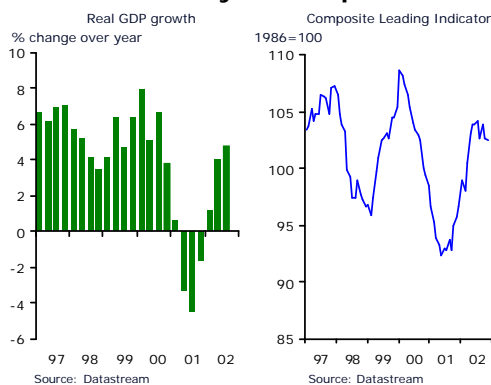
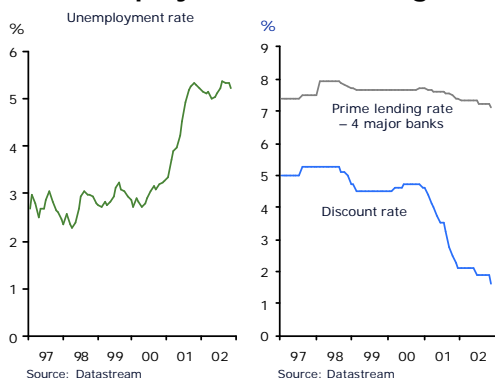


Country Update: Taiwan

Economy has rebounded, but sustainability under question



Interest rates reduced as unemployment remains high



- After contracting by 2.2% in 2001, the economy has recovered and is likely to have grown by around 3¼% in 2002.
- However, the composite index of leading indicators suggests that the recovery may lose momentum. A similar interpretation is possible from a number of partial indicators (such as industrial production, manufacturing shipments, export orders), which rose strongly between mid 2001 and mid 2002, but have since tended to level off.
- Unemployment rose substantially in 2001, but has remained stubbornly high despite the economic recovery in 2002.
- Interest rates have been lowered substantially over the past two years. The most recent discount rate cut was in November 2002, to 1.625%, reflecting official concern over unemployment, the doubts about durability of the recovery, as well as falling prices (average inflation in 2002 is estimated at -0.2%). Lending rates have also fallen, but by a lesser amount than official rates.
- Taiwan's external balance continues to strengthen. The trade surplus in 2002 was US\$18.1 bn after US\$15.6 bn in 2001. International reserves have risen strongly in the past two years, to US\$162 bn in December 2002, equivalent to over 14 months' imports.

Economic data and debt statistics

Taiwan	1997	1998	1999	2000	2001	2002e	2003f	2004f
Economic growth (%)	6.7	4.6	5.4	5.9	-2.2	3.3	4.6	4.6
Inflation (yr av, %)	0.9	1.7	0.2	1.2	0.0	-0.2	0.5	1.0
Budget Balance (% of GDP)	-3.8	-3.3	-5.9	-4.5	-6.5	-6.6	-6.1	
Current Account (% of GDP)	2.4	1.3	2.9	2.9	6.7	7.3	6.7	
External Debt (US\$ bn)	33.6	30.0	26.8	23.5	18.9	22.8	24.8	
Ext Debt/GDP Ratio (%)	11.6	11.2	9.3	7.6	6.7	8.3	8.3	
Ext Debt/Exports Ratio (%)	23.0	22.5	18.4	13.3	12.4	14.3	14.6	
Short term debt/Reserves (%)	26.5	21.4	15.3	12.3	7.8			
Debt Service Ratio (Paid) (%)	2.0	2.4	2.0	2.0	2.7			
Debt Service Ratio (Due) (%)	2.0	2.4	2.0	2.0	2.7	1.9	2.4	
Foreign Exchange Reserves (US\$ bn)	83.5	90.3	106	106	122	162*		
Import Cover (months)	8.0	9.2	10.2	8.3	12.0			

*December 2002

Sources: IMF, Economist Intelligence Unit, ANZ Bank