

# I. Developments in the Real Economy

## 1. Overview

As domestic demand enjoyed steady growth in 2016 and external demand was bolstered by a strengthening global economy in the second half of the year, Taiwan's economy expanded from 0.72% in 2015 to 1.50%. The balance of payments (BOP) stayed healthy with a surplus of US\$10,663 million. In terms of inflation, weather-induced rises in food prices were partially offset by lower fuel and gas costs following international energy price declines; the average annual growth rate of the consumer price index (CPI) rose 1.40% over the previous year. Despite record-high tax revenue, a significant increase in social welfare expenditure pushed up the central government deficit to NT\$45.0 billion. Meanwhile, the unemployment rate averaged 3.92% for the year as a whole, the second lowest level since 2008.

### Moderate Economic Growth

In the first quarter of 2016, private consumption grew steadily, but private investment was dampened by a tepid housing market and exports also faltered amid a weak global economy, leading the economy to contract by 0.23% year on year. From the second quarter onwards, though, exports regained strength thanks to rising demand for semiconductors in a stabilizing global economy, and private investment was driven by increased capital outlays in the semiconductor and airline industries. Consequently, economic growth began to gather pace and reached an all-year high of 2.88% in the fourth quarter. The annual economic growth rate was 1.50%, higher than the previous year's 0.72%.

In terms of GDP components by expenditure, domestic demand grew steadily by 2.16%, boosted by growth in private consumption, government consumption, and government and public enterprise investment. Domestic demand contributed 1.89 percentage points to GDP growth, while net external demand contributed -0.38 percentage points.

Broken down by type of activity, the industrial sector reversed the previous year's contraction and expanded by 2.04%, with a growth contribution of 0.73 percentage points. The services sector continued to pick up at a pace of 1.33%, contributing 0.83 percentage points to GDP growth.

### Continued BOP Surplus

For year 2016 as a whole, Taiwan continued to post a balance of payment surplus<sup>1</sup>, with a

<sup>1</sup> Starting from 2016, the CBC adopted the sixth edition of the IMF's Balance of Payments and International Investment Position Manual (BPM6) for BOP compilation. For more information, please see Appendix of the 2016-Q1 press release on Taiwan's balance of payments.

current account surplus of US\$70,938 million and a net asset increase of US\$65,037 million in the financial account. The overall balance of payments showed a surplus of US\$10,663 million, lower than US\$15,011 million in 2015.

In the current account, both internal and external demand strengthened in the latter half of the year, but exports and imports for the full year still declined compared to the previous year. As exports shrank more than imports, the goods trade surplus decreased to US\$69,410 million. The services account ran a larger deficit of US\$10,964 million in 2016, mainly owing to reduced travel and freight receipts as well as increased payments for travel and airline passenger transportation. The primary income surplus narrowed to US\$15,649 million mainly because of higher outward payments to non-residents' portfolio investment income. The secondary income posted a smaller deficit of US\$3,157 million.

In the financial account, portfolio investment recorded a net asset increase of US\$78,419 million. With insurance companies investing more in foreign debt securities, portfolio investment abroad by residents grew by US\$81,062 million; as for local portfolio investment by non-residents, it also increased by US\$2,643 million mainly because foreign investors increased local share holdings. Direct investment reported a net asset increase of US\$9,510 million, with Mainland China remaining the major recipient of Taiwan's direct investment. As a result of cross-border mergers and acquisitions and share swap transactions, direct investment abroad by residents, with an increase of US\$17,843 million, and inbound direct investment by non-residents, with an increase of US\$8,333 million, both registered higher figures than ever before. As for other investment, it showed a net asset decrease of US\$20,664 million, as increases in non-residents' deposits and foreign borrowing led to a greater increment in foreign liabilities.

### **Mild Inflation**

Amid lackluster global growth, languishing international raw material prices resulted in a 3.08% decline in import prices in NT dollar terms. In addition, low quotations for electronics and optical apparatus and a reduction in electricity rates led the wholesale price index to fall by 2.99%, albeit to a lesser degree compared to the previous year's drop.

In terms of CPI growth, prices of vegetables & fruits and food away from home climbed on account of adverse weather conditions, but prices of fuel and gas went down as a result of falling international energy prices. Reflecting these factors, the 2016 CPI annual growth rate stood at 1.40%, the most marked rise in four years. Core inflation (excluding fruits, vegetables, and energy prices) recorded a mild increase at 0.84%, slightly higher than the 0.79% of 2015.

### **Widened Government Deficit**

In 2016, the central government deficit grew by NT\$34.9 billion to NT\$45.0 billion, as the NT\$9.9

billion increase in revenue was trumped by the NT\$44.8 billion in expenditure.

Of the total revenue, tax revenue continued to contribute around 80%. Adjustments in tax schemes and corporate profit gains helped to bring in 4.7% more tax revenue in 2016 than the previous year. Surpluses of public enterprises and public utilities decreased by 2.5%, while fees, fines, and indemnities posted a sizable reduction of 29.2% owing to a higher base effect. On the other hand, central government expenditure mounted in 2016 mainly because expenditure on social welfare and expenditure on economic development expanded by NT\$20.7 billion and NT\$8.1 billion, respectively.

The central government's debt financing needs rose to NT\$118.0 billion because of a wider deficit and an increase in debt principal repayment. At the end of 2016, the total outstanding debt of the central government posted a new high of NT\$5,372.1 billion, but its ratio to GDP dropped slightly to 31.4%.

### **Low Unemployment Rate; Slower Wage Growth**

The unemployment rate edged up from January onwards amid a slow economic recovery. It reached 4.08% in August, the highest since September 2014. Later, with an economic upturn, the unemployment rate began to drop and recorded 3.79% in December. The annual average unemployment rate was 3.92%, higher than 3.78% in 2015 but still the second lowest since 2008.

The average number of employed persons increased by 69 thousand or 0.62% to 11.27 million in 2016. Employment in the services sector grew the most among all sectors, with an increase of 58 thousand workers or 0.88% from the previous year. The industrial sector hired eight thousand persons more than a year before, increasing by 0.21%.

Average non-farm (industrial and services sectors) monthly earnings per employee gained by 0.62% year on year to NT\$48,790, while average monthly regular earnings of non-farm employees increased by 1.35% to NT\$39,238. Adjusted for inflation, real monthly earnings decreased by 0.77%, and real monthly regular earnings shrank slightly by 0.05%.

Labor productivity indices of the industrial sector and the manufacturing industry grew by 5.42% and 5.74%, respectively, over the previous year. Unit labor costs dropped by 0.52% in the industrial sector and by 0.71% in manufacturing, reflecting a smaller increase in total earnings over that in production.