

2. National Output and Income

Taiwan's economy reported a solid performance with a growth rate of 5.71 percent in 2004, up from 3.33 percent in 2003. The strong growth was mainly underpinned by a boom in exports supported by global economic recovery, as well as a steady acceleration in domestic demand driven by buoyant private investment.

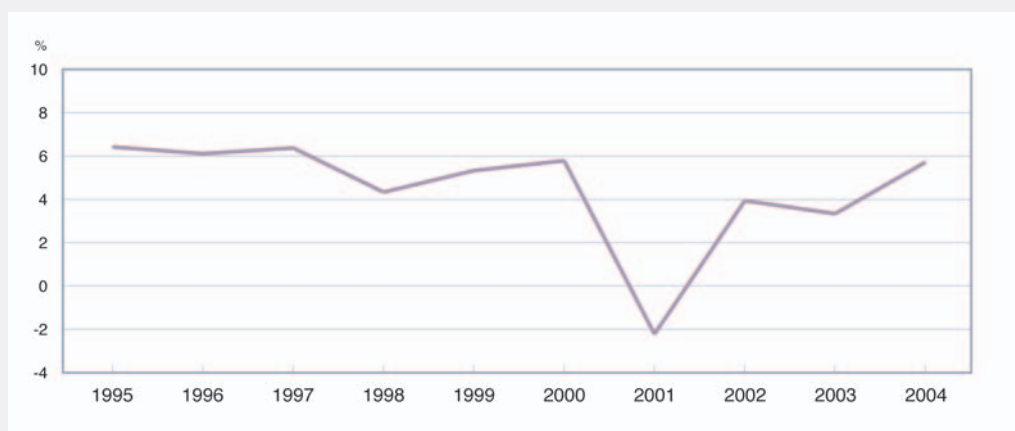
In year-over-year terms, real GDP grew by 6.72 percent in the first quarter and rose to 7.88 percent in the second quarter under the support of booming external trade and private investment. Thereafter, the momentum of GDP growth slowed somewhat, primarily due to the surge in oil prices, China's economic tightening, the interest rate hikes in major countries, and the higher base of the previous year. Real GDP growth decreased to 5.27 percent in the third quarter and 3.25 percent in the final quarter.

Per capita GNP in US dollars increased by US\$893 over the previous year to US\$14,032 in 2004.

Expenditure Components of GDP

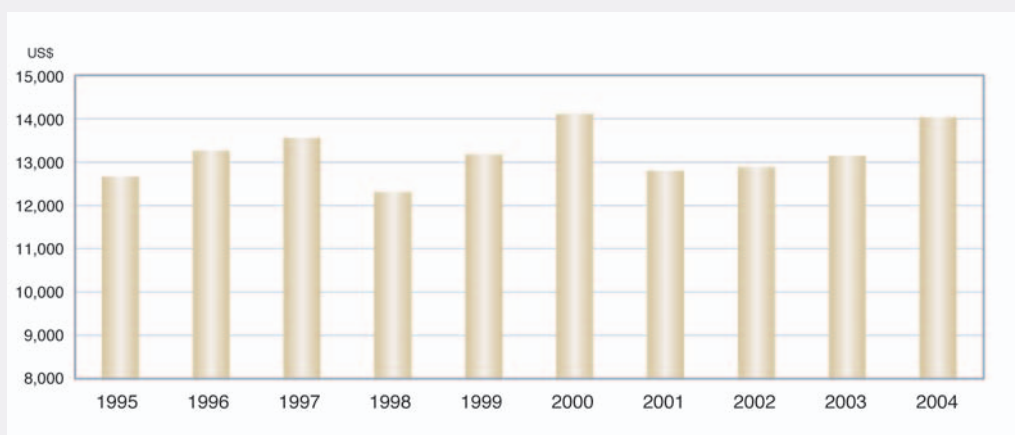
The major contributing factor to economic growth in 2004 was gross fixed capital formation, which made a contribution of 2.59 percentage points to real GDP growth. Private consumption made a positive contribution of 1.91 percentage points for the year. Among all the expenditure components, exports of goods and services expenditure accounted for the largest share, or 65.76 percent of GDP in 2004, followed by private consumption with 62.99 percent and gross

Economic Growth Rate



Source: *Statistical Abstract of National Income in Taiwan Area, the Republic of China, Directorate-General of Budget, Accounting and Statistics, Executive Yuan, March 2005.*

Per Capita GNP



Source: *Statistical Abstract of National Income in Taiwan Area, the Republic of China, Directorate-General of Budget, Accounting and Statistics, Executive Yuan, March 2005.*

fixed capital formation with 20.12 percent.

(1) Modest Acceleration in Private Consumption

Private consumption expenditure accelerated in the first half of the year due to the positive wealth effect from the rise in stock and real estate prices, coupled with the increase in household income reflecting improving employment conditions. The real growth rate of private consumption decelerated to 1.41 percent in the third quarter, hampered by surging oil prices, the expectation of rising interest rates, and a slack stock market. Later, as the expenditures on tourism and automobiles increased, private consumption regained its momentum in the

Expenditure on Gross Domestic Product

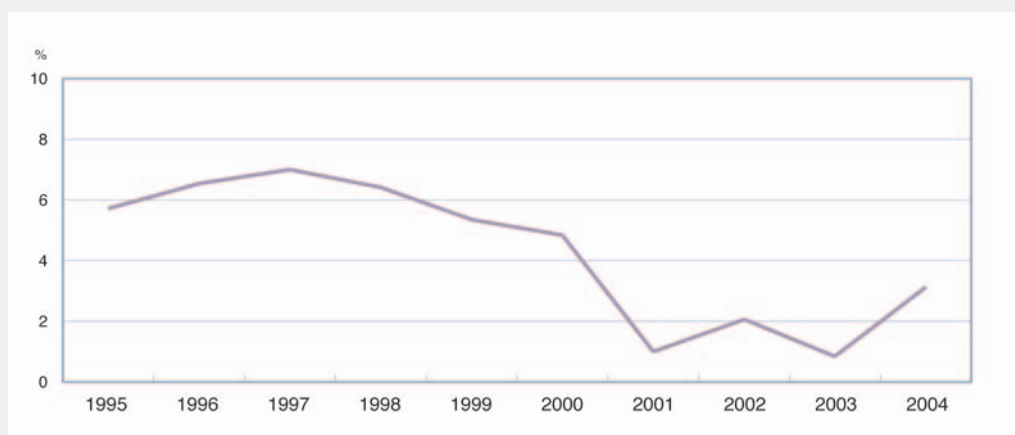
Unit: %

	2004			2003		
	Share	Real Growth Rate	Contribution to Real Growth Rate of GDP*	Share	Real Growth Rate	Contribution to Real Growth Rate of GDP*
Private Consumption	62.99	3.13	1.91	62.53	0.84	0.53
Government Consumption	12.48	-0.69	-0.09	13.01	0.71	0.09
Gross Fixed Capital Formation	20.12	15.40	2.59	17.43	-2.05	-0.36
Change in Inventory	0.62	—	1.27	-0.80	—	0.26
Exports of Goods and Services	65.76	15.27	8.89	58.42	10.94	5.93
(Less : Imports of Goods and Services)	(61.96)	(18.56)	(8.88)	(50.59)	(6.72)	(3.11)
Expenditure on GDP	100.00	5.71	5.71	100.00	3.33	3.33

Note: * Percentage point.

Source: *Statistical Abstract of National Income in Taiwan Area, the Republic of China, Directorate-General of Budget, Accounting and Statistics, Executive Yuan, March 2005.*

Real Growth Rate of Private Consumption Expenditure



Source: Statistical Abstract of National Income in Taiwan Area, the Republic of China, Directorate-General of Budget, Accounting and Statistics, Executive Yuan, March 2005.

fourth quarter. For the year as a whole, it grew by 3.13 percent in real terms, much higher than the rate of 0.84 percent registered a year earlier. Its contribution to economic growth rose to 1.91 percentage points from 0.53 of a percentage point in 2003.

With regard to the private consumption categories, the real growth rate of food consumption decreased to 1.36 percent from the 1.98 percent recorded in the previous year, while non-food consumption expenditure reached a real growth rate of 3.67 percent, a sharp increase when compared with the rate of 0.50 percent posted a year earlier. Among the components of non-food consumption expenditure, the category of recreation, entertainment, education and cultural services posted the largest growth, followed by furniture, furnishings and household equipment.

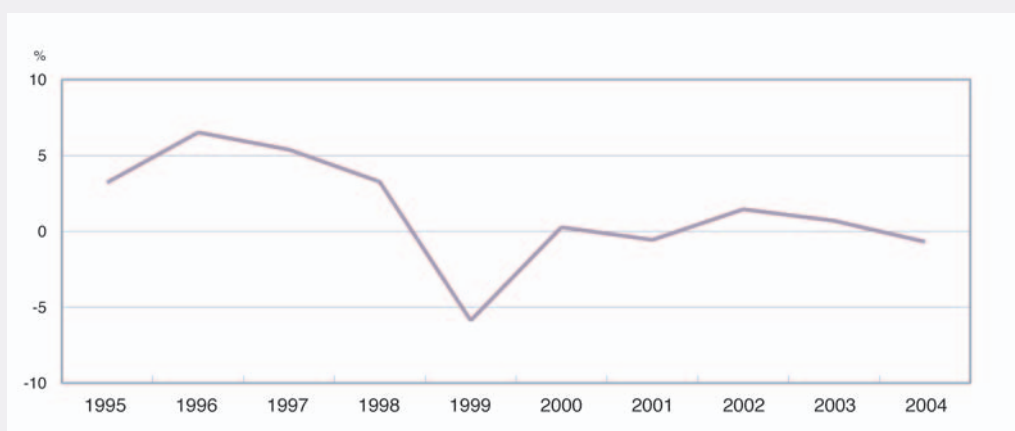
(2) Mild Decrease in Government Consumption

The growth of real government consumption fell further from the positive 0.71 percent recorded in the previous year to negative 0.69 percent in 2004, contributing a 0.09 percentage point contraction to the annual GDP growth. The reduction in government consumption mainly resulted from the government's expenditure-saving efforts in response to the unfavorable condition in public finances.

(3) Rapid Growth of Fixed Capital Formation

Due to the bright economic prospect and the low interest rate environment, the real growth rate of fixed capital formation rose dramatically from negative 2.05 percent in the

Real Growth Rate of Government Consumption Expenditure



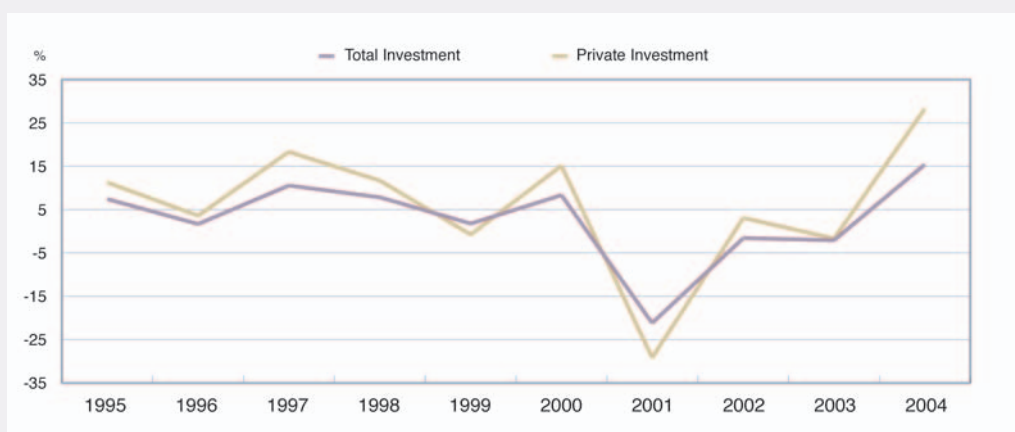
Source: Statistical Abstract of National Income in Taiwan Area, the Republic of China, Directorate-General of Budget, Accounting and Statistics, Executive Yuan, March 2005.

previous year to 15.40 percent in the year 2004, resulting in a contribution of 2.59 percentage points to overall economic growth.

With respect to types of purchasers, real private investment expanded significantly from negative 1.62 percent in 2003 to 28.20 percent in 2004 while government investment and investment made by public enterprises declined by 4.22 percent and 15.13 percent in real terms, respectively. The contraction was because some large-scale construction projects had been completed.

In terms of different types of capital goods in fixed capital formation, the growth rate of investment in the construction sector turned to an increase of 2.11 percent from a decline of

Real Growth Rate of Investment



Source: Statistical Abstract of National Income in Taiwan Area, the Republic of China, Directorate-General of Budget, Accounting and Statistics, Executive Yuan, March 2005.

2.85 percent in 2003, owing to the recovery in the real estate market. Investment in transportation equipment grew significantly and posted a record growth rate of 24.60 percent due to the increased procurement of fleet and aircraft and of motor vehicles for business usage. In addition, investment in machinery also registered a strong growth rate of 26.25 percent, a sharp increase when compared with negative 1.89 percent in 2003. The expansion mainly resulted from the massive capacity-expanding projects of the semi-conductor and thin film transistor-liquid crystal display (TFT-LCD) industries, and the large-scale investments by Formosa Plastics Corporation's phase IV of the Sixth Naphtha Cracking Project and Taiwan High Speed Rail Corporation's core system.

(4) Significant Rise in Exports

Against the backdrop of rapid expansion in the global economy, exports of optics equipment and electronics, basic metal products, and plastic and rubber products increased substantially. Therefore, exports grew at a rate over 20 percent during the first half of 2004. Later, export growth slowed as world economic growth was restrained by higher oil prices, China's tightening economic measures and rising interest rates in major countries. The expansion of export growth further slumped to below 5 percent in the fourth quarter due to the sluggish performance in the electronics industry and the higher base in 2003.

For the year as a whole, the real growth of exports of goods and services measured in NT dollars increased from 10.94 percent in 2003 to 15.27 percent in 2004. Exports of goods and services accounted for 65.76 percent of GDP for the year, contributing to economic growth by 8.89 percentage points.

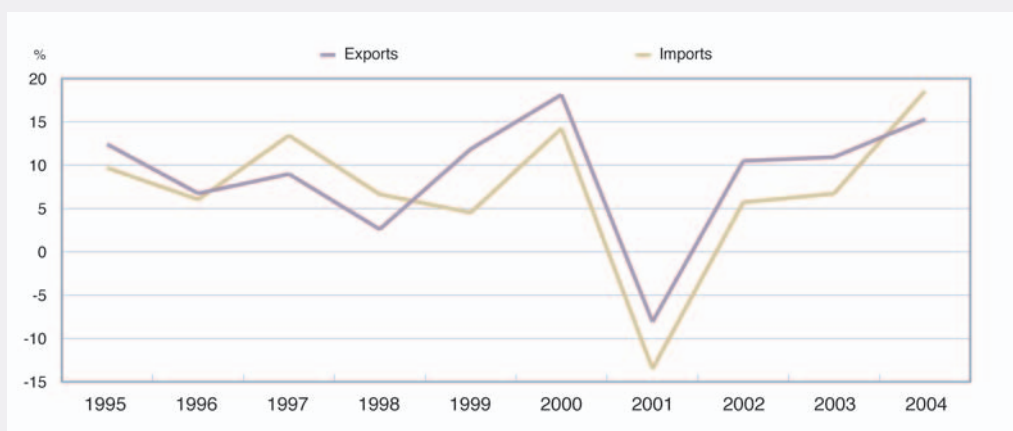
(5) Strong Expansion of Imports

Driven by the derived demand from the rapid growth of exports, import growth also experienced a similar expanding trend. However, the pace of import growth was much stronger than that of exports in the fourth quarter, which was fueled by buoyant investment activity.

Imports of goods and services also increased, causing the real growth rate, measured in NT dollars, to rise by 18.56 percent in 2004, a considerable increase compared with 6.72 percent in the previous year. Imports of goods and services accounted for 61.96 percent of GDP for the year, contributing negative 8.88 percentage points to economic growth.

Overall, foreign trade made a relatively small net contribution of 0.02 of a percentage point to GDP growth in 2004.

Real Growth Rate of Exports and Imports



Source: *Statistical Abstract of National Income in Taiwan Area, the Republic of China, Directorate-General of Budget, Accounting and Statistics, Executive Yuan, March 2005.*

GDP by Sector of Production

For the year 2004, the industrial and services sectors both registered positive growth rates, while the agricultural sector posted a negative growth rate. The services sector remained the predominant driving force for the Taiwan economy during the year, contributing 3.19 percentage points to economic growth, up from the previous year's 1.91 percentage points. The contribution of industrial output to overall economic growth rose to 2.65 percentage points, owing to the improved business climate and a fast expansion of manufacturing production. The contribution of agricultural production to overall GDP reversed to negative for the year.

Regarding the share of each sector's output in GDP, the share of agricultural output continued to decrease and accounted for a mere 1.74 percent of total output in 2004. The share of industrial output in GDP continued its downward trend, standing at 29.54 percent for the year. In contrast, the services sector's share of total output continued to rise to 68.72 percent.

(1) Decrease in Agricultural Output

Owing to market liberalization, agricultural production contracted due to cost factors. In addition, the production of fruits, vegetables, fish and shellfish decreased as a result of heavy rain and severe typhoons. The real growth rate of agricultural production in 2004 declined sharply to negative 7.06 percent from the positive 0.20 percent achieved in the previous year.

(2) Growth in Industrial Output

Industrial production in 2004 was sustained by a stable economic recovery and increased manufacturing production. The real growth rate of industrial output reached 8.25 percent, 3.78 percentage points higher than the rate of 4.47 percent posted in the previous year. Boosted by the rising industrial production, the sector of electricity, gas and water grew by 4.54 percent in real terms, rising from a 3.53 percent growth rate registered in 2003.

Production in mining and quarrying, while still contracting, declined only 3.05 percent in real terms in 2004 as a recovery in the construction industry helped to boost the demand for construction materials.

Manufacturing production in real terms expanded by 9.36 percent, rising from the growth rate of 5.72 percent posted in the previous year. It registered a two-digit growth rate in the first half of the year, underpinned by the booming global economy. However, the expansion

Gross Domestic Product by Kind of Activity

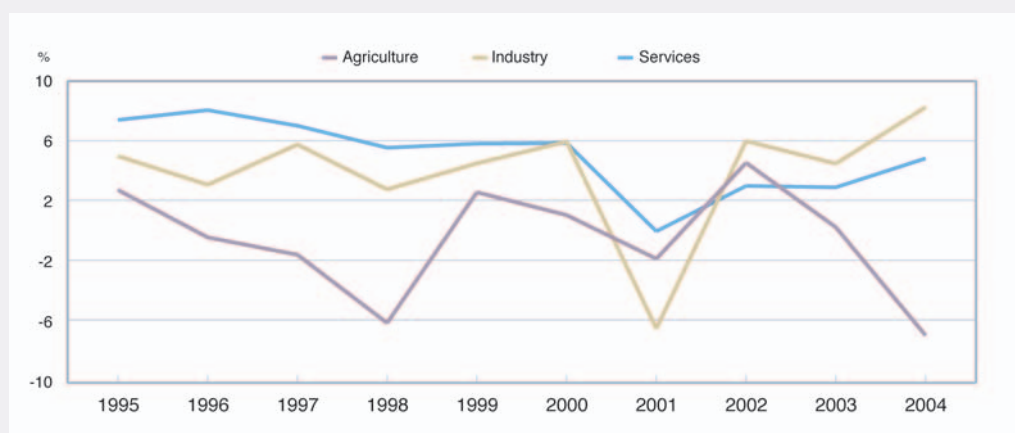
Unit: %

	2004			2003		
	Share	Real Growth Rate	Contribution to Real Growth Rate of GDP*	Share	Real Growth Rate	Contribution to Real Growth Rate of GDP*
Agriculture	1.74	-7.06	-0.14	1.80	0.20	0.00
Industry	29.54	8.25	2.65	30.57	4.47	1.42
Mining & Quarrying	0.35	-3.05	-0.01	0.34	-19.05	-0.07
Manufacturing	25.53	9.36	2.54	25.77	5.72	1.51
Construction	1.72	1.13	0.03	2.25	-3.49	-0.10
Electricity, Gas & Water	1.93	4.54	0.10	2.22	3.53	0.08
Services	68.72	4.83	3.19	67.63	2.88	1.91
Trade	19.10	7.36	1.28	18.14	3.44	0.60
Accommodation & Eating-drinking Places	2.21	6.91	0.14	2.11	0.02	0.00
Transport, Storage & Communications	7.06	5.81	0.41	6.90	4.42	0.31
Finance & Insurance	11.57	4.48	0.50	11.40	5.49	0.60
Real Estate & Rental & Leasing	9.90	2.77	0.28	10.05	2.32	0.23
Professional, Scientific & Technical Services	2.51	2.32	0.06	2.50	2.86	0.07
Educational Services	1.97	1.32	0.02	2.00	3.20	0.06
Health Care & Social Welfare Services	3.14	1.90	0.06	3.13	1.94	0.06
Government Services	10.61	1.22	0.13	10.88	3.08	0.32
Gross Domestic Product	100.00	5.71	5.71	100.00	3.33	3.33

Note: * Percentage point.

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Real Growth Rate of Output by Sector



Source: *Statistical Abstract of National Income in Taiwan Area, the Republic of China, Directorate-General of Budget, Accounting and Statistics, Executive Yuan, March 2005.*

pace of manufacturing production dropped to 3.12 percent in the fourth quarter, constrained by the slowdown in the global economy. For the year as a whole, the contribution of manufacturing output to overall economic growth reached 2.54 percentage points, higher than last year's 1.51 percentage points. Within the manufacturing sector, the information and electronic, metal and machinery, and the chemical industries exhibited strong growth rates of 14.14 percent, 11.43 percent and 9.81 percent, respectively. The food, textile and other industry remained weak, yet its production rebounded to post a growth rate of negative 0.34 percent, a favorable level when compared with those in recent years.

The real estate market showed signs of a brisk recovery in the first half of the year, but the shortage of certain construction materials hampered its growth in the second half. However, construction permits still increased sharply by 50 percent for the year. The construction sector thus recorded a real growth rate of positive 1.13 percent in 2004, which reversed the contracting pattern of recent years.

(3) Rise in the Services Sector

Services output expanded by 4.83 percent in real terms for the year 2004, higher than the 2.88 percent posted in the previous year. The growth was mainly supported by rising activities in trade, finance and insurance, and transport, storage and communications. The 7.36 percent expansion in the trade sector benefited from buoyant external trade and private consumption. The accommodation, eating-drinking places sector and the transport, storage, and communications sector also exhibited strong growth. On the back of more consumers spending on tourism and

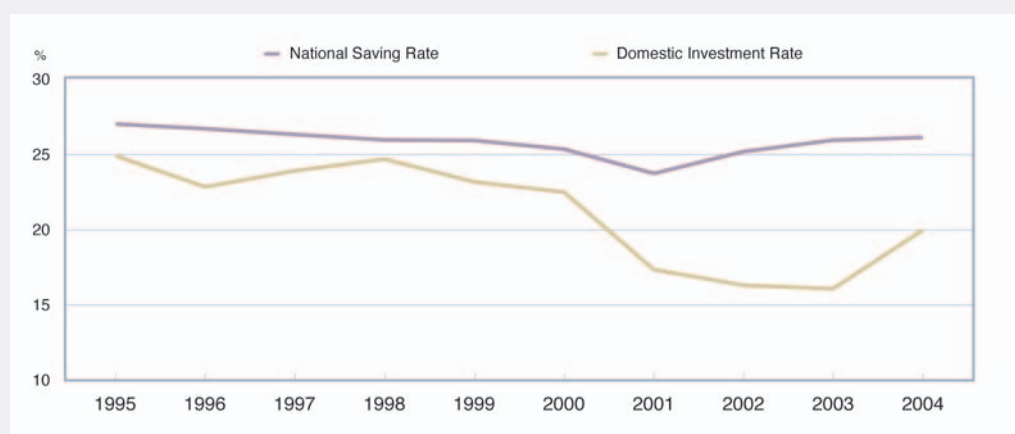
eating out, the accommodation and eating-drinking places sector registered a real growth rate of 6.91 percent. The growth of output in the transport, storage, and communications sector rose to 5.81 percent in real terms, owing to the expansion of the cargo flight business and the growing popularity of mobile phones and network communications. Most of the other industries within the services sector posted lower growth rates than those of the previous year. In particular, among the services sector, the government services sector recorded the smallest growth rate for 2004, reflecting the government's continued efforts to contain expenditure.

Slight Increase in National Saving Rate

The national saving rate (national saving to GNP measured at current prices) increased from 25.97 percent in the previous year to 26.15 percent in 2004 as national consumption (including both private consumption and government consumption expenditures) grew by a slower rate of 3.56 percent compared to the GNP growth rate of 4.05 percent. The slower growth of national consumption reflected the mild increase in private consumption and the slight decline in government consumption.

The excess saving (national saving less gross domestic investment) to GNP ratio dropped from 9.89 percent in the previous year to 6.16 percent in 2004 as a result of a much stronger growth rate of domestic investment than that of national saving.

National Saving Rate and Domestic Investment Rate



Source: *Statistical Abstract of National Income in Taiwan Area, the Republic of China*, Directorate-General of Budget, Accounting and Statistics, Executive Yuan, March 2005.