

Foreword



Fai-nan Perng, Governor

The worldwide recession continued to affect Taiwan's economy during the first half of 2009. During the second half of the year, the turnaround in the U.S. and Europe, coupled with the local government's stimulus package, gradually lifted Taiwan's external trade, private consumption and investment. Economic growth resumed in the fourth quarter but remained at negative 1.87 percent for the year as a whole. The annual unemployment rate also rose to 5.85 percent. Meanwhile, weak domestic demand, on top of falling international commodity prices, led consumer prices to decline by 0.87 percent for the year, a relatively stable level among major countries.

To boost domestic demand, the Bank twice lowered policy rates during the first two months of 2009, as part of the rate cut cycle that began in September 2008. A total of 237.5 basis points were slashed on seven occasions during the cycle. Lower interest rates helped reduce the funding costs of individuals and enterprises and encourage private consumption and investment.

In addition, the Bank engaged in open market operations to keep reserve money and the interbank call-loan rate at accommodative levels. It also helped enhance the

capacity of the Small and Medium Enterprise Credit Guarantee Fund to meet funding demands of SMEs. These measures helped create an environment conducive to economic recovery. Bolstered by monetary easing actions, and net foreign capital inflows in the second half of the year, M2 grew by 7.21 percent in 2009, breaching the upper limit of the Bank's 2.5 percent to 6.5 percent target zone.

On the foreign exchange front, the NT dollar exhibited dynamic stability, standing at 32.030 against the US dollar at the end of 2009, an appreciation of 2.59 percent from a year earlier. Foreign exchange reserves built up to US\$348.2 billion at the end of the year.

The Bank continued with financial liberalization in 2009. New foreign exchange products were introduced and cross-border remittances were further deregulated. The Bank also devised the Government Bond Buyback System and a withdrawal mechanism for central government bond dealers. These actions would contribute to efficient public finance management and a sound government bond issuance market. Moreover, the Bank closely monitored the domestic payment system to ensure its smooth operations in line with international standards.

At the current juncture, the global economy has generally begun to recover. Yet, a number of countries face severe challenges in the form of huge fiscal deficits, high unemployment, and uncertainty over the strength of recovery. Always mindful of its mandate to pursue price and financial stability and sustainable economic growth, the Bank will continue adopting appropriate monetary policy in response to the evolving economic and financial conditions at home and abroad.

Finally, my sincere appreciation goes to my colleagues for their dedication during past years. Together, we will work hard to meet the challenges in the years ahead.

A handwritten signature in black ink, appearing to read 'Fai-nan Perng', with a long, sweeping horizontal stroke extending to the right.

Fai-nan Perng

Governor

March 29, 2010
