



Central Bank Operations

III. Central Bank Operations

1. Overview

Taiwan's domestic demand was fragile at the start of 2009. During the first two months of 2009, as the inflationary pressure remained largely subdued, the Bank twice lowered policy rates by a total of 75 basis points to boost domestic demand. Despite economic activity regaining momentum from March onwards, the CBC left the rates unchanged to further support the economy.

Meanwhile, to provide ample liquidity to the market and to promote financial stability, the CBC continued to create a favorable financial environment. As economic and financial conditions improved from April onwards, the CBC adjusted its quantitative easing policy by increasing open market operations, bringing the net excess reserves in the banking system down to NTD 39.9 billion in December, from NTD 154.1 billion in April. The annual growth rates of reserve money and M2 monetary aggregates also trended downwards from the second half of 2009.

In terms of foreign exchange management, the CBC also lifted restrictions on various foreign exchange regulations, and continued its efforts to encourage banks to engage in the foreign exchange derivatives business. To strengthen consumer protection, the CBC also reasserted that banks have to fully disclose the attendant risks to customers. This year, the CBC also allowed many financial institutions and designated places to provide Chinese RMB exchange services to accommodate the needs of increasing tourists from the mainland China as a result of the improvement in cross-strait relations.

To assure the smooth operations of the payment system, the CBC closely monitored domestic payment systems and urged each settlement institution to set up backup facilities and adequate contingency plans to provide business continuity. The CBC also established the central government bond buyback system, which not only enhanced the liquidity of the central government bond market, but also strengthened its management efficiency and lessened the interest burden of the government.

To promote the sound operation of financial institutions and safeguard financial stability, the CBC has established an off-site review system and a framework for financial stability to ensure that any potential risks to the financial system are effectively managed.

2. Monetary Management

As the US subprime mortgage crisis evolved into a global financial crisis that resulted in a worldwide economic recession, the Bank adopted an easy monetary policy stance in 2009. The Bank lowered the policy rates twice and continuously conducted open market operations to maintain market interest rates at a level conducive to supporting economic activity. The Bank also promoted various preferential loan programs and enhanced the financing mechanism for small and medium-sized enterprises (SMEs).

Monetary Easing to Boost the Economy

Against the backdrop of the economic slowdown and subdued prices, the Bank cut policy rates on January 8 and February 19 with the aim of reducing business' funding costs and boosting consumption and investment. The discount rate, the rate on accommodations with collateral, and the rate on accommodations without collateral were all decreased by a total of 0.75 of a percentage point. However, as the expansionary fiscal and monetary policy measures facilitated a gradual economic recovery from March, the Bank kept policy rates at the levels set on February 19. At the end of 2009, the discount rate, the rate on accommodations with collateral, and the rate on accommodations without collateral were 1.25 percent, 1.625 percent, and 3.5 percent, respectively.

In line with the movements in banks' deposit interest rates, during 2009, the Bank adjusted

CBC Policy Rates

Unit: % (percent per annum)

Effective Date	Discount Rate	Accommodation Rate with Collateral	Accommodation Rate without Collateral
2007 / Mar. 30	2.875	3.250	5.125
June 22	3.125	3.500	5.375
Sept. 21	3.250	3.625	5.500
Dec. 21	3.375	3.750	5.625
2008 / Mar. 28	3.500	3.875	5.750
June 27	3.625	4.000	5.875
Sept. 26	3.500	3.875	5.750
Oct. 9	3.250	3.625	5.500
Oct. 30	3.000	3.375	5.250
Nov. 10	2.750	3.125	5.000
Dec. 12	2.000	2.375	4.250
2009 / Jan. 8	1.500	1.875	3.750
Feb. 19	1.250	1.625	3.500

Source: Financial Statistics Monthly, CBC.

Remuneration Rates on Required Reserves in B Accounts

Unit: %		
Date	Demand Deposits	Time Deposits
2008/12/15	0.275	1.421
2009/01/09	0.200	0.921
2009/02/20	0.173	0.771
2009/10/12	0.165	0.767

Source: The CBC website.

the remuneration rate on required reserves in banks' B accounts three times. The remuneration rate on required reserves for demand deposits was cut from 0.275 percent to 0.165 percent, while the remuneration rate on time deposits was lowered from 1.421 percent to 0.767 percent.

Providing Liquidity through Open Market Operations

The Bank issued Certificates of Deposit (CDs) and conducted open market operations to provide liquidity to the banking sector in an effort to boost the sluggish economy in the first two months of 2009. However, the gradual recovery of the economy and an inflow of short-term capital led to the buildup of excess liquidity in the banking sector from March. With this view, the Bank conducted open market operations to maintain reserve money and overnight interest rates at appropriate levels. As a result of the Bank's operations, net excess reserves of the banking sector dropped significantly from NT\$154 billion in April to NT\$40 billion in December.

Open Market Operations

Unit: NT\$ Billion; %							
Year/ Month	Amount Absorbed*	Amount Offered*	Weighted Average Rate on CDs Issued				
	Issues of CDs	Redemptions of CDs	1-30 days	31-91 days	92-182 days	274-364 days	2 years
2007	13,672	13,968	1.91	1.95	1.94	2.29	--
2008	19,370	18,495	1.89	2.05	2.17	2.27	--
2009	40,416	38,823	0.58	0.62	0.72	--	--
2009 / 1	1,620	1,730	0.69	0.76	0.87	--	--
2	2,780	2,402	0.61	0.65	0.75	--	--
3	3,050	3,075	0.57	0.61	0.71	--	--
4	3,490	3,296	0.57	0.61	0.71	--	--
5	3,350	3,155	0.57	0.61	0.71	--	--
6	3,690	3,547	0.57	0.61	0.71	--	--
7	4,070	3,855	0.57	0.61	0.71	--	--
8	3,970	3,931	0.57	0.61	0.71	--	--
9	3,480	3,424	0.57	0.61	0.71	--	--
10	3,540	3,303	0.57	0.61	0.71	--	--
11	3,500	3,455	0.57	0.61	0.71	--	--
12	3,876	3,651	0.54	0.61	0.71	--	--

Note: * End-of-period data.

Source: Financial Statistics Monthly, CBC.

Non-Competitive Bidding Rates on CDs Issued by the Central Bank

Unit: %

Effective Date	30 days	91 days	182 days
2007 / Mar. 30	1.720	1.790	1.870
June 22	1.920	1.990	2.070
Sept. 21	1.980	2.060	2.150
Dec. 21	2.040	2.130	2.230
2008 / April. 1	2.060	2.150	2.250
June 27	2.120	2.210	2.310
Sept. 26	2.070	2.160	2.260
Oct. 9	1.970	2.060	2.160
Oct. 30	1.870	1.960	2.060
Nov. 10	1.620	1.710	1.810
Dec. 12	1.020	1.060	1.160
2009 / Jan. 8	0.620	0.660	0.760
Feb. 19	0.570	0.610	0.710

Note: The auction rates on 364-day or above CDs are not shown on this table.
Source: Press Releases on Open Market Operations, CBC.

In 2009, the total value of CDs issued amounted to NT\$40,416 billion, while at the end of the year the total outstanding amount was NT\$5,929 billion. In the first two months of 2009, non-competitive bidding rates on new CD issuance were also adjusted to guide market interest rates to be in sync with policy rate changes. The 30-, 91-, and 182-day CD interest rates were lowered to 0.57 percent, 0.61 percent, and 0.71 percent, respectively, following subsequent changes reflecting monetary conditions in the banking sector. As a consequence, overnight interest rates changed accordingly. The Interbank overnight interest rate was 0.233 percent in January, fell to 0.097 percent in June, and edged up to reach 0.106 percent in December.

Redeposits of Financial Institutions

Accepting redeposits from Chunghwa Post Co. and commercial banks is another instrument for the Bank to influence banks' reserve positions to promote financial stability. At the end of 2009, outstanding postal savings redeposits amounted to NT\$1,582 billion. Also, commercial banks' redeposits with the Bank were NT\$443 billion.

In addition, the Taiwan Cooperative Bank, the Land Bank of Taiwan and the Agricultural Bank of Taiwan may accept deposits from community financial institutions and make redeposits with the Bank. At the end of 2009, their outstanding redeposits were NT\$130 billion.

Promoting Preferential Loans

The Ministry of the Interior launched an NT\$200 billion preferential housing loan program in 2008 to help relieve the mortgage burdens of homebuyers. Another NT\$200 billion was added to the expanded program in April 2009. The Bank continued to assist in this effort. By the end of 2009, a total of 147,775 households were granted NT\$399.5 billion under the program.

The Bank also continued to provide subsidies for victims of the 1999 earthquake regarding interest payments on their mortgage loans. On January 23, 2009, to further relieve interest burdens on those victims, the Bank changed the interest payment plan to allow the option to choose between a floating rate or a 2% fixed-rate preferential loan.

Moreover, Typhoon Morakot slammed into southern Taiwan on August 8, 2009, resulting in heavy losses. On August 10, the Bank asked 8 public banks to provide a preferential loan program to aid the typhoon victims. The Bank not only shared its own experience in disaster relief, but also helped implement relevant relief measures. The pamphlet Q&A for Victims of Typhoon Morakot prepared by the Bank, was also distributed for reference.

Enhancing the SME Financing Mechanism

To provide easier access to financing for SMEs, the Bank continued to assist them by encouraging bank lending and by urging the Small and Medium Enterprise Credit Guarantee Fund (SMEG) to raise the guarantee coverage ratio, increase the maximum guarantee amount, and lower guarantee fees. At the end of 2009, the outstanding amount of guarantees and loans extended to the SMEs by domestic banks were NT\$372.8 billion and NT\$3,207.3 billion, respectively.

3. Foreign Exchange Management

Foreign Exchange Market Management

Taiwan's exchange rate regime is a managed float, where in principle the exchange rate is determined by supply and demand in the foreign exchange market. If the market is disrupted by seasonal or irregular factors (e.g. large flows of short-term capital), causing the exchange rate to become excessively volatile, the Bank may step in to maintain an orderly foreign exchange market.

To monitor market activities, the Bank continued to implement the Real-Time Reporting System for Large-Amount Foreign Exchange Transactions. In addition, the requirement that forward transactions should be made only upon real transactions, such as trade and financing, was reinforced in order to curb foreign exchange speculation. The Bank also urged authorized banks to enhance their exchange rate risk management so as to lower their risk exposures and systemic risks. Moreover, the Bank strengthened target examinations to maintain an orderly foreign exchange market.

Management of Foreign Exchange Swap and Foreign Currency Call Loan Business

In order to provide the financial system with sufficient foreign currency liquidity to meet funding needs, including corporate needs to venture into overseas markets, the Bank provided US\$20 billion, €1 billion and ¥80 billion as seed funds for the Taipei Foreign Currency Call-Loan Market.

Meanwhile, the Bank continued to carry out foreign currency swap transactions with banks and extended foreign currency call loans to banks so as to facilitate corporate financing smoothly. During 2009, foreign exchange call loan transactions reached US\$1,473 billion, while foreign currency-NT dollar swap transactions reached US\$703.4 billion.

Foreign Exchange Reserve Management

In 2009, the Bank's foreign exchange revenues amounted to US\$825.8 billion, while foreign exchange expenditure was US\$769.3 billion. At the end of 2009, total foreign exchange reserves stood at US\$348.2 billion, a US\$56.5 billion increase from the end of 2008. The increase was mainly attributable to a higher return on investment of foreign exchange reserves, and the appreciation of the euro and the British pound against the US dollar.

Foreign Exchange Reserves



Source: Department of Foreign Exchange, CBC.

Capital Flow Management

With the progress of financial liberalization and internationalization, the Bank has gradually deregulated capital movement restrictions since 1980s. In general, capital can flow freely in and out of Taiwan. As of 2009, restrictions only remained on a few short-term financial transactions involving the conversion of the NT dollar. For example, a domestic company or a resident can each conduct inward and outward remittances up to US\$50 million and US\$5 million, respectively, within one year. A non-resident may remit up to US\$100 thousand per transaction. For remittances exceeding the respective ceilings, transactions may be made with the approval in advance from the Bank.

Key measures with regard to the management of foreign exchange in 2009 included:

- (1) Having consulted with the Financial Supervisory Commission about a broader scope for foreign securities investment, the Bank agreed to the following measures: (i) Agreed June 9, foreign investors would be allowed to invest in beneficiary certificates of futures trust funds; (ii) Agreed September 10, foreign investors would be allowed to invest in separable warrants issued with corporate bonds or preferred stocks of TSE and OTC listed companies.
- (2) In order to promote the internationalization of Taiwan's capital market, the Bank agreed to the following in 2009: (i) The issuance of overseas depository receipts by 11 corporations with a total of US\$2.94 billion and the issuance of European Convertible Bonds by 6 corporations with a total of US\$1.43 billion ; (ii) The issuance of Taiwan Depository

Receipts (TDRs) by 18 foreign corporations with the total amount reaching NT\$34 billion; (iii) BNP Paribas and Deutsche Bank may raise and issue foreign currency corporate bonds up to US\$1 billion each.

- (3) The Bank agreed to an increase in residents' investments in foreign securities, as follows:
 - (i) Securities investment trust companies were allowed to raise 37 securities investment trust funds domestically to invest in foreign securities worth a total of NT\$315 billion; (ii) Life insurance companies were given consent to invest in foreign securities with the amount totaling US\$0.98 billion, while their investment-linked insurance products invested a total of US\$2.39 billion in foreign securities through non-discretionary money trusts managed by financial institutions; (iii) Three major government pension funds and the Postal Savings Fund invested in foreign securities with the total amount reaching US\$2.20 billion.
- (4) The Bank loosened the following regulations regarding foreign exchange remittances:
 - (i) On May 25, the Bank notified authorized foreign exchange banks that, effective from June 1, banks would be allowed to conduct foreign exchange settlement related to foreign workers' salaries as consigned to employment agencies with proper documents; (ii) On June 15, the Bank notified financial institutions undertaking non-discretionary money trust for investment in foreign securities that, effective from June 17, the types and scope of such investments shall comply with the FSC rules and regulations, instead of relevant circulars issued by the Bank prior to September 19, 2005; (iii) In light of improved cross-Straits relations, the FSC amended the regulations governing cross-Straits remittances; the Bank also made relevant amendments regarding documents to be confirmed about remittances to or from Mainland China, effective from June 30; (iv) The Bank announced that overseas donations for Typhoon Morakot relief would be exempted from the declarer's annual accumulated amount of foreign exchange settlements, effective from August 17.

Management of the Foreign Exchange Business of Financial Institutions

- (1) At the end of 2009, there were 1,478 authorized foreign exchange banks in total, which included 36 head offices and 1,346 branches of domestic banks, 96 branches of 32 foreign banks, as well as 2,558 authorized money exchangers, postal offices and financial institutions authorized to engage in basic foreign exchange business.
- (2) In 2009, the Bank permitted the issuance of 20 foreign exchange derivative products in order to expand the scope of banking services. However, for investor protection, the Bank notified all banks in June of the need to formulate and implement the principle of Knowing Your Customers in managing foreign currency margin transactions and

structured products, and to fully disclose related risks, so as not to mislead customers.

- (3) Up to the end of 2009, 15 insurance companies were allowed to engage in foreign currency investment-linked insurance business, and 9 insurance companies were permitted to conduct business in relation to traditional foreign currency insurance products.
- (4) In 2009, the government approved 44 financial institutions (with a total of 3,103 branches) and 156 authorized money exchangers to conduct the Chinese renminbi (RMB) cash exchange business. The total amount of renminbi purchased was RMB 5.71 billion, while the total sale was RMB 7.08 billion.
- (5) Since June 2001, OBUs have been approved to conduct cross-strait remittances. The steady growth had gradually turned OBUs into funding arrangement centers for overseas Taiwanese businessmen. In 2009, due to the global financial crisis, cross-strait remittances amounted to US\$185.2 billion, a decrease of US\$33.9 billion, or 15.5 percent, from last year.

Cross-Strait Remittances through OBUs



Source: Department of Foreign Exchange, CBC.

4. Banking Supervision

Pursuant to the Central Bank of the Republic of China (Taiwan) Act, the Bank conducts target examinations to ensure effective enforcement of related regulations, and establishes an offsite review system and a financial stability evaluation framework to systematically monitor, analyze, and evaluate the potential sources of financial system risks in order to adopt appropriate policies and measures in a timely manner.

Implementing On-Site Examinations

The Bank conducts target examinations related to monetary, credit, and foreign exchange policies and payment systems when necessary. The target examinations in 2009 inspected the handling of counterfeit money by financial institutions, maintenance of required reserves, 921 earthquake relief loans, forward foreign exchange transactions, foreign exchange remittances, the operation of foreign currency exchanges by authorized money exchangers, and correctness of reporting to the Bank, etc.

Following up on Banks' Compliance with the Examination Findings

In light of the Bank's examination findings and the FSC's examination findings related to the Bank's business or regulations, the Bank monitors what the examined financial institutions have done to improve, urges the financial institutions to rectify related deficiencies, and thus ensures the successful implementation of the Bank's policies.

Offsite Review

Based on the periodical reports submitted by financial institutions and utilizing the computerized offsite review system, the Bank assesses the operation, financial conditions and regulatory compliance of individual financial institutions.

Moreover, the Bank regularly compiles and publishes various financial institution statistics and the most recent financial regulations. The Bank also discloses related information on the Bank's website. Therefore, the transparency of the operation of financial institutions is increased, reinforcing the market discipline mechanism.

Financial Stability Evaluation

The Bank compiles financial soundness indicators and issued the third financial stability report in 2009 so that related competent authorities, market participants and the public can understand the status and sources of financial system risks in Taiwan. This will also promote

cross-border exchange of information on banking supervision.

International Cooperation of Financial Supervision

The Bank actively engages in international cooperation of financial supervision. The Bank assigned a researcher for the SEACEN centre research project on the practice of liquidity risk management and provided the Centre with needed information regarding the "College of Supervisors" survey. The Bank also provided the World Bank's Consultative Group to Assist the Poor (CGAP) with information about Taiwan's savings, finance and consumer protection.

Other Important Measures

To reinforce the evaluation of financial stability, the Bank collaborated with academia in the research project titled "Evaluation of Taiwanese Banks' Credit Losses" in order to understand the risk source(s) of Taiwanese banks' credit losses and possible impacts.

5. Payment and Settlement Systems

Taiwan's payment systems mainly include the Check Clearing House System (CCHS), the Interbank Remittance System (IRS), the CBC Interbank Funds-Transfer System (CIFS), and the Central Government Securities Settlement System (CGSS). The CCHS and the IRS are retail payment systems, while the CIFS and the CGSS are the two main subsystems operated by the Bank. The Bank plays a key role in Taiwan's payment systems. All these payment systems make use of banks' A reserve accounts with the Bank for final settlement. In addition to operating the CIFS and CGSS, the Bank also monitors major payment systems based on international standards to ensure their sound operations.

Funds Transfers via the CIFS

The CIFS launched in May 1995 is an on-line, large-value fund transfer system. Since September 2002, the System has been operated based on the real-time gross settlement (RTGS), under which payments are settled on a real-time basis and the banks involved are required to hold sufficient account balances with the Bank. Those who maintain transaction accounts with the Bank may directly use the CIFS to transfer funds. Payment instructions are sent over the CIFS for settling obligations on check clearing, adjusting reserve account balances, or making payments associated with interbank loans, bill transactions, and bond transactions.

At the end of 2009, participants of the CIFS included 68 banks, 10 bills finance companies, and 5 other institutions including Chunghwa Post Co., the Taiwan Stock Exchange (TSE), and the GreTai Securities Market (GTSM). For the year as a whole, the total value of funds transferred via the CIFS was NT\$312 trillion, while the total number of transactions reached 727 thousand.

Transactions via the CGSS

Established in September 1997, the CGSS is an RTGS system for the issuance, transfer, redemption, and interest payment of book-entry central government securities. Since its inception, central government bonds have been issued in book-entry form. In October 2001, treasury bills were included in the system and have been issued in the same form since then.

The registration of central government securities transfers is processed by 16 clearing banks and their 1,679 branches. In 2009, nearly 601 thousand transfers with a value of NT\$49,471 billion were processed by the system. Also, the outstanding balance of book-entry central government bonds amounted to NT\$ 3,826 billion, or 99.9 percent of the total outstanding balance of the bond market. The total transaction value of book-entry central government bonds reached

NT\$ 85 trillion, or 86.7 percent of the total transaction value of the entire bond market.

Improving and Monitoring Payment Systems

The Bank and other government agencies have worked out a plan to improve payment and clearing processes of the securities market. Under this plan, the TSE and the GTSM are able to process net payment clearing of stocks and bonds through the CIFS. Another plan was also implemented to link the CIFS and CGSS to allow clearing banks to handle settlements on a delivery-versus-payment (DVP) basis. This system has been operating since April 14, 2008.

Based on the Core Principles for Systemically Important Payment Systems (hereinafter the Core Principles) and Recommendations for Securities Settlement Systems issued by the Bank for International Settlements (BIS), the Bank monitors the payment system to maintain its safety and efficiency as one of its foremost goals. Large-value payment systems monitored by the Bank include the CIFS, the CGSS, the CCHS, and the Depository and Clearing System (DCS). The Bank also monitors interbank settlement and clearing activities involving retail payment and electronic money.

In 2009, the Bank's monitoring activities included the following:

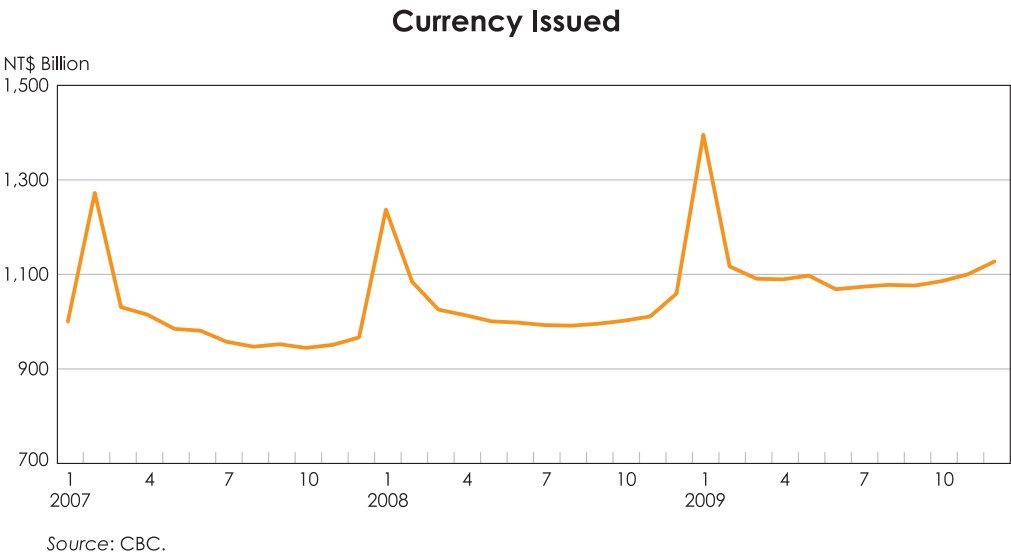
- (1) The Bank continued to require each payment system operator and payment instrument issuer to provide detailed data and information on a periodic basis regarding their operations and activities.
- (2) The Bank supervised clearing institutions to make contingency plans and business continuity plans in case of emergency.
- (3) The Bank invited the FSC's Banking Bureau, the Financial Information Services Co., the Taiwan Depository and Clearing Corporation, and the Taiwan Clearing House to participate in panel discussions on promoting sound operation of the payment system held in April and November.
- (4) The Bank required that participants of CCHS and IRS conduct self-evaluations based on the BIS Core Principles and send the report to the Bank for further review by November. Those who failed to meet the standards as per the Core Principles were asked to improve their operations and risk management mechanism.

6. Currency Issuance

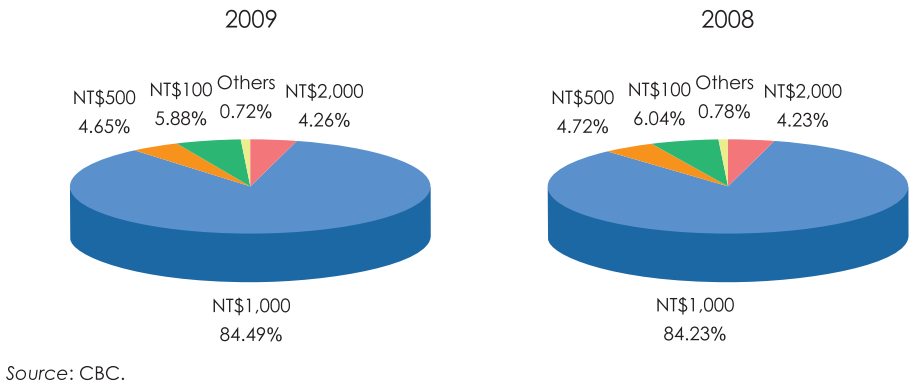
Currency Issued Slightly Increased

An important function of the Bank is to ensure a smooth and efficient supply of banknotes and coins to meet public demand, which is dependent on the level of economic activity, seasonal factors, and the development of noncash payments instruments.

In 2009, the Bank implemented a proper currency distribution plan for delivering banknotes and coins. The currency issued peaked at NT\$1,389.7 billion on January 23, the day before the Chinese Lunar New Year holidays, reflecting a temporary seasonal surge in cash demand. At the end of 2009, the outstanding amount of the currency issued was NT\$1,122.7 billion, representing an increase of NT\$68.4 billion or 6.49 percent over the previous year-end.



Composition of NT Dollar Banknotes Issued (year-end figure)



The composition of NT dollar banknotes issued in 2009 was similar to last year. The largest portion was the NT\$1,000 denomination note (84.49 percent), followed by the NT\$100 (5.88 percent) and the NT\$500 (4.65 percent) notes.

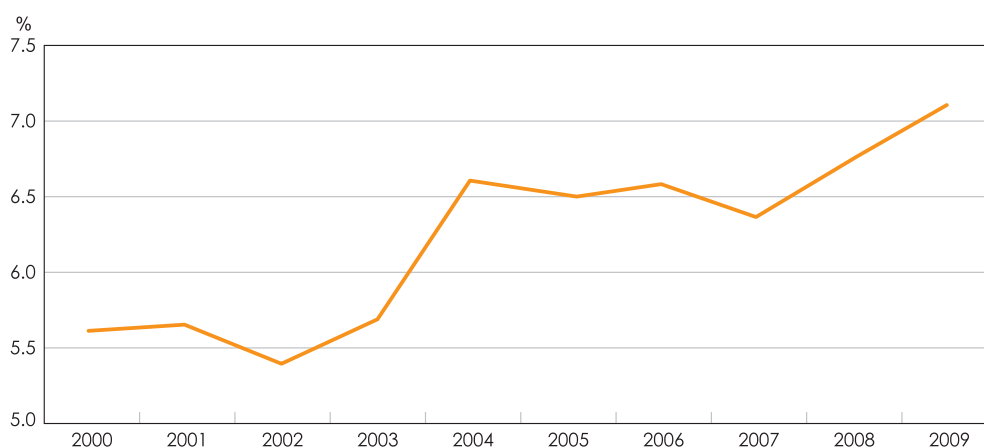
Currency in Circulation to GDP Ratio Increased

Between 2005 and 2007, as credit card defaults weakened private consumption, currency demand for transaction purposes decreased, causing the ratio of currency in circulation to nominal GDP to trend downwards. However, due to the economic slowdown and the prevailing low interest rate environment since September 2008, which led the public to hold more currency, the ratio rose further to 7.08 percent in 2009, an increase of 0.36 of a percentage point than a year before.

Commemorative Coin Sets Issued Successively

With the authority of currency issuance, the Bank may also issue gold and silver coins, and commemorative notes and coins on a non-periodic basis, such as for important ceremonies, national holidays, major international events or other significant national events. During the year 2009, the Bank issued the coin set for the Chinese Zodiac Year of the Ox, and the 12th coin set of the Taiwan Indigenous Peoples Cultural Series-the Truku tribe.

The Ratio of Currency Held by the Public to GDP



Source: CBC.

7. Fiscal Agency Functions

The Central Bank acts as a banker to other banks as well as the government. It also functions as the fiscal agent for the government by maintaining the Treasury Deposit Account (TDA) and central governmental agency deposit accounts, and undertaking the issuance, registration, redemption, and interest payment of central government bonds and treasury bills.

Managing the Treasury Deposit Account

The Bank manages the TDA on behalf of the Ministry of Finance (MOF), processing receipts and disbursements of the central government. The Bank delegates the handling of treasury transactions to 14 financial institutions and their 362 branches, including 5 overseas branches located in New York, Los Angeles, Seattle, and Paris. In 2009, the Bank received a total of NT\$3,190.8 billion worth of treasury deposits, an increase of NT\$545.8 billion or 20.64 percent from 2008. Payments made for the Treasury were NT\$3,196.2 billion, an increase of NT\$554 billion or 20.97 percent over the previous year. At the end of 2009, the outstanding balance in the TDA was NT\$35.5 billion, decreasing by NT\$5.5 billion or 13.41 percent from a year earlier. This was attributable to a substantial tax revenue decrease and an increase in government spending to boost the domestic economy in the wake of the global financial turmoil.

Handling Central Government Agency Deposits

Central government agencies are required to make their deposits with the Bank or other delegated banks subject to the approval of the MOF. However, the delegated banks are required by law to redeposit 60 percent of the deposits with the Bank, except those in interest-bearing accounts. At the end of 2009, the balance of central government agencies' deposits with the Bank amounted to NT\$198.2 billion, a substantial increase of NT\$85.8 billion or 76.33 percent over 2008, as the Ministry of the Interior transferred deposits of the new labor pension system and the national pension insurance scheme from other delegated banks to the Bank. Deposits with other delegated banks were NT\$377.8 billion at the end of 2009, a decrease of NT\$51.5 billion or 12 percent. Among them, redeposits with the Bank registered NT\$11.1 billion at the end of 2009, decreasing by NT\$6.7 billion or 37.64 percent from a year earlier, as the Ministry of Finance introduced a policy that non interest-bearing accounts were to be subsumed into the TDA.

Managing Central Government Bonds

As a fiscal agent, the Bank, on behalf of the MOF, performs services related to the issuance,

registration, transfer, redemption, and interest payment of central government bonds. The Bank also conducts the auctions of central government bonds. There are 64 domestic dealers qualified to directly participate in the auctions, including 23 banks, 26 securities companies, 10 bills finance companies, 4 insurance companies, and Chunghwa Post Co.

All central government bonds issued since 1997 have been in book-entry form. The paperless system expedites trading and saves the cost of printing, safekeeping, and bond delivery. In 2009, the Bank managed 13 issues of central government bonds amounting to NT\$470.0 billion and paid a total of NT\$250.2 billion in principal and NT\$122.4 billion in interest payments for central government bonds. At the end of 2009, the outstanding amount of central government bonds was NT\$3,829.6 billion, an increase of NT\$219.9 billion or 6.09 percent from the previous year-end, of which 99.90 percent was in book-entry form.

Managing Treasury Bills

Treasury bills are issued at a discount through auctions. Direct participants include banks, insurance companies, bills finance companies, and Chunghwa Post Co. In 2009, the Bank handled 18 issues of treasury bills with a total amount of NT\$435 billion. At year-end 2009, the outstanding amount of treasury bills was NT\$215.0 billion, an increase of NT\$108.2 billion or 101.31 percent from the previous year-end.

Establishment of Government Bonds Buy-Back System

To enhance the efficiency of government debt management and increase the domestic bond market liquidity, the Bank established the government bonds buy-back system in March, 2009. Through buying-back less-liquid government bonds and issuing new ones, the government was able to manage treasury deposit accounts more flexibly and reduce the interest burden.

8. Participation in International Activities

The Bank actively took part in international activities during 2009. As a member, the Bank hosts conferences, provides training courses, and attends various forums, such as the annual meetings of the Asian Development Bank (ADB), the Central American Bank for Economic Integration (CABEI), and the South East Asian Central Banks (SEACEN). In addition, the Bank also maintains close relationships with the Inter-American Development Bank (IDB), the European Bank for Reconstruction and Development (EBRD) and the Bank for International Settlements (BIS), and participates in their annual meetings. In 2009, the Bank continued to strengthen its interaction with other central banks to exchange views on key economic and financial issues.

The Bank is a founding member of the ADB and, through this platform, has played an active role in promoting financial cooperation and stability in Asia. In May 2009, the Bank participated in the 42nd annual meeting of the ADB held in Indonesia, and shared views on the establishment of a multilateral swap arrangement, the formation of the loan arrangement as an additional source of funding, and the development of a formal regional exchange rate coordination mechanism.

Furthermore, in February 2009, the Bank attended the 44th annual SEACEN conference of governors held in Kuala Lumpur, Malaysia, where governors from 18 central banks discussed issues on the role of central banks in sustaining economic recovery and in achieving financial stability. Furthermore, the Bank hosted the 4th SEACEN-OSFI Workshop on Internal Capital Adequacy Assessment Process (ICAAP) and the Supervisory Review Process in Taipei, Taiwan, May 18-22, 2009.



Adequacy Assessment Process held in May. A total of 35 participants from 12 countries attended the workshop. Lecturers comprised technical experts and senior officers from the Office of the Superintendent of Financial Institution and SEACEN member central banks. The Bank also dispatched staff to attend seminars held by other central banks, such as the Federal Reserve, Bank of Japan, Bank of England, and Swiss National Bank.