

# TAIWAN'S ECONOMIC SITUATION AND OUTLOOK



Council for Economic Planning and Development  
Executive Yuan

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# I. CURRENT DOMESTIC SITUATION

## *Economic Growth*

⇒ Thanks to the brilliant performance in exports, industrial production and corporate profits in the second half of 2007, the economy is preliminarily estimated to have grown 5.7% for the whole year.

⇒ In 2008, the economy is forecasted to grow 4.3%.

### Real GDP Growth (Change from a year ago)

	Economic growth	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	Gov't	Subtotal	Private sector	Public enterprises	Gov't				
2002	4.6	2.6	2.6	2.1	1.1	6.7	-1.2	-12.7	-	-	10.6	7.1
2003	3.5	1.8	1.5	0.6	1.7	3.7	-3.9	-1.3	-	-	10.4	8.1
2004	6.2	7.7	4.5	-0.5	19.5	33.1	-18.2	-5.8	-	-	14.4	18.9
2005	4.2	1.7	3.0	1.1	1.2	0.3	16.2	-1.8	-	-	7.6	3.8
2006	4.9	1.2	1.8	-0.4	0.6	3.0	-7.5	-6.2	-	-	10.4	5.2
2007 <sub>p</sub>	5.7	2.2	2.6	0.8	2.4	3.4	3.9	-3.9	-	-	8.8	4.0
Q1	4.2	-0.1	2.1	-0.2	0.8	1.4	20.9	-13.0	-	-	6.4	-0.5
Q2	5.2	3.8	2.6	0.03	6.0	8.6	1.8	-6.9	-	-	4.7	2.4
Q3 <sub>r</sub>	6.9	4.0	3.6	1.7	4.5	5.8	0.7	-0.8	-	-	11.1	7.3
Q4 <sub>p</sub>	6.4	1.3	2.2	1.5	-1.6	-2.4	-0.8	1.6	-	-	12.9	6.3
2008 <sub>f</sub>	4.3	2.9	2.9	2.2	2.7	3.3	5.6	-2.4	-	-	3.1	0.5

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

Source: Directorate-General of Budget, Accounting, and Statistics (DGBAS), February 2008.

# CURRENT DOMESTIC SITUATION

## Contribution to GDP Growth (in percentage points)

	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	Gov't	Sub-total	Private sector	Public enterprises	Gov't				
2002	4.6	2.5	1.6	0.3	0.2	0.8	-0.03	-0.6	0.4	2.1	5.4	3.2
2003	3.5	1.7	0.9	0.1	0.3	0.5	-0.1	-0.1	0.4	1.8	5.5	3.7
2004	6.2	7.1	2.7	-0.1	3.6	4.2	-0.4	-0.2	0.9	-0.9	8.2	9.1
2005	4.2	1.5	1.8	0.1	0.3	0.05	0.3	-0.06	-0.6	2.6	4.7	2.0
2006	4.9	1.1	1.0	-0.05	0.1	0.5	-0.1	-0.2	0.01	3.8	6.6	2.8
2007 <sub>p</sub>	5.7	2.0	1.5	0.1	0.5	0.5	0.1	-0.1	-0.1	3.7	5.9	2.1
Q1	4.2	-0.1	1.3	-0.03	0.1	0.2	-0.3	-1.5	4.3	4.5	4.1	-0.2
Q2	5.2	3.3	1.4	0.0	1.2	1.4	0.02	-0.2	0.7	2.0	3.3	1.4
Q3 <sub>r</sub>	6.9	3.6	2.1	0.2	0.9	0.9	0.01	-0.02	0.4	3.3	7.3	4.0
Q4 <sub>p</sub>	6.4	1.1	1.1	0.2	-0.3	-0.4	-0.02	0.1	0.2	5.3	8.5	3.3
2008 <sub>f</sub>	4.3	2.5	1.6	0.3	0.5	0.5	0.1	-0.1	0.1	1.9	2.1	0.3

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

Source: Directorate-General of Budget, Accounting, and Statistics (DGBAS), February 2008.

# CURRENT DOMESTIC SITUATION

## Domestic Investment

- ⇒ In the fourth quarter of 2007, the 2.4% fall in private investment is attributable to a 2.0% decline in imports of capital equipment and a decrease in construction work, despite a 4.0% growth in manufacturing investment goods.
- ⇒ For 2007 as a whole, gross fixed capital formation rose 2.4%, including a 3.4% rise in private investment.

## Gross Fixed Capital Formation: Real Growth and Current-price Value

NT\$ billion; yoy %

	Total		Private investment		Public enterprises investment		Government investment	
	Amount	Growth rate	Amount	Growth rate	Amount	Growth rate	Amount	Growth rate
2002	1,910.9	1.1	1,284.4	6.7	226.8	-1.2	399.7	-12.7
2003	1,957.7	1.7	1,335.9	3.7	219.2	-3.9	402.6	-1.3
2004	2,420.2	19.5	1,826.8	33.1	181.6	-18.2	411.8	-5.8
2005	2,438.4	1.2	1,817.2	0.3	205.2	16.2	416.1	-3.2
2006	2,517.6	0.6	1,917.8	3.0	190.7	-7.5	409.1	-6.2
<b>2007<sub>p</sub></b>	<b>2,665.2</b>	<b>2.4</b>	<b>2,044.4</b>	<b>3.4</b>	<b>205.0</b>	<b>3.9</b>	<b>415.8</b>	<b>-3.9</b>
Q1	564.6	0.8	444.6	1.4	42.4	20.9	77.5	-13.0
Q2	691.8	6.0	555.9	8.6	41.9	1.8	94.0	-6.9
Q3 <sub>r</sub>	692.4	4.5	534.1	5.8	48.8	0.7	109.5	-0.8
Q4 <sub>p</sub>	716.3	-1.6	509.8	-2.4	71.8	-0.8	134.7	1.6
<b>2008<sub>f</sub></b>	<b>2,809.8</b>	<b>2.7</b>	<b>2,164.0</b>	<b>3.3</b>	<b>221.0</b>	<b>5.6</b>	<b>424.7</b>	<b>-2.4</b>

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

Source: DGBAS, February 2008.

# CURRENT DOMESTIC SITUATION

## Foreign Trade

- ⇒ Exports and imports expanded 16.6% and 23.7%, respectively, in the first fourth months of 2008 .
- ⇒ Trade surplus decreased US\$3.4 billion to US\$4.3 billion in January-April 2008 from a year ago.

## Foreign Trade

US\$ billion; yoy %

	Trade		Exports		Imports		Balance
	Value	Growth	Value	Growth	Value	Growth	
2001	234.3	-20.0	126.3	-16.9	108.0	-23.3	15.6
2002	248.6	6.1	135.3	7.1	113.2	4.9	22.1
2003	278.6	12.1	150.6	11.3	128.0	13.0	22.6
2004	351.1	26.0	182.4	21.1	168.8	31.8	13.6
2005	381.1	8.5	198.4	8.8	182.6	8.2	15.8
2006	426.7	12.0	224.0	12.9	202.7	11.0	21.3
2007	466.1	9.2	246.7	10.1	219.3	8.2	27.4
<b>2008 Jan-Apr</b>	<b>168.9</b>	<b>19.9</b>	<b>86.6</b>	<b>16.6</b>	<b>82.3</b>	<b>23.7</b>	<b>4.3</b>

Note: Trade data are adjusted according to the United Nations IMTS Compilers Manual (2004). Total exports include “exports” and “re-exports,” and total imports include “imports” and “re-imports.”

Source: Ministry of Finance.

# CURRENT DOMESTIC SITUATION

## Major trade partners

- ⇒ China (including Hong Kong) and ASEAN have become increasingly important trade partners to Taiwan since 2000, though trade with these two regions has grown more slowly in the last three years. Japan has remained Taiwan's largest supplier of imports, despite a narrowing share.
- ⇒ Export shares of the United States, Europe and Japan have narrowed as those of China (including Hong Kong), and ASEAN have increased.

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

	Exports					Imports					Yoy %
	USA	Japan	Europe	China (incl. Hong Kong)	ASEAN 6*	USA	Japan	Middle East	China (incl. Hong Kong)	ASEAN 6*	
2001	-20.9	-22.9	-16.3	-9.5	-19.1	-27.2	-32.9	-2.0	-7.4	-20.9	
Share	22.3	10.3	15.8	26.6	11.9	17.0	24.0	6.1	7.4	14.9	
2002	-2.7	-5.0	-5.9	29.4	7.4	-0.8	5.5	9.8	24.2	3.7	
2003	-3.0	0.5	10.4	23.6	10.5	-6.9	19.6	43.7	30.9	5.2	
2004	8.3	11.1	14.7	28.8	33.0	28.2	33.6	34.6	47.7	16.2	
2005	1.3	9.4	-0.7	12.2	13.8	-2.8	5.3	36.5	16.2	3.8	
2006	11.2	7.9	10.6	14.8	13.8	7.1	0.5	30.1	20.1	10.4	
2007	-0.9	-2.2	9.7	12.6	16.7	17.0	-0.7	12.0	11.9	1.7	
2008Jan-Apr	0.3	2.4	11.4	20.2	26.0	22.6	16.1	66.0	19.6	14.1	
Share	11.6	6.5	11.6	40.6	15.2	11.9	20.5	15.3	13.2	10.0	

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

Source: Ministry of Finance.

# CURRENT DOMESTIC SITUATION

## Production

⇒ Industrial production grew 11.4% in the first quarter of 2008, with manufacturing increasing 11.9%.

⇒ In 2007, Industrial production registered an average growth of 8.1%.

## Growth of Industrial Production Index

%

	Total	Mining	Manufacturing	Electricity, gas, and water	Construction
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	9.0
2004	9.8	-4.4	10.5	3.0	4.8
2005	4.6	-9.8	4.5	3.7	11.4
2006	5.0	-5.8	5.0	3.0	9.0
2007	8.1	-14.8	8.8	2.5	-1.1
<b>2008 Jan-Mar</b>	<b>11.4</b>	<b>0.5</b>	<b>11.9</b>	<b>4.6</b>	<b>10.1</b>

Source: Ministry of Economic Affairs.



# CURRENT DOMESTIC SITUATION

## *Unemployment rate and labor force participation rate*

- ⇒ The unemployment rate in March 2008 increased slightly to 3.9%, but having been much improved since 2002 with historical high at 5.2%.
- ⇒ Labor force participation rate in March 2008 is 58.18%, decreased by 0.02 percentage points from the previous year.

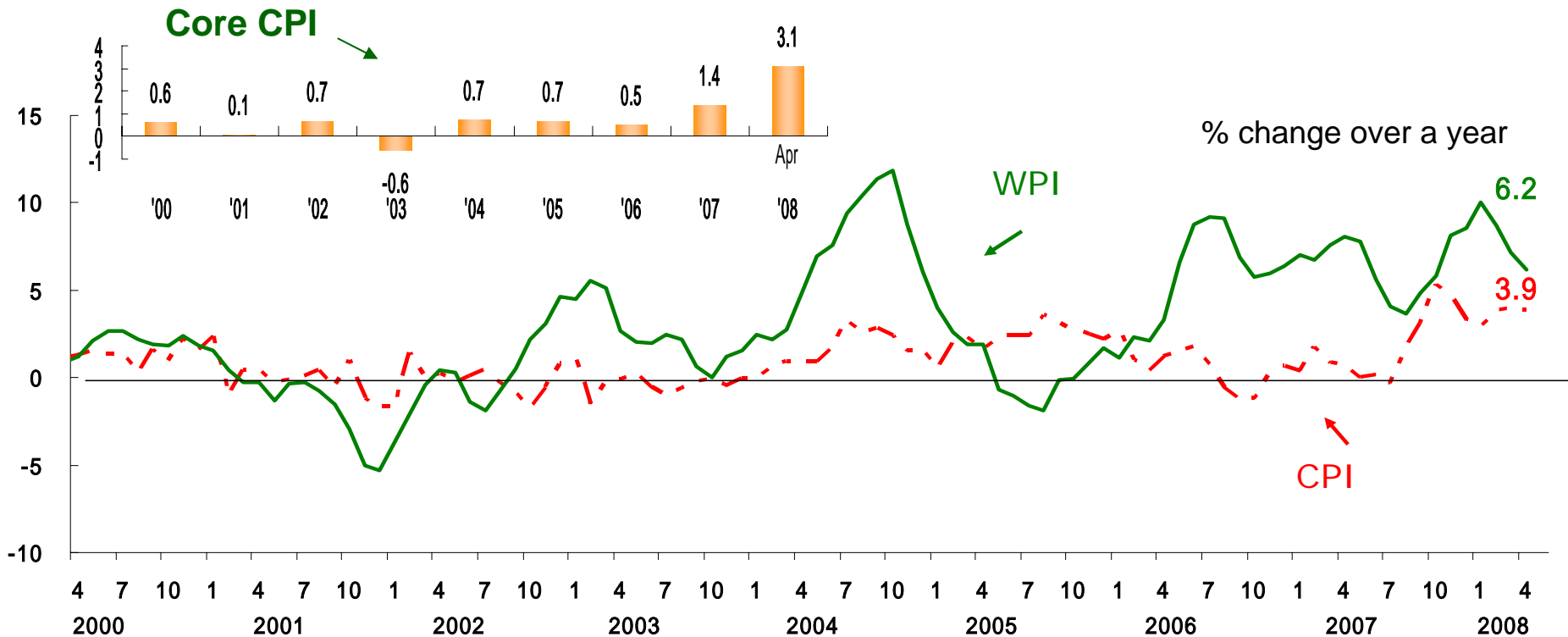


Source: Directorate General of Budget, Accounting, and Statistics.

# CURRENT DOMESTIC SITUATION

## Prices

- ⇒ In March 2008, CPI rose 3.9% from a year ago, with increases in food, fuels & lubricants, and taxi fees, offsetting continued decreases in electronic products. Core prices (excluding fresh food and energy prices) climbed 3.1%.
- ⇒ WPI were pushed up by 6.2%, reflecting the rising prices of crude petroleum and natural gas, petroleum & coal products, and basic metal.
- ⇒ For the first quarter of 2008, CPI and WPI moved up 3.6% and 8.7%, respectively.

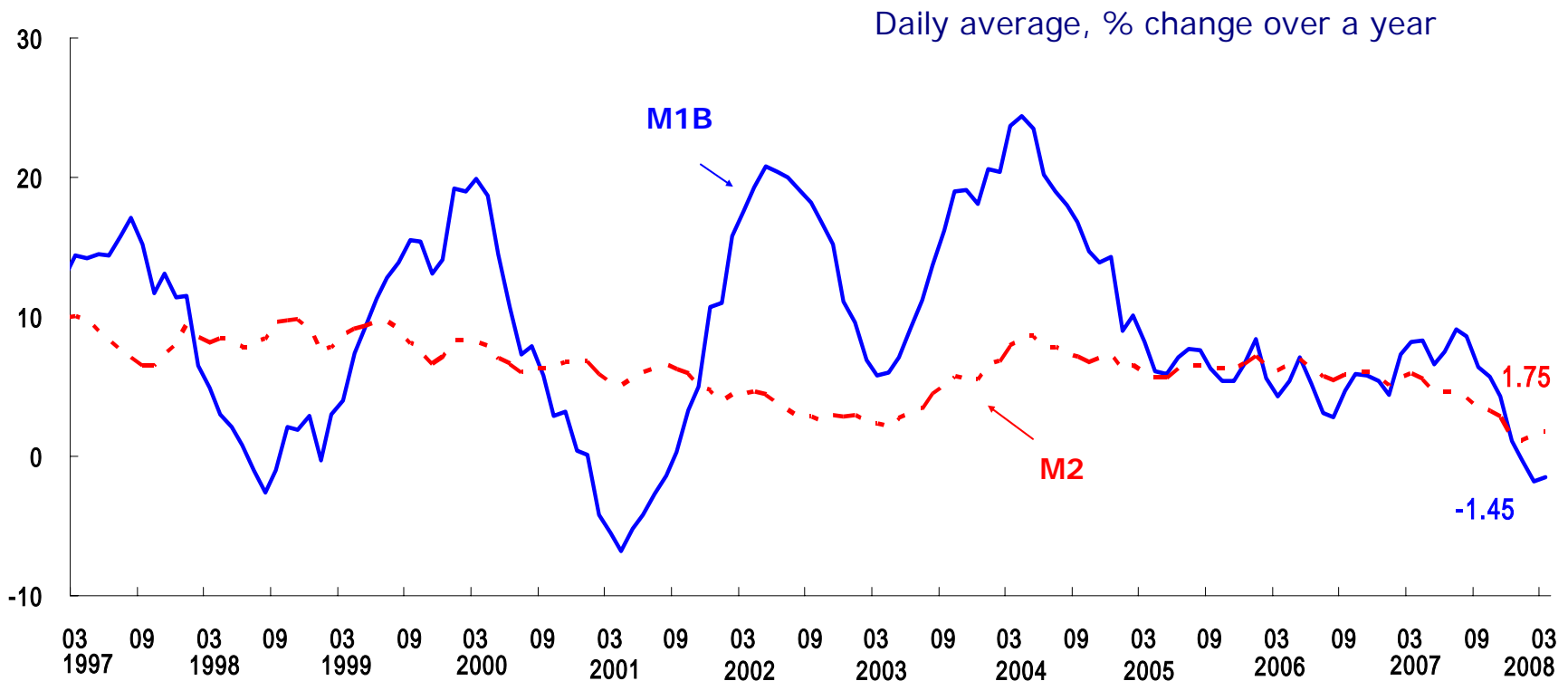


Source: Directorate General of Budget, Accounting, and Statistics.

# CURRENT DOMESTIC SITUATION

## Money Supply

⇒ In March 2008, M1B continuously decreased 1.5% from a year ago, while M2 grew 1.8%. The M2 growth rate was higher than the previous month due to substantial net foreign capital inflow.

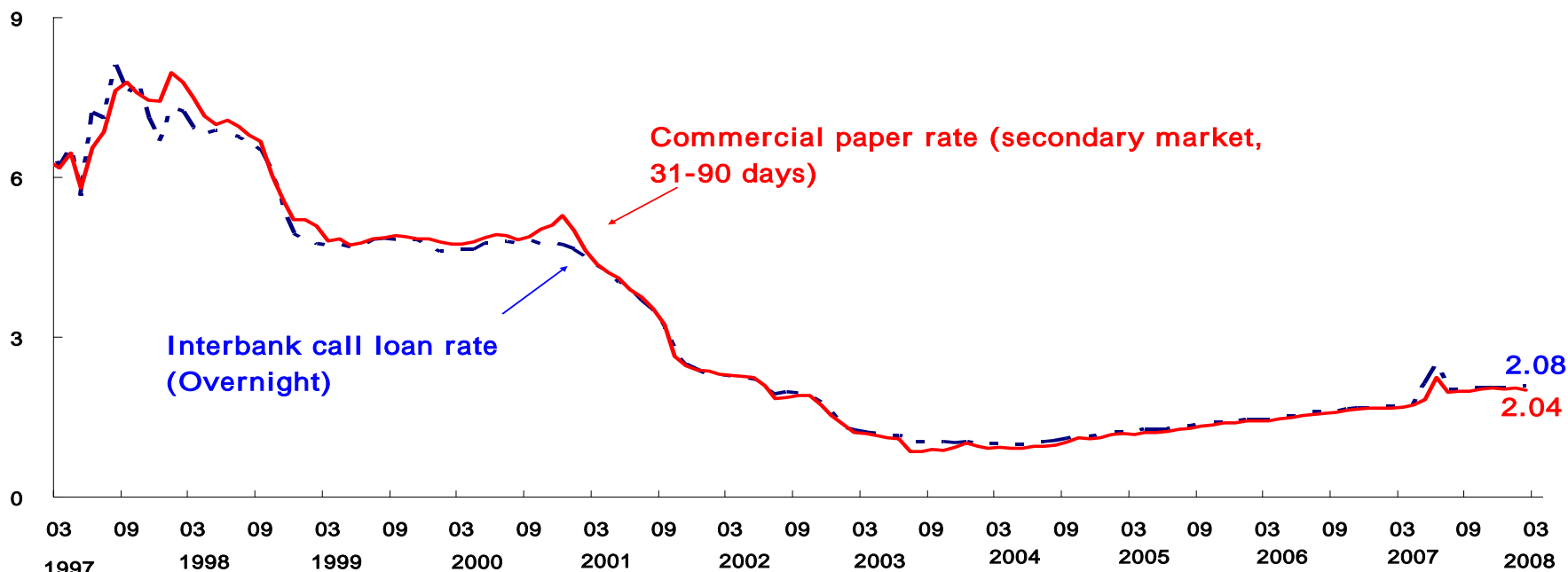


Source: Central Bank of China (Taiwan).

# CURRENT DOMESTIC SITUATION

## Short-term Interest Rates

- ⇒ Since the second half of 2003, both long-term and short-term market interest rates have trended up, as tight funding conditions prompted banks to adopt a cautious attitude towards funds operations. Commercial paper rate and interbank rate recorded 2.04% and 2.08%, respectively, in March 2008.
- ⇒ The rediscount rate was raised by 12.5bps to 3.5% in March 2008, due mainly to rising inflation pressures.

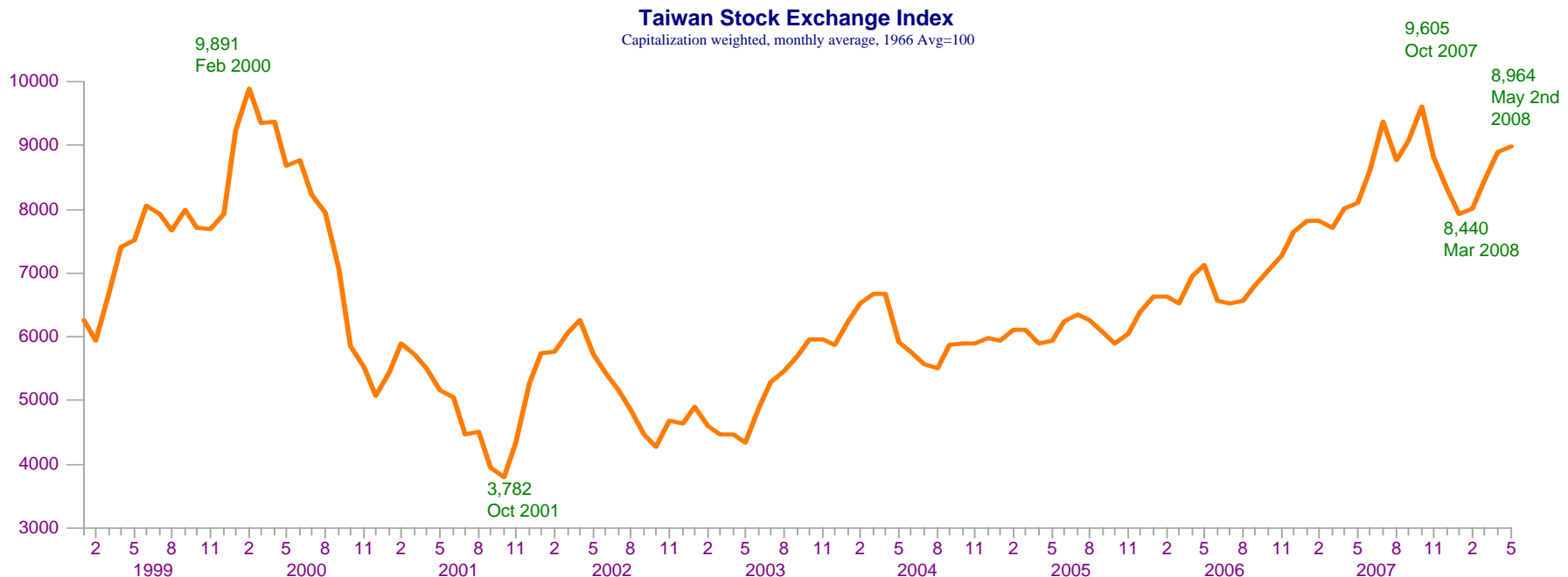


Source: Central Bank of China (Taiwan).

# CURRENT DOMESTIC SITUATION

## Stock Price

- ⇒ Stock exchange index plunged to 3,782 points in Oct. 2001 due to the 911 attack and downturn in the information and communications industries. Then, the stock market returned to an increasingly positive trend.
- ⇒ Stock exchange index stood at 8,510 points in 2007, increasing by 24% from the previous year. In April 2008, stock exchange index rose 11.1% from a year ago.
- ⇒ After Mr. Ma winning the Taiwan's presidential election, the stock market responded favourably and stood at 8,964 on May 2.



Source: Taiwan Stock Exchange.

# CURRENT DOMESTIC SITUATION

## Monitoring Indicators

In March 2008, the total scores of monitoring indicators decreased to 27, and the light signaled "green" for the fifth consecutive month.

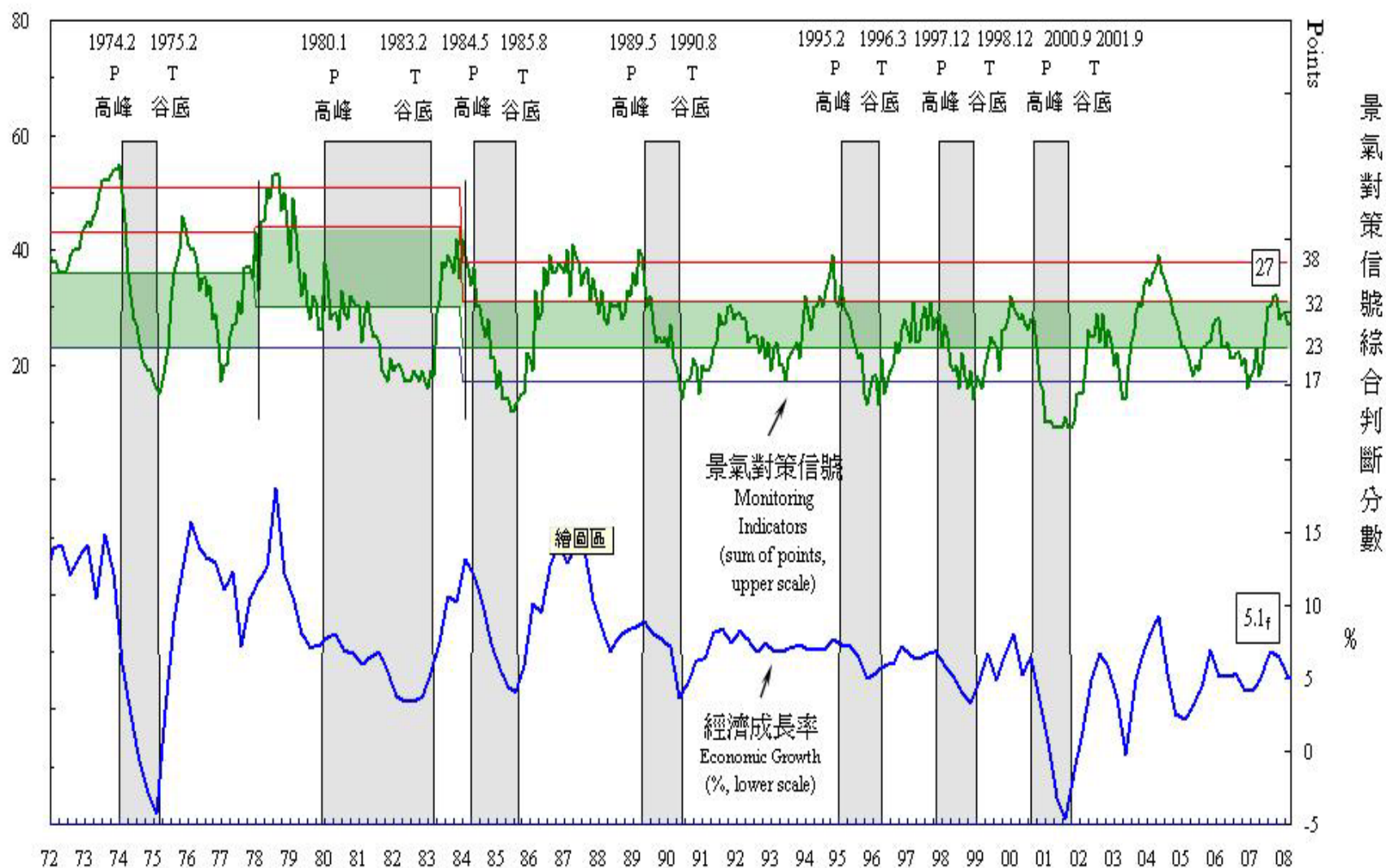
	2007年												2008年			
	3月	4月	5月	6月	新景氣對策信號自 2007年7月起適用(註)	7月	8月	9月	10月	11月	12月	1月	2月		3月	
	燈號	燈號	燈號	燈號		燈號	燈號	燈號	燈號	燈號	燈號	燈號	燈號	%	燈號	%
綜合判斷	綠燈	黃藍燈	黃藍燈	綠燈		綠燈	綠燈	黃紅燈	黃紅燈	綠燈	綠燈	綠燈	綠燈		綠燈	
分數	23	18	20	25		30	30	32	32	28	29	29	27		27	
貨幣總計數M1B變動率	綠燈	綠燈	綠燈	綠燈	貨幣總計數M1B	綠燈	綠燈	綠燈	黃藍燈	黃藍燈	藍燈	藍燈	藍燈	-2.2	藍燈	-0.5
直接及間接金融變動率	藍燈	藍燈	藍燈	藍燈	直接及間接金融	黃藍燈	黃藍燈	黃藍燈	黃藍燈	黃藍燈	黃藍燈	黃藍燈	藍燈	2.9 <sub>r</sub>	黃藍燈	3.1
票據交換及跨行通匯總額變動率	綠燈	藍燈	藍燈	綠燈	股價指數	紅燈	紅燈	紅燈	紅燈	黃紅燈	綠燈	綠燈	綠燈	2.3	綠燈	9.8
股價指數變動率	綠燈	綠燈	綠燈	黃紅燈	工業生產指數	紅燈	紅燈	紅燈	紅燈	紅燈	紅燈	紅燈	紅燈	11.7 <sub>r</sub>	紅燈	11.4
製造業新接訂單指數(平減)變動率	藍燈	藍燈	藍燈	藍燈	非農業部門就業人數	綠燈	綠燈	綠燈	綠燈	綠燈	綠燈	綠燈	綠燈	1.5	黃藍燈	1.1
海關出口值(平減)變動率	綠燈	藍燈	黃藍燈	綠燈	海關出口值	綠燈	黃紅燈	綠燈	黃紅燈	黃紅燈	紅燈	黃紅燈	紅燈	16.5 <sub>r</sub>	黃紅燈	13.3
工業生產指數變動率	綠燈	黃藍燈	綠燈	黃紅燈	機械及電機設備進口值	黃藍燈	黃藍燈	黃藍燈	黃藍燈	藍燈	綠燈	綠燈	黃藍燈	6.1 <sub>r</sub>	綠燈	8.0
製造業成品存貨率	綠燈	綠燈	綠燈	綠燈	製造業銷售值	紅燈	綠燈	紅燈	紅燈	黃紅燈	紅燈	紅燈	紅燈	17.6 <sub>r</sub>	紅燈	16.3 <sub>p</sub>
非農業部門就業人數變動率	綠燈	綠燈	綠燈	綠燈	批發、零售及餐飲業營業額指數	黃藍燈	綠燈	黃紅燈	黃紅燈	綠燈	黃藍燈	綠燈	黃藍燈	1.7 <sub>r</sub>	黃藍燈	0.5

綜合判斷說明：●紅燈(45-38)，●黃紅燈(37-32)，●綠燈(31-23)，●黃藍燈(22-17)，●藍燈(16-9)。

註：各構成項目均為年變動率，除股價指數外均經季節調整。新舊構成項目間並無一對一替換關係，解讀上宜注意。



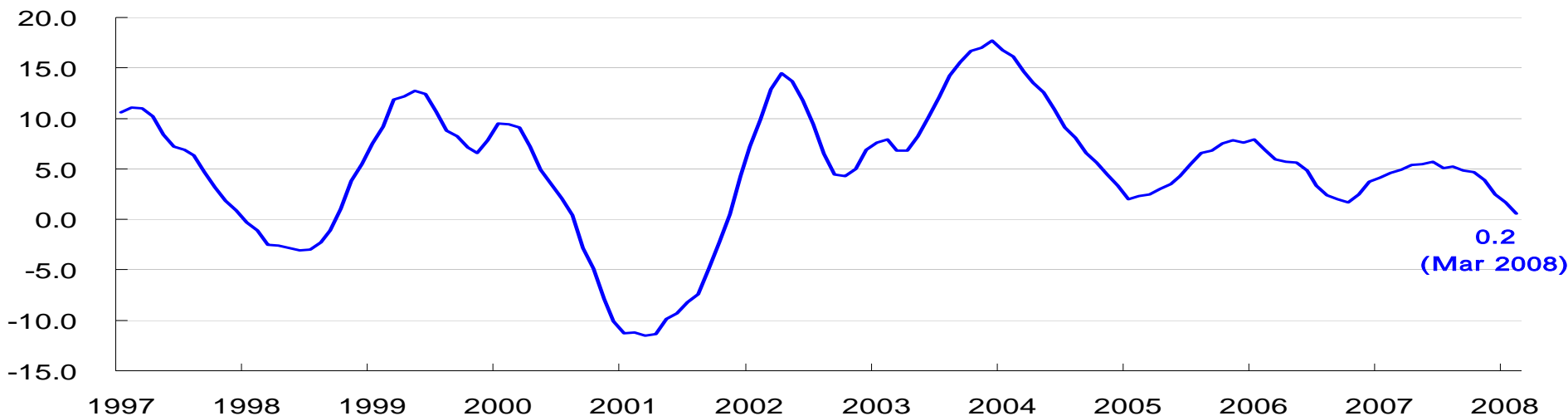
# Monitoring Indicators and Economic Growth



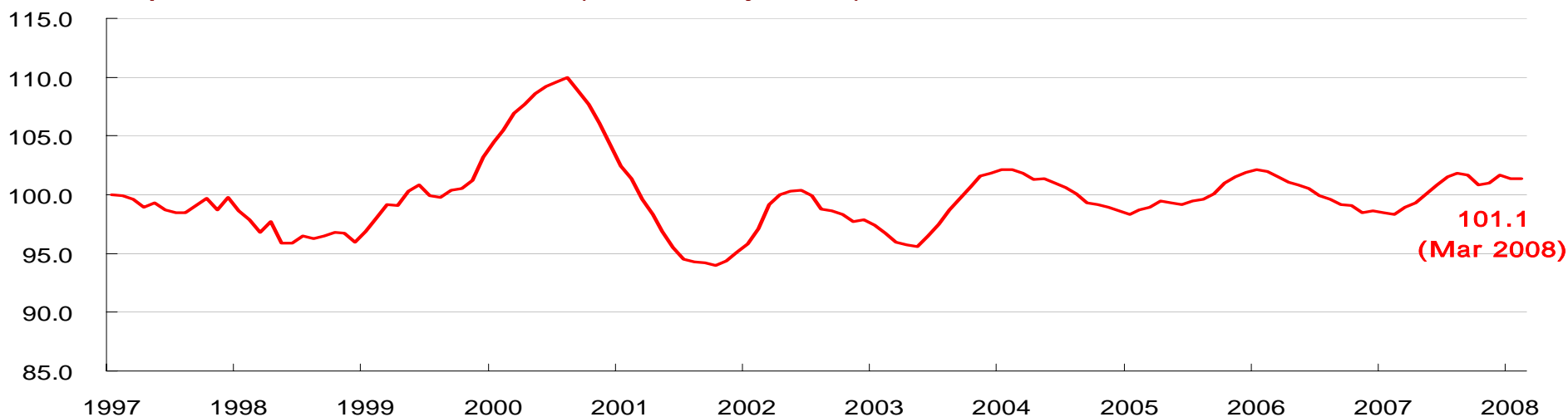
Source: Council for Economic Planning and Development.

# CURRENT DOMESTIC SITUATION

Composite Leading Index (Annualized 6-month rate of change)



Composite Coincident Index (Trend adjusted)



Source: CEPD.



## II. PROSPECTS

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### 1. PROSPECTS - 2008

#### ⇒ **Taiwan's economic growth remains solid**

- Although the U.S. subprime mortgage turbulence has been spreading to the international financial markets, it has only very limited direct impact on Taiwan's economy. However, the tightening effect remains a source of threat to the overall economy.
- Taiwan's economy is forecast to grow 4.32% in 2008, with per capita GDP reaching US\$18,042.

#### ⇒ **Export is anticipated to grow at a moderate pace**

Because global economic prospects are becoming less buoyant, exports will be anticipated to mildly increase in 2008, growing 6.1%, supported by sound economic situation in emerging markets. Induced by export expansion, imports will be able to increase 6.3%.

#### ⇒ **Private consumption maintains steady growth**

Several factors will continue to help sustain private consumption growth at the rate of 2.9% in 2008: the continued improvement in the job market, a further increase in social welfare transfers, and the increasing cash dividends provided by prosperous corporate profits.

# PROSPECTS - 2008

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## ⇒ **Domestic investment is expected to grow modestly**

- Despite the completion of aircraft replacement by private airlines and a cautious investment strategy by foundry manufacturers, private investment is expected to increase 3.3% in 2008, thanks to the newly constructed investment plans from some flat panel display manufacturers, the accelerated implementation of government-led urban renewal and rural reconstruction projects.
- A little growth is foreseen in government investment, while positive growth is anticipated in investment by public enterprises.

## ⇒ **Inflation remains a concern**

Despite inflation pressures from international oil and commodity markets, WPI in 2008 is estimated to rise 2.4%, thanks to the NT dollar appreciation. Rising cost of raw materials have added to consumer price inflation pressures gradually, CPI inflation is likely to see a moderate increase of 2.0% for the whole year. The government will closely monitor price changes and take necessary measures to achieve the inflation target of below 2%.

# Taiwan's Economic Forecasts 2008

Forecasting institution	Release time	Real GDP		Consumer Prices	
		%	Change from last forecast (per. point)	%	Change from last forecast (per. point)
World Bank	Apr 2008	4.3	-0.3	-	-
IMF	Apr 2008	3.4	-0.4	1.5	-
Global-Insight	Apr 2008	4.2	+0.2	2.4	+0.1
CIER	Apr 2008	4.67	+0.50	2.64	+0.64
TIER	Apr 2008	4.30	+0.01	2.32	+0.46
DGBAS	Feb 2008	4.32	-0.21	1.98	+0.14
Academia Sinica	Dec 2007	4.31	-	1.93	-

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

TIER: Taiwan Institute of Economic Research, Taipei.

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

## 2. Targets up to 2015

To give concrete manifestation to the policy implementation theme of “big investment and big warmth” and realize **the national development vision of “a prosperous economy, a just society and a sustainable environment,”** after giving consideration to the external and internal conditions previously described, the government has set the following macro-development targets for 2015, which it will seek to forge into a broad public consensus and spare no effort to achieve:

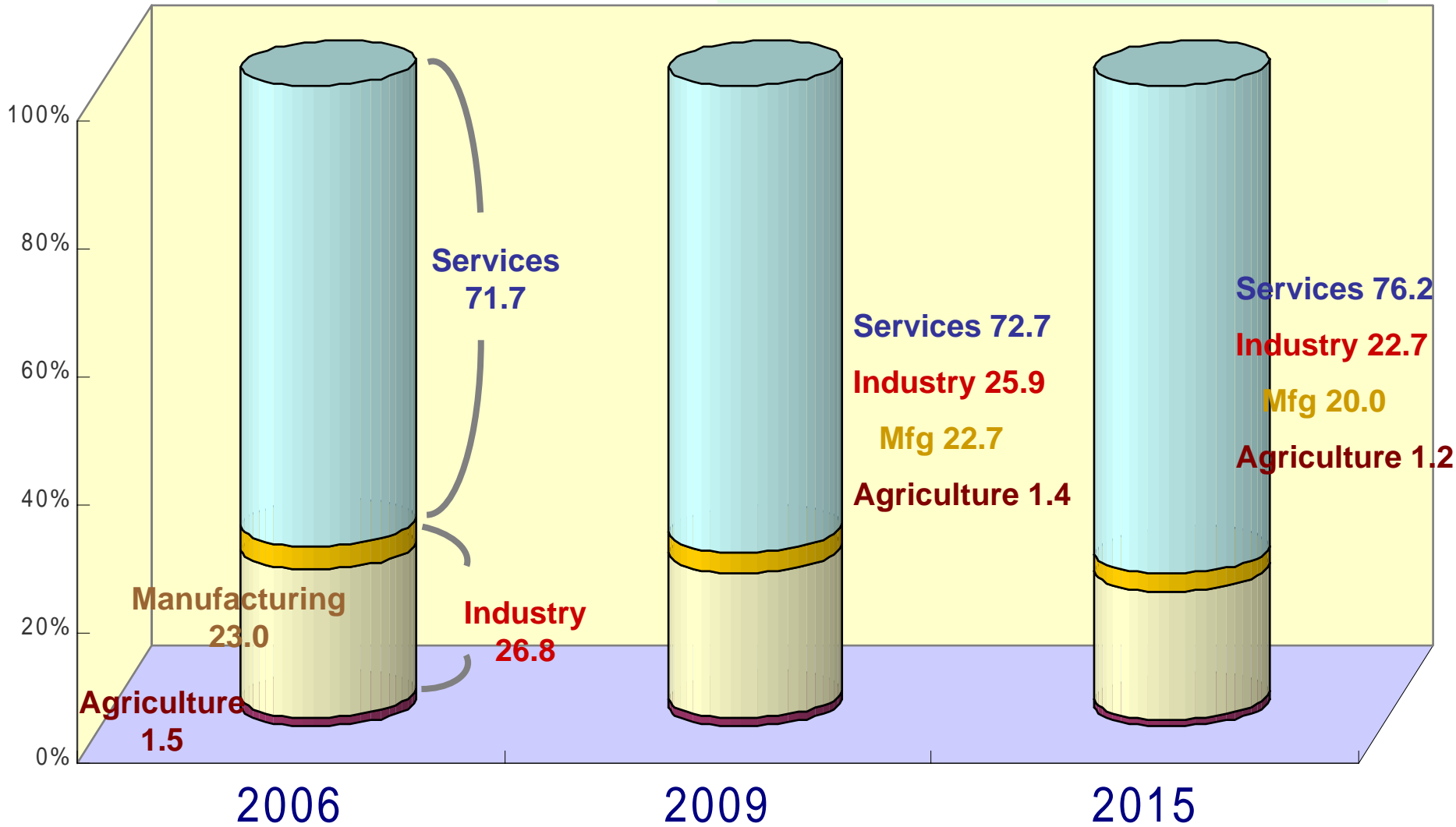
- Taiwan to be **a unitary “living circle”** in which no place is more than **a day trip** away.
- The CPI to rise by no more than **2%** a year.
- Per capita GDP to reach **US\$30,000** (US\$20,000 in 2009).
- The unemployment rate to be kept below **4%**.
- The economic growth rate to be sustained at an average of **5%**.
- The gap between the top and bottom quintiles of income to fall below a ratio of **six**.

# Targets up to 2015

Targets	2007	2008	2009	2015
<div>Growth of potential GDP</div> <div>Economic growth</div>	5.7%	4.8%	5.0% (average up to 2015)	5.0% (average up to 2015)
Per capita GDP	US\$16,790	US\$18,000	US\$20,000	US\$30,000
Unemployment rate	3.9%	3.8%	<4.0%	<4.0%
CPI increase	<1.8%	<2.0%	<2.0%	<2.0%
The gap between the top and bottom quintiles of income to fall below a ratio of six				

# Industrial Structure

Average growth %	2006	2007-09	2005-15
Services	3.7	5.2	5.5
Industry	6.8	4.5	3.9
Mfg	7.2	5.3	4.3
Agriculture	5.4	1.0	1.0



### 3. Economic policy under the new President

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#### (1) More open Cross-Strait policy

- *Promote the normalization of cross-strait direct passengers and cargo transportation via air and sea* : Make Taiwan the regional transportation hub connecting to U.S., South Eastern Asia, and China.
- *Open up to Mainland Chinese tourists* : The upper limit of Chinese tourists is 3,000 per day or 1 million per year in the early stage, and will increase to 3 million per year in the future.
- *Allow the influx of investment from China* : Relaxing the cap on Chinese investments from Taiwanese companies of 40 percent of their net worth, and moderately allowing the influx of Chinese investment.
- *Allow the RMB/NTD convertible in order to facilitate the tourism investment and trade promotion.*

## (2) *I-Taiwan 12 Projects*

- The “I-Taiwan 12 Projects” is aimed to expand domestic demand by boosting infrastructure investment, thereby bolstering Taiwan’s economic growth and creating more job opportunities.
- The I-Taiwan 12 Projects is to spend NT\$4 trillion (US\$130 billion) on 12 infrastructure projects before 2016. These projects could create 120,000 job opportunities every year.

## (3) *"633" Plan*

- President-elect Ma Ying-jeou has proposed a plan known as "633", the macroeconomic targets of the new administration in 2016, which is to achieve *economic growth of 6 percent, a jobless rate of 3 percent and per capita GDP of \$30,000.*



# III. Conclusions

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- IMF and Global Insight lower its 2008 global GDP forecast due mainly to the turbulence in the international financial markets and the U.S. slowdown.
- Despite the deteriorating global environment weighing on Taiwan's exports, improved relations with China and expanding domestic demand will sustain Taiwan's economic growth in the coming years. We also expect closer economic ties with China to have positive impact in the long term.
- Upon the completion of the comprehensive plans such as I-Taiwan 12 projects under the new President, we foresee Taiwan to become a beautiful land with per capita GDP reaching US\$30,000 in the future.
- Under the threat of inflation pressure, the government will closely monitor price changes and take necessary measures to achieve the macroeconomic targets.

# Thank you

This summary is prepared by the Department of Economic Research of the Council for Economic Planning and Development (CEPD). Monthly updates can be found on the CEPD's website at <http://www.cepd.gov.tw/encontent/index.jsp>. For inquiries call 886-2-2316-5682 or send an e-mail to [bci@cepd.gov.tw](mailto:bci@cepd.gov.tw).