

The Economy in 2008

Taiwan's economy managed to maintain a positive rate of growth in 2008 despite the impact of the global financial crisis. A preliminary estimate by the Directorate General of Budget, Accounting and Statistics (DGBAS) put global growth at 0.12% for the year. Looking back at how the economy performed throughout the year we see that performance was strong in the first half, largely because Taiwan's vigorous export growth in emerging markets which partially offset falls in Europe and America, bringing economic growth for the first 6 months to 5.4%. In the second half the global financial tsunami aroused by the subprime mortgage crisis in the United States had a strong impact on Taiwan's exports and manufacturing production, leading to a contraction in private investment and a weakening of consumption. The ultimate result was a rare case of negative growth for the period.

A look at the different levels of economic performance shows that export value rose by a small 3.64% and import value by 9.84% in 2008. When the trade in services is added and price factors excluded, exports dropped by 0.17% and imports declined by 4.3%. Taiwan's trade surplus of US\$18.7 billion for the year was US\$10.1 billion less than the surplus of US\$28.8 billion recorded in 2007.

Statistics compiled by DGBAS show that private consumption was affected in the fourth quarter by such negative factors as a drastic rise in unemployment, a drop in incomes, and a contraction of wealth, so that the overall trend in private consumption turned conservative. In response to the sharp decline in overseas demand, most manufacturers, laboring

under excess capacity, delayed their original investment plans or reduced their capital outlays. The result was a negative growth in fixed investment by private companies and government owned enterprises, but fixed investment by the government bucked the negative tide with a growth of 0.34%.

In the area of prices, international oil and raw materials prices soared in the first half of 2008 before entering a decline in the third quarter because of the ravages of the global financial storms; the consumer price index (CPI), however, registered a rise of 3.53% for the year as a whole. A look at other economic and financial indices shows that the average unemployment rate for the year was 4.14%, a rise of 0.23 percentage points over the previous year. The industrial production index fell by 1.95%, but the value of export orders grew by a small 1.71%.

Looking ahead to 2009, we can see that Taiwan's economy will face great challenges in the weak international environment. DGBAS predicts that the island's economy will shrink 2.97% and that the CPI will slip 0.82%. In the face of this unprecedented economic slump, the government will strive to speed economic recovery by vigorously implementing stimulus measures such as employment boosting and income supplement programs, cutting taxes, and issuing consumption vouchers. With these measures, and the series of interest-rate cuts instituted by the Central Bank beginning in September 2008, DGBAS predicts Taiwan's economy will bottom out and start climbing again in the fourth quarter of 2009, advancing toward the dawn of brighter prospects.

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