exception of information, communication and audio-video products and transport equipment. Taiwan's parts of electronic products and optical equipment, which made up the biggest two shares of exports to Mainland China, contracted by 8.1% and 27.6%, respectively. The share of exports to Mainland China shrank to 39.4% compared to the previous year, but Mainland China remained Taiwan's largest export market.

Imports from Mainland China dropped 8.3% to US\$46,771 million. With a share of 19.7%, Mainland

Balance of Payments

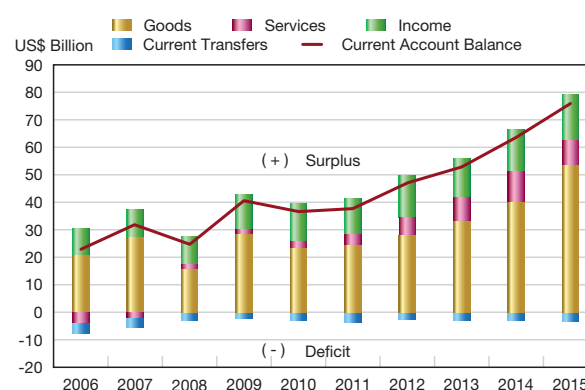


(1) Goods (2) Services (3) Income (4) Current Transfers (5) Capital Account
(6) Direct Investment (7) Portfolio Investment (8) Financial Derivatives
(9) Other Investment (10) Net Errors and Omissions (11) Reserves *

Note: * The minus sign (-) indicates an increase in foreign exchange reserves held by the CBC.

Source: Balance of Payments, CBC, February 2016.

Current Account



Source: Balance of Payments, CBC, February 2016.

China continued to be Taiwan's largest import partner. The trade surplus with Mainland China decreased by 15.1% to US\$65,809 million in 2015. Nevertheless, Mainland China remained the largest source of Taiwan's trade surplus.

Exports to the Association of Southeast Asian Nations (ASEAN), including Brunei Darussalam, Cambodia, Indonesia, Laos, Malaysia, Myanmar, the Philippines, Singapore, Thailand, and Vietnam decreased by 14.2% to US\$51,647 million in 2015, affected by falling export prices of petrochemical products amid a prolonged global oil slump. The combined share of exports to ASEAN in total exports fell to 18.1%. Imports from these countries decreased 16.1% to US\$29,117 million, with a share of 12.3% in total imports. In sum, the trade surplus with ASEAN reduced from US\$25,447 million in 2014 to US\$22,530 million, with Singapore, Vietnam, and the Philippines being the second, third, and fourth largest sources of Taiwan's trade surplus, respectively.

Despite the US economic recovery, Taiwan's exports to the US declined 1.6% to US\$34,550 million in 2015 yet comprised a higher share of 12.1% in total exports. The top three types of products exported to the US were information, communication and audio-video products, base metals and articles of base metal, and machinery. Among these product groups, only machinery exports increased. Taiwan exported 6.2% less base metals and articles of base metal to the US, mainly attributable to China's steel overproduction and the resulting steel prices falls. Imports from the US reduced by 2.8% to US\$29,199 million, while its share in total imports increased to 12.3%. The trade surplus with the US expanded to US\$5,352 million, the fifth largest source of Taiwan's trade surplus.

Direction of Trade in Goods by Country

Unit: %

	2015			2014		
	Amount (US\$ Million)	Share	Annual Change	Amount (US\$ Million)	Share	Annual Change
Exports						
Mainland China (including Hong Kong)	112,580	39.4	-12.4	128,534	40.2	2.6
ASEAN	51,647	18.1	-14.2	60,172	18.8	1.6
U.S.	34,550	12.1	-1.6	35,114	11.0	7.6
Europe	25,971	9.1	-10.8	29,122	9.1	4.4
Japan	19,602	6.9	-2.7	20,142	6.3	3.9
Rest of the World	41,071	14.4	-12.6	47,008	14.7	0.1
Total	285,421	100.0	-10.8	320,092	100.0	2.8
Imports						
Mainland China (including Hong Kong)	46,771	19.7	-8.3	50,989	18.1	13.5
Japan	38,875	16.4	-7.4	41,984	14.9	-3.9
U.S.	29,199	12.3	-2.8	30,036	10.7	5.7
ASEAN	29,117	12.3	-16.1	34,725	12.3	5.0
Europe	28,503	12.0	-11.1	32,045	11.4	3.3
Rest of the World	65,084	27.4	-29.3	92,069	32.7	-5.0
Total	237,549	100.0	-15.7	281,850	100.0	1.4

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

Exports to Japan decreased by 2.7% to US\$19,602 million. However, a positive growth trend remained for parts of electronic products, the primary export commodity to Japan, with an increase of 15.7% from a year before. The share of exports to Japan also went up to 6.9%. Although a weaker yen lowered the cost of imports from Japan, the relocation of Japanese manufacturing firms abroad and a weak export-derived demand led Taiwan's imports from Japan to decrease 7.4% to US\$38,875 million, but its share in total imports climbed to 16.4%. Japan remained Taiwan's second largest source of imports in 2015. The trade deficit with Japan narrowed to US\$19,273 million.

Exports to Europe decreased 10.8% to US\$25,971 million, but Europe's share in total exports remained at 9.1%. Imports from Europe dropped 11.1% to US\$28,503 million, with the share slightly up to 12.0% in total imports. The trade deficit with Europe narrowed to US\$2,532 million.

(2) Services

In 2015, services receipts slightly decreased by US\$14 million to US\$56,779 million. Services payments increased by US\$1,626 million to US\$47,373 million. In all, the services surplus contracted by US\$1,640 million to US\$9,406 million.

Of the various components of the services account, transportation receipts shrank by US\$763 million to US\$10,355 million, reflecting decreases in international freight fares and passenger fares received by domestic carriers. Transportation payments also shrank by US\$348 million to US\$10,864 million, resulting mainly from reduced import freight payments by domestic sea carriers. Overall, net transportation payments increased by US\$415 million to US\$509 million in the year.

Travel receipts decreased by US\$208 million to US\$14,406 million owing to decreases in average daily expenditures per inbound visitor and average length of stay despite a record 5.34% increase in the total number of inbound visitors. Meanwhile, travel payments increased by US\$1,494 million to US\$15,492 million. This was mainly due to an 11.3% increase in the number of outbound travelers, mostly boosted by visits to Japan to take advantage of a weaker yen. In sum, the travel account exhibited a deficit of US\$1,086 million in 2015, shifting from a surplus in the previous year.

Other services receipts increased by US\$957 million to US\$32,018 million, mainly attributable to an increase in receipts of royalties and license fees, computer and information services, and professional and technical services. Other services payments increased by US\$480 million to US\$21,017 million on account of increases in expenditures on trade-related commissions and on construction. In all, the surplus in other services expanded to US\$11,001 million in 2015.

(3) Income

In 2015, income receipts decreased by US\$649 million to US\$29,753 million, mainly owing to

decreases in interest earnings generated by residents' foreign exchange assets. Meanwhile, income payments amounted to US\$12,962 million, US\$1,983 million less than in 2014, mostly attributable to a decrease in non-residents' direct investment income. Consequently, the surplus on the income account expanded to US\$16,791 million for the year of 2015.

(4) Current Transfers

For the year of 2015, current transfer receipts and payments amounted to US\$6,612 million and US\$9,985 million, respectively. As a whole, the deficit in current transfers expanded to US\$3,373 million in 2015, mainly owing to an increase in outward cross-border workers' remittances.

Slightly Higher Net Outflow in the Capital Account

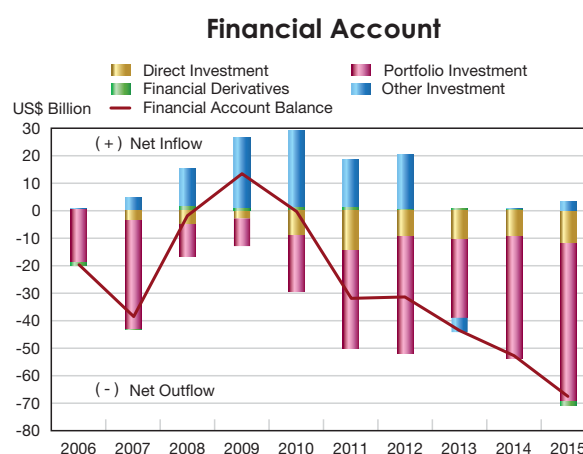
The capital account includes capital transfers (debt forgiveness, ownership transfers of fixed assets and migrants' transfers) and the acquisition and disposal of non-produced, non-financial assets. In 2015, the capital account posted a deficit slightly up by US\$6 million to US\$82 million owing to increased payments for acquisitions of non-produced, non-financial assets.

Record-High Net Outflow in the Financial Account

The financial account for the year 2015 showed a record-high net outflow of US\$68,041 million. In terms of sub-categories, direct investment, portfolio investment, and financial derivatives registered net outflows of US\$12,358 million, US\$57,716 million, and US\$1,250 million, respectively; other investment registered a net inflow of US\$3,283 million.

(1) Direct Investment

Direct investment abroad by residents registered a net outflow of US\$14,773 million, an increase of US\$2,062 million compared with 2014. On the other hand, direct investment in Taiwan by non-residents registered a net inflow of US\$2,415 million, US\$424 million less than in the previous year. Based on approved cases, residents' direct investment in China and in other areas reported US\$10,398 million and US\$10,745 million, respectively, suggesting that China remained the major recipient of Taiwan's direct investment abroad. The main investment target sectors included banking and insurance, electronic parts and components, real estate, basic metal manufacturing, computers, electronics and optical products, and wholesale and retail.



Source: Balance of Payments, CBC, February 2016.

The main target sector for inbound investments by non-residents included banking and insurance, wholesale and retail, and real estate. Overall, direct investment exhibited a net outflow of US\$12,358 million in 2015, increasing by US\$2,486 million compared to 2014.

(2) Portfolio Investment

In 2015, portfolio investment abroad by residents showed a net outflow of US\$56,535 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 because insurance companies' investments in international bonds were allowed to be excluded from the amount subject to the overseas investment ceiling. On the other hand, local portfolio investment by non-residents exhibited a net outflow of US\$1,181 million. This was because foreign investors reduced holdings of domestic debt securities. Meanwhile, a net inflow of US\$1,352 million was recorded in non-residents' equity securities investment. Overall, portfolio investment showed a net outflow of US\$57,716 million in 2015.

(3) Financial Derivatives

Financial derivatives recorded a net outflow of US\$1,250 million, mainly owing to losses of the private and banking sectors from transactions of financial derivatives.

(4) Other Investment

In 2015, other investment abroad by residents showed a net inflow of US\$15,375 million, mainly owing to withdrawal of overseas deposits by the private sector. On the other hand, other inward investment by non-residents showed a net outflow of US\$12,092 million, largely attributable to repayments for borrowings from overseas branches by the banking sector. As a consequence, other investment as a whole swung into a net inflow of US\$3,283 million in 2015.

Increase in Foreign Exchange Reserves

The foreign exchange reserve assets held by the CBC increased by US\$15,011 million as a result of the current account surplus.