

# Foreword



Fai-nan Perng, Governor

In 2010, the global economic recovery and robust growth in emerging Asia have helped driven up Taiwan's exports and private investment significantly. Private consumption also grew steadily. For the entire year, the economy expanded by 10.82 percent. As rising international raw material prices pushed up domestic retail prices, the annual CPI inflation stood at 0.96 percent for the year, relatively stable in comparison with major economies.

Supported by a rapid recovery, the Bank has gradually removed its monetary easing policy with three moderate rate rises and an increase of long-term NCD issuance to absorb excess liquidity. The Bank also kept monetary growth at an appropriate level. For the year of 2010, M2 posted an average annual growth rate of 4.59 percent, close to the median of the target zone. This is conducive to the attainment of the Bank's operational objectives of price and financial stability.

In terms of foreign exchange management, Taiwan adopts a managed float regime with flexibility. Stable exchange rates help macroeconomic stability. At the end of 2010, the NT dollar was 30.368 against the US dollar, representing a 5.47 percent appreciation from the end of 2009. Foreign exchange reserves built up to US\$382 billion, after increasing by US\$33.8 billion during the year. In response to massive international capital inflows, the Bank also took prudential measures to maintain market order, including the introduction of special reserve requirement ratios for the NT dollar demand deposits placed by foreign investors with financial institutions.

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The housing boom has induced over-concentration in bank lending. To counteract, the Bank has gradually urged financial institutions since October 2009 to enhance their credit risk control over real estate-related lending via moral suasion, enhanced statistical collection on real estate lending, and target examinations. Further steps were taken in 2010, including the promulgation of regulations to govern the extension of land collateralized loans and housing loans in Specific Areas in Metropolitan Taipei by financial institutions. This is an integral part of the efforts to enhance risk management for real estate loans as in the government's *Plan to Enhance the Soundness of the Housing Market*.

In addition, the Bank has continued to promote the operation of key payment systems. During 2010, the Bank implemented the Government Bond Buyback System to lower the interest burden of public debt, and launched a withdrawal mechanism for central government bond dealers to promote a sound government bond issuance market. The Bank also authorized renminbi conversion services by financial institutions, opened the domestic market for US dollar bills finance and approved US dollar settlement business, in order to facilitate corporate funding. This will also help to improve financial deepening and greater financial inclusion.

Despite the brighter outlook in the global economic recovery, imported inflationary pressures have been mounting up due to rising international food and crude oil prices and geopolitical risks associated with the Middle East and North Africa. Meanwhile, the persisting challenge of high unemployment rates in advanced countries and the lingering effects of the sovereign debt crisis in Europe remain our main concerns. The Bank will monitor the economic and financial conditions both at home and abroad to take proper actions in a timely manner in order to safeguard price and financial stability and sustain economic growth.

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 stylized, flowing script.

Fai-nan Perng  
Governor  
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