

I. Developments in the Real Economy

1. Overview



Taiwan's economic growth accelerated to 4.62 percent in 2006 from the 4.03 percent in the previous year. Along with this solid performance, the balance of payments was in good shape and the labor market continued to improve at a faster pace. Inflation remained low and stable. Moreover, the central government was in a better fiscal position, exhibiting the first budget surplus since 2000.

The major driving force of economic expansion was exports, fuelled by a pickup in external demand for consumer electronics, which more than offset the weakness in private consumption caused by rising credit card defaults. Taiwan's economy grew by nearly 5 percent in the first three quarters, but slowed to 4 percent in the fourth quarter mainly due to the base effect. For the year as a whole, external demand (net exports) contributed 3.50 percentage points to economic growth and domestic demand contributed only 1.12 percentage points. Per capita GNP in nominal terms increased by US\$408 to US\$16,098 in 2006.

On the balance of payments front, it was characterized by an increase in the current account surplus and a net outflow in the financial account in 2006. The current account registered a surplus of US\$25,187 million, equivalent to 6.9 percent of nominal GNP. The capital account showed a relatively small deficit of US\$118 million. The financial account exhibited a net outflow of US\$22,987 million, the highest on record, mainly caused by a surge in overseas investment by residents. As a result, the foreign reserve assets held by the Bank increased by US\$6,086 million and foreign exchange reserves rose to US\$266.1 billion at the end of 2006.

Reflecting the surging international commodity prices, Taiwan's wholesale price index (WPI) increased by 5.64 percent in 2006. However, the consumer price index (CPI) inflation rate remained relatively low and stable. The CPI rose only by 0.60 percent as a decrease in vegetable prices, a decline in unit labor cost, intense competition in the domestic retail market and slackened domestic demand alleviated most of the upward pressure from higher tobacco health taxes and soaring energy prices. The core CPI rose by 0.54 percent.

Labor market conditions improved further. The sustained economic growth and continuous implementation of the government's *Project for the Creation of Job Opportunities* led to higher employment and a reduction in the unemployment rate in 2006. Total employment expanded by 1.7 percent and the annual average unemployment rate fell to a six-year low of 3.91 percent. The annual participation rate remained on a rising trend, averaging 57.92 percent in 2006, a record-high reading since year 2000. Unit labor cost in the manufacturing sector continuously fell by 2.37 percent, as the increase in labor productivity exceeded that in labor compensation.

The central government was in a better fiscal position. With steady economic expansion and curtailment of government expenditures, the central government's fiscal revenue outpaced its expenditure. As a result, the central government finance exhibited the first budget surplus of NT\$16.6 billion since 2000. The debt dependency ratio fell markedly from the previous year's 10.68 percent to 4.18 percent, the lowest level since 2000.