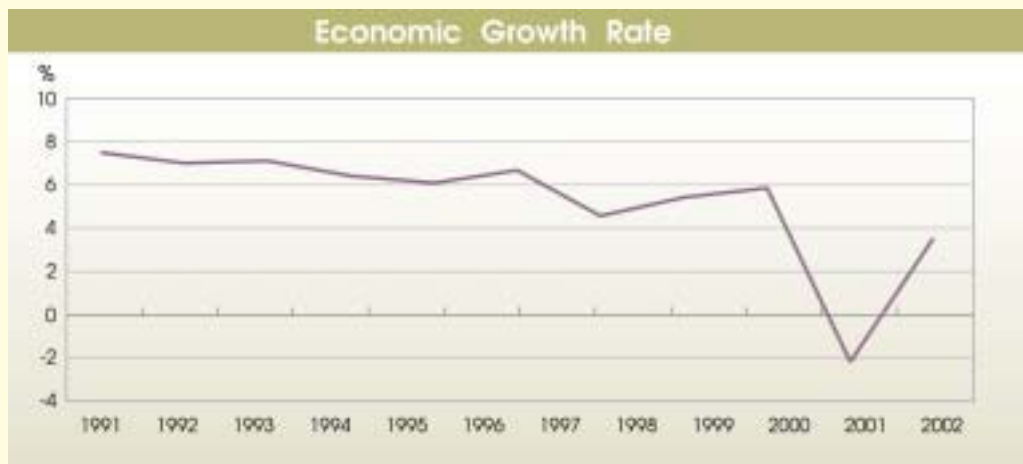


I. Developments in the Real Economy

1. National Output and Income

Bolstered by the turnaround in the global economy, Taiwan's economy experienced a modest recovery in 2002, with real GDP growing at an annual rate of 3.54 percent, compared with a contraction of 2.18 percent in the previous year. The growth was mainly underpinned by a rebound in exports and a slight acceleration in domestic demand, along with the lower base in the previous year.



Over the year, the pattern of the economic recovery showed that the year-over-year GDP growth rate was 1.20 percent in the first quarter and rose to 3.98 percent in the second quarter, after which it expanded to 4.77 percent in the third quarter and 4.22 percent in the final quarter .



Partly offset by the mild depreciation of the NT dollar exchange rate against the US dollar, per capita GNP in nominal terms reached US\$12,900 for the year, a slight increase from US\$12,876 in 2001.

Expenditure Components of GDP

The major contributor to real GDP growth in 2002 was foreign trade, which contributed 2.33 percentage points to the real economic growth rate, supported by the rebound in exports that started in April. In addition, domestic demand, which had made a negative contribution of 4.93 percentage points in 2001, turned to make a slightly positive contribution of 1.21 percentage points for the year.

Expenditures on Gross Domestic Product

Unit:%

	2002			2001		
	Share	Real Growth Rate	Contribution to Real Growth Rate of GDP*	Share	Real Growth Rate	Contribution to Real Growth Rate of GDP*
Private Consumption	63.12	1.91	1.18	63.56	1.04	0.62
Government Consumption	12.56	-0.87	-0.10	13.05	-1.02	-0.12
Gross Fixed Capital Formation	17.74	-2.04	-0.40	18.74	-20.61	-4.92
Change in Inventory	-0.53	—	0.53	-1.05	—	-0.51
Exports of Goods and Services	53.76	9.67	5.10	50.91	-7.77	-4.35
(Less : Imports of Goods and Services)	(46.66)	(6.15)	(2.77)	(45.21)	(-13.87)	(-7.10)
Expenditure on GDP	100.00	3.54	3.54	100.00	-2.18	-2.18

Note: *Percentage point.

Source: *Statiscal Abstract of National Income, Taiwan Area, the Republic of China (1951-2003)*, Directorate-General of Budget, Accounting and Statistics, Executive Yuan.

(1) Modest Acceleration in Private Consumption

Private consumption expenditure in 2002 rose by 1.91 percent in real terms, compared with 1.04 percent in the previous year. Among all the expenditure components of GDP, private consumption expenditure continued to preponderate, accounting for the largest share of 63.12 percent of GDP, and its contribution to economic growth for the year rose to 1.18 percentage points from 0.62 of a percentage point in 2001.

The growth rate of private consumption in 2002 was slightly higher than that registered a year earlier. However it was far from its rapid pace posted in earlier years. This was attributable to the negative wealth effect arising from a softening stock market and downward trend in



housing prices, coupled with the contraction of hourly wages in line with a weak job market.

As far as the private consumption categories are concerned, the growth rate of food consumption decreased from last year's rate of 2.00 percent to 1.25 percent in 2002. Nonfood consumption expanded at a rate of 2.12 percent, which was higher than the 0.73 percent growth rate registered in the previous year. Among the components of nonfood consumption, the categories of "furniture, furnishings and household equipment", "medical care and health expenses" and "transport and communication" posted the largest growth. This was primarily a reflection of households getting more access to IT products such as computers, Internet-related products and mobile phones, combined with higher medical expenditures mainly due to the increase in the premium rate for Taiwan's national health insurance program and the portion of medical costs shared by patients.

(2) Slight Decrease in Government Consumption

Government consumption continued its decline and fell by 0.87 percent in real terms during 2002, following the decline of 1.02 percent in the previous year, which led to a 0.10 percentage point decrease in real GDP for the year. The decrease in government consumption was due to the government's efforts to contain expenditure in response to the continually unfavorable condition of public finances in the past few years.



(3) Moderate Decline in Fixed Capital Formation

Fixed capital formation in real terms declined by 2.04 percent in 2002, albeit at a slower pace than the contraction of 20.61 percent in the prior year, and its contribution to GDP growth for the year was negative 0.40 of a percentage point, as against a negative contribution of 4.92 percentage points a year earlier. Among all the expenditure components of GDP, fixed capital formation expenditure accounted for 17.74 percent in GDP, slightly decreasing from the previous year's 18.74 percent.

With regard to types of owners, private investment remained very soft in the first half of 2002 as a result of uncertainty over the pace of recovery. Due to the gradual recovery of the economy, firms had more incentives to expand their production facilities and to renovate their equipment in the second half of 2002. The large-scale construction projects such as the high-speed railway were carried out at a faster pace in the third quarter, which helped alleviate the weakness in private investment. Furthermore, the low interest rate environment was conducive to businesses' investment spending. Consequently, private fixed investment turned from the previous year's contraction of 29.17 percent to edge up 1.56 percent in 2002, contributing 0.19 of a percentage point to GDP growth. In contrast, government investment and investment by public enterprises in real terms shrank by 10.87 percent and 1.70 percent, respectively, together contributing negative 0.58 of a percentage point to economic growth for the year. This was because some large-scale construction projects had been completed, while new projects were still in their initial stages.

In terms of different types of capital goods in fixed capital formation, the real growth rate

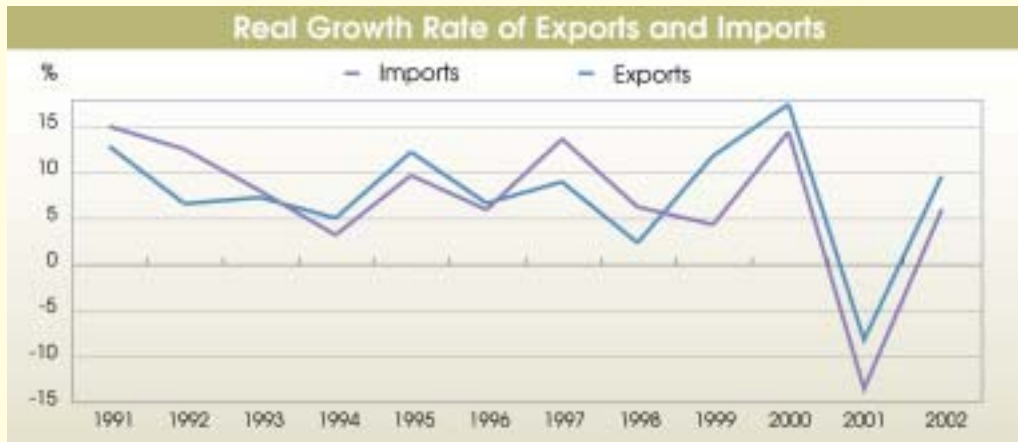


of investment in the construction sector posted negative 0.51 percent for the year, as opposed to the sharp decline of 13.49 percent in 2001. The improvement was owing to the speeding up in the construction of the high-speed railway and the lower base in the previous year. The investment in machinery and equipment fell by merely 0.64 percent in 2002, compared with the significant decline of 27.54 percent registered a year earlier, which was attributable to robust exports and some firms' renewal of their equipment. Investment in transportation equipment turned to contract by 20.92 percent for the year, as against the positive growth of 4.17 percent in 2001. This was mainly a result of the decreased procurement of large-sized aircraft by local airlines.

(4) Positive Growth of Exports

Exports were a major pillar of strength for GDP growth in 2002. After falling through 2001, export growth started to garner strength from the second quarter onward in 2002, as global demand turned around.

While exports to the U.S., Japan and European countries, which had been major markets for Taiwan's exports, remained sluggish, shipments to other neighboring Asian countries, particularly Mainland China, posted a solid growth for the year. Moreover, in view of international division of labor, more Taiwanese manufacturers benefited from international enterprises' outsourcing strategy and global alliances, which led to more export orders of electronics, IT-related and basic metal products.



The growth of real exports of goods and services measured in NT dollar terms stood at 9.67 percent in 2002, substantially higher than the negative 7.77 percent growth in the previous year. Exports of goods and services accounted for 53.76 percent of GDP in 2002, and its contribution to economic growth was 5.10 percentage points, compared with negative 4.35 percentage points in 2001.

(5) Expansion in Imports

Meanwhile, import growth also turned positive in the second quarter of 2002, but its pace was slower than that of exports. The growth of imports was mainly because of the stronger derived demand arising from the rapid growth of exports and industrial production, together with a modest pickup in domestic demand.

Imports of goods and services also improved, causing the real growth rate, measured in NT dollar terms, to rise by 6.15 percent for the year, as opposed to a decline of 13.87 percent in 2001. Imports of goods and services accounted for 46.66 percent of GDP for the year, slightly higher than the share of 45.21 percent posted a year earlier.

Overall, foreign trade made a net contribution of 2.33 percentage points to GDP growth over the year, after making a contribution of 2.75 percentage points in 2001.

GDP by Sector of Production

For the year 2002, all three sectors posted positive growth rates. Primarily reflecting the rebound in exports, the industrial sector replaced the services sector as the key driver for

Taiwan's economy during the year, contributing 1.79 percentage points to economic growth, up from the previous year's negative 2.06 percentage points. The services sector made a contribution of 1.72 percentage points in 2002, increasing from negative 0.07 of a percentage point recorded a year earlier. The contribution of agricultural production to overall GDP for the year reversed from negative 0.05 of a percentage point in 2001 to 0.04 of a percentage point. As far as the share of each sector's output in GDP was concerned, the respective shares of agricultural output and industrial output continued to shrink in 2002 and accounted for 1.86 percent and 31.03 percent of total output, respectively. The share of services output to GDP kept on rising to 67.11 percent for the year.

(1) 1.61 Percent Increase in Agricultural Output

Due to favorable weather and the lower base in the previous year, the real growth rate of agricultural production in 2002 rose to 1.61 percent from negative 2.07 percent posted a year earlier.

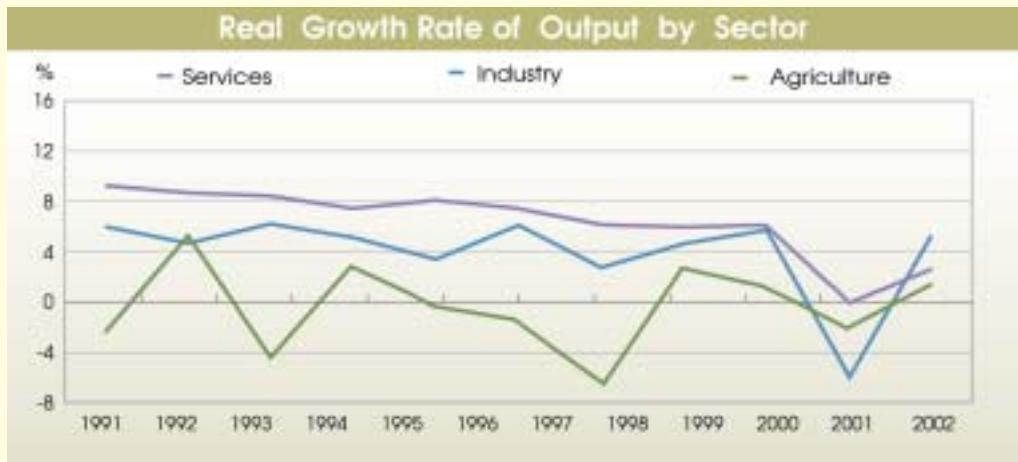
Gross Domestic Product by Kind of Activity

Unit:%

	2002			2001		
	Share	Real Growth Rate	Contribution to Real Growth Rate of GDP*	Share	Real Growth Rate	Contribution to Real Growth Rate of GDP*
Agriculture	1.86	1.61	0.04	1.95	-2.07	-0.05
Industry	31.03	5.38	1.79	31.09	-5.97	-2.06
Mining & Quarrying	0.43	2.17	0.01	0.40	-8.05	-0.02
Manufacturing	25.74	6.58	1.79	25.57	-5.73	-1.62
Construction	2.60	-2.85	-0.09	2.92	-12.55	-0.45
Electricity, Gas & Water	2.26	3.09	0.08	2.20	1.06	0.03
Services	67.11	2.67	1.72	66.96	-0.11	-0.07
Trade & Eating-drinking Places	19.35	1.93	0.34	19.29	-2.46	-0.43
Transport, Storage & Communications	6.96	4.18	0.34	6.90	3.07	0.24
Finance, Insurance & Real Estate	20.82	3.92	0.77	20.49	0.48	0.09
Business Services	2.75	-0.84	-0.02	2.83	2.43	0.06
Government Services	10.51	1.83	0.18	10.64	2.16	0.20
Social Services & Personal Services	10.33	3.96	0.36	10.13	4.41	0.37
Gross Domestic Product	100.00	3.54	3.54	100.00	-2.18	-2.18

Note: * percentage point.

Source: *Statistical Abstract of National Income, Taiwan Area, the Republic of China (1951-2003)*, DGBAS, Executive Yuan.



(2) 5.38 Percent Growth in Industrial Output

Industrial production in real terms grew by 5.38 percent in 2002, as opposed to negative 5.97 percent in 2001. Among industries in the industrial sector, manufacturing production in real terms expanded 6.58 percent for the year, compared with negative 5.73 percent in the prior year. The increase largely stemmed from buoyant export orders of information & communications products and the lower base in 2001.

In terms of the production indices of the 22 items within the manufacturing sector, the precision instruments, electrical & electronic machinery and the transportation-tool industries posted strong real growth rates of 19.74 percent, 13.25 percent and 12.38 percent, respectively. On the other hand, eight industries, which mostly were domestically oriented and labor-intensive industries, posted negative growth rates. Among them, the furniture and fixtures, the wood & bamboo products and the tobacco industries shrank by 16.93 percent, 14.97 percent and 12.79 percent, respectively

Production in mining and quarrying bucked its declining trend and experienced a positive growth of 2.17 percent, compared with negative 8.05 percent in 2001. The increase was mainly due to the lower base in the prior year and the softened deceleration in the construction sector.

The electricity, gas and water sector grew 3.09 percent, compared with a 1.06 percent rise in 2001, which was owing to the pickup in industrial production.

The real estate market remained sluggish. However, construction permits increased 6.31 percent and the construction of the high-speed railway was carried out at a faster pace.

These factors led to a negative growth of 2.85 percent in the construction sector for the year, after a sharp decline of 12.55 percent in 2001.

(3) 2.67 Percent Rise in the Services Sector

Services output rose by 2.67 percent in 2002, compared with negative 0.11 percent in the previous year. The increase was mainly due to the expansion in the transportation, storage and communications sector, as air passengers and cargo flight businesses increased amid an improved economic environment, combined with the brisk mobile communications sector.

Attributable to the rising expenditure on medical care and education services, the social services and personal services sector continued to expand and grew 3.96 percent for the year. Financial, insurance, and real estate services posted growth of 3.92 percent for the year, compared with 0.48 percent in 2001. This growth was essentially buoyed by the Bank's easy monetary measures and the lower base of the previous year, which resulted from shrinking receipts from stock transaction fees associated with relatively weak stock market activities. The growth rate of the trade and eating-drinking places sector rose to 1.93 percent for the year, compared with negative 2.46 percent in the previous year, reflecting improved foreign trade and domestic consumption. Other services industries posted lower growth rates in 2002.

Upsurge in National Saving Rate

The national saving rate (national saving to GNP measured at current prices) increased from 23.95 percent in the previous year to 25.39 percent in 2002, primarily because national



consumption (including both private consumption and government consumption expenditures) grew by a slower rate of 1.16 percent compared to the GNP growth rate of 3.00 percent. The slower growth of national consumption reflected the mild increase in private consumption and the slight decline in government consumption.

Taiwan has continued to sustain positive excess saving since 1981. The excess saving (national saving less gross domestic investment) to GNP ratio jumped from 6.60 percent in the previous year to 8.62 percent in 2002. The increase was owing to a large trade surplus and a slower growth rate of domestic investment than that of national saving.