

The Economy in 2007

Taiwan's economy enjoyed a moderate expansion throughout 2007. According to the Directorate General of Budget, Accounting and Statistics (DGBAS), the annual economic growth rate was 5.70%.

Private consumption grew 2.6%, mainly driven by employment improvements, better stock market performance, increased dividend payments by listed companies, and increased social welfare. Private investment grew 3.4% due to expansion of capital expenditure by semiconductor businesses and orders for new aircraft placed by airline companies. Government spending grew at only 0.8% because of cost-saving objectives. Government investment had negative growth at -1.1% due to the policy of budget deficit reduction and encouragement of private companies to participate in BOT projects.

The growth of the global economy in 2007 slowed due to the sub-prime crisis, the global credit crunch and the soaring oil price. Nevertheless, Taiwan's export/import value reached approximately US\$247 billion and US\$219 billion, respectively, an increase of 10.1% and 8.2%, respectively, reaching the highest peak in years. Trade surplus reached US\$27 billion, also a record figure.

The surging prices of raw materials, especially crude oil, and typhoon damage in 2007 caused noticeable inflation in the second half of the year. The consumer price index rose 1.80% on average, as a result of food and energy price hikes. Wholesale prices rose 6.45% on average in 2007, primarily due to the rising costs of importing energy, metals, fuel, coal and chemicals.

In other economic and financial indicators, industrial production increased 7.8% throughout the year, with the biggest production increase in the manufacturing industries. Supply and demand in the employment market was vigorous; the annual average labor participation ratio was 58.25%, the highest in 10 years. The unemployment rate was 3.91%, the lowest it has been for 7 years.

The central bank raised interest rates four times in 2007, while the monetary market remained stable. The exchange rate fluctuated, with an annual average exchange rate of NT\$32.84 to US\$1.0.

Business cycle indicators showed moderate volatility in the second half of the year due to steady increases in industrial production and international trade. The monitoring indicators signaled "green" in most months, except for "yellow-red" in September and October, indicating steady expansion.

In the outlook for 2008, global economic growth is expected to slow due to the effect of the US sub-prime mortgage crisis, and the high price of crude oil and commodities. However, demand from Europe, Japan, China and India remains strong, so economic indicators such as production and exports are anticipated to expand in Taiwan. The trend of moving manufacturing off-shore to China or Southeast Asia is declining, while foreign trade is expected to remain solid. All these will help lift up domestic demand and production in the manufacturing sector. In addition, cross-Taiwan Strait relations and the domestic politics will also significantly affect future economic development. To sum up, the economic growth rate for Taiwan in 2008 is estimated to be more than 4% according to major global and domestic research institutions.



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