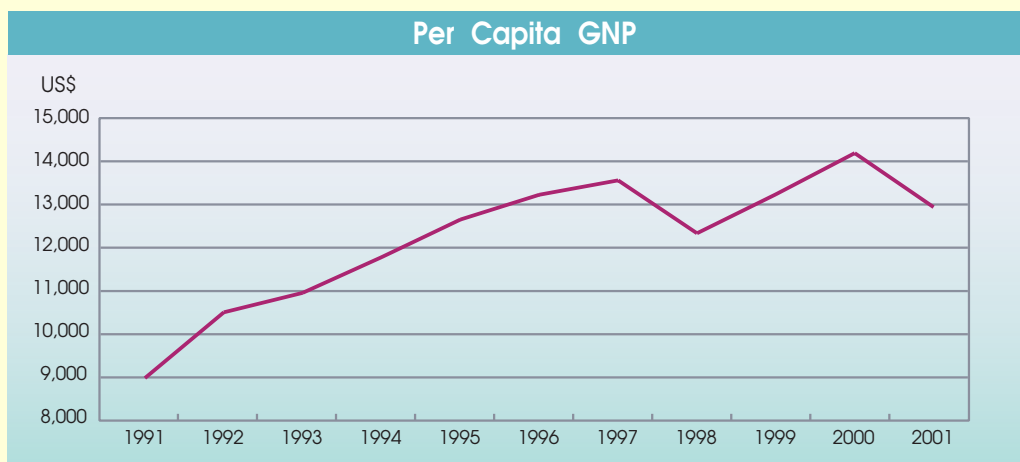
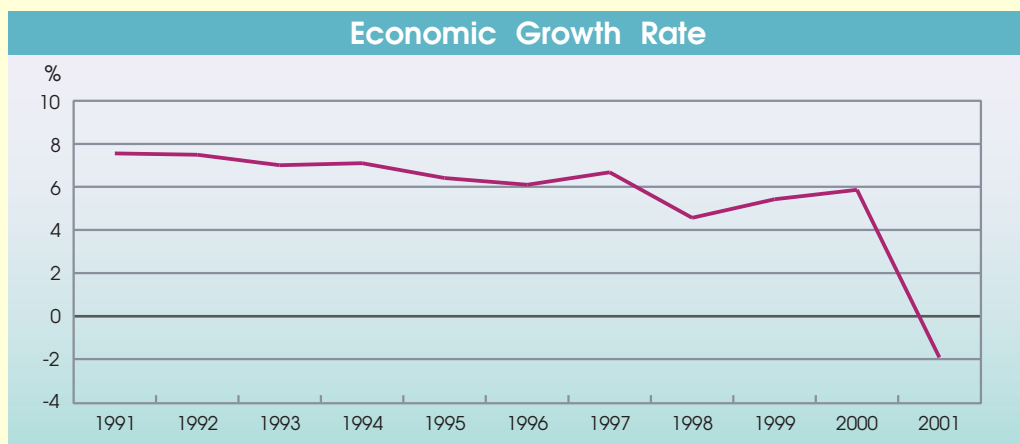


I. Developments in the Real Economy

1. National Output and Income

Taiwan's exports suffered significant setbacks during the year 2001 as global demand turned weak amid a protracted business slump compounded by the impact of September 11 terrorist attacks in the US. The main reasons behind deteriorating global demand were the rapid decline in the business climate and the burst of the high tech investment bubble. In addition to the unsatisfactory performance of exports, rising unemployment and a lackluster stock market from the second quarter of the year led to the sluggishness of households' consumption and business investment. As a result, the GDP growth rate swung into negative



territory in the second quarter of the year, and posted a negative whole-year reading of -1.91 percent for the year 2001.

Per capita GNP in nominal terms decreased by US\$ 1,247 to US\$ 12,941 in 2001. In addition to the economic downturn, the depreciation of the NT dollar against the US dollar throughout the year contributed to the decline.

Expenditure Components of GDP

The major contributor to real GDP growth in 2001 was private consumption, which contributed 0.82 of a percentage point to real economic growth rate. The decline in imports of goods and services also made a positive contribution. However, the contributions of these two components were offset by negative contributions of other components of GDP.

Expenditure on Gross Domestic Product

Unit:%

	2001			2000		
	Share (%)	Real Growth Rate (%)	Contribution to Real Growth Rate of GDP*	Share (%)	Real Growth Rate (%)	Contribution to Real Growth Rate of GDP*
Private Consumption	63.56	1.37	0.82	61.90	4.93	2.98
Government Consumption	12.95	-1.95	-0.23	12.90	0.55	0.07
Gross Fixed Capital Formation	19.20	-18.17	-4.34	23.46	8.61	2.00
Change in Inventory	-1.02	—	-0.49	-0.57	—	-1.17
Exports	50.54	-8.17	-4.57	54.44	17.55	8.84
(Less : Imports)	(45.23)	(-13.50)	(-6.90)	(52.14)	(14.53)	(6.87)
Expenditure on GDP	100	-1.91	-1.91	100	5.86	5.86

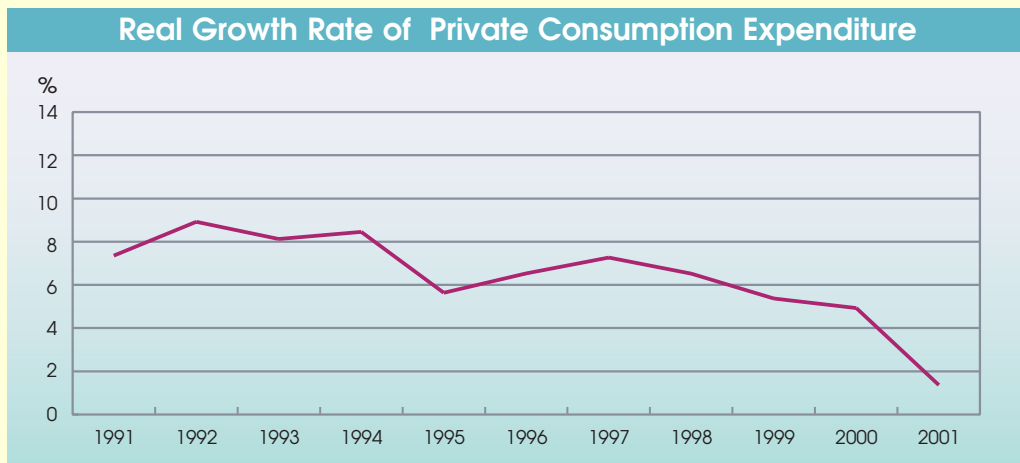
Note: * Percentage point.

Source: *Statistical Abstract of National Income, Taiwan Area, the Republic of China, Directorate-General of Budget, Accounting and Statistics, Executive Yuan.*

(1) Slight Increase in Private Consumption

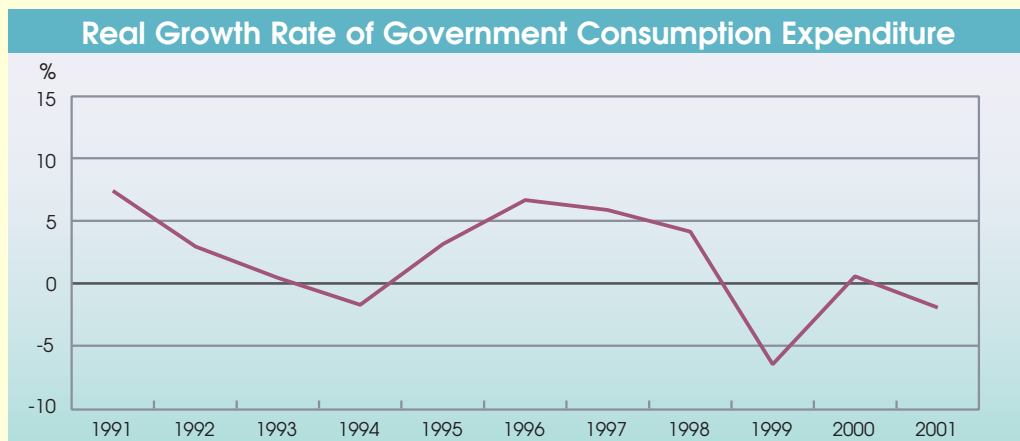
Private consumption expenditure in 2001 increased 1.37 percent in real terms, a sharp decline when compared with the rate of 4.93 percent registered a year earlier. The decline was attributable to shrinking wealth in line with dropping stock and real estate prices, and the contraction of household income caused by rising unemployment. As far as the private consumption categories are concerned, other consumption posted the largest decline, reversing to negative 8.08 percent from last year's positive 8.15 percent, mainly owing to the slashing of the receipts from stock transaction fees associated with the shrinkage of turnover in the local stock market. Among all the expenditure components of GDP, private

consumption expenditure accounted for the largest share of 63.56 percent in GDP, and its contribution to economic growth for the year tumbled to 0.82 of a percentage point from last year's 2.98 percentage points.



(2)Mild Decrease in Government Consumption

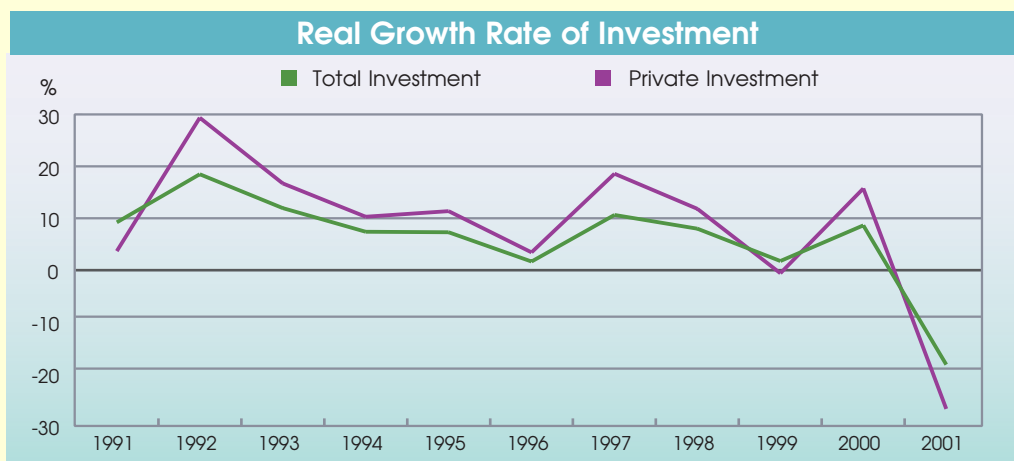
Government consumption, in contrast to its 0.55 percent growth in the previous year, decreased by 1.95 percent in real terms during the year 2001, which led to a 0.23 percentage point contraction in real GDP for the year. The reduction in government consumption mainly resulted from the government's expenditure-saving efforts in response to the continually worsening condition in public finances over the past few years.



(3) Sharp Decline in Fixed Capital Formation

Weakening demand both externally and internally led to a lower capacity utilization rate. In response to the sluggish economy, businesses postponed or tightened their investment projects. As a result, fixed capital formation in real terms declined by 18.17 percent for the year, markedly lower than the previous year's growth of 8.61 percent, and its contribution to economic growth for the year also slipped from last year's 2.00 percentage points to negative 4.34 percentage points.

With regard to sectors of purchasers, the difficulty in upgrading traditional industries and continuing outward reallocation of local enterprises intensified the deceleration of private investment. Private investment for the year sharply receded by 26.73 percent in real terms,



and its contribution to economic growth posted a record-low reading of negative 4.34 percentage points. On the other hand, government investment also contracted by 2.16 percent during the year, and its contribution to economic growth was negative 0.11 of a percentage point. However, as a result of the government stimulus package that required expanding public outlays, the decrease in government investment turned to a slower pace when compared with the previous year's reading of a 4.66 percent decline. Stimulated by the government policy of enhancing competitiveness, investment by public enterprises grew by 6.19 percent in real terms during the year, and its contribution to economic growth recorded 0.15 of a percentage point.

In terms of different types of capital goods in fixed capital formation, the real growth rate of investment in the construction sector sharply declined by 10.02 percent, owing to the oversupply in the real estate market. Investment in machinery and equipment significantly

decelerated and posted a decline of 25.36 percent, owing to the gloomy economic prospects, difficulty in the transition of traditional industries, and a higher comparison base in the previous year. Investment in transportation equipment slightly grew by 2.44 percent due to the increased procurement of large-sized aircraft by local airlines.

(4) Marked Decrease in Exports

The bursting of the IT bubble and the September 11 terrorist attacks had a severe impact on Taiwan's external trade sector. With more and more outward movement of production bases by local industries, exports of goods and services measured in real NT dollar terms declined by 8.17 percent, down from its positive growth of 17.55 percent registered in the previous year. Exports accounted for 50.54 percent of GDP for the year, and its contribution to economic growth became negative 4.57 percentage points, in contrast to last year's positive 8.84 percentage points.

(5) Significant Decline in Imports

Imports of goods and services also suffered from weakening demand, causing the real growth rate, measured in NT dollar terms, to post a 13.5 percent decline for the year, a considerable drop if compared with its positive growth of 14.53 percent in the previous year. Imports accounted for 45.23 percent of GDP for the year, significantly lower than the share of 52.14 percent posted in the previous year.



GDP by Sector of Production

For the year 2001, while the services sector was able to maintain mild growth, both

industrial and agricultural output regressed. The services sector remained the predominant driving force for the Taiwan economy during the year, but its contribution to economic growth fell to 0.19 of a percentage point, from the previous year's reading of 3.85 percentage points. The contribution of agricultural production to overall GDP for the year reversed to negative. The contribution of industrial output to overall economic growth dropped to negative 2.09 percentage points, down from last year's 1.98 percentage points, owing to the shrinkage in manufacturing production. As far as the share of each sector's output in GDP was concerned, the share of agricultural output continued to decrease and accounted for a mere 1.91 percent of total output in 2001. The share of industrial output to GDP continued its downward trend over the years, hitting 30.89 percent for the year. By contrast, the service sector's share of total output continued to rise to 67.20 percent.

(1) Decline in Agricultural Output

Agricultural production was able to sustain its stable pace in the first half of the year, but the production of rice and vegetables significantly declined for the remaining quarters of the year as a result of harsh typhoons. The real growth rate of agricultural production in 2001

Gross Domestic Product by Kind of Activity

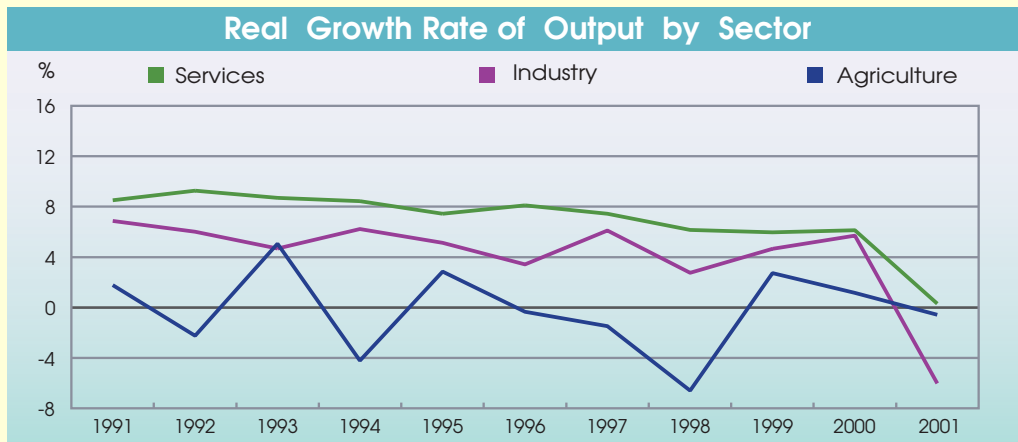
Unit:%

	2001			2000		
	Share (%)	Real Growth Rate (%)	Contribution to Real Growth Rate of GDP*	Share (%)	Real Growth Rate (%)	Contribution to Real Growth Rate of GDP*
Agriculture	1.91	-0.57	-0.01	2.09	1.15	0.03
Industry	30.89	-6.03	-2.09	32.38	5.71	1.98
Mining & Quarrying	0.39	-10.73	-0.03	0.42	-5.61	-0.02
Manufacturing	25.31	-6.05	-1.71	26.39	7.31	2.04
Construction	2.99	-10.59	-0.38	3.41	-5.49	-0.22
Electricity, Gas & Water	2.20	1.34	0.03	2.16	7.19	0.18
Services	67.20	0.30	0.19	65.53	6.13	3.85
Trade & Eating- drinking Places	19.38	-1.60	-0.28	19.36	6.65	1.16
Transport, Storage & Communications	6.96	2.31	0.18	6.71	12.70	0.94
Finance, Insurance & Real Estate	20.40	0.40	0.08	20.05	1.95	0.39
Business Services	2.18	2.38	0.06	2.71	9.42	0.23
Government Services	10.76	3.15	0.29	10.19	2.60	0.25
Social Services & Personal Services	10.11	4.78	0.40	9.39	6.35	0.53
Gross Domestic Product	100	-1.91	-1.91	100	5.86	5.86

Note: * Percentage point.

Source: Statistical Abstract of National Income, Taiwan Area, the Republic of China (1951-2000), DGBAS, Executive Yuan.

decreased to negative 0.57 percent from the positive 1.15 percent achieved in the previous year.



(2) Obvious Decline in Industrial Output

The real growth rate of industrial production in 2001 suffered from the rapid slowdown of the economy and posted a 6.03 percent decline, compared with the advance of 5.71 percent posted in the previous year. Among industries in the industrial sector, manufacturing production contracted by 6.05 percent, from the growth rate of 7.31 percent posted in the previous year. The decline was mainly attributable to the dramatic decline in overseas demand for IT products, and local firms' outward movement of production bases. The mining, quarrying and construction industries all registered larger declines for the year when compared with the previous year. In terms of the production indices of the 22 items within the manufacturing sector, the tobacco, petroleum and coal, and chemical material industries exhibited the largest advances of 11.63 percent, 11.06 percent, and 8.14 percent, respectively. The industries that suffered the largest declines were mainly domestically-oriented traditional and labor intensive industries, such as furniture and fixtures, leather and fur products, and garments manufacturers, posting declines of 30.12 percent, 22.07 percent, and 20.29 percent, respectively.

(3) Mild Growth of the Services Sector

Services output expanded by a mere 0.30 percent for the year 2001, a considerable drop if compared with the growth of 6.13 percent posted in the previous year. Owing to the mounting expenses on medical care and education services, the largest advance occurred in the

social services and personal services sector, with a growth of 4.78 percent for the year. The trade and eating-drinking places sector contracted by 1.60 percent from last year's 6.65 percent increase, reflecting the obvious decline in external trade and domestic consumption. The growth of output in the transportation, storage, and communication sector registered a stable growth rate of 2.31 percent, down from the rate of 12.70 percent registered in the previous year. The downward trend of the transportation services was mainly attributable to the economic downturn and the September 11 terrorist attacks in the U.S., which aggravated the shrinkage of the air passenger and cargo flight business. The mobile communications sector registered a mild but decelerating growth rate for the year due to the high prevailing saturation rate in the local market. Financial, insurance, and real estate services posted a reading of negative 0.40 percent for the year, down from last year's 1.95 percent. Other services industries experienced a lower growth rate for the year, except for the government services' growth rate of 3.15 percent, a slight rise when compared with the rate of 2.60 percent registered in the previous year.

Decline in National Saving Rate

The national saving rate declined from 25.44 percent in the previous year to 24.03 percent in 2001. The excess saving, which is national saving less gross domestic investment, rose to 6.22 percent of GNP, higher than the figure of 2.87 percent recorded in the previous year.

