

# *Economic Developments*

# I. Economic Developments

## 1. Overview

Taiwan experienced stable growth in domestic demand in the year of 2018, while external demand was dampened by a flagging global economy in the latter half of the year. For 2018 as a whole, the annual GDP growth rate fell from 3.08% the previous year to 2.63%. The balance of payments was healthy, with a continued current account surplus and a net asset increase in the financial account. The consumer price index (CPI) rose 1.35% year on year, owing to rising energy costs and the deferred effect of a tobacco tax hike. Meanwhile, the 2018 average unemployment rate went further down to 3.71%, the lowest in 18 years. Average non-farm monthly real earnings per employee increased by 2.43% to a historical high of NT\$51,389.

### **Moderate Economic Growth**

In the first half of 2018, the global economy posted a steady expansion, the semiconductor industry enjoyed good business, and demand for machinery was strong, leading Taiwan's exports to grow further. Private and government consumption both increased steadily. As a result, the domestic economy expanded at a pace of 3.22%. However, economic growth slid to 2.08% in the second half of the year, burdened by significant moderation in export growth owing to a confluence of factors including a slowing global economy, escalating US-China trade friction, international financial market turmoil, and a higher base effect, as well as lukewarm private consumption and investment. For the year as a whole, Taiwan's economy grew by 2.63%, lower than the 3.08% of 2017.

In terms of GDP components by expenditure, private consumption grew steadily, government consumption rose significantly, and fixed capital formation returned to positive growth, driving domestic demand to expand by 3.22%. With a contribution of 2.81 percentage points, domestic demand continued to be the mainstay of domestic economic growth in 2018. On the other hand, import growth accelerated because of demand derived from exports and domestic demand. Therefore, despite stable export growth momentum, faster import growth led net external demand to slip to a negative contribution of 0.18 percentage points.

Meanwhile, with positive growth in private and public consumption, gross national saving was lower than the previous year, while gross domestic investment increased. As a result, the ratio of excess saving to gross national income dropped to 11.96% in 2018 from the 14.57% of 2017.

### **Healthy BOP Surplus**

Taiwan's balance of payments remained healthy and steady in 2018, with a current account

surplus of US\$68,262 million and a net asset increase of US\$51,921 million in the financial account, and an increase of US\$12,499 million in the Bank's reserve assets.

In terms of the current account, the goods trade surplus remained the primary source of the surplus on the current account, despite a decline to US\$67,733 million owing to a larger increase in imports than exports. The services account deficit narrowed to US\$6,816 million, mainly owing to increases in travel receipts and income from professional and management consulting services. The primary income surplus shrank to US\$10,671 million, mainly because outward payments to nonresidents' portfolio investment income increased. The secondary income deficit decreased to US\$3,326 million. For the year of 2018, the ratio of current account surplus to GDP fell from the 14.4% of the previous year to 11.6%.

In the financial account, portfolio investment recorded a net asset increase of US\$80,695 million. Among the components, portfolio investment abroad by residents recorded an increase of US\$68,798 million, mainly because investment trust funds and insurers raised their holdings of overseas securities. Local portfolio investment by nonresidents posted a net decrease of US\$11,897 million from a net increase the previous year, mainly because foreign investors reduced their holdings of local equities and overseas corporate bonds.

Direct investment recorded a net asset increase of US\$11,026 million, with direct investment abroad by residents, at US\$18,024 million, and inbound direct investment by nonresidents, at US\$6,998 million, posting year-on-year increases. In terms of other investment, it showed a net asset decrease of US\$41,438 million, mainly because increases in nonresidents' bank deposits and foreign borrowing by the banking sector caused foreign liabilities to expand.

## **Mild Inflation**

Against a backdrop of steady global economic expansion and price gains in international oil and other raw materials in the first half of 2018, domestic import prices were pushed up, hence an upturn in the annual growth rate of the wholesale price index ensued. Thereafter, the annual WPI growth rate went down as a cooling global economy weighed on international raw material prices. For the year as a whole, the WPI rose 3.63% over the previous year, with the categories of domestic sales excluding imports, imported goods, and exported goods up by 3.73%, 6.11%, and 1.45%, respectively.

In regard to consumer price trends in 2018, fruit prices fell on favorable weather conditions, while higher imported oil costs sent domestic fuel and gas fees higher, cigarettes priced in the tobacco tax hike, and away-from-home food prices went up in reflection of increased costs for staffing and raw food items. For the year as whole, the annual CPI growth rate was 1.35%, higher than the 0.62% of 2017, and core CPI (excluding fruit, vegetables, and energy prices) rose 1.21%, both representing mild inflation.

## Unemployment Rate Further Down; Wage Growth Up

Labor market conditions were stable in 2018. The unemployment rate generally declined during the year, except in February (with the usual wave of job-transition after the Lunar New Year holidays) and the Jun.-Aug. period (the graduation season). The unemployment rate stood at 3.66% in December, while it averaged 3.71% for the year as a whole and hit the lowest on record in 18 years. The average labor force participation rate gained 0.16 percentage points over the previous year and reached 58.99% for 2018.

The average number of employed persons increased by 82 thousand or 0.73% to 11.43 million in 2018. Among the sectors, services gained the most, with an increase of 58 thousand workers or 0.86% from the previous year. Employment in the industrial sector ranked second with an increase of 20 thousand workers, a 0.50% rise year on year. The agricultural sector also hired four thousand persons more compared to the previous year, up by 0.73%.

Average non-farm (industrial and services sectors) monthly earnings per employee rose by 3.82% to NT\$52,407. This was the fastest rise since 2011, mainly attributable to public sector pay raises, a minimum wage hike, and private company pay increases. Among the components, regular earnings went up by 2.58% to NT\$40,959, and non-regular earnings gained 8.49%. Real monthly earnings adjusted for inflation climbed to a historical high of NT\$51,389 after a year-on-year increase of 2.43%.

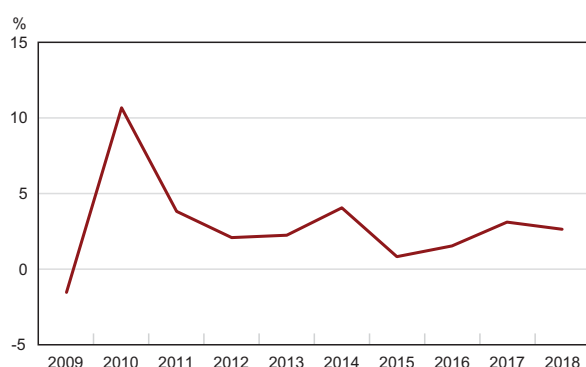
Labor productivity indices of the industrial sector and the manufacturing industry grew by 2.05% and 2.36% over the previous year, respectively. Unit labor costs rose by 3.42% in the industrial sector and by 3.23% in manufacturing, reflecting a larger increase in total earnings over that in production.

## 2. National Output and Income

In 2018, Taiwan's economy experienced a modest growth rate of 2.63%, slightly lower than the 3.08% of the previous year. Domestic demand made an appreciable contribution of 2.81 percentage points to real GDP growth in 2018, supported by a steady increase in private consumption and noticeable improvements in government consumption and fixed capital formation. In terms of external demand, the growth of exports was outpaced by a larger increase in imports owing to rising demand derived from exports and fixed capital formation, leading to a negative contribution of 0.18 percentage points to real GDP growth.

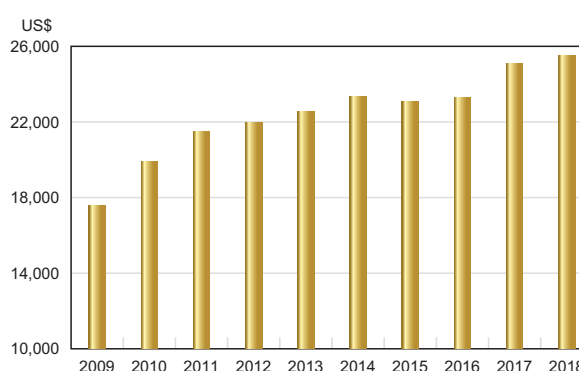
In the first quarter, strong export growth was led by advanced technology applications, higher demand for machinery, and favorable conditions in the semiconductor market. Although private consumption, as well as exports, grew at a robust pace, sluggish growth in private investment resulted in a real GDP growth rate of 3.15%. In the second quarter, despite a slight contraction in private investment, with the support of private and government consumption and external demand, economic growth reached its annual peak of 3.29%. In the third quarter, private investment recorded positive growth, underpinned by increases in semiconductor equipment procurement and construction investment. Meanwhile, public sector pension reform, weak consumer sentiment, and other factors contributed to a decline in private consumption growth. Deterioration in export growth on account of US-China trade tensions and a global economic slowdown further weakened real GDP growth to 2.38%. As the economy proceeded to the fourth quarter, weaker consumer sentiment and a dismal stock market dampened growth in private consumption. Cautious spending on capital equipment by the semiconductor and aviation industries caused private investment to contract. Against the background of tepid domestic demand and a slowing global economy, real GDP

**Real Growth Rate of GDP**



Source: *Statistical Abstract of National Income*, DGBAS, Executive Yuan, February 2019.

**Per Capita GNI**



Source: *Statistical Abstract of National Income*, DGBAS, Executive Yuan, February 2019.

in the fourth quarter grew by 1.78%, the lowest level over the year. In the meantime, nominal GNI (gross national income) grew at an annual rate of 0.73% and per capita GNI increased from US\$25,055 to US\$25,456.

## Expenditure Components of GDP

All expenditure components of GDP recorded positive growth in 2018. Among all the components, exports of goods and services remained the primary source of economic growth and contributed 2.38 percentage points to GDP growth for the year. Private consumption, on the other hand, contributed 1.08 percentage points to GDP growth in 2018. Government consumption and gross fixed capital formation improved from the previous year and contributed to GDP growth by 0.49 and 0.43 percentage points, respectively. With respect to shares of GDP, exports of goods and services accounted for the largest share of GDP at 66.75%, followed by private consumption at 53.72% and gross fixed capital formation at 20.99%.

### GDP by Expenditure

Unit: %

	2018			2017		
	Share	Real Growth Rate	Contribution to Real Growth Rate of GDP*	Share	Real Growth Rate	Contribution to Real Growth Rate of GDP*
Private Consumption	53.72	2.05	1.08	52.94	2.54	1.34
Government Consumption	14.51	3.51	0.49	14.07	-0.63	-0.09
Gross Fixed Capital Formation	20.99	2.10	0.43	20.48	-0.12	-0.02
Change in Inventory	0.34	-	0.80	-0.24	-	-0.14
Exports of Goods and Services	66.75	3.66	2.38	64.89	7.43	4.66
(Less : Imports of Goods and Services)	56.31	4.90	2.55	52.14	5.28	2.66
Expenditure-based GDP	100.00	2.63	2.63	100.00	3.08	3.08

Note: \* Percentage point.

Source: *Statistical Abstract of National Income*, DGBAS, Executive Yuan, February 2019.

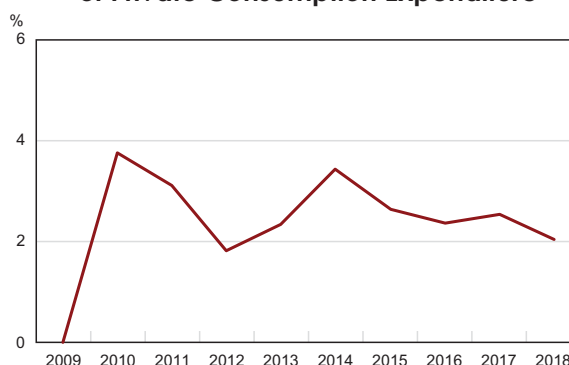
#### (1) Mild Expansion in Private Consumption

Private consumption grew by 2.05% in 2018, slightly lower than that of the previous year, and contributed 1.08 percentage points to GDP growth. The growth momentum was mainly driven by stable wage increases, an improvement in the employment situation, and higher trading volumes in the stock market. Yet, several unfavorable conditions emerged towards the second half of the year, putting downward pressure on overall consumer spending.

Growth in private consumption slowed gradually over the year with the first two quarters registering the highest growth in 2018 at 2.55% and 2.29%, respectively. In the second half of 2018,

private consumption growth appeared less promising on account of a number of cyclical and structural factors, such as public sector pension reform, lower trading volumes in the stock market, and anemic performances of new vehicle sales and smartphone sales. In addition, disruptions in global financial markets, partly triggered by US-China trade tensions, held down consumer sentiment in Taiwan, thereby softening private consumption. Given the above reasons, private consumption growth in the third and fourth quarters dropped to 1.69% and 1.67%, respectively.

**Real Growth Rate  
of Private Consumption Expenditure**



Source: Statistical Abstract of National Income, DGBAS, Executive Yuan, February 2019.

## (2) Modest Growth in Fixed Capital Formation

Fixed capital formation grew at a modest rate of 2.10% for the entire year, supported by construction investment and machinery and equipment investment. In the first and second quarters of 2018, fixed capital formation grew by 0.36% and 0.02%, respectively, restrained by a higher base effect and a reduction in machinery and equipment investment. Nevertheless, growth rebounded to 5.51% in the third quarter owing to higher demand for semiconductor equipment, stable growth in construction investment, and a lower base effect. In the fourth quarter, the semiconductor industry and the aviation industry became more cautious when making decisions on capital expenditure. Prudent spending by businesses partially offset the growth in construction investment, leading to a growth rate of 2.29% in gross fixed capital formation.

Regarding expenditure by type of purchasers, a higher base effect led to negative growth in machinery and equipment investment in the first half of 2018, offsetting growth in transportation investment and construction investment. Consequently, private sector investment in the first and second quarters grew by 0.62% and -0.12%, respectively. In spite of contracted transportation investment, private investment rose by 5.48% in the third quarter, on account of a lower base effect and an uptick in equipment expenditure by major semiconductor manufacturers. Subsequently, reductions in machinery and equipment investment and transportation investment partially offset the gains from construction investment, dragging growth in private investment down to a yearly low of -0.44%. For the year as a whole, growth in private investment reached 1.46%, higher than the -1.09% of 2017. Investment by public enterprises, on the other hand, performed extremely well because of robust growth in transportation investment and construction investment, leading to a growth rate of 13.56%. Finally, investment by general government recorded positive growth for the

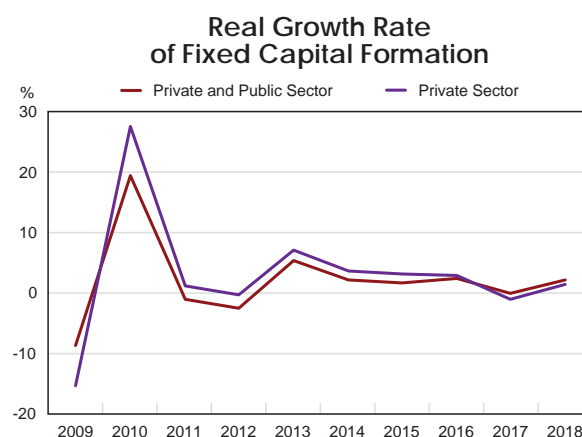
third consecutive year with an annual rate of 1.82% on the back of the government's active implementation of the Forward-Looking Infrastructure Development Program.

In terms of the type of capital formation, construction investment grew at a steady pace, with an annual growth rate of 3.31% in 2018. Meanwhile, growth in transportation investment had a strong start in the first half of the year, but softened over the second half of 2018 as the aviation industry cut back on its capital expenditure. For the entire year, transportation investment shrank by 0.01%. With regard to machinery and equipment investment, a substantial contraction appeared in the first half of 2018 because of a higher base effect. However, growth managed to maintain at a positive rate of 1.57% for the entire year, primarily influenced by a surge in capital expenditure by major semiconductor manufacturers in the third quarter and a steady increase in public investment in the second half of the year. Investment in intellectual property remained relatively stable and rose by 1.59% for the year as a whole.

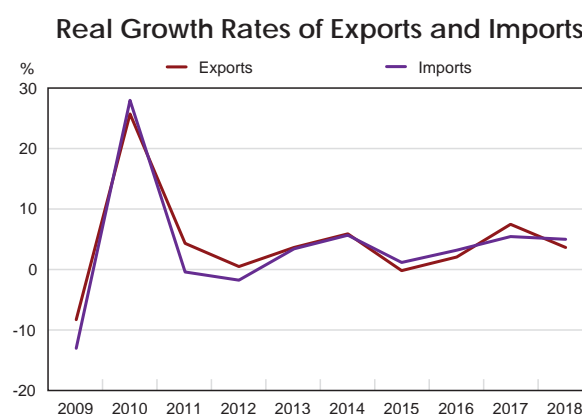
### (3) Soft Growth in Exports and Imports

Taiwan's exports benefited from solid global economic growth and the development of advanced technology applications in 2018. Exports of goods and services grew at an annual rate of 3.66% and contributed 2.38 percentage points to real GDP growth.

In the first quarter, higher demand for machinery and favorable conditions in the semiconductor market drove exports to rise by 6.42%, the highest level over the year. In the second quarter, exports of goods continued to grow, yet a slowdown in exports of services caused by a decline in the number of tourists from abroad led growth in exports of goods and services to slightly decrease to 6.33%. In the third quarter, given a higher base effect from the previous year, growth in exports of goods and services fell sharply to 1.35%. In the fourth quarter, growth in exports of goods and services



Source: *Statistical Abstract of National Income*, DGBAS, Executive Yuan, February 2019.



Source: *Statistical Abstract of National Income*, DGBAS, Executive Yuan, February 2019.



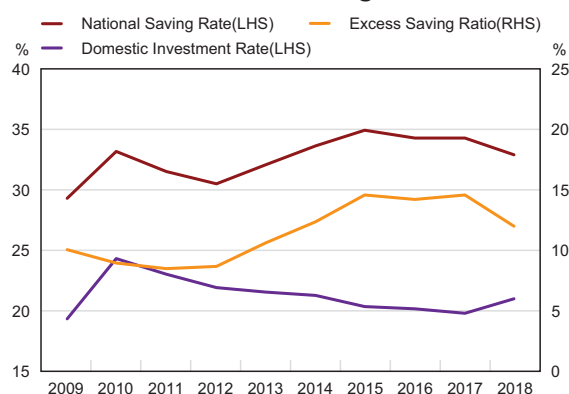
further declined to a yearly low of 1.29% as a result of US-China trade tensions and the weak performance of smartphone sales.

As for the imports of goods and services, notwithstanding limited growth in capital equipment imports, higher prices of international raw materials and strong export-derived demand caused imports to advance by 4.90% for the entire year.

### Moderate Decline in Excess Saving Ratio

Private consumption continued to gain growth momentum as a result of improving labor market conditions and wage hikes. National consumption in nominal terms (including consumption by both the private and government sectors) went up by 3.43% over the year, with private consumption and government consumption increasing by 3.07% and 4.76%, respectively. Nominal GNI, in contrast, had a marginal increase of 0.73%. As a consequence, the national saving rate (the ratio of national saving to GNI measured at current prices) fell slightly from 34.29% in 2017 to 32.91% in 2018. Meanwhile, domestic investment as a share of GNI moved upward by a small margin, from 19.72% in 2017 to 20.95% in 2018. Overall, the excess saving ratio, defined as the excess of gross national saving over gross domestic investment to GNI, slid from 14.57% in 2017 to 11.96% in 2018.

**National Saving Rate,  
Domestic Investment Rate,  
and Excess Saving Ratio**



Source: *Statistical Abstract of National Income*, DGBAS, Executive Yuan, February 2019.

### 3. Balance of Payments

In 2018, Taiwan's current account registered a smaller surplus of US\$68,262 million compared to the previous year, which accounted for 11.6% of nominal GDP, down from 14.4% in the previous year. The financial account posted a net asset increase of US\$51,921 million. The reserves and related items recorded a surplus of US\$12,499 million, which was reflected in the increase in foreign reserve assets held by the CBC.

#### Balance of Payments

Unit: US\$ Million

	(1) 2018	(2) 2017	(1)-(2)
A. Current Account	68,262	82,839	-14,577
Goods: credit (exports)	353,446	349,835	3,611
Goods: debit (imports)	285,713	268,966	16,747
Balance on Goods	67,733	80,869	-13,136
Services: credit (exports)	50,359	45,168	5,191
Services: debit (imports)	57,175	53,847	3,328
Balance on Services	-6,816	-8,679	1,863
Primary income: credit	39,248	34,230	5,018
Primary income: debit	28,577	19,472	9,105
Balance on primary income	10,671	14,758	-4,087
Secondary Income: credit	7,624	7,217	407
Secondary Income: debit	10,950	11,326	-376
Balance on secondary income	-3,326	-4,109	783
B. Capital Account	63	-12	75
C. Financial Account	51,921	70,955	-19,034
Direct investment: assets	18,024	11,552	6,472
Equity and investment fund shares	17,397	10,736	6,661
Debt instruments	627	816	-189
Direct investment: liabilities	6,998	3,291	3,707
Equity and investment fund shares	7,195	4,781	2,414
Debt instruments	-197	-1,490	1,293
Portfolio investment: assets	68,798	81,817	-13,019
Equity and investment fund shares	10,525	14,998	-4,473
Debt securities	58,273	66,819	-8,546
Portfolio investment: liabilities	-11,897	3,885	-15,782
Equity and investment fund shares	-11,110	4,211	-15,321
Debt securities	-787	-326	-461
Financial derivatives: assets	-16,748	-11,505	-5,243
Financial derivatives: liabilities	-18,386	-11,002	-7,384
Other investment: assets	-19,073	11,586	-30,659
Other investment: liabilities	22,365	26,321	-3,956
D. Net Errors and Omissions	-3,905	595	-4,500
E. Reserves and Related Items*	12,499	12,467	32

Note: \* Excluding valuation changes in exchange rates.  
Source: *Balance of Payments*, CBC, February 2019.

## Narrow Current Account Surplus

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

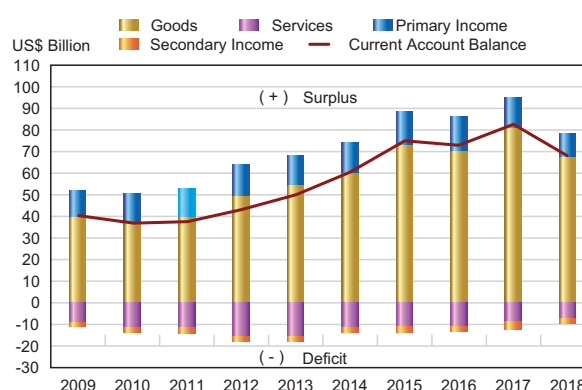
### (1) Goods

Owing to soft global economic growth and a higher base effect, Taiwan's external merchandise trade experienced a slowdown in 2018, with the value of exports, on a BOP basis, increasing by 1.0% to US\$353,446 million from 2017. Among its components, net exports of goods under merchanting recorded a decline of 19.4% to US\$11,745 million. The value of imports increased by 6.2% to US\$285,713 million. Overall, as the increase in imports exceeded that in exports, the trade surplus narrowed from US\$80,869 million to US\$67,733 million in the year. The top five trading partners of Taiwan in 2018 were Mainland China including Hong Kong (hereafter in this chapter referred to as Mainland China), Japan, the US, Europe and ASEAN<sup>1</sup>.

In terms of Taiwan's trade with Mainland China, the value of exports amounted to US\$138,391 million in 2018, 6.3% higher than the previous year. As a manufacturing center of the world, Mainland China remained Taiwan's largest export market, with its share of total exports rising to 41.2% in 2018. Of all the major products exported to Mainland China, electronic parts and components (especially integrated circuits) maintained the leading role, with a share of 47.2%, contributing 3.6 percentage points to the growth in Taiwan's exports to Mainland China. Imports from Mainland China grew by 7.1% to US\$55,207 million in 2018. With a share of 19.3%, Mainland China continued to be Taiwan's largest import source. Because the increase in exports exceeded that in imports, the trade surplus with Mainland China increased to US\$83,184 million in 2018 and remained the largest source of Taiwan's trade surplus.

Exports to the ASEAN economies decreased by 0.6% to US\$58,211 million in 2018, dragged down by the weak export performance of electronic parts and components. Their combined share of total exports shrank to 17.3%. Imports from the ASEAN economies increased by 11.3% to US\$34,532 million, with a steady share of 12.0% of total imports. Overall, the trade surplus with the ASEAN economies declined to US\$23,679 million, while Singapore, Vietnam, and the Philippines were the second, third, and fourth largest sources of Taiwan's trade surplus, respectively.

## Current Account



Source: Balance of Payments, CBC, February 2019.

<sup>1</sup> Association of Southeast Asian Nations, including Brunei Darussalam, Cambodia, Indonesia, Laos, Malaysia, the Philippines, Singapore, Thailand, and Vietnam.

In 2018, Taiwan's exports to the US grew 7.5% to US\$39,701 million, comprising a higher share of 11.8% in total exports. Of all the major products exported to the US, machinery and base metals & articles thereof contributed the most by 2.0 and 1.6 percentage points, respectively. Imports from the US rose by 14.9% to US\$34,733 million, with its share in total imports climbing to 12.1%. The trade surplus with the US narrowed to US\$4,968 million for the year, ranking fifth among Taiwan's surplus sources.

Exports to Europe increased by 8.3% to US\$31,572 million, with its share of total exports increasing to 9.4%. The major products leading this growth were base metals & articles thereof, electronic parts and components, and transport equipment. Imports from Europe increased by 10.0% to US\$34,564 million, with the share of total imports remaining at 12.1%. In all, Taiwan's trade deficit with Europe expanded to US\$2,992 million in 2018.

Exports to Japan increased by 11.1% to US\$23,093 million, setting the fastest growth rate since 2011. Its share in Taiwan's total exports went up to 6.9%. As a result of higher raw material costs, mineral products, plastics, rubber and articles thereof, and machinery made higher contributions to the growth than the other major export products to Japan. Imports from Japan increased by 5.3% to US\$44,162 million, with its share of total imports dropping to 15.4%. Japan remained Taiwan's second largest source of imports in 2018. As the increase in exports surpassed that in imports, the trade deficit with Japan shrank to US\$21,070 million.

### Trade in Goods by Country

Unit: %

	2018			2017		
	Amount (US\$ Million)	Share	Annual Change	Amount (US\$ Million)	Share	Annual Change
Exports						
Mainland China (including Hong Kong)	138,391	41.2	6.3	130,213	41.0	16.0
ASEAN	58,211	17.3	-0.6	58,573	18.5	14.2
US	39,701	11.8	7.5	36,942	11.6	10.2
Europe	31,572	9.4	8.3	29,155	9.2	11.2
Japan	23,093	6.9	11.1	20,782	6.6	6.3
Rest of the World	45,054	13.4	8.3	41,583	13.1	11.0
Total	336,023	100.0	5.9	317,249	100.0	13.2
Imports						
Mainland China (including Hong Kong)	55,207	19.3	7.1	51,555	19.9	13.8
Japan	44,162	15.4	5.3	41,943	16.2	3.3
US	34,733	12.1	14.9	30,237	11.7	5.7
Europe	34,564	12.1	10.0	31,423	12.1	8.6
ASEAN	34,532	12.0	11.3	31,028	12.0	14.3
Rest of the World	83,415	29.1	14.1	73,080	28.2	21.9
Total	286,613	100.0	10.5	259,266	100.0	12.4

Source: *Monthly Statistics of Exports and Imports*, Ministry of Finance, R.O.C.(Taiwan).

## (2) Services

In 2018, services receipts increased by US\$5,191 million to US\$50,359 million. Services payments increased by US\$3,328 million to US\$57,175 million. In all, the services deficit continued narrowing to US\$6,816 million.

Of the various components of the services account, manufacturing services on physical inputs owned by others, reflected by the receipts of a resident providing a nonresident with the services of processing, assembly, labeling, or packing of goods owned by the nonresident, increased by US\$195 million to US\$2,781 million in 2018. On the debit side, payments for manufacturing services, namely a resident's payments to a nonresident for providing these services for the resident who is also the owner of the goods concerned, decreased by US\$745 million to US\$2,796 million. In total, net manufacturing payments decreased from US\$955 million to US\$15 million.

In terms of maintenance and repair services n.i.e. (not included elsewhere), which covers maintenance and repair work for or by nonresidents on ships, aircraft, and other transport equipment, the receipts increased by US\$321 million and reached a record high of US\$1,639 million, attributable to increased receipts for aircraft repairs. On the other hand, the payments slightly decreased by US\$12 million to US\$962 million. Overall, the surplus widened from US\$344 million to US\$677 million.

Transport receipts increased by US\$1,041 million to US\$10,950 million, reflecting increases in international freight fares received by domestic carriers. Transport payments increased by US\$1,106 million to US\$12,435 million, resulting from increases in payments paid to foreign carriers on imports, charge of foreign ports, and passenger fares to foreign airlines. Overall, net transport payments slightly increased from US\$1,420 million to US\$1,485 million in the year.

Travel receipts increased by US\$1,389 million to US\$13,704 million, mainly because the number of inbound visitors climbed by 3.1% on year, reaching a record high, along with an increase in average daily expenditures per inbound visitor. Meanwhile, travel payments increased by US\$1,403 million to its highest ever level of US\$19,421 million. This was mainly due to a 6.3% increase in the number of outbound travelers. In sum, the deficit on the travel account expanded to US\$5,717 million, the largest deficit on record.

Other services receipts grew by US\$2,245 million to US\$21,285 million, and other services payments rose by US\$1,576 million to US\$21,561 million, both mainly attributable to increases in receipts and payments of professional and technical services (which is under other business services). In all, the deficit in other services shrank to US\$276 million in 2018.

### (3) Primary Income

Primary income consists of compensation of employees, investment income, and other primary income. In 2018, primary income receipts increased by US\$5,018 million to US\$39,248 million, mainly caused by increasing interest received by banks. Meanwhile, primary income payments amounted to US\$28,577 million, US\$9,105 million more than the previous year, mostly attributable to an increase in income from equity securities paid to nonresidents. Consequently, the surplus on the primary income account narrowed to US\$10,671 million for the year of 2018.

### (4) Secondary Income

For the year of 2018, secondary income receipts amounted to US\$7,624 million, reflecting increases in gifts and samples and inward workers' remittances. Secondary income payments amounted to US\$10,950 million, mainly owing to decreases in outward donations, support and workers' remittances. As a whole, the deficit in secondary income narrowed to US\$3,326 million in 2018.

## Capital Account Surplus

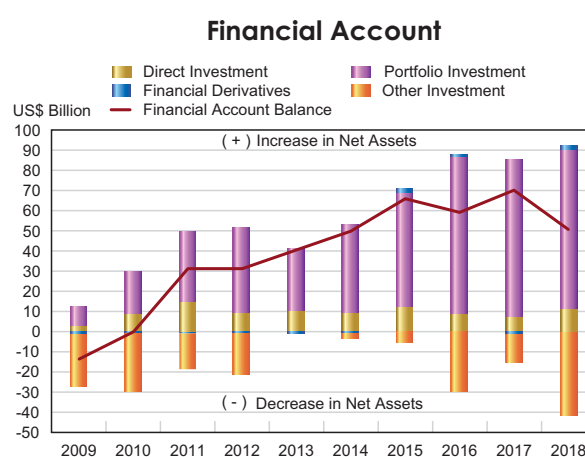
The capital account includes capital transfers and the acquisition and disposal of non-produced, non-financial assets. In 2018, the balance of the capital account turned from a deficit to a surplus of US\$63 million, mainly because foreign creditors wrote off the debts of domestic enterprises.

## Net Asset Increase in Financial Account

In 2018, the financial account showed an increase of US\$51,921 million in net assets. In terms of sub-categories, direct investment, portfolio investment, and financial derivatives exhibited increases of US\$11,026 million, US\$80,695 million, and US\$1,638 million in net assets, respectively. Other investment exhibited a decrease of US\$41,438 million in net assets.

### (1) Direct Investment

Direct investment abroad by residents exhibited an increase of US\$18,024 million in assets to reach a record high, and direct investment in Taiwan by nonresidents showed an increase of US\$6,998 million. Overall, the net assets in direct investment amounted to US\$11,026 million, US\$2,765 million more than the previous year.



Source: *Balance of Payments*, CBC, February 2019.

## (2) Portfolio Investment

In 2018, portfolio investment abroad by residents increased by US\$68,798 million. Because mutual funds and insurance companies expanded their investment abroad, equity and investment fund shares increased by US\$10,525 million, and debt securities increased by US\$58,273 million.

On the other hand, local portfolio investment by nonresidents decreased by US\$11,897 million. As foreign investors reduced holdings of Taiwanese stocks and European Convertible Bonds, equity and investment fund shares decreased by US\$11,110 million, and debt securities decreased by US\$787 million.

## (3) Financial Derivatives

Assets in financial derivatives decreased by US\$16,748 million, principally because of gains on transactions of financial derivatives received by other financial corporations.

Liabilities in financial derivatives decreased by US\$18,386 million, mainly because of losses on transactions of financial derivatives paid by other financial corporations.

## (4) Other Investment

In 2018, other investment abroad by residents decreased by US\$19,073 million. Of the components, currency and deposits decreased by US\$17,142 million as a result of shrinking overseas deposits from domestic banks; loans dropped by US\$4,132 million because of a decrease in banks' short-term lending to nonresidents; trade credit decreased by US\$6,367 million; other accounts receivable increased by US\$8,563 million, owing to growth in banks' accounts receivable from nonresidents.

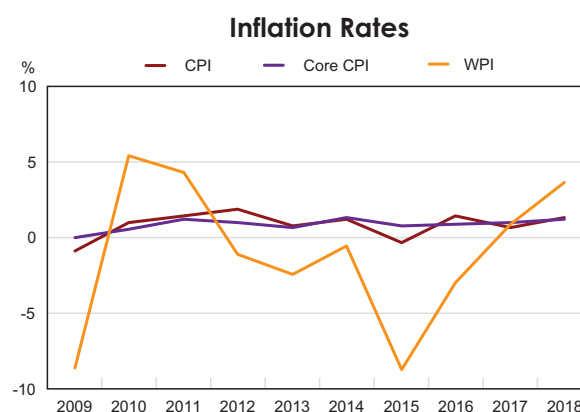
Other inward investment by nonresidents increased by US\$22,365 million. Of the components, currency and deposits increased by US\$4,186 million, because of growing deposits from nonresidents; loans increased by US\$7,382 million, owing to expanded short-term external borrowing and repurchase agreement transactions by domestic banks; trade credit increased by US\$7,487 million; other accounts payable increased by US\$3,310 million, owing to an increase in banks' accounts payable to nonresidents.

## **Increase in Foreign Exchange Reserves**

The foreign exchange reserve assets held by the Bank increased by US\$12,499 million mainly owing to increased investment income on foreign reserve assets.

## 4. Prices

In 2018, Taiwan's wholesale price index (WPI) rose by 3.63% from the previous year's 0.90%. The rise in WPI inflation was largely attributable to elevated international oil prices amid robust growth in the global economy in the first half of the year. Headline inflation, measured by the consumer price index (CPI), averaged an annual rate of 1.35% in the year, showing a further increase from a rise of 0.62% in 2017, mainly reflecting price rises in fuel, gas, cigarettes, and food away from home. However, it was partly offset by a reduction in fruit prices induced by abundant supply amid favorable weather conditions. The core CPI, which excludes fruit, vegetables, and energy, rose by 1.21% compared with a 1.04% increase in the previous year.



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

### Moderate Increase in Wholesale Prices

The WPI increased by 3.63% in 2018, up from 0.90% a year before. In terms of monthly movements, the annual WPI inflation rate generally posted an uptrend and reached an all-year high of 7.04% in July, driven by higher commodity prices amid continued global economic expansion. Afterwards, the rate gradually abated and slid to 0.77% in December owing to falling international raw material prices, reflecting slower growth in the global economy.

Broken down by the three major components of the WPI, the annual rates of change in prices for imports, domestic sales excluding imports, and exports all increased moderately in 2018 on the back of steady global economic growth in the first half of the year.

Import prices, weighted at 31.92% of the WPI, rose by 7.09% in US dollar terms in 2018. However, a modest NT dollar appreciation against the US dollar over 2018 led the annual growth rate of import prices to narrow to a 6.11% increase in NT dollar terms. Among the components of import prices in terms of NT dollars, prices of raw materials went up by 8.45% and accounted for 6.12 percentage points in the import price increase, mainly caused by rising prices of mineral products and base metals. Prices of capital goods rose by a mere 0.01%, whereas consumer goods prices dropped by 0.44%.

Export prices, weighted at 40.04% of the WPI, averaged a 2.42% increase in US dollar terms in

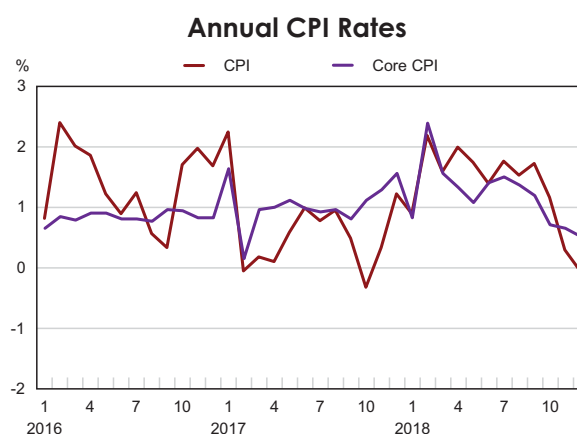
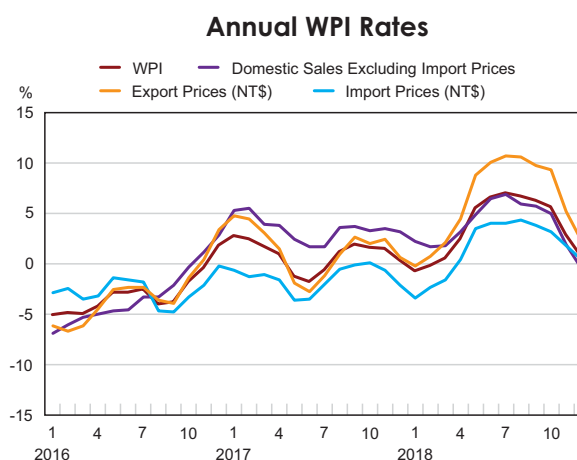


2018. As the NT dollar appreciated against the US dollar, export prices rose mildly by 1.45% in terms of the NT dollar. Among the components of export prices in terms of NT dollars, prices of raw materials moved up by 2.29%, contributing 1.84 percentage points to the export price increase, mainly led by higher prices of mineral products. In contrast, prices of consumer goods and capital goods decreased by 2.47% and 0.49%, respectively.

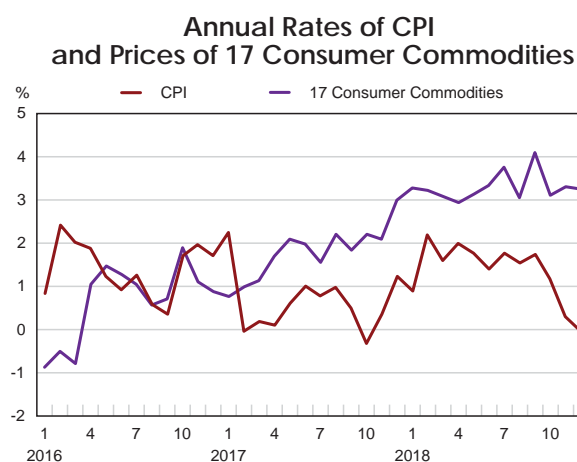
Driven by rising import costs of primary commodities, prices of domestic sales excluding imports, weighted at 28.04% of the WPI, increased by 3.73% in 2018. In terms of the basic groups, prices of manufacturing products accounted for the largest increase at 4.59%, largely attributable to rising prices of gasoline and diesel as well as the deferred effect from 2017's cigarette tax hike. On the other hand, prices of agriculture, forestry, fishing, and animal husbandry products slid by 5.29%, mostly dragged by falling prices of fruit because of abundant supply resulting from favorable weather conditions during the year.

### Uptick in Consumer Prices

The CPI rose by 1.35% in 2018, higher than the 0.62% increase in the previous year. From the beginning of the year, owing to rises in vegetables, oil, and cigarette prices, the annual CPI inflation rate stepped up and climbed to 2.0% in April. From May onwards, the CPI increased at a slower pace and posted a growth rate of 1.54% in August on account of lower telecommunications rates, the receding effect of the cigarette tax hike, as well as declining prices of vegetables because of a higher base effect. The CPI inflation rate rebounded to 1.72% in September, affected by crop damage from torrential rain and higher oil prices. Afterwards, it went down and registered an all-year low of -0.66% in December, as prices of vegetables and fruit slumped amid favorable weather conditions, the effect of the previous year's cigarette tax hike diminished, and domestic oil prices plunged because of the downtrend in global oil prices.



The core CPI inflation rate was 1.21% in 2018. 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 to July, monthly core CPI inflation rates hovered between 1.07% and 1.56%. Later, the rate trended downward and slowed to an all-year low of 0.51% at the end of the year, mainly influenced by the fading effect of mid-2017's cigarette tax hike and a decline in prices of durable consumer goods.

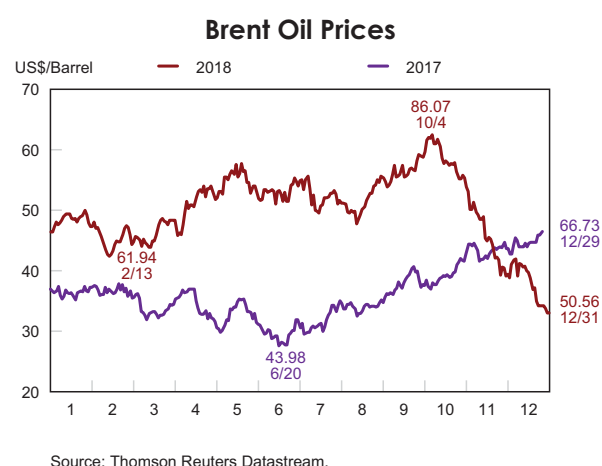


Source: *Price Statistics Monthly*, DGBAS, Executive Yuan.

Among the items people buy more frequently, the prices of 17 consumer commodities, weighted at 5.48% of the CPI and closely monitored by the Cabinet's task force on price stabilization, trended up and recorded an annual growth rate of 3.29% in 2018, much higher than the overall CPI inflation of 1.35%, and thus had a far larger impact on consumers' perceptions of price rises. The increase was primarily driven by steeper price rises in eggs, toilet paper, and milk, which climbed by 17.59%, 7.98%, and 6.90%, respectively.

The main factors contributing to the rise of CPI inflation in 2018 were as follows:

- (1) In early 2018, international petroleum prices moved down because of increased oil production in the US. From mid-February onwards, global oil prices rebounded and peaked in October, resulting from intensified geopolitical tensions in the Middle East, reduced Iranian oil exports, a decrease in US crude oil inventory, along with restricted oil supply after the OPEC and Russia decided not to lift output. Afterwards, international oil prices plunged and hit a yearly low at the end of the year, mostly dragged by increased production by the US, Russia, and the OPEC members, as well as weaker demand for oil amid a moderating global economy. Compared with 2017, the average Brent oil price rose by 30.97%. As a result, higher imported costs of petroleum and natural gas pushed up domestic oil and gas prices, which climbed by 13.27% and 6.06% and accounted for 0.37 and 0.06 percentage points in the CPI increase, respectively.
- (2) Reflecting the lingering effect of the previous year's cigarette tax hike, prices of tobacco and betel nuts rose by 25.19%, accounting for 0.37 percentage points in CPI inflation.
- (3) The rise in wages and higher prices of gas and raw food pushed up prices of food away from



Source: Thomson Reuters Datastream.

home by 2.03%, contributing 0.18 percentage points to CPI inflation.

(4) Prices of residential rent continued a mild uptrend and rose by 0.86%, contributing 0.14 percentage points to CPI inflation.

(5) Affected by an increase in tour group fees, prices of education and entertainment services grew by 0.76%.

The main factors contributing to downward pressure on the CPI in 2018 were as follows:

(1) Owing to ample supply amid stable weather conditions, prices of fruit fell by 10.72%, subtracting 0.26 percentage points from CPI inflation.

(2) As consumer electronics products retailers continued discount promotions, prices of durable consumer goods decreased by 1.11%, accounting for -0.10 percentage points in CPI inflation.

(3) Lower telecommunications rates from May onwards brought down communications fees by 2.62%, deducting 0.07 percentage points from the CPI inflation rate.

### Percentage Changes in the Major Components of the CPI in 2018

Item	Annual Rate of Change (%)	Contribution to CPI Inflation Rate (Percentage Point)
CPI	1.35	1.35
Fuels & Lubricants	13.27	0.37
Tobacco & Betel Nuts	25.19	0.37
Food away from Home	2.03	0.18
Residential Rent	0.86	0.14
Vegetables*	-3.37	0.12
Gas	6.06	0.06
Education & Entertainment Services	0.76	0.06
Transportation Fees	1.89	0.05
Total		1.35
Fruit	-10.27	-0.26
Durable Consumer Goods	-1.11	-0.10
Communication Fees	-2.62	-0.07
Total		-0.43
Others		0.43

Note: \* Since the weight of vegetables is altered monthly, the direction and extent of its effect on the general CPI may not correspond with those comparing with the previous period.  
Source: *Price Statistics Monthly*, DGBAS, Executive Yuan.

## 5. Labor Market

### Increase in Employment

Taiwan posted moderate economic growth and stable labor market conditions in 2018. For the year as a whole, annual average employment was 11.43 million persons, an increase of 82 thousand persons or 0.73% from the previous year.

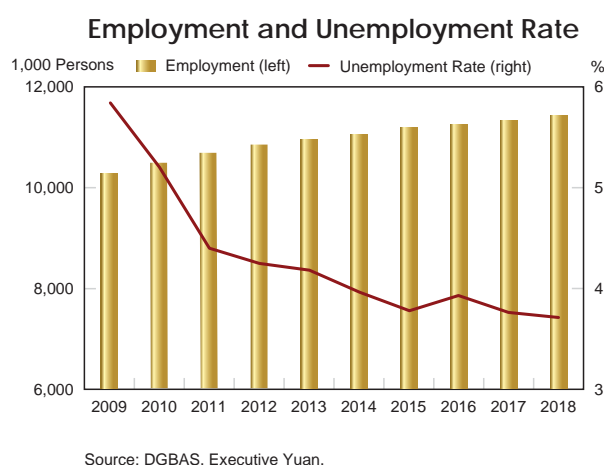
In terms of employment by sector, employment in the services, industrial and agricultural sectors increased by 58 thousand persons or 0.86%, 20 thousand persons or 0.50%, and four thousand persons or 0.73%, respectively. Of total employment, the services sector accounted for 59.38%, up by 0.07 percentage points from the previous year, while the shares of the industrial and the agricultural sectors were 35.71% and 4.90%, respectively.

In terms of employed persons by occupation, employment of white collar workers (legislators, senior officials, managers, professionals, technicians, associate professionals, and clerical support workers, etc.) increased by 47 thousand persons or 0.92%. Services and sales employment increased by 28 thousand persons or 1.26%, while employment of blue collar workers (skilled agricultural, forestry, fishing, and animal husbandry industries, craft and machinery related workers, etc.) increased by seven thousand persons or 0.17%.

### Improvement in Unemployment

For year 2018, the unemployment rate only increased in February (owing to post-Lunar New Year job switching) and in June to August (as new graduates entered the job market) because of seasonal factors, while in the other months, the unemployment rate exhibited a downward trend. In December it went to the level of 3.66%. For the year as a whole, the unemployment rate was 3.71%, the lowest since 2001.

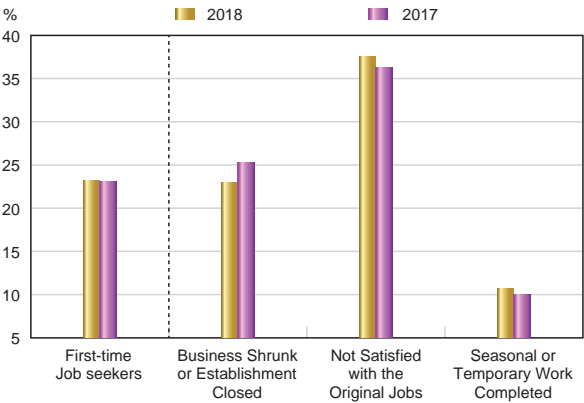
As labor market conditions improved, unemployment duration decreased by 1.40 weeks to 22.82 weeks. In terms of age, unemployment durations of the age groups 25-44 and 45-64 improved most, decreasing by 1.90 and 2.21 weeks to 23.57 and 24.11 weeks, respectively. However, unemployment duration of the age group of 15-24 increased by 0.28 weeks to 20.20 weeks. The average number of the long-term unemployed



(those who have been unemployed for 53 weeks or more) was 61 thousand persons, a decrease of two thousand persons compared to that in the previous year.

In terms of causes of unemployment, total unemployment in 2018 was 440 thousand persons, a slight decrease of 3 thousand persons or 0.70% from the previous year, mainly because of a decrease in unemployment of experienced job seekers. Among them, unemployment because business shrunk or establishment closed recorded the greatest decrease, by 11 thousand persons or 9.33%, and its share of total unemployment also decreased to 23.40%, compared to 25.63% in the previous year. Continuous economic growth helped in reducing such unemployment. On the other hand, unemployment because workers were not satisfied with their original jobs still accounted for the largest share of total unemployment, with the number up by five thousand persons or 2.76% from the previous year. The share of unemployment because of the conclusion of seasonal or temporary work also increased by three thousand persons or 6.68%.

Causes of Unemployment

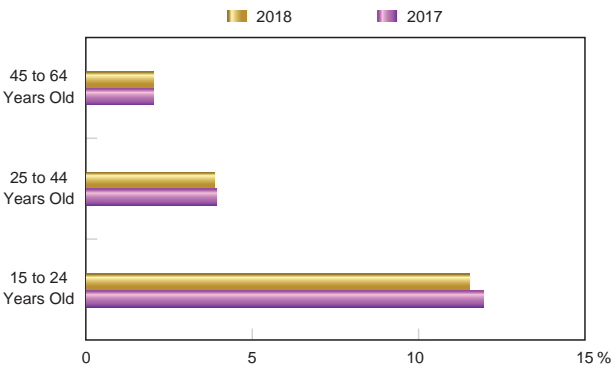


Source: DGBAS, Executive Yuan.

In terms of age groups, in year 2018 the unemployment rate of the 15-24 age group was 11.54%, which was a decrease of 0.38 percentage points from the previous year. Yet, it was still the highest among all the age groups. The unemployment rates of the age groups 25-44 and 45-64 slightly decreased by 0.07 and 0.01 percentage points to 3.86% and 2.00%, respectively, from the previous year.

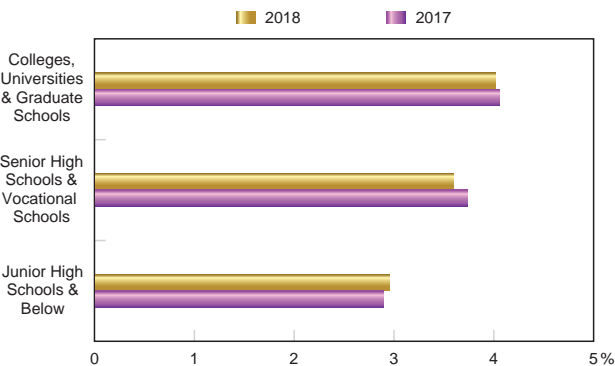
In terms of educational background, the unemployment rate of people with a college degree

Unemployment Rate by Age



Source: DGBAS, Executive Yuan.

Unemployment Rate by Education Background



Source: DGBAS, Executive Yuan.

or above and the unemployment rate of people with a senior high school or vocational school diploma decreased to 4.02% and 3.60%, respectively, which were 0.04 and 0.14 percentage points lower than the previous year. On the other hand, the unemployment rate of people with a junior high school degree or below increased to 2.96%, a year-on-year increase of 0.06 percentage points.

### Increase in Labor Force Participation Rate

The labor force (employed and unemployed combined) increased by 79 thousand persons or 0.67% to 11.87 million persons in 2018, while the labor force participation rate reached 58.99%, a 0.16 percentage point increase compared to the previous year.

In terms of gender, the male labor force participation rate was 67.24%, an increase of 0.11 percentage points from the year before, while the female rate also rose by 0.22 percentage points to 51.14%, reflecting that government policies have been quite effective in promoting gender equality, improving the work environment, and facilitating female employment in recent years.

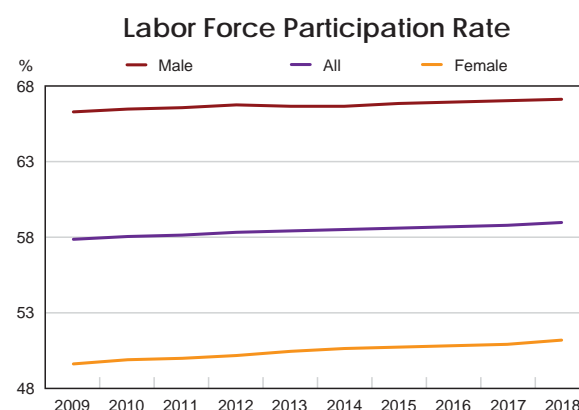
In terms of age groups, the labor participation rates of all age groups went up in 2018, with those of the 16-24, 25-44, and 45-64 age groups increasing by 1.66, 0.59, and 0.39 percentage points to 34.34%, 88.85%, and 63.21%, respectively.

Although Taiwan's total labor force participation rate has increased steadily to reach 58.99% in 2018, it is still lower than those of Japan (61.5%), the United States (62.9%), South Korea (63.1%), and Singapore (67.7%). The main reasons behind this are the extension of schooling and early retirement. In recent years the government has actively promoted employment of middle-aged workers and enhanced the program of diverse youth employment in an effort to address these issues.

In terms of educational background, the labor force participation rates of workers with a junior high school degree or below and those with a senior high school or vocational school diploma increased by 0.36 and 0.32 percentage points to 40.93% and 62.56%, respectively, while the participation rate of those with a college degree or above decreased by 0.57 percentage points to 66.10%.

### Increase in Earnings and Labor Productivity

As there were increases in the salary of military personnel, civil servants and teachers, the



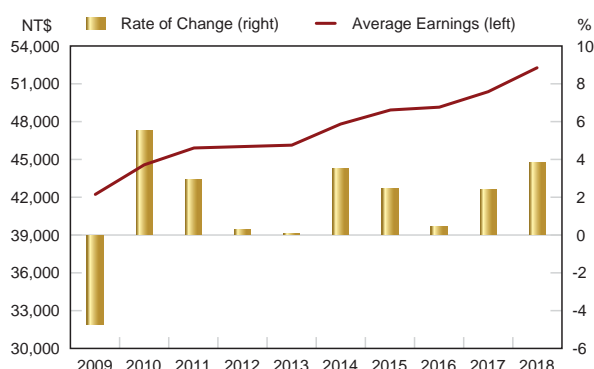
Source: DGBAS, Executive Yuan.

minimum wage, and the wages in the private sector in 2018, the average monthly earnings per worker of the non-farm sector climbed to NT\$52,407, a 3.82% increase from the previous year and the biggest increase since year 2011. After adjustment for inflation, the average real monthly earnings increased by 2.43% to NT\$51,389, an all-time high, mainly because firms increased their payouts of year-end bonuses and performance bonuses.

In terms of major sectors, in 2018, the average monthly earnings of industrial sector and services sector workers increased by 4.20% and 3.53% to NT\$52,005 and NT\$52,708, respectively, and their real earnings also increased by 2.81% and 2.15%. The electricity and gas supply sector had the highest average monthly earnings with NT\$96,054; the financial and insurance sector came in second place with NT\$89,215. On the other hand, workers in education services sector and accommodation and food services sector earned NT\$26,033 and NT\$34,077, the two lowest sectors in terms of monthly earnings. In terms of growth rates, all sectors witnessed increases in average monthly earnings with the real estate sector registering the largest increase at 6.16% and the wholesale and retail trade sector in second place with an increase of 5.37%.

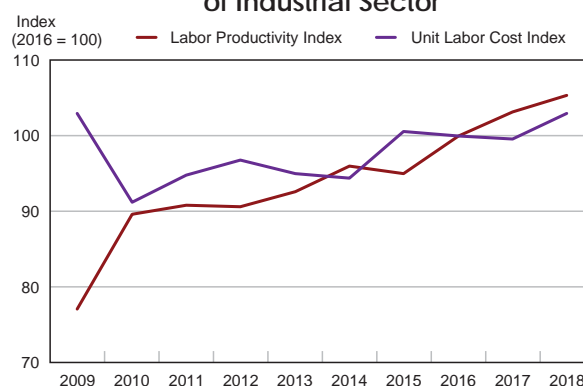
As growth in total production outpaced that in total working hours, labor productivity of the industrial and the manufacturing sectors increased by 2.05% and 2.36%, respectively. In the manufacturing sector, manufacture of computers, electronic and optical products saw the highest increase in labor productivity with 11.65%, and manufacture of other products came in second with 9.82%. Since the increase in total earnings was higher than that in production, unit labor costs of the industrial and manufacturing sectors increased by 3.42% and 3.23%, respectively, compared to those of the previous year. Unit labor cost of the manufacture of the wearing apparel and clothing accessories sector increased the most, by 22.51%, followed by that of the leather, fur and related products sector at 10.28%.

### Average Earnings of Non-farm Workers and Their Rates of Change



Source: DGBAS, Executive Yuan.

### Labor Productivity and Unit Labor Cost of Industrial Sector



Source: DGBAS, Executive Yuan.