

# TAIWAN'S ECONOMIC SITUATION AND OUTLOOK



Council for Economic Planning and Development  
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# I. GLOBAL ECONOMY

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## Latest World Bank forecasts (November 2004) :

- ⇒ **World economic growth:** Forecasts for 2004 and 2005 are 5.0% and 4.3%, respectively.
- **United States:** Growth momentum has slowed down from the second quarter. Growth is forecasted to be 4.3% in 2004.
  - **Japan:** While growth slowed sharply in the second quarter, the near-term outlook remains solid. Growth is forecasted to be 4.3%.
  - **Euro area:** The pace of the expansion is expected to remain moderate, with growth forecast of 1.8%.
  - **East Asia:** Growth is expected to reach 7.1% in 2004. fixed investment has picked up not only in fast growing economies like China and Vietnam, but also in the middle and high income economies. Growth is expected to decelerate in 2005, although reaching a relatively robust pace near 6%.
- ⇒ **Trade volume:** Forecasts for 2004 and 2005 are 11.1% and 8.7%, respectively.

# World Economic Outlook

	World Bank			Global Insight		
	2003	2004	2005	2003	2004	2005
<b>World Economic Growth %</b>	<b>2.7</b>	<b>4.0</b>	<b>3.2</b>	<b>2.8</b>	<b>4.2</b>	<b>3.3</b>
United States	3.0	4.3	3.2	3.0	4.4	3.2
Japan	2.5	4.3	1.8	2.5	4.1	2.0
Euro area	0.5	1.8	2.1	0.6	1.9	1.8
East Asia	5.9	7.1	5.9	-	-	-
Asia excluding Japan	-	-	-	6.4	6.9	6.2
East Asian NIEs	3.0	5.9	4.4	-	-	-
CIS*	-	-	-	7.9	7.8	6.8
<b>World Trade Volume Growth %</b>	<b>6.7</b>	<b>11.1</b>	<b>8.7</b>	<b>5.2</b>	<b>7.9</b>	<b>6.7</b>

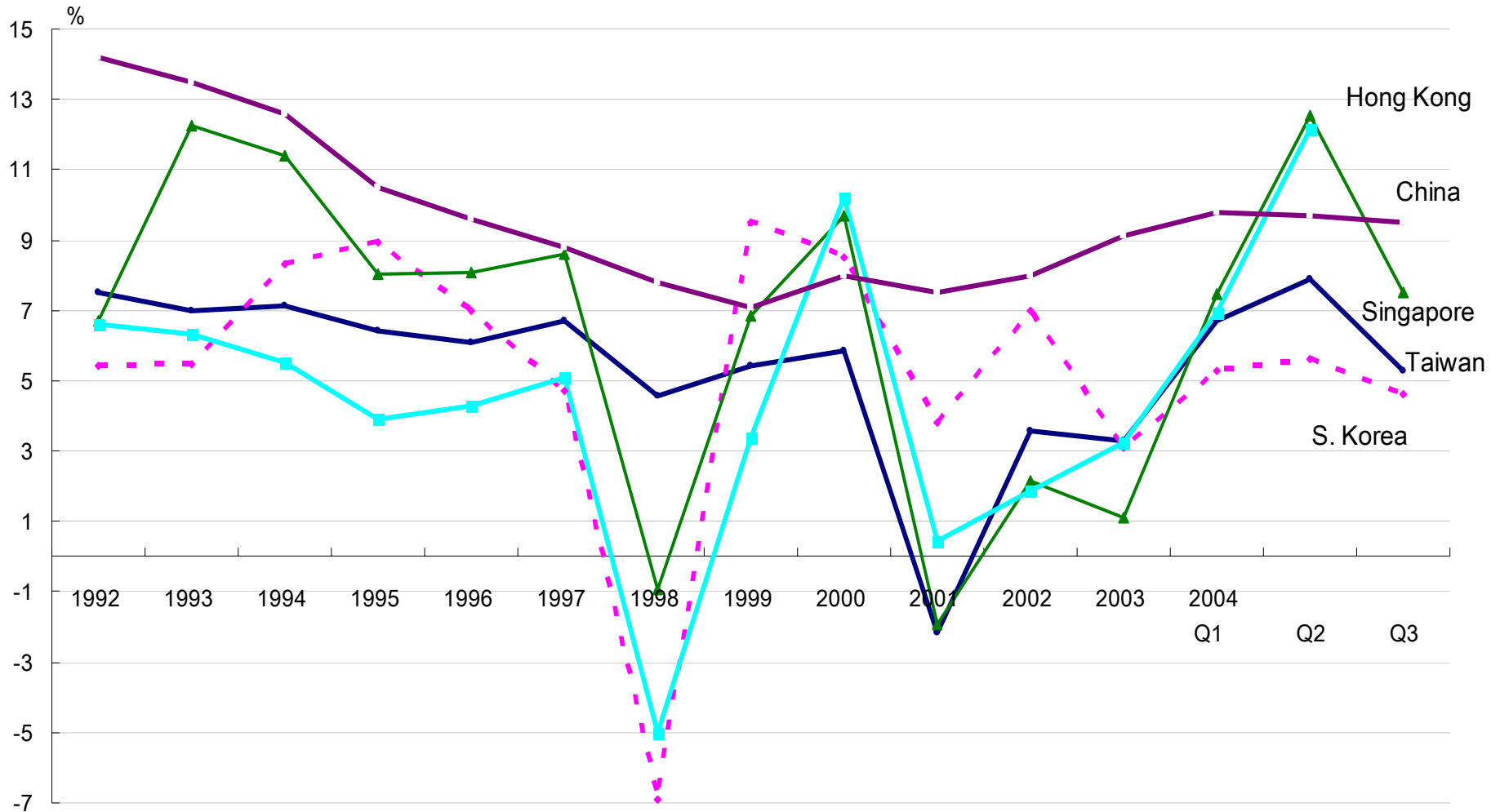
\* Commonwealth of Independent States.

Sources: 1. World Bank, *East Asia Update November 2004*, November 9, 2004.

2. Global Insight, November 15, 2004.

# Asian Tigers and China: Economic Growth

China outperformed most Asian tigers during the first three quarters of 2004.



Sources: CEIC; Directorate General of Budget, Accounting, and Statistics.

# II.1 DOMESTIC ECONOMY

## 1. Economic Growth

Thanks to a pick-up in global economic growth, Taiwan's exports and private investment both grew significantly faster in 2004 than in the preceding year. Private consumption also posted steady growth, reflecting the boost to confidence generated by falling unemployment. While there are signs that the growth momentum has been softening in the second half of the year, preliminary estimates put the third-quarter growth rate at a robust 5.3%.

### Contribution to Economic Growth

	Economic growth (yoy)	Domestic demand								Net foreign demand		
		Total	Consumption		Gross fixed capital formation				Increase in inventory	Total	Exports of goods & services	Less: Imports of goods & services
			Private	Govt	Subtotal	Private sector	Public enterprises	Govt				
1998	4.3	6.2	3.9	0.5	1.8	1.7	0.1	-0.02	0.04	-1.9	1.2	3.1
1999	5.3	2.1	3.3	-0.9	0.4	-0.1	0.3	0.2	-0.8	3.3	5.4	2.2
2000	5.8	3.8	3.0	0.04	1.9	2.2	-0.1	-0.2	-1.2	2.0	8.8	6.8
2001	-2.2	-4.8	0.6	-0.1	-4.9	-4.6	0.04	-0.3	-0.4	2.6	-4.4	-7.0
2002	3.9	1.2	1.3	0.2	-0.3	0.4	-0.04	-0.6	0.0	2.8	5.4	2.6
2003	3.3	0.5	0.5	0.1	-0.4	-0.2	-0.1	-0.1	0.3	2.8	5.9	3.1
2004(f)	5.9	5.1	1.8	-0.1	2.3	2.7	-0.3	-0.1	1.1	0.9	9.4	8.5
Q1(r)	6.7	6.1	2.4	0.1	1.9	2.1	-0.2	-0.02	1.8	0.6	11.0	10.4
Q2(r)	7.9	5.2	2.6	-0.1	3.2	3.6	-0.2	-0.2	-0.5	2.7	14.7	12.0
Q3(p)	5.3	4.9	0.9	-0.2	2.3	2.8	-0.3	-0.3	2.0	0.3	8.5	8.2
Q4(f)	4.1	4.1	1.3	-0.2	2.0	2.5	-0.4	-0.1	1.0	0.01	3.9	3.9
2005(f)	4.6	3.1	1.6	0.02	1.5	1.2	0.2	0.1	0.02	1.5	3.5	2.0

p: Preliminary; f: Forecast; r: Revised.

Source: Directorate-General of Budget, Accounting, and Statistics, 187th Commission on National Income Statistics Meeting, November 19, 2004.

## II.2 DOMESTIC ECONOMY

### 2. Foreign Trade

#### (1) Two-way Trade

- ⇒ Improving significantly from 2002, exports and imports posted double-digit increase rates in 2003. The upward trend continued in the first ten months of 2004.
- ⇒ In 2003, trade surplus amounted to US\$16.9 billion, the third highest historical level. It registered US\$7.3 billion in January-November 2004.

#### Foreign Trade

Unit: US\$ billion; yoy %

	Trade		Exports		Imports		Balance \$
	Value \$	Growth %	Value \$	Growth %	Value \$	Growth %	
1998	215.2	-9.0	110.6	-9.4	104.7	-8.5	5.9
1999	232.3	7.9	121.6	10.0	110.7	5.8	10.9
2000	288.3	24.1	148.3	22.0	140.0	26.5	8.3
2001	230.1	-20.2	122.9	-17.2	107.2	-23.4	15.6
2002	243.1	5.7	130.6	6.3	112.5	4.9	18.1
2003	271.5	11.7	144.2	10.4	127.3	13.1	16.9
<b>2004 Jan- Nov</b>	<b>311.1</b>	<b>27.4</b>	<b>159.2</b>	<b>22.3</b>	<b>151.9</b>	<b>33.2</b>	<b>7.3</b>

Source: Ministry of Finance.

## II.2 DOMESTIC ECONOMY

### (2) Major trading partners

- ⇒ Exports to and imports from Hong Kong and Mainland China, among major trading partners, have expanded the fastest since 2002.
- ⇒ Exports to and imports from the United States returned to positive growth in January-November of 2004 after declining for three consecutive years.

### Changes in Two-way Trade with Major Trading Partners

	Exports (annual change rate %)					Imports (annual change rate %)				
	USA	Japan	Europe	Hong Kong and Mainland China	ASEAN 6*	USA	Japan	Europe	Hong Kong and Mainland China	ASEAN 6*
1999	5.2	27.6	3.5	11.3	21.3	0.1	13.3	-14.6	9.2	15
2000	12.7	39.5	16.7	24.5	29.3	27.6	26	8.1	27.1	40.4
2001	-20.6	-23.1	-16.5	-10.8	-21.6	-27.4	-33	-21.2	-7.8	-21.2
2002	-3.2	-6.1	-6.3	28.7	2.9	-0.7	5.5	-2.3	24.9	3.7
2003	-3.1	-0.5	10.2	22.1	8.9	-7.0	19.6	10.9	31.0	5.4
<b>2004 Jan-Nov</b>	<b>8.8</b>	<b>11.3</b>	<b>16.2</b>	<b>30.8</b>	<b>35.7</b>	<b>30.5</b>	<b>36.0</b>	<b>31.8</b>	<b>49.4</b>	<b>17.0</b>

\*ASEAN6 refers to Indonesia, Malaysia, the Philippines, Singapore, Thailand and Vietnam.

Source: Ministry of Finance.



## II.2 DOMESTIC ECONOMY

### (3) Trade Structure

- ⇒ The share of heavy and technology-intensive industrial products of total exports continued to rise after it shrank slightly in 2001. It rose considerably to 75.3% in 2003 and further to 77.2% in the first eleven months in 2004.
- ⇒ The share of imports of capital goods decreased to 20.5% in 2003 and increased to 21.3% in January-November 2004.

### Composition of Foreign Trade

	Composition (%)						Change (yoy % in US\$)	
	1996	2000	2001	2002	2003	2004 Jan-Nov	2003	2004 Jan-Nov
Exports	100	100	100	100	100	<b>100.0</b>	10.4	<b>22.3</b>
Agricultural Products	0.4	0.2	0.2	0.3	0.3	<b>0.2</b>	8.4	<b>-0.5</b>
Processed Agricultural Products	3.1	1.2	1.4	1.3	1.2	<b>1.2</b>	4.1	<b>16.9</b>
Industrial Products	96.5	98.6	98.4	98.4	98.5	<b>98.6</b>	10.5	<b>22.4</b>
Heavy & Technology-intensive Industry*	60.5	71.4	71.1	73.1	75.3	<b>77.2</b>	13.8	<b>25.6</b>
Others	36.0	27.2	27.3	25.3	23.2	<b>21.4</b>	1.0	<b>12.2</b>
Imports	100	100	100	100	100	<b>100.0</b>	13.1	<b>33.2</b>
Capital Goods	17.9	28.0	25.0	23.0	20.5	<b>21.3</b>	0.4	<b>40.0</b>
Raw Materials	69.0	64.1	65.7	67.7	70.8	<b>70.5</b>	18.3	<b>32.9</b>
Consumer Goods	13.1	7.8	9.2	9.3	8.7	<b>8.2</b>	6.4	<b>19.9</b>

\* Including industries of chemicals, chemical products, rubber products, plastic products, basic metals, fabricated metal products, machinery & equipment, electrical & electronic machinery, transport equipment, and precision instruments.

Source: Ministry of Finance website [www.mof.gov.tw](http://www.mof.gov.tw), *Summary Explanation of Exports and Imports*, December 7, 2004.

## II.3 DOMESTIC ECONOMY

### 3. Domestic Investment

Thanks to the entrenchment of the global recovery and the resultant acceleration in private investment, total investment has been growing strongly in 2004. Having rebounded to positive growth in the first quarter of the year, it rose 19.4% in the second quarter, is estimated to have expanded 13.7% in the third quarter, and is expected to show an increase of 13.9% for the whole year.

#### Real Gross Fixed Capital Formation

NT\$ billion; yoy %

	Total		Private investment		Public enterprises investment		Government investment	
	Amount	Growth rate	Amount	Growth rate	Amount	Growth rate	Amount	Growth rate
1999	2101.2	1.8	1352.6	-0.7	239.2	13.3	509.3	3.6
2000	2282.0	8.6	1565.6	15.7	230.9	-3.5	485.5	-4.7
2001	1811.6	-20.6	1108.9	-29.2	240.3	4.1	462.4	-4.8
2002	1773.0	-2.1	1136.7	2.5	234.7	-2.3	401.6	-13.1
2003	1737.5	-2.0	1120.0	-1.5	223.6	-4.8	393.9	-1.9
2004(f)	1945.0	13.9	1381.6	24.9	190.3	-11.8	373.1	-3.5
Q1(r)	392.1	13.6	287.9	21.8	29.0	-12.1	75.2	-0.6
Q2(r)	473.8	19.4	341.9	33.1	42.1	-9.5	89.7	-3.8
Q3(p)	485.4	13.7	349.7	26.4	43.0	-13.1	92.7	-8.0
Q4(f)	593.7	10.0	402.1	19.6	76.2	-12.1	115.4	-1.2

f: Forecast. p: Preliminary. r: Revised.

Source: DGBAS, 187th Commission on National Income Statistics Meeting, November 19, 2004.

## II.4 DOMESTIC ECONOMY

### 4. Production

Industrial production continued to grow, at a pace of 7.1%, in 2003. It increased 11.5% in January-October 2004, as manufacturing industry expanded 12.5%.

**Growth Rate of Industrial Production** %

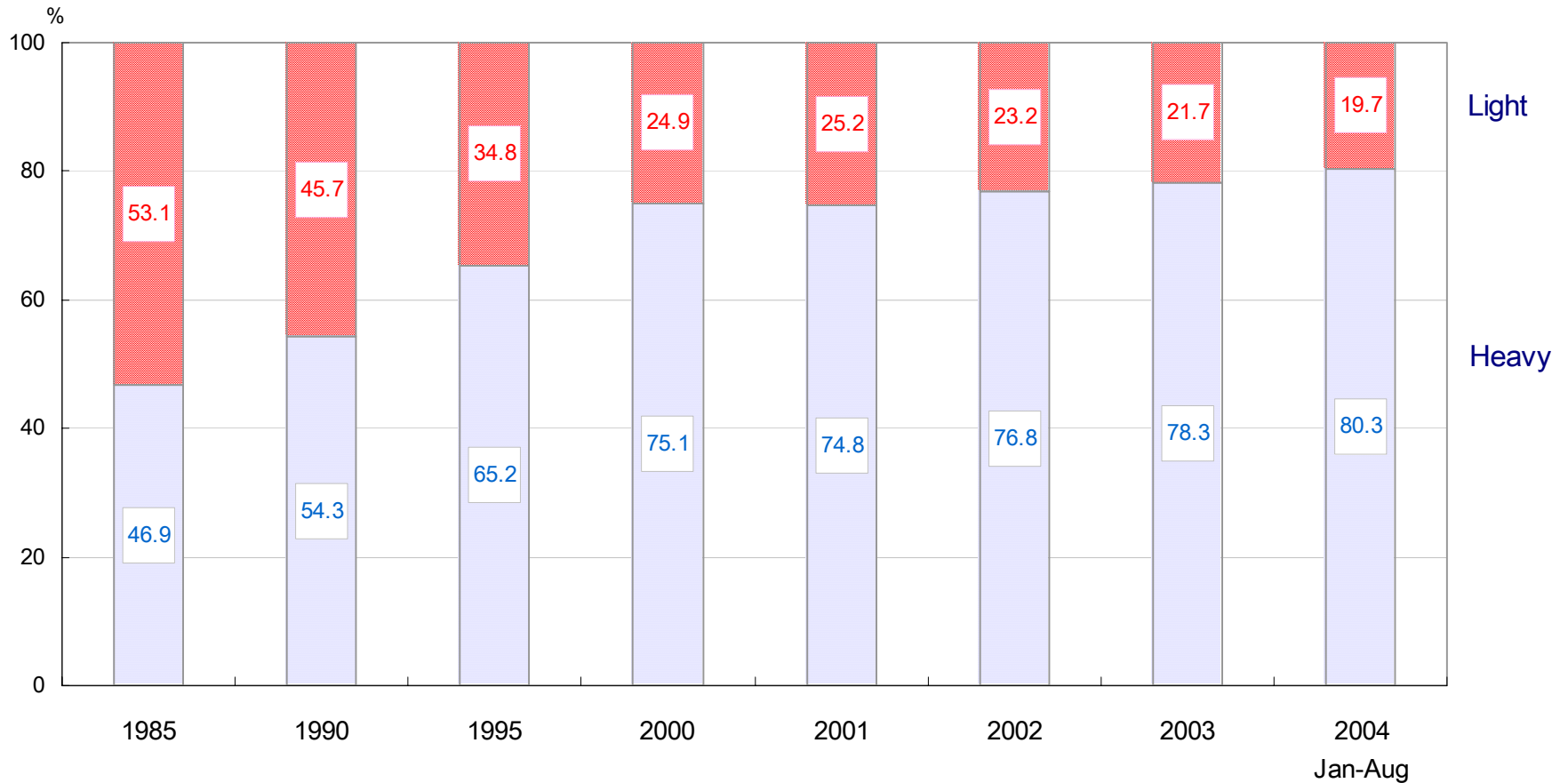
	Industrial production	Mining	Manufacturing	Electricity, gas, and water	Construction
2000	6.9	-8.5	8.1	7.7	-14.7
2001	-7.8	0.1	-8.4	1.1	-11.2
2002	7.9	8.3	9.4	3.3	-20.7
2003	7.1	-7.4	7.4	3.8	8.9
Q2	1.4	-0.03	1.6	1.5	-2.7
Q3	7.4	-8.9	7.0	5.9	32
Q4	12.6	-23.3	13.3	4.4	17.9
<b>2004 Jan-Oct</b>	<b>11.5</b>	<b>-5.6</b>	<b>12.5</b>	<b>3.4</b>	<b>-1.2</b>

\*Including industries of chemicals, chemical products, rubber products, plastic products, basic metals, fabricated metal products, machinery & equipment, electrical & electronic machinery, transport equipment, and precision instruments.

Source: Ministry of Economic Affairs, *Industrial Production Statistics Monthly, Taiwan*.

# Structure of the Manufacturing Industry

The share of heavy industry in manufacturing production continued to increase, from 78.3% in 2003 to 80.3% in the first eight months of 2004.



## II.5 DOMESTIC ECONOMY

### 5. Employment

Nonagricultural employment has displayed marked improvement since the third quarter of 2003. The unemployment rate gradually lowered to below 5% in the fourth quarter of 2003, after rising to a historical high in 2002. It fell further to 4.5% in January-October 2004.

	Labor Force		Unemployment		Nonagricultural employment	
	1,000 persons	Participation %	1,000 persons	Rate %	1,000 persons	yoy, %
2000	9,784	57.7	293	2.99	8,753	1.6
2001	9,832	57.2	450	4.57	8,677	-0.9
2002	9,969	57.3	515	5.17	8,745	0.8
2003	10,076	57.3	503	4.99	8,877	1.5
Q2	10,034	57.2	501	5.00	8,836	1.1
Q3	10,117	57.5	524	5.14	8,897	1.6
Q4	10,129	57.4	480	4.74	8,964	2.3
<b>2004 Jan-Oct</b>						
Average	<b>10,227</b>	<b>57.6</b>	<b>462</b>	<b>4.50</b>	<b>9,121</b>	<b>3.0</b>

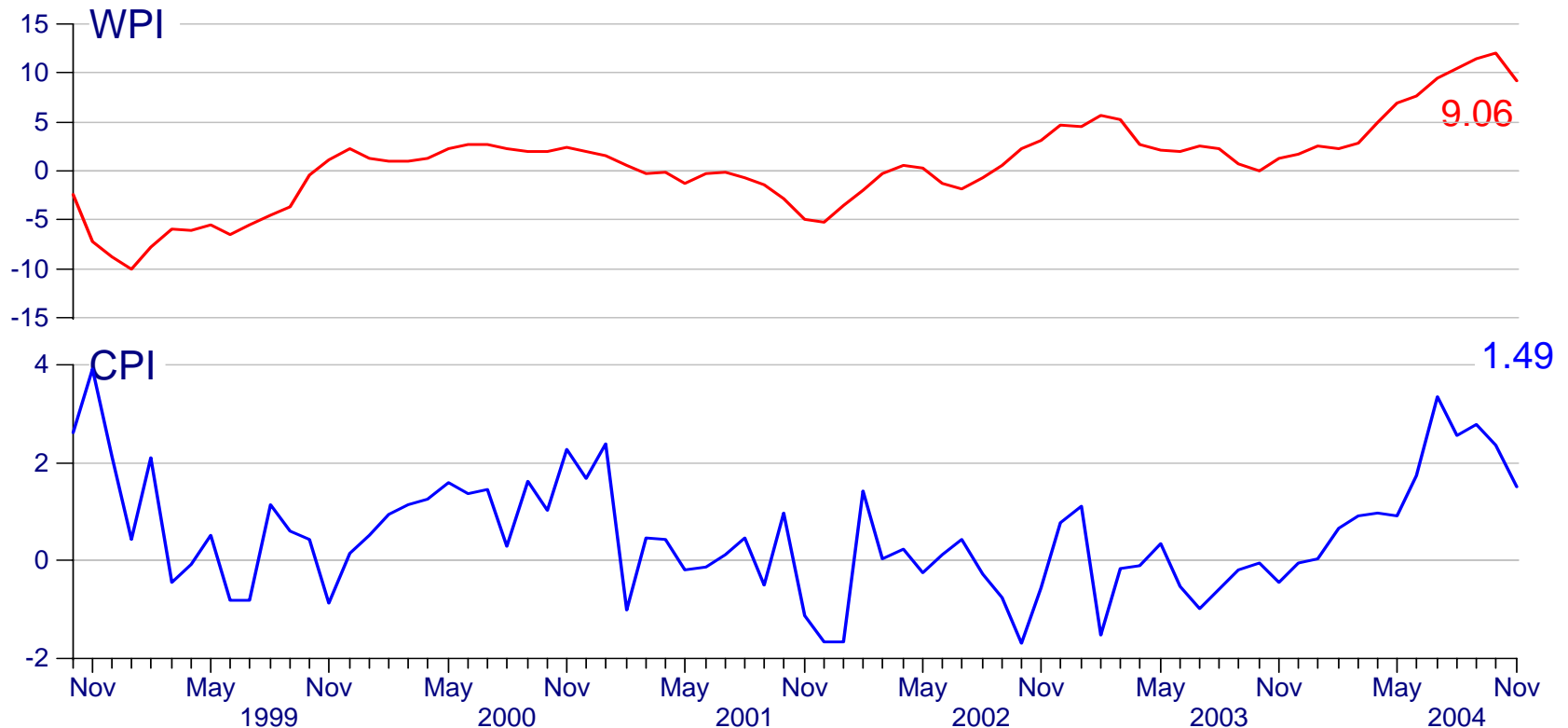
Source: Directorate General of Budget, Accounting, and Statistics.

## II.6 DOMESTIC ECONOMY

### 6. PRICES

Wholesale prices increased 2.5% and consumer prices decreased 0.3% in 2003. Since the second quarter of 2004, prices rose more rapidly with the steep increase in energy prices. Wholesale prices and consumer prices rose 9.1% and 1.5%, respectively, in November 2004.

### Price Change (% change over a year)



## II.7 DOMESTIC ECONOMY

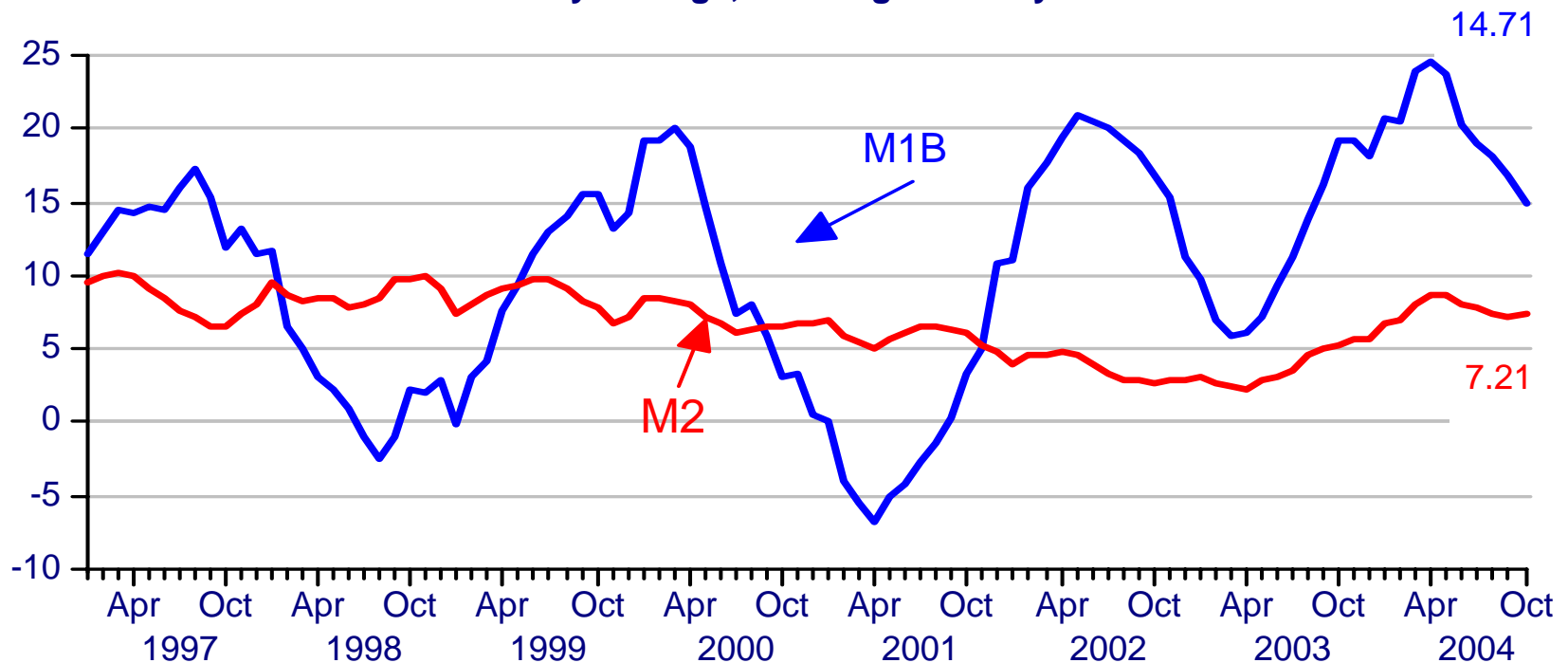
### 7. Money & Finance

#### (1) Money Supply

The annual growth rate of M1B and M2 recorded 11.8% and 3.8%, respectively, in 2003. In October 2004, M1B grew 14.7% while M2 expanded 7.2%.

### Money Supply

Daily average, % change over a year



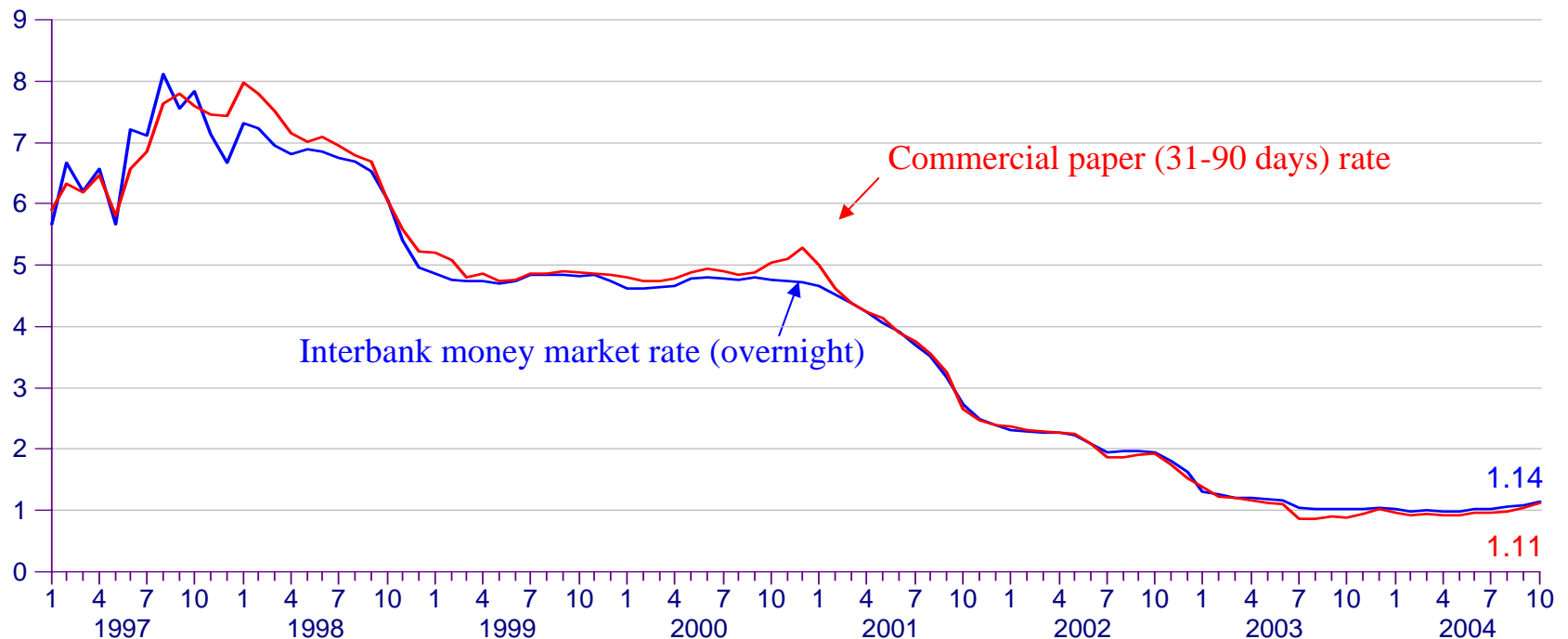
Source: CEIC.

# II.7 DOMESTIC ECONOMY

## (2) Interest Rates

Market interest rates lowered continuously and reached historically low levels during end of 2002 and the third quarter of 2003. The downward trend leveled off since the last quarter of 2003, and has seen a reverse tendency more recently. In October 2004, commercial paper rate and interbank rate recorded 1.11% and 1.14%, respectively. Effective on October 1, the rediscount rate was raised from 1.375% to 1.625% by the Central Bank.

### Interest Rate (%)



Source: CEIC.



## II.8 DOMESTIC ECONOMY

### 8. Business Monitoring Indicators

The monitoring indicators flashed the yellow-red light signaling racing economic expansion from December 2003 through September 2004, with the sole exception of May when they flashed the red overheating light. October saw a change to the green light signaling steady rather than rapid growth, though whether this indicates the onset of an easing trend remains to be observed.

#### Monitoring Indicators

		2003			2004										
		10	11	12	1	2	3	4	5	6	7	8	9	10	
Total Scores		31	30	34	35	34	36	37	39	36	35	33	32	29	
Financial Sector	Monetary Aggregates M1B, yoy%													14.4	
	Direct and Indirect Finance, yoy%													9.0 <sub>p</sub>	
	Bank Clearings and Remittance, yoy%														-1.4
	Stock Price Index, 1966=100, yoy%														-0.9
Real Sector	Manufacturing New Order Index, 1996\$, 1976.1=100, yoy%													7.3 <sub>p</sub>	
	Exports, 2001\$, yoy%														7.7 <sub>p</sub>
	Industrial Production Index, 1996=100, yoy%														5.3 <sub>p</sub>
	Manufacturing Inventory-to-Sales ratio, %														53.0 <sub>p</sub>
	Nonagricultural Employment, yoy%														3.2

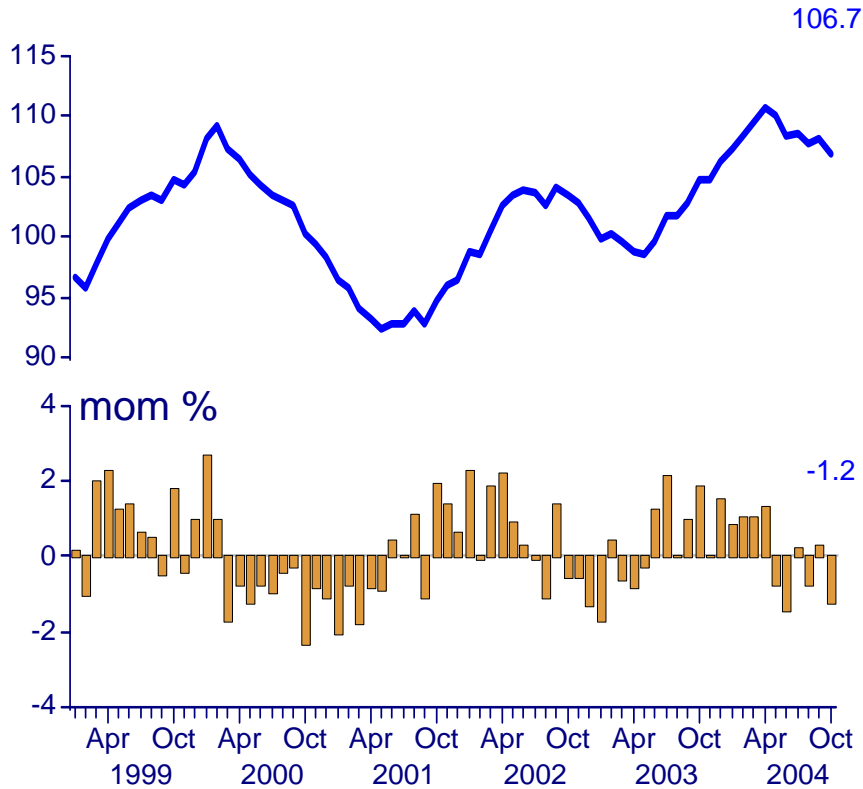
Overheating 
 Transition in need of watching 
 Steadily moving forward 
 Transition in need of watching 
 Recession

Note: All data, except stock price index, have been seasonally adjusted.

# II.8 DOMESTIC ECONOMY

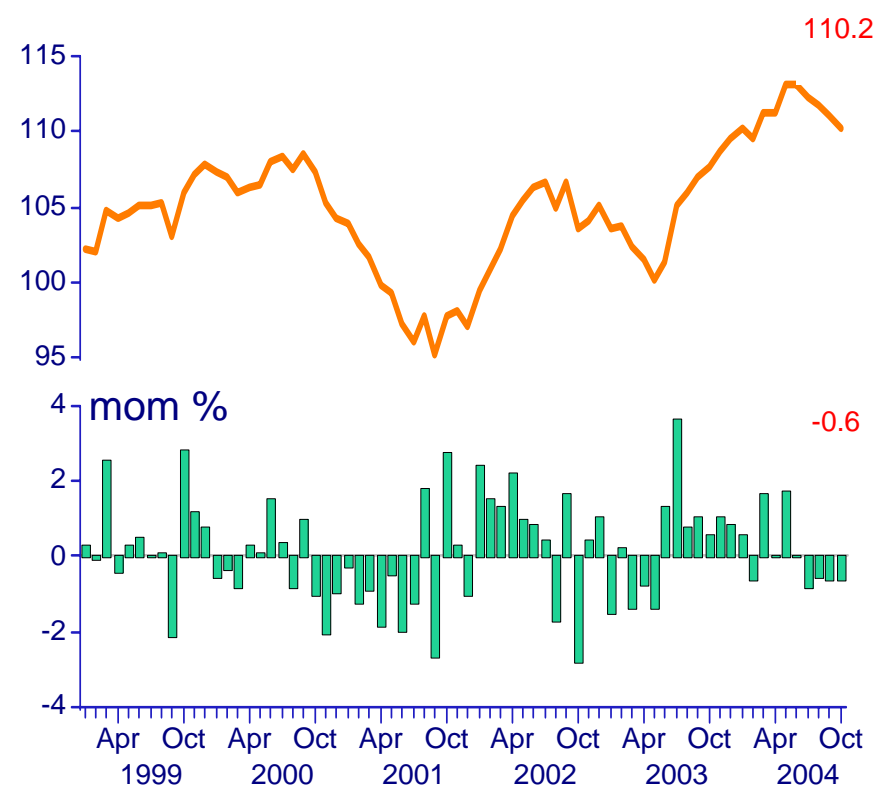
## Composite Leading Index

1996=100



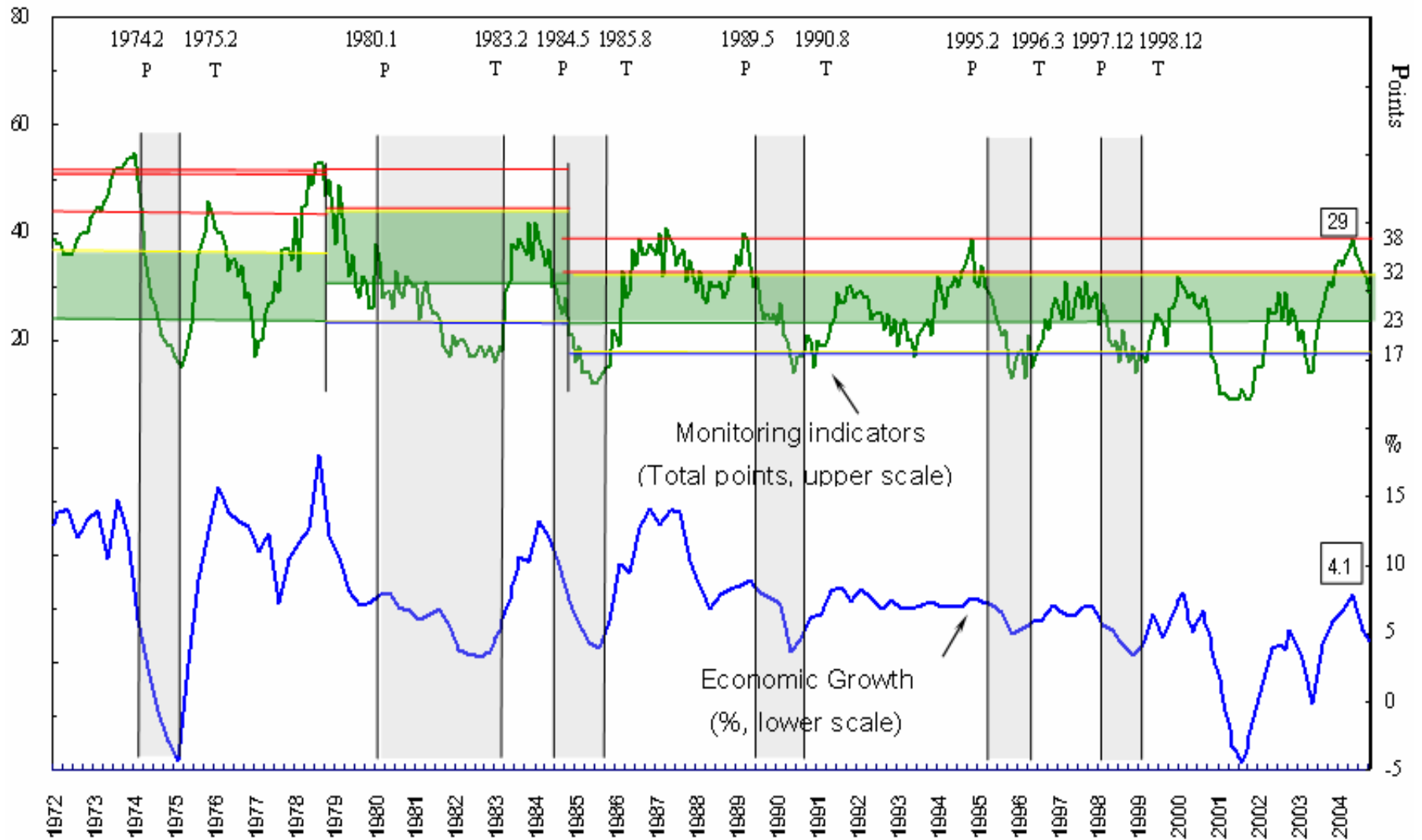
## Composite Coincident Index

1996=100



Source: CEPD.

# Monitoring Indicators and Economic Growth



## II.8 DOMESTIC ECONOMY

According to surveys conducted by the Council for Economic Planning and Development, the manufacturing firms kept optimistic for eleven consecutive months until April 2004. The percentage of pessimists surpassed that of optimists in five out of the six subsequent months in 2004.

		Business Expectation 3 months later				Capacity Utilization (%)	Profit (%)
		% of manufacturing firms surveyed					
		Better (1)	Unchanged	Worse (2)	Net (1)-(2)		
2003	Oct	18	69	13	5	80.2	5.0
	Nov	20	65	15	5	79.5	4.9
	Dec	24	66	10	14	80.4	5.1
2004	Jan	34	59	7	27	77.1	4.7
	Feb	32	58	10	22	79.3	5.2 <sub>r</sub>
	Mar	19	70	11	8	80.9	5.4 <sub>r</sub>
	Apr	13	74	13	0	80.5	5.2 <sub>r</sub>
	Mar	14	69	17	-3	80.3	5.2 <sub>r</sub>
	Jun	12	73	15	-3	80.3	5.0
	Jul	12	71	17	-5	80.7	5.1
	Aug	16	71	13	3	80.5	5.0
	Sep <sub>r</sub>	14	68	18	-4	80.4	5.0
	Oct <sub>p</sub>	13	71	16	-3	80.4	5.0

# III.1 CURRENT ISSUES

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## 1. *Current Economic Issues*

- ⇒ **Hiking oil prices** may contribute to upward pressure on domestic prices.
- ⇒ **The coming implementation of Kyoto Protocol** is anticipated to greatly affect the iron and steel, petrochemical, cement, paper pulp and synthetic fiber industries, as Taiwan, though not a party to the pact yet, reduces carbon dioxide emissions.
- ⇒ **Dependence** on exports to and investment in mainland China is rapidly increasing yet the development of a cross-straits communications and consultation mechanism is at a standstill. In addition, China's recent tightening measures to avoid a hard landing are anticipated to affect the Taiwan economy.
- ⇒ **Fiscal deficits** have expanded rapidly in the past decade, as it has become more difficult in raising fiscal revenues and contracting expenditures.

# III.1 CURRENT ISSUES

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- ⇒ **Inadequate infrastructure** has been on the top list of impediments to Taiwan's competitiveness improvement by major competitiveness researchers.
- ⇒ **The banking sector** reached very high levels of non-performing loan ratio, at 8.8% in the first quarter of 2002, with problems most severe among community financial institutions. Although domestic banks as a whole improved to 3.3% in September 2004, community financial institutions still saw a level of 11.6%.
- ⇒ **The emerging imbalance in manpower development**
  - 1) The unemployment rate has risen from 3.0% in 2000 to around 5% in 2002. Although lowering to 4.3% in October 2004, it is still above historical level.
  - 2) There is a growing inadequacy in the supply of highly professional and specialized manpower, managers, and basic-skilled workforce.

## III.2 POLICY INITIATIVES

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### 1. *Key Policy Initiatives*

- ⇒ **The inter-ministerial price monitoring taskforce** met in September 2004 and announced measures to diminish fears of inflation:
  - 1) Switching from "loose" to "neutral" monetary policy, lowering tariffs on energy and consumer imports, and ensuring adequate supply of food.
  - 2) Public utility rate adjustment to be based on consumer affordability, economic situation, and business profitability.
  - 3) The petroleum industries are called upon to avert supply risks for the short run. For the long run, energy-saving technology and low energy-consuming, high value-added productions will be developed and promoted .
- ⇒ **A taskforce for climate change and the Kyoto Protocol** is being organized to seek optimal solutions to meet both environmental and economic goals.
  - 1) Assistance will be provided to industries to voluntarily reduce carbon dioxide emissions.
  - 2) Private business sectors will be encouraged to raise energy efficiency and emphasize green production process.

## III.2 POLICY INITIATIVES

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### ⇒ **Easing restrictions on economic links with mainland China and monitoring recent economic developments in China**

- 1) The “no haste, be patient” mainland investment policy has been replaced with a less restrictive “proactive liberalization with effective management” approach.
- 2) The preparatory phase of cross-strait direct transportation links is already underway.
- 3) "Measures on cross-Strait freight facilitation" are to be announced at appropriate time.
- 4) The government is closely monitoring China's tightening measures and their impact on the Chinese and Taiwanese economies.

### ⇒ **Fiscal reform**

- 1) The government has established a fiscal reform committee to draw up plans for achieving a balanced budget within five to ten years.
- 2) Another committee has been formed to consolidate the management of state-owned properties to help relieve fiscal burden.



## III.2 POLICY INITIATIVES

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- ⇒ **Financial reform:** The establishment of financial restructuring fund (RTC) and the passage of Financial Holding Company Law have helped liquidate and consolidate troubled financial institutions. As a result, domestic banks' non-performing loan ratio lowered to 3.3% in September 2004 from 8.3% three years ago, and community financial institutions; to 11.6%.from 17.9%. Moreover, a plan to develop Taiwan as a regional financial services center has been launched to help form a funding center, to promote asset management business, to develop a variety of new financial products, and to strengthen the health of the financial market.
- ⇒ **Infrastructural development** A spending around US\$15 billion by the government plus US\$6 billion by private investment for the next five years has been launched to step up development in transportation, high-technology, higher education, cultural creativity, harbors, water resources and sewage management.
- ⇒ **Measures to increase employment:** An increase of US\$215 million in public services spending has been extended to create about 40,000 jobs in public services in 2004. For the long run, the government is promoting services with high potentials in production value, job creation, value-added, international competitiveness, and raising the quality of life. Among the list of such service industries are financial services, wholesale, retail, logistics/distribution/transportation, medical care, manpower training, tourism, cultural and creative, design, information, property management, R&D, environmental protection, and engineering consultancy.

## III.2 POLICY INITIATIVES

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### 3. *Challenge 2008: Six-Year National Development Plan*

- ⇒ The comprehensive six-year national development plan is designed to foster the creativity and talent Taiwan needs to transform itself into a “green silicon island.”
- ⇒ Total expenditure under the plan will be NT2.6 trillion (approximately US\$75 billion.)
- ⇒ The major goals of the plan are:
  - 1) To develop at least 15 products or technologies that rank among the world’s best
  - 2) To double the number of foreign tourists visiting Taiwan
  - 3) To increase R&D expenditures to 3% of GDP
  - 4) To reduce the unemployment rate to less than 4%
  - 5) To boost the economic growth rate to over 5%
  - 6) To expand the number of broadband Internet users to over 6 million
  - 7) To create 700 thousand jobs

## III.2 POLICY INITIATIVES

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- ⇒ The plan includes three major reforms, of government, banking and public finance, and ten major investment areas as follows:
- 1) Cultivate talent for the E-generation
  - 2) Develop the cultural creativity industry
  - 3) Develop an international base for R&D and innovation
  - 4) Develop high value-added industries
  - 5) Double the number of tourists visiting Taiwan
  - 6) Develop a digital Taiwan
  - 7) Develop Taiwan as an operations headquarters
  - 8) Improve the transportation infrastructure
  - 9) Conserve water resources and the ecology
  - 10) Construct new hometown communities

# IV. PROSPECTS

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## 2003

- ⇒ Taiwan's economy returned to positive growth in 2002, following its unprecedented contraction in 2001. The recovery was maintained in 2003, except for when an outbreak of SARS caused a temporary dip that pulled the second-quarter growth rate down to minus 0.1%. After the SARS epidemic had been contained, the economy picked up strongly in the second half of the year, thanks to rising optimism about the global economy and the emerging effect of increased government spending.
- ⇒ The economy grew 3.3% in 2003 with consumer prices falling by 0.3%.

## 2004

- ⇒ Exports are expected to continue posting double-digit growth in the last quarter of 2004, though at a somewhat more subdued pace than in the first three quarters.
- ⇒ The positive wealth effects created by the pepping-up of the stock and real estate markets helped bolster private consumption in the first half of the year. But consumer sentiment is expected to be more conservative through the year's second half under the impact of soaring oil prices, the expectation of interest rate rises, and the weakening of the stock market.
- ⇒ Private investment is expected to grow at a double-digit rate, driven by plant expansions in the opto-electronic and semiconductor industries and such large-scale projects as the high-speed railway and the 6th naphtha-cracker plant.
- ⇒ Economic growth is expected to reach 5.9% with a moderate inflation of 1.8%.

## 2005

- ⇒ Export trade is expected to cool off from exceptionally rapid growth to more sustainable levels following signs of weaker global expansion.
- ⇒ With domestic economic prospects remaining buoyant and forthcoming fiscal measures, the economic growth is targeted to be 5% with the CPI increasing no more than 2%.

# ECONOMIC FORECASTS FOR TAIWAN

		Growth rate %		
		2004	Difference from last projection	2005
World Bank	(Nov 2004)	5.8	+0.7	4.3
IMF	(Sep 2004)	5.6	+0.7	4.1
Global-Insight	(Oct 2004)	5.7	+0.4	4.5
CIER	(Dec 2004)	5.91	+0.56	4.37
TIER	(Nov 2004)	5.93	+0.26	4.62
DGBAS	(Nov 2004)	5.93	+0.06	4.56
Academia Sinica	(Jul 2004)	5.76	-	

P: preliminary estimate.

CIER: Chung-hua Institute for Economic Research, Taipei.

DGBAS: Directorate-General of Budget, Accounting and Statistics, Taiwan, ROC.

TIER: Taiwan Institute of Economic Research, Taipei.