Annual Report 2010

Central Bank of the Republic of China (Taiwan)

Taipei, Taiwan

The Republic of China

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.

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.

Fai-nan Perng
Governor
April , 2011

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Chairman Fai-nan Perng

Executive Directors Sush-Der Lee, Yen-Shiang Shih, A-Ting Chou, Chin-Long Yang, Ming-Yih Liang, Chih-Chin Ho

Directors K. Casey Chuang, Wu-Hsiung Chen, Teng-Cheng Liu, Tsong-Min Wu, Jyh-Lin Wu, Jin-Lung Lin, Mei-Lie Chu, Chao-Hsi Huang

Governor

Fai-nan Perng

Deputy Governors

A-Ting Chou

Chin-Long Yang

Board of Supervisors

Chairman Su-Mei Shih

Supervisors Chao-Cheng Mai, Tsung-Jung Liu, Ping-Yung Chiu, Yuh-Lin Lee

Department of Banking	James J. T. Yue (Director General)
Department of Issuing	Yen–Shu Tsai (Director General)
Department of Foreign Exchange	Sun–Yuan Lin (Director General)
Department of the Treasury	Cheng–Sheng Huang (Director General)
Department of Financial Inspection	Chuan–Yu Sun (Director General)
Department of Economic Research	Tzung–Ta Yen (Director General)
Secretariat	Mu–Liang Hsu (Director General)
Department of Accounting	Sunney K. S. Wu (Director General)
Department of Information Management	Chun–Hung Chang (Director General)
Personnel Office	Huan–Chun Huang (Director)
Ethics Office	Shih–Lai Huang (Director)
Legal Affairs Office	Kun–Shan Wu (Director)
New York Representative Office	Hsin–Kuang Kung (Representative)
London Representative Office	Meng–Tze Kuo (Acting Representative)
Central Engraving & Printing Plant	Yung–Hui Chen (President)
Central Mint	Shiuh–dyi Chen (Director)

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As of April 2011

Chairman
Board of Directors
Governor

Fai-nan Perng

Executive Director

Sush-Der Lee

Executive Director

Yen-Shiang Shih

Executive Director
Deputy Governor

A-Ting Chou

Executive Director
Deputy Governor

Chin-Long Yang

Executive Director

Ming-Yih Liang

Executive Director

Chih-Chin Ho

Director

K. Casey Chuang

Director

Wu-Hsiung Chen

Director

Teng-Cheng Liu

Director

Tsong-Min Wu

Director

Jyh-Lin Wu

Director

Jin-Lung Lin

Director

Mei-Lie Chu

Director

Chao-Hsi Huang

Chairman
Board of Supervisors

Su-Mei Shih

Supervisor

Chao-Cheng Mai

Supervisor

Tsung-Jung Liu

Supervisor

Ping-Yung Chiu

Supervisor

Yuh-Lin Lee

Developments in the Real Economy

I. Developments in the Real Economy

1. Overview

The global economic recovery and robust growth in emerging markets in 2010 helped drive up Taiwan's exports and private investment significantly, while private consumption also grew steadily. Real GDP posted a 23-year record growth of 10.82 percent for the year. The balance of payments remained in good shape as the second highest current account surplus in history helped the overall balance of payments to reach the second record high surplus. Meanwhile, climbing energy prices and tour fees led consumer prices to inch up by 0.96 percent. The unemployment rate trended downwards, declining to 4.67 percent in December. Central government finances posted a deficit of NT$158.8 billion, lower than the NT$161.8 billion deficit recorded in 2009.

Robust Economic Growth

Following an upturn in late 2009, overall economic activity in Taiwan continued its robust recovery and expanded remarkably in 2010. External trade witnessed a strong growth during the first three quarters on the back of a broad rebound in emerging markets. Private consumption and business spending continued to expand along with a gradual improvement in the employment situation and enhanced consumer confidence. Owing to the high base effect and a moderation in the global economy, the real GDP growth rate moderated to 6.92 percent in the fourth quarter. For the entire year, real GDP growth posted a 23-year high of 10.82 percent.

With regard to the expenditure components of GDP, all components posted a positive contribution to economic growth in 2010. Among them, net exports continued to record a contribution of 2.33 percentage points for the year, while domestic demand increased its contribution to GDP growth to 8.49 percentage points. On the production side, the industrial sector recovered more strongly than the service sector with respective contributions of 7.56 and 3.69 percentage points to GDP growth.

Balance of Payments in Good Shape

For the year 2010, the overall balance of payments recorded a surplus of US$40.2 billion, the second highest surplus ever recorded.

On the current account, the increase in imports exceeded that in exports. Therefore, the trade surplus on goods slowed to US$26.9 billion, down by 12.1 percent year over year. The services account surplus rose to US$2.9 billion, and the income surplus expanded to US$13.6 billion, mainly due to an increase in residents' income from foreign exchange investments. Net current transfer payments increased to US$2.7 billion because of the increase in outward remittances by residents to support their overseas relatives. As a result, the current account surplus was US$40.6 billion, a decrease of 5.3 percent over the previous year.

During the same period, the capital account deficit rose to US$113 million due to an increase in outward remittances by migrants. The financial account exhibited a mild net outflow of US$607 million, mainly because direct investment and portfolio investment showed net outflows of US$8.6 billion and US$20.7 billion, respectively, while other investment showed a net inflow of US$28.1 billion, posting a historic high.

Mild Increase in Consumer Prices

Taiwan's wholesale price index (WPI) rose by 5.46 percent in 2010, led by oil and commodity price rises due to surging demand from emerging markets, extreme weather conditions, and market speculation. However, the consumer price index (CPI) rose mildly by 0.96 percent in 2010. The rise in CPI inflation was tied partly to climbing energy and commodity prices. Moreover, tour fees picked up, with the increased demand generated by a robust domestic economy. The core CPI, which excludes prices of fruits and vegetables, fish and shellfish, and energy, rose slightly by 0.44 percent in 2010.

Narrower Fiscal Deficit

For 2010, central government revenue shrank by 3.6 percent, amounting to NT$1,497.1 billion, mainly due to a significant decline in surpluses of public enterprises and public utilities. Central government expenditure decreased by 3.5 percent to reach NT$1,655.9 billion, the first drop in the past four years. The decline was mainly accounted for by reductions in spending in economic development and national defense. In sum, the central government ran a deficit of NT$158.8 billion, lower than NT$161.8 billion in 2009.

Total outstanding debt of the central government increased significantly by NT$424.9 billion over the previous year-end, amounting to NT$4,557.0 billion at the end of 2010. Furthermore, the ratio of outstanding central government debt to GDP also rose markedly from the previous year's 33.1 percent to 33.5 percent.

Downtrend in Unemployment Rates

Thanks to sustained economic expansion and the government's job-creating programs, labor market conditions continued to improve, and the unemployment rate gradually trended downwards to 4.67 percent in December. As a result, the annual average unemployment rate decreased by 0.64 of a percentage point over the previous year to 5.21 percent.

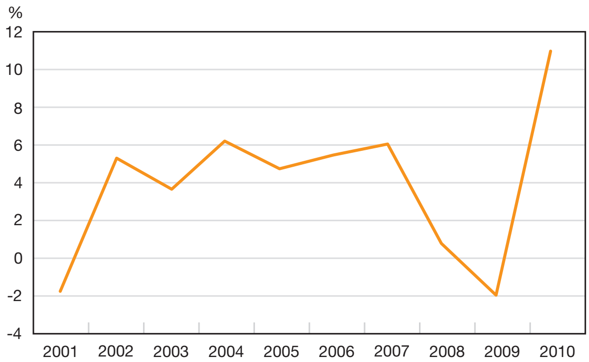
2. National Output and Income

Following an upturn in late 2009, the Taiwan economy continued its robust recovery and expanded remarkably in 2010. This was driven by a global economic revival and further supported by favorable development that boosted both consumer spending and business expansion. External trade witnessed strong growth during the first three quarters on the back of a broad rebound in emerging markets. Private consumption and business spending continued to expand along with the sustained improvement in economic outlook. With solid aggregate demand, coupled with a low-base effect, real GDP growth posted a 23-year high of 10.82 percent in 2010.

Bolstered by a stunning growth in exports, business activity gained strength and capital expenditures accelerated in the first half of the year. Accordingly, growth in real GDP surged to 13.59 percent year on year in the first quarter and 12.86 percent in the second quarter. This momentum continued into the third quarter and real GDP reported its third consecutive quarter of double-digit growth as a gradual improvement in the employment situation enhanced consumer confidence. The signing of the Economic Cooperation Framework Agreement (ECFA) also helped promote private investment. However, owing to the high base effect and a moderation in the global economy, the real GDP growth rate settled to a more modest 6.92 percent in the fourth quarter.

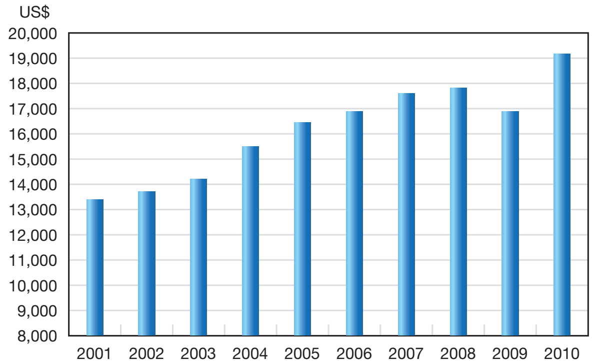
Meanwhile, owing to the upswing in economic activity and the appreciation of the domestic currency against the US dollar, per capita GNP in nominal terms increased considerably from US$16,895 to US$19,188.

Economic Growth Rate



Source: *Statistical Abstract of National Income*, DGBAS, Executive Yuan, February 2011.

Per Capita GNP



Source: *Statistical Abstract of National Income*, DGBAS, Executive Yuan, February 2011.

Expenditure Components of GDP

Against the backdrop of a solid gain in exports and a marked increase in domestic demand, all expenditure components of GDP posted a positive contribution to economic growth in 2010. Among them, net exports continued to record a positive contribution of 2.33 percent for the year. Gross fixed capital formation also increased its contribution to GDP growth by 3.95 percentage points due to a sharp pickup in capital expenditures. Private consumption and government consumption contributed 2.14 percentage points and 0.21 of a percentage point to economic growth, respectively. In terms of shares of GDP, exports and imports shares increased further along with the expansion of global demand, accounting for 73.66 percent and 66.47 percent, respectively. Attributable to a large expansion in private investment, the share of gross fixed capital formation went up to 21.74 percent, higher than the previous year's 18.88 percent. On the other hand, the share of private consumption slipped to below 60 percent of GDP in 2010 due to the relatively moderate increase in household spending when compared with other GDP components.

(1) Steady Increase in Private Consumption

In the beginning of the year, private consumption gradually picked up amid an economic upturn, but progressed at a cautious pace owing to subdued income growth. Later, as the impact of the rising stock market and housing market bolstered household wealth, consumer spending in the retail sector and restaurant business progressed and private consumption grew by 3.02 percent in the first quarter. During the second quarter a more vigorous recovery in economic activity boosted consumer confidence significantly. This, together with the continued improvement in labor market conditions, helped encourage private spending and the growth of consumption expenditure

Expenditure on Gross Domestic Product

Unit: %

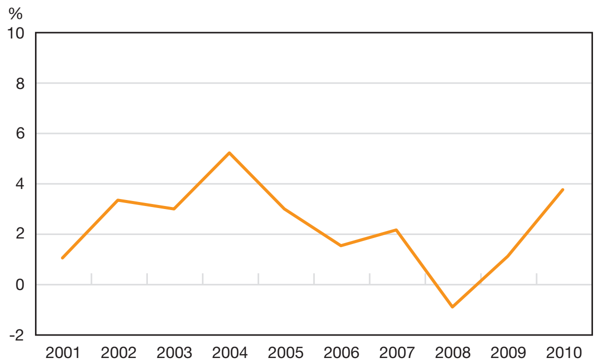
	2010			2009		
	Share	Real Growth Rate	Contribution to Real Growth Rate of GDP*	Share	Real Growth Rate	Contribution to Real Growth Rate of GDP*
Private Consumption	57.99	3.69	2.14	60.75	1.08	0.61
Government Consumption	12.19	1.74	0.21	12.96	3.88	0.45
Gross Fixed Capital Formation	21.74	23.65	3.95	18.88	-11.01	-2.03
Change in Inventory	0.89	—	2.19	(1.22)	—	-2.20
Exports of Goods and Services	73.66	25.59	16.76	62.49	-8.71	-6.13
(Less : Imports of Goods and Services)	(66.47)	(28.24)	(14.43)	(53.86)	(-12.83)	(-7.38)
Expenditure on GDP	100.00	10.82	10.82	100.00	-1.93	-1.93

Note: * Percentage point.
Source: *Statistical Abstract of National Income*, DGBAS, Executive Yuan, February 2011.

climbed to 4.63 percent in the third quarter. As wage increases were still far below the growth rate of the economy, which constrained the momentum of household spending, private consumption growth weakened to 2.85 percent along with a high base effect in the fourth quarter. Nevertheless, for the year as a whole, private consumption grew 3.69 percent, higher than the figure of 1.08 percent registered in the previous year.

With regard to food and non-food categories, both rose steadily with respective annual growth rates of 1.88 percent and 3.94 percent for the year. Among the components of non-food consumption, outlays for recreation and culture recorded the largest growth of 9.88 percent for the year, reflecting an economic revival as well as increasing demand for outdoor recreation, arts and expo activities. Moreover, consumer spending on communications increased further, registering the second largest growth of 8.98 percent for the year. This was mainly the result of an increase in consumer interest in new IT products, such as internet-related products and mobile phones, and the continual growth of home-based businesses. Due to the economic boom, outlays for restaurants and hotels also advanced markedly by 8.11 percent, much higher than the previous year's growth rate of 1.48 percent.

Real Growth Rate of Private Consumption Expenditure

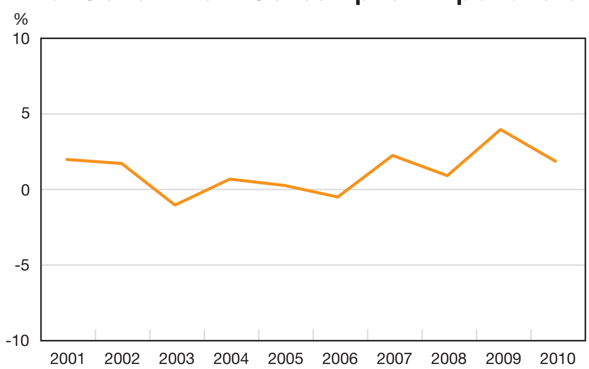


Source: *Statistical Abstract of National Income*, DGBAS, Executive Yuan, February 2011.

(2) Modest Lift in Government Consumption

In 2010, the rise in government consumption was mainly associated with the implementation of employment promotion and unemployment relief measures. As the domestic economy regained its growth momentum, the government gradually scaled down its stimulus spending, leading to a mild increase in government consumption expenditure of 1.74 percent in real terms and contributed 0.21 of a percentage point to GDP growth for the year.

Real Growth Rate of Government Consumption Expenditure



Source: *Statistical Abstract of National Income*, DGBAS, Executive Yuan, February 2011.

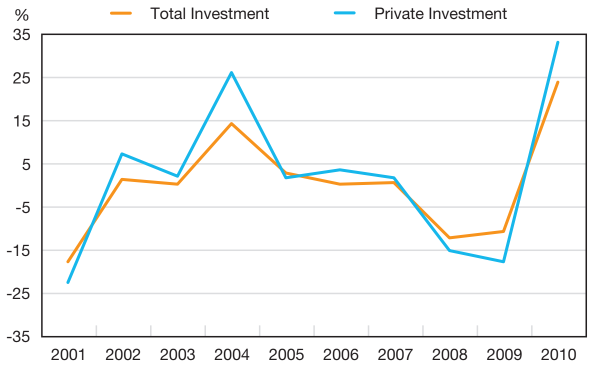
(3) Sharp Rebound in Fixed Capital Formation

Benefiting from the strong growth in exports and the signing of the ECFA, business sentiment improved significantly and fixed capital formation exhibited a sharp rebound during 2010. In the first quarter, as firms accelerated capital spending on the back of the economic recovery, fixed capital formation soared 28.61 percent. Thereafter, as hi-tech firms increased capital expenditure to upgrade their production process and expand capacity to meet surging overseas demand, fixed investment strengthened further and grew by 31.98 percent in the second quarter. While capital outlays continued to expand, the growth of fixed capital investment slowed from the third quarter onwards and moderated to 13.04 percent in the last quarter due to a higher comparison base. For the year as a whole, fixed capital formation rose by 23.65 percent, contributing 3.95 percentage points to GDP growth in 2010.

Regarding expenditure by the type of purchaser, investment by private businesses increased by 32.79 percent for the year, adding 3.87 percentage points to real GDP growth, in sharp contrast to the decline of the previous year. As the traction of the global economic recovery became stronger, foreign demand soared, which enhanced firms' incentives to invest in capacity expansion. The increase in private capital spending, led by the semiconductor industry and the TFT-LCD industry, was especially vigorous in the first three quarters of the year, pushing private investment up by more than 35 percent. However, due to uncertainties over the robustness of the global economic recovery and the high base effect, private investment lost momentum and dropped to 17.76 percent in the final quarter. Furthermore, as public enterprises continued to carry out their investment projects, investment by public enterprises increased by 8.99 percent, contributing 0.14 of a percentage point to economic growth in 2010. On the other hand, government investment edged down by 1.59 percent, subtracting 0.05 of a percentage point from economic growth because of heavy rain and delayed progress of environmental appraisal for many public works projects.

In terms of the type of capital formation, the largest increase was observed in outlays on machinery and other equipment, registering a stunning growth of 43.01 percent, mainly attributable to plant expansions, production upgrading and a strong increase in

Real Growth Rate of Investment



Source: *Statistical Abstract of National Income*, DGBAS, Executive Yuan, February 2011.

manufacturing orders. Transportation spending also accelerated and grew by 28.93 percent as the economic recovery led to increased demand for commercial vehicles. Additionally, investment in construction and intangible fixed assets grew by 9.96 percent and 8.04 percent, respectively.

(4) Robust Expansion in Exports and Imports

Exports of goods and services sustained strong momentum from the last quarter of 2009 and registered a robust growth of 25.59 percent in 2010, accounting for 16.76 percentage points of economic growth. Underpinned by the brisk demand for consumer electronics from emerging Asian and other major trading partners, export orders hit historic highs. The increase in services exports, including the influx of tourists from Mainland China and the rise in merchanting, further accelerated exports expansion. Exports jumped over 30 percent in the first two quarters and moderated to 14.9 percent in the fourth quarter due to a high base effect.

Following a robust growth in business investment spending, the growth of imports reversed its sharp decline of the previous year and outpaced that of exports in 2010. The increase in imports was more notable in the first half of the year as capital outlays on machinery and electrical equipment rose with mounting export demand. Like exports, imports growth trended down in the last two quarters due to a high base effect. However, during the year as a whole, imports of goods and services, measured in NT dollar terms, increased by 28.24 percent, thus subtracting 14.43 percentage points from economic growth.

Real Growth Rate of Exports and Imports

Source: Statistical Abstract of National Income, DGBAS, Executive Yuan, February 2011.

Sectoral Components of GDP

On the output side, while agricultural output continued to shrink, industrial output and services benefited from the economic upswing and advanced at a brisk pace. In 2010 the industrial sector became the predominant driving force behind economic growth, adding 7.56 percentage points to economic growth for the year, a sharp contrast to the previous year's contraction. The contribution of the services sector to overall GDP growth also moved up from the previous year's negative 0.44 of a percentage point to positive 3.69 percentage points in 2010. Conversely, growth in agricultural output remained in negative territory, subtracting 0.01 of a percentage point from economic growth.

Gross Domestic Product by Type of Activity

Unit: %

	2010			2009		
	Share	Real Growth Rate	Contribution to Real Growth Rate of GDP*	Share	Real Growth Rate	Contribution to Real Growth Rate of GDP*
Agriculture	1.57	-0.89	-0.01	1.74	-3.00	-0.04
Industry	31.37	24.17	7.56	28.96	-4.30	-1.38
Mining & Quarrying	0.46	9.26	0.03	0.42	4.41	0.01
Manufacturing	26.31	26.82	7.19	23.83	-4.40	-1.21
Construction	2.77	10.86	0.25	2.68	-8.04	-0.20
Electricity, Gas, Water Supply and Remediation Services	1.83	5.21	0.10	2.03	0.69	0.01
Services	67.05	5.50	3.69	69.30	-0.66	-0.44
Wholesale and Retail Trade	18.18	5.64	1.03	18.67	-1.26	-0.23
Transport & Storage	3.03	6.54	0.20	3.05	-3.69	-0.12
Information and Communications	3.47	5.95	0.22	3.70	3.43	0.12
Finance and Insurance	6.38	6.88	0.46	6.41	-7.66	-0.54
Real Estate	8.60	2.98	0.26	9.17	1.81	0.15
Administration and Defense	7.26	2.93	0.21	7.65	0.84	0.06
Education	4.61	0.96	0.05	4.99	2.55	0.12
Other Services	15.51	8.57	1.27	15.67	0.02	0.00
Gross Domestic Product	100.00	10.82	10.82	100.00	-1.93	-1.93

Note: * Percentage point.
Source: *Statistical Abstract of National Income*, DGBAS, Executive Yuan, February 2011.

Regarding the sectoral shares of GDP in nominal terms, Taiwan's economy was dominated by the services sector with a 67.05 percent share, albeit declining, in 2010. The industrial sector accounted for 31.37 percent of GDP as its output increased substantially along with the rise in exports and high value-added manufacturing activities. Meanwhile, the ratio of agricultural output to GDP slightly dipped to 1.57 percent, from the 1.74 percent posted in the previous year.

(1) Further Shrinkage in Agricultural Output

During 2010, all agricultural production subsectors, namely agriculture, forestry, fishing and animal husbandry, remained subdued due to an unstable climate, which led agricultural output to shrink by 0.89 percent.

(2) Strong Growth in Industrial Output

The industrial sector, comprising industries of mining and quarrying, manufacturing, construction, and electricity, gas and water, surged by 24.17 percent in 2010, a significant growth compared with the previous year's 4.30 percent decrease. The manufacturing sector, which carried a weight of over 90 percent in the index of industrial production, was the key driver behind the acceleration of industrial output.

In 2010, the increasing production of the semiconductor, panel, machinery, automobile and textile mills industries resulting from stronger-than-expected demand for exports and business investment led manufacturing output to progress remarkably. Specifically, the production index of the information and electronic industry was at the top with 40.27 percent growth, followed by metal and machinery with 32.54 percent and food, textile and other industry with 10.74 percent, which was substantially higher than the figures for the preceding year. Manufacturing output exhibited a downward trend from a peak of 42.59 percent in the first quarter to 16.58 percent in the fourth quarter. However, this slowdown was mainly due to the base effect. For the year as a whole, manufacturing output increased by 26.82 percent, reversing a decline of 4.4 percent in the previous year.

As the government continued to expand public works and the housing market appeared to be heating up along with the economic expansion, construction output growth hit a 13-year high of 10.86 percent. Accordingly, output of mining and quarrying also grew considerably by 9.26 percent for the year.

(3) Brisk Performance in the Services Sector

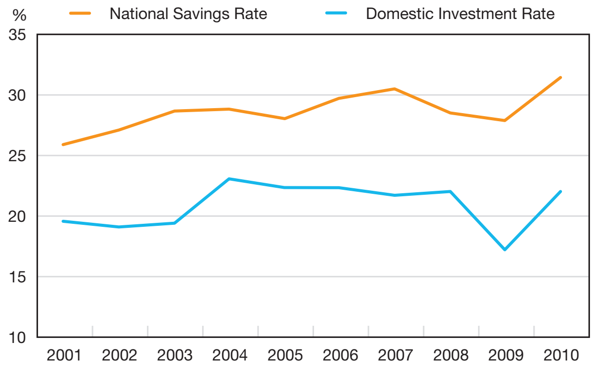
In 2010, services output rose solidly and recorded a brisk growth rate of 5.5 percent. The sustained economic recovery helped drive the remarkable growth in the services sector, of which finance and insurance, information and communication as well as trade, food and tourism services exhibited sizeable increases.

Among the services subsectors, finance and insurance services resumed healthy growth after two consecutive years of declines, registering an increase of 6.88 percent for the year due to the increased financial trading activity, interest revenue and fee income. Driven by vigorous export demand in line with the revival of global trade, transportation and storage services also grew by 6.54 percent, compared with a contraction of 3.69 percent posted in 2009. Likewise, wholesale and retail trade services posted a growth rate of 5.64 percent, reversing from the previous year's 1.26 percent decline. The rise in wholesale services output largely reflected the sturdy demand for machinery and equipment associated with rapid business investment. The growth in the retail trade sector was due to the increase in general merchandising turnover spurred by rising household spending. In addition, the information and communication services subsector continued to expand rapidly with growth of 5.95 percent, largely bolstered by the growing popularity of e-commerce and a robust demand for data processing services.

Slight Decline in National Savings Rate

While GNP surged by 8.95 percent for the year, national consumption (including both private consumption and government consumption expenditures) grew by a modest 3.88 percent in line with the steady pickup in domestic demand. Accordingly, the national savings rate (the ratio of national savings to GNP measured at current prices) rose from 27.68 percent in 2009 to 31.28 percent in 2010. The excess savings ratio, defined as the excess of national savings over gross domestic investment to GNP, slightly declined from 10.59 percent in 2009 to 9.34 percent in 2010, reflecting that growth in domestic investment outpaced that in national savings.

National Saving Rate and Domestic Investment Rate



Source: *Statistical Abstract of National Income*, DGBAS, Executive Yuan, February 2011.

3. BALANCE OF PAYMENTS

In 2010, global financial turmoil gradually subsided, the world economy and financial markets recovered, and the domestic outlook brightened on account of the signing of the Economic Cooperation Framework Agreement. Against the backdrop, the volume of goods and services in the current account and direct investment abroad in the financial account all reached historic highs this year. Compared with the previous year, the surpluses of services and income expanded, while the goods surplus decreased and the current transfer deficit increased. Consequently, the current account surplus shrank to US$40,617 million, which accounted for 9.1 percent of nominal GNP. The financial account exhibited a net outflow of US$607 million, with direct investment and portfolio investment showing net outflows of US$8,646 million and US$20,662 million, respectively, and other investment revealed a net inflow of US$28,075 million. Finally, the overall balance recorded a surplus of US$40,173 million, which was reflected in an increase in the foreign reserve assets held by the Bank.

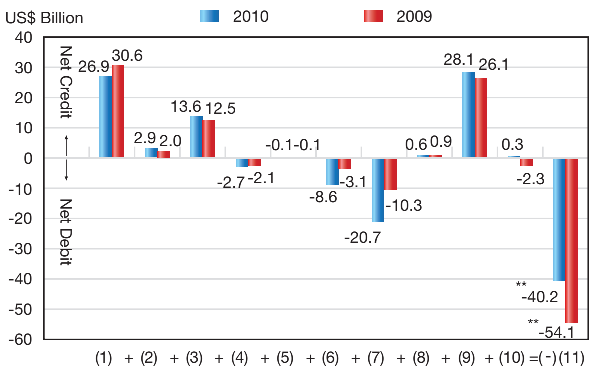
Narrowing Current Account Surplus

The current account consists of four major items—goods, services, income, and current transfers. While the surpluses of services and income increased, the current account surplus narrowed in 2010, mainly due to the decrease in the surplus of goods and a growing current transfers deficit.

(1) Goods

For the year 2010, whether on a balance of payments basis or on a customs basis, the value of exports and imports both registered double-digit growth and reached historic highs. The value of exports grew by 34.9 percent to US$274,363 million, largely fueled by the robust economic growth in emerging economies, strengthening foreign demand for IT products, and a relatively low base period. The value of imports increased by 43.2 percent to US$247,501 million, primarily led by stronger export-derived demand and escalating international crude oil

Balance of Payments



(1) Goods (2) Services (3) Income (4) Current Transfers (5) Capital Account
(6) Direct Investment (7) Portfolio Investment (8) Financial Derivatives
(9) Other Investment (10) Net Errors and Omissions (11) Reserves *

Notes: * Excluding valuation changes in exchange rates.
** The minus sign (-) indicates an increase in foreign exchange reserves held by the Bank.

Source: Balance of Payments, CBC.

Balance of Payments

Unit: US$ Million

	2010	2009
A. Current Account	40,617	42,911
Goods: exports f.o.b.	274,363	203,399
Goods: imports f.o.b.	-247,501	-172,846
Balance on Goods	26,862	30,553
Services: credit	40,897	31,774
Services: debit	-37,983	-29,783
Balance on Services	2,914	1,991
Income: credit	23,245	20,339
Income: debit	-9,689	-7,827
Balance on Income	13,556	12,512
Current transfers: credit	5,249	4,902
Current transfers: debit	-7,964	-7,047
Balance on Current Transfers	-2,715	-2,145
B. Capital Account	-113	-96
Total, Groups A plus B	40,504	42,815
C. Financial Account	-607	13,561
Direct investment abroad	-11,127	-5,877
Direct investment in R.O.C. (Taiwan)	2,481	2,805
Portfolio investment assets	-33,473	-31,699
Portfolio investment liabilities	12,811	21,372
Financial derivatives assets	4,792	5,344
Financial derivatives liabilities	-4,166	-4,492
Other investment assets	10,846	25,754
Other investment liabilities	17,229	354
Total, Groups A through C	39,897	56,376
D. Net Errors And Omissions	276	-2,250
Total, Groups A through D	40,173	54,126
E. Reserves and Related Items*	-40,173	-54,126

Note: * Excluding valuation changes in exchange rates.
Source: *Balance of Payments,* CBC.

prices. As a result of a greater increase in imports over exports, the trade surplus of goods weakened to US$26,862 million, a decline of 12.1 percent from the previous year.

As indicated by customs statistics, the top three trading partners of Taiwan in 2010 were Mainland China including Hong Kong (hereafter referred to as Mainland China), the US, and Japan. Exports to these three countries accounted for 59.9 percent of total exports, while imports from the three made up 45.7 percent of total imports.

In terms of Taiwan's trade with Mainland China, exports stood at a historic high of US$114,747 million in 2010, up by 37.1 percent from the previous year. In the first half of 2010, when the world emerged from recession and demand for Taiwan's IT exports was restored—notably for electrical machinery and equipment and optical products—exports to Mainland China surged by 61.9 percent.

Direction of Trade in Goods by Country

Unit: %

	2010			2009		
	Amount (US$ Million)	Share	Annual Change	Amount (US$ Million)	Share	Annual Change
Exports						
Mainland China (including Hong Kong)	114,747	41.8	37.1	83,694	41.1	-15.9
U. S. A.	31.469	11.5	33.6	23,553	11.6	-23.5
Europe	29,381	10.7	30.1	22,577	11.1	-24.6
Southeast Asia 6*	41,361	15.1	37.2	30,148	14.8	-21.5
Japan	18,024	6.6	24.3	14,502	7.1	-17.4
Rest of the World	39,661	14.4	35.8	29,201	14.3	-25.8
Total	274,643	100.0	34.8	203,675	100.0	-20.3
Imports						
Japan	51,930	20.7	43.4	36,220	20.8	-22.1
U. S. A.	25,373	10.1	39.8	18,154	10.4	-31.0
Europe	26,013	10.3	33.7	19,456	11.2	-20.4
Southeast Asia 6*	28,839	11.5	45.9	19,762	11.3	-22.8
Mainland China (including Hong Kong)	37,582	14.9	47.1	25,546	14.7	-22.3
Rest of the World	81,657	32.5	47.8	55,233	31.7	-34.8
Total	251,395	100.0	44.2	174,371	100.0	-27.5

Note: * Including Indonesia, Malaysia, the Philippines, Singapore, Thailand, and Vietnam.
Source: *Monthly Statistics of Exports and Imports,* Ministry of Finance, R. O. C. (Taiwan).

In the second half of 2010, due to Mainland China's contractionary monetary policies and a high base effect, the export growth rate decelerated to 19.2 percent. The share of exports to Mainland China in total exports continued to rise by 0.7 of a percentage point to 41.8 percent. Mainland China remained Taiwan's largest export market in 2010.

Imports from Mainland China posted a record high of US$37,582 million, delivering substantial growth of 47.1 percent. Mainland China remained the second largest source of imports as its share in total imports continued to rise to 14.9 percent in 2010. As labor division among Taiwanese industries across the Taiwan Strait deepened, Taiwan's stronger export performance and rising raw material prices for the year contributed to stronger growth in imports of steel, organic chemicals, and electrical machinery and equipment and related parts. The bilateral trade surplus with Mainland China grew by 32.7 percent to US$77,165 million for the year. Mainland China remained the largest source of Taiwan's trade surplus.

Exports to the US increased by 33.6 percent in 2010. The share of exports to the US in total exports slipped to 11.5 percent, mostly attributable to competition from Chinese products and the outward relocation (mainly to Mainland China) of local industries. Imports from the US grew by 39.8 percent, but its share in total imports dropped further to 10.1 percent, compared with 10.4 percent in 2009. Because exports expanded by a greater amount, the bilateral trade surplus with the US increased to US$6,096 million, representing a growth rate of 12.9 percent. However, the US dropped from the second to the third largest source of Taiwan's trade surplus in 2010.

Exports to Japan increased by 24.3 percent in 2010, while its share in total exports fell to 6.6 percent. Imports from Japan rose by 43.4 percent from a year earlier, with its share in total imports slightly down to 20.7 percent. Japan remained Taiwan's largest source of imports. The trade deficit with Japan widened to US$33,907 million for the year.

Exports to Europe increased by 30.1 percent in 2010, while its share in total exports continued to slip to 10.7 percent. Imports from Europe grew by 33.7 percent, with its share in total imports further down to 10.3 percent. The trade surplus with Europe increased from US$3,121 million in 2009 to US$3,368 million.

Exports to the six countries in Southeast Asia, including Indonesia, Malaysia, the Philippines, Singapore, Thailand and Vietnam, increased by 37.2 percent. The combined share of exports to these countries in total exports climbed up to 15.1 percent. In particular, exports to Vietnam rose by 25.8 percent, making Vietnam the second largest source of Taiwan's trade surplus in 2010, surpassing the US. Imports from these countries grew by 45.9 percent, with the share in total imports up to 11.5 percent. The trade surplus with the six countries widened to US$12,522 million in 2010 compared with US$10,386 million in 2009.

(2) Services

In 2010, both receipts and payments of trade in services recorded historic highs. Service receipts increased by US$9,123 million to US$40,897 million and payments grew by US$8,200 million to US$37,983 million.

Of the various components of the services account, receipts with respect to transportation increased by US$3,417 million to US$9,757 million, mainly due to more receipts from domestic air and sea carriers for international shipment. Transportation payments also grew by US$1,941 million to US$9,724 million, largely because of increasing payments to foreign carriers for import freight and to foreign airlines in passenger fares. Consequently, the US$1,441 million net payments with regard to transportation recorded a year earlier turned to net receipts of US$35 million in 2010, from a payment of US$1,441 million recorded a year earlier.

Travel receipts increased by US$1,832 million to US$8,648 million, mainly because visitors from Mainland China grew significantly by 67.8 percent. Moreover, travel payments for the year rose by US$1,558 million to US$9,358 million, because both the number and the expenditure of overseas visits by residents increased amid the economic recovery. Overall, net travel payments registered US$710 million for the year.

As for other services, receipts and payments from other services reached record highs. Receipts from other services increased by US$3,874 million to US$22,490 million, mainly because of significant growth in net merchanting receipts. Other services payments grew by US$4,701 million to US$18,901 million, largely due to remarkable increases in royalties, license fees, and trade-related brokerage. As a result, the surplus in net other services shrank from US$4,416 million in 2009 to US$3,589 million in 2010.

Current Account

Source: Balance of Payments, CBC.

(3) Income

Income receipts increased by US$2,906 million to US$23,245 million in 2010, which was attributable to the increases in interest earnings from residents' foreign exchange assets. On the other hand, income payments for the year amounted to US$9,689 million, US$1,862 million more than in 2009, resulting from the increase in non-residents' direct investment income. The surplus on the income account increased by US$1,044 million to US$13,556 million in 2010, registering its highest level ever.

(4) Current Transfers

Current transfer receipts and payments amounted to US$5,249 million and US$7,964 million, respectively. As a result, net current transfer payments increased from US$2,145 million in 2009 to US$2,715 million, mainly due to the increase in outward remittances by residents to support their overseas relatives.

Slightly Widened Capital Account Deficit

In 2010, the capital account increased by US$17 million to a deficit of US$113 million. This was mainly due to the increased outward remittances of migrants.

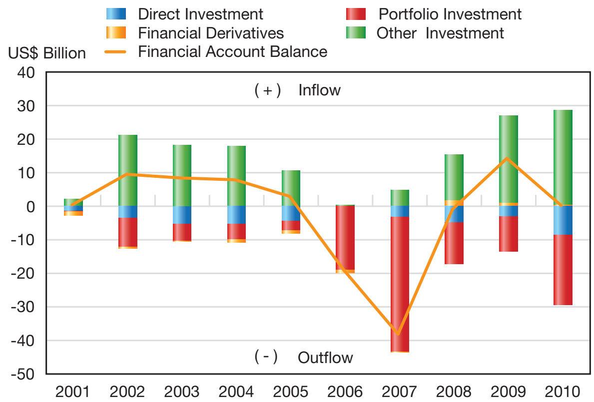
Net Outflows in the Financial Account

With regard to the financial account, since capital inflows were almost equal to capital outflows in 2010, the financial account showed a small net outflow of US$607 million. In terms of sub-categories, other investment posted a net inflow of US$28,075 million, while direct investment and portfolio investment registered net outflows of US$8,646 million and US$20,662 million, respectively.

(1) Direct Investment

Direct investment abroad by residents showed a net outflow of US$11,127 million, with an increase of US$5,250 million. On the other hand, direct investment in Taiwan by nonresidents registered a net inflow of US$2,481 million, US$324 million less than in the previous year. According to the statistics of approved cases, direct investment in Mainland China by residents increased by 101.9 percent to US$12,230 million, while direct investment in other areas by residents declined by 6.1 percent to US$2,820 million, revealing that Mainland China remained the major recipient of Taiwan's direct investment abroad. The main targets for investment included the electronic parts and components manufacturing industry, the computer and electronic manufacturing industry, and the real estate industry. As a result, direct investment registered a net outflow of US$8,646 million in 2010, US$5,574 million more than in 2009.

Financial Account



Source: *Balance of Payments*, CBC.

(2) Portfolio Investment

Portfolio investment abroad by residents exhibited a net outflow of US$33,473 million, mainly accounted for by investment in overseas debt securities by insurance companies and overseas mutual funds investment by residents. On the other hand, local portfolio investment by nonresidents posted a net inflow of US$12,811 million, mainly due to foreign capital inflows for investment in domestic stock and bond markets. The encouraging factors included quantitative easing policy in the US, the better cross-strait relationship and the portfolio allocation of international funds in Asia, which were attracted by robust economic recovery in East Asia. Consequently, the net outflow of portfolio investment increased to US$20,662 million in 2010, compared to US$10,327 million in 2009.

(3) Financial Derivatives

Financial derivatives recorded a net inflow of US$626 million, mainly because the banking sector took profits from financial derivatives transactions such as interest rate swaps and foreign exchange swaps, and other sectors also gained from the operation of futures.

(4) Other Investment

Other investment abroad by residents recorded a net inflow of US$10,846 million, representing a reduction in other claims on nonresidents by residents. In 2010, the US Federal Reserve maintained its quantitative easing policy, and it was expected that the US dollar would depreciate against other currencies. Consequently, the private sector withdrew overseas deposits, and the banking sector decreased short-term loans extended to foreign banks. Other local investment by nonresidents also showed a net inflow of US$17,229 million, mainly attributable to the borrowings from overseas affiliates by resident offshore banking units (OBUs). Therefore, the net inflow of other investment substantially increased to US$28,075 million in 2010.

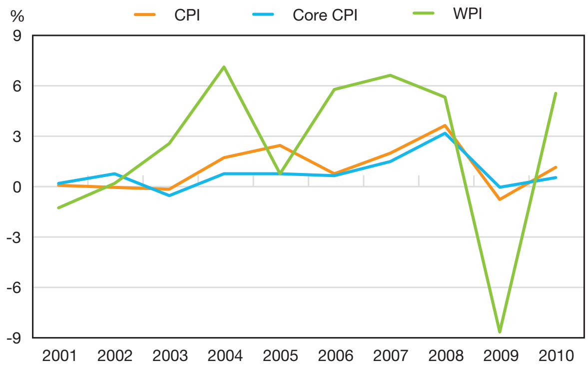
Significant Increase in Foreign Exchange Reserves

The foreign exchange reserve assets held by the Bank increased by US$40,173 million, as a result of the current account surplus.

4. Prices

After a decrease of 8.74 percent and reaching a record low in 2009, Taiwan's wholesale price index (WPI) rose markedly by 5.45 percent in 2010, led by the increase in oil and commodity prices due to surging demand from emerging markets, extreme weather conditions, and market speculation. However, headline inflation, as measured by the consumer price index (CPI), recorded a moderate annual rate of 0.96 percent in 2010, compared with a decrease of 0.87 percent in 2009. The core CPI, which excludes fruits and vegetables, fish and shellfish, and energy prices, rose slightly by 0.44 percent in 2010, from a mere 0.14 percent decrease in the previous year.

Inflation Rate



Source: *Price Statistics Monthly*, DGBAS, Executive Yuan.

Steep Increase in Wholesale Prices

Compared with the steep decrease of 8.74 percent in 2009, the annual WPI inflation rate climbed to 5.46 percent in 2010, mainly driven by the pick-up in international raw material prices. In terms of monthly movement, the year-on-year WPI inflation rate peaked at 9.43 percent in May due to the low base effect. Afterwards, it exhibited a downward trend and eased to 2.31 percent in December, the lowest increase in the year.

Broken down by the major components of the WPI, the annual growth rates of import prices, domestic sales excluding import prices, and export prices rose markedly in 2010, reflecting rising global commodity prices.

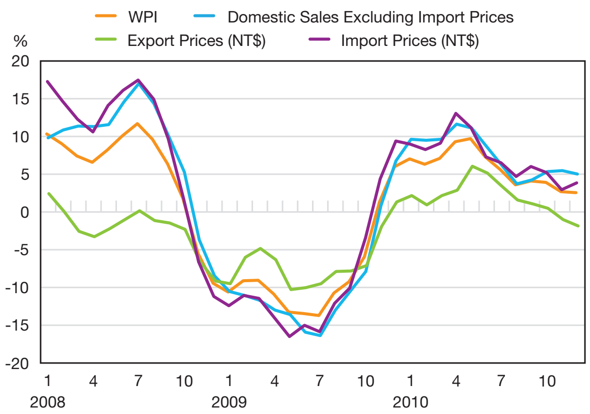
The annual rate of change in import prices reached 12.16 percent in US dollar terms, a reversal of the historically low 13.89 percent decrease in the previous year. The rise was attributable to increasing pressure on the prices of international raw materials brought about by robust demand from emerging markets, short supply of weather-affected crops, and the depreciation of the US dollar induced by quantitative easing policies pursued by the United States. However, import prices increased by 7.04 percent in terms of local currency, and the difference largely reflected the appreciation of the NT dollar against the currencies of major trading partners, which alleviated the increasing pressure of import prices. Among the components of import prices, prices of raw materials, which account for 77.19 percent of the whole index, rose by 9.67 percent, and accounted for 7.32

percentage points in the 7.04 percent increase. The prices of consumer goods only rose by 0.83 percent, while the prices of capital goods declined by 2.12 percent.

Export prices in US dollar terms rose by an annual rate of 6.90 percent in 2010, compared with a 10.95 percent decrease in the previous year. Due to the appreciation of the NT dollar against the US dollar in 2010, export prices in terms of the NT dollar increased moderately by 2.03 percent, compared with a 6.60 percent decline in 2009.

Reflecting the rising costs of primary commodities imports, prices of domestic sales excluding import prices went up 7.44 percent in 2010, notably in contrast to the 10.00 percent decrease in the previous year. In terms of product group, the prices of chemical materials, primary metal products, and petroleum and coal products rose by 21.76 percent, 18.66 percent, and 16.66 percent, respectively. In contrast, the prices of non-metallic mineral products decreased by 8.25 percent in the year because of the reduced demand for cement.

Annual Rate of WPI

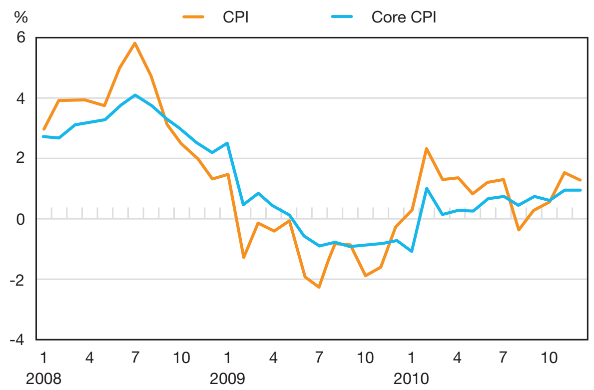


Source: *Price Statistics Monthly*, DGBAS, Executive Yuan.

Mild Increase in Consumer Prices

The CPI rose mildly by 0.96 percent in 2010. The uptick in CPI inflation was tied partly to rising energy and commodity prices. Moreover, entertainment service prices picked up, with the increased demand generated by a robust domestic economy. However, vegetable and fruit prices were more stable due to favorable weather conditions. In addition, as market competition became more fierce, firms cut prices of consumer electronics to maintain their market shares. The monthly CPI inflation rates stood at moderately positive rates throughout the year except in August owing to the high base effect caused by typhoon damage in the previous year.

Annual Rate of CPI



Source: *Price Statistics Monthly*, DGBAS, Executive Yuan.

Monthly core CPI inflation rates stayed in positive territory during the course of the year, except in January due to the seasonal factor of the Chinese New Year holidays, leading to a core CPI inflation rate of 0.44 percent for 2010 as a whole.

The main factors contributing to the rise of CPI inflation in 2010 were as follows:

(1) In 2010, international petroleum prices rebounded and rose by 28.15 percent due to the continued global economy recovery, the deprecation of the US dollar and market speculation. Reflected by higher imported prices for international petroleum and natural gas, prices for domestic fuels and lubricants and gas moved up by 10.43 percent and 11.04 percent and accounted for 0.33 and 0.11 of a percentage point in the CPI increase, respectively.

(2) In tandem with the solid recovery of the domestic economy in 2010, the demand for travel increased and prices of tour fees went up. As a result, prices of entertainment services rose by 3.88 percent, contributing 0.17 of a percentage point to CPI inflation.

(3) In line with the rise in the tobacco health and welfare surcharge from NT$10 to NT$20 in June 1, 2009, prices of tobacco and betel nuts rose by 10.59 percent, accounting for 0.17 of a percentage point in CPI inflation.

(4) Prices of fish and shellfish increased at an annual rate of 6.74 percent in 2010 as a result of a decrease in the catch in deep-sea fisheries and a decline in domestic aquaculture supply caused by typhoons and cold weather.

(5) Prices of transportation and communication equipment increased by 3.40 percent, mainly owing to respective rises in the prices of cars and motorcycles by 4.54 percent and 5.90 percent, as well as the base effect stemming from tax deductions enacted as part of domestic policy stimulus measures in 2009.

(6) Prices of garments moved up by 2.26 percent in 2010, mainly driven by the rise in prices of textile products resulting from a pick-up in prices of international cotton and chemical fibers, as well as less discounts by retailers because of the buoyant domestic economy.

The main factors contributing to downward pressure on the CPI in 2010 were as follows:

(1) Severe market competition made it difficult for firms to pass on higher costs to consumers, causing a 1.14 percent decrease in the prices of durable consumer goods, such as cell phones, portable computers, digital cameras and video cameras.

(2) Prices of fruits fell by 1.70 percent in 2010 due to ample supply of fruits reflected by good weather conditions during the year.

(3) As fees for cell phones, the internet and telephones adjusted downward, prices of transportation services declined by 0.56 percent during 2010.

Percentage Changes in the Major Components of the CPI in 2010

Item	Weight (%)	Annual rate of change (%)	Contribution to CPI inflation rate (percentage point)
CPI	100	0.96	0.96
Fuels and Lubricants	3.26	10.43	0.33
Entertainment Services	4.28	3.88	0.17
Tobacco & Betelnut	1.47	10.59	0.17
Fish & Shellfish	1.67	6.74	0.13
Gas	0.97	11.04	0.11
Transportation & Communication Equipment	2.76	3.40	0.08
Garments	2.70	2.26	0.06
Total	17.10		1.05
Durable Consumer Goods	7.51	-1.14	-0.08
Fruits	2.76	-1.70	-0.05
Transportation Services	7.70	-0.56	-0.04
Total	17.97		-0.17
Others	64.93		0.08

Source: *Price Statistics Monthly*, DGBAS, Executive Yuan.

5. Public Finance of the Central Government

For the year 2010, central government revenue shrank by 3.6 percent and expenditure decreased by 3.5 percent, the first decline during the last four years. Overall, central government finances in 2010 posted a deficit of NT$158.8 billion, lower than NT$161.8 billion in 2009.

Decline in Central Government Revenue

In 2010, central government revenue decreased by NT$56.6 billion to NT$1,497.1 billion. Tax revenue grew by NT$30.8 billion, while the revenue from surpluses of public enterprises and public utilities decreased by NT$53.6 billion.

A closer look at the components shows that the two major sources of central government revenue in 2010 continued to be tax revenue and surpluses of public enterprises and public utilities, contributing to 72.3 percent and 17.7 percent, respectively, of the total revenue. The increase in tax revenue was attributable to strengthened efforts in tax collection as well as domestic economic recovery. The surpluses of public enterprises and public utilities, on the other hand, declined 16.8 percent over the previous year due to the losses of some public enterprises.

Total Revenue and Expenditure of the Central Government

Unit: NT$ Billion

	Fiscal Year*									
	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010**
Total Revenue	1,417.2	1,304.7	1,320.9	1,368.2	1,464.5	1,546.4	1,635.5	1,640.9	1,553.7	1,497.1
(Ratio to GDP ; %)	14.3	12.5	12.3	12.0	12.5	12.6	12.7	13.0	12.5	11.0
Total Expenditure	1,559.7	1,551.9	1,618.1	1,564.8	1,567.0	1,529.8	1,552.0	1,617.7	1,715.5	1,655.9
(Ratio to GDP ; %)	15.7	14.9	15.1	13.8	13.3	12.5	12.0	12.8	13.7	12.2
Surplus/Deficit	-142.5	-247.2	-297.2	-196.6	-102.5	16.6	83.4	23.2	-161.8	-158.8
(Ratio to GDP ; %)	-1.4	-2.4	-2.8	-1.7	-0.9	0.1	0.6	0.2	-1.3	-1.2
Debt Repayment	122.2	55.5	46.5	56.1	64.1	65.0	6.0	65.0	65.0	66.0
Financing:	275.8	302.7	343.7	253.5	167.3	63.9	0	45.5	227.0	224.8
Debt Financing	275.8	244.4	300.8	253.5	167.3	63.9	0	0.0	164.5	224.2
Surplus of Previous Fiscal Years	0	58.3	42.9	0	0	0	0	45.5	62.5	0.6
Memorandum:										
Tax Dependency Ratio***(%)	57.6	52.9	51.2	58.6	68.1	71.5	77.9	76.8	61.3	65.4
Debt Dependency Ratio****(%)	17.7	15.7	18.6	16.2	10.7	4.2	0	0	9.6	13.5

Notes: * Effective 2001, the calender year is adopted as the fiscal year.
** The figures for the year 2010 are preliminary estimates.
*** Tax dependency ratio is defined as the ratio of annual tax revenue to total government expeiditure.
**** Debt dependency ratio is defined as the ratio of annual issuance of government bonds and borrowing from banks to total government expenditure.

Sources: 1. DGBAS, Executive Yuan.
2. Department of Statistics, Ministry of Finance.

As tax revenue increased and government expenditure declined in 2010, the ratio of tax revenue to government expenditure, denoted by the tax dependency ratio, increased to 65.4 percent from 61.3 percent in 2009.

First Decline in Central Government Expenditure in Four Years

As a result of the effective control of government expenditure, central government expenditure in 2010 amounted to NT$1,655.9 billion, a decrease of NT$59.6 billion from the previous year, the first drop in the past four years. The decline was mainly accounted for by reductions in spending on economic development and national defense of NT$48.7 billion and NT$14.4 billion, respectively.

In terms of share in total government expenditure, education, science and culture, and social welfare were the top two categories, accounting for 20.7 percent and 19.8 percent, respectively, followed by national defense with 16.7 percent. The share of economic development in total expenditure fell to 11.8 percent from the previous year's 14.3 percent.

In addition to the general budget expenditures, the central government also set aside a total of NT$264.6 billion as a special budget in the course of 2010 for plans to reenergize the economy through programs and measures including expansionary public spending schemes and Typhoon Morakot disaster relief and reconstruction efforts.

In sum, the ratio of central government expenditure to GDP dropped from 13.7 percent in the

Total Revenue and Expenditure of the Central Government by Category

Unit: NT$ Billion

	Fiscal Year									
	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010*
Total Revenue	1,417.2	1,304.7	1,320.9	1,368.2	1,464.5	1,546.4	1,635.5	1,640.9	1,553.7	1,497.1
Taxes	841.5	820.1	828.5	916.6	1,067.8	1,094.3	1,208.7	1,242.9	1,051.6	1,082.4
Surpluses of Public Enterprises and Public Utilities	335.8	250.7	326.5	282.2	243.4	289.1	271.5	253.4	318.7	265.1
Fees, Fines and Indemnities	72.5	123.3	77.8	76.1	79.0	79.0	81.1	83.1	78.1	81.5
Revenues from Government-owned Monopolies	57.5	0.3	0	0	0	0	0	0	0	0
Proceeds from Sales of Properties and Recalled Capital	80.9	73.9	65.7	70.3	52.6	58.5	51.3	40.0	53.7	46.7
Others	29.0	36.4	22.4	23.0	21.7	25.5	22.9	21.4	51.6	21.4
Total Expenditure	1,559.7	1,551.9	1,618.1	1,564.8	1,567.0	1,529.8	1,552.0	1,617.7	1,715.5	1,655.9
General Administration	167.0	162.3	167.3	164.1	165.5	167.3	168.2	173.0	168.9	170.2
National Defense	237.7	225.2	227.7	248.9	248.5	237.1	256.7	282.4	291.2	276.8
Education, Science and Culture	257.2	267.0	300.2	302.1	301.5	303.1	308.7	310.4	326.5	342.7
Economic Development	277.1	291.2	295.5	248.9	247.0	197.0	193.3	201.3	244.5	195.8
Social Welfare	293.3	262.2	284.4	279.8	285.7	303.3	305.1	298.4	320.6	327.6
Community Development & Environmental Protection	22.3	23.4	28.7	24.8	25.2	20.4	19.4	13.5	21.4	9.0
Retirement & Compassionate Aid	122.0	124.3	125.4	123.1	130.5	134.7	134.6	133.8	133.4	134.5
Interest Payments	151.2	152.2	144.6	127.1	117.9	125.2	124.0	117.4	116.8	109.8
General Subsidies and Other Expenditure	31.9	44.1	44.3	46.0	45.2	41.7	42.1	87.5	92.2	89.5

Note: *The figures for the year 2010 are preliminary estimates.
Sources: 1. DGBAS, Executive Yuan.
2. Department of Statistics, Ministry of Finance.

previous year to 12.2 percent, while the ratio of budget deficit to GDP was 1.2 percent.

Slight Decrease in Debt Financing

The NT$158.8 billion fiscal deficit and the NT$66.0 billion debt principal repayment combined to represent a need for the central government to finance NT$224.8 billion for 2010. Of this amount, NT$224.2 billion was raised through issuing government bonds and borrowing from banks, while the remaining NT$0.6 billion was financed with surpluses from previous fiscal years. The debt dependency ratio, i.e. the ratio of annual government bond issuance and borrowing from banks to total government expenditure jumped from 9.6 percent to 13.5 percent in 2010.

Considerable Increase in Debt Obligations

The central government was faced with a need to finance not only the general budget but also the special budget, both relying on government bond issuance and borrowing from banks. Total outstanding debt of the central government increased significantly by NT$424.9 billion over the previous year-end, amounting to NT$4,557.0 billion at the end of 2010. Furthermore, the ratio of outstanding central government debt to GDP rose from the previous year's 33.1 percent to 33.5 percent.

Public Debt of the Central Government

Unit: NT$ Billion

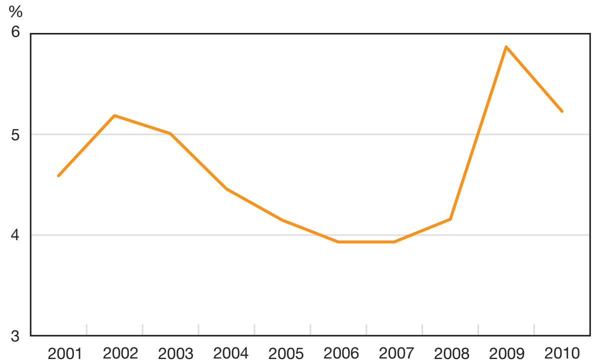
	End of Fiscal Year									
	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010*
Outstanding Debt	2,759.1	2,849.3	3,124.7	3,362.2	3,550.0	3,623.0	3,719.7	3,780.6	4,132.1	4,557.0
(Ratio to GDP : %)	27.8	27.4	29.2	29.6	30.2	29.6	28.8	30.0	33.1	33.5

Note: * The figures for the year 2010 are preliminary estimates.
Sources: 1. DGBAS, Executive Yuan.
2. Ministry of Finance.

6. Labor Market

The acceleration in both the domestic and international economic recovery has boosted labor demand. Furthermore, additional jobs were also created under the government's continued efforts. For the year 2010, employment rose significantly as the number of jobless workers fell substantially. With the decline in the unemployment rate, the labor market improved and recorded an average unemployment rate of 5.21 percent, decreasing by 0.64 of a percentage point from 2009.

Unemployment Rate



Source: *Monthly Bulletin of Manpower Statistics*, DGBAS, Executive Yuan.

Annual average employment amounted to a record high of 10.49 million persons in 2010. Jobs by sector, the service sector provided the most new jobs, followed by the industrial sector, while the agricultural sector had a modest increase compared to the year before.

In terms of earnings and labor cost, the industrial and service sectors registered an increase of 5.34 percent from the previous year as monthly earnings per worker averaged NT$44,430 in 2010. Since the increase in total production outpaced that in total working hours, the labor productivity index for the industrial sector and the manufacturing industry rose 16.63 percent and 17.24 percent, respectively, while their unit output labor cost declined by 12.07 percent and 12.29 percent, respectively.

Average Employment Increased

The continued economic recovery and the government's measures to promote employment helped to create more jobs. Annual average employment in 2010 was 10.49 million, representing an increase of 214 thousand or 2.09 percent from the previous year. This showed that employment has rebounded to the pre-crisis level.

Broken down by sector, employment in the agricultural sector edged up by 7 thousand persons or 1.33 percent. The industrial sector saw a total employment increase of 85 thousand or 2.30 percent. Within this sector, manufacturing employment recorded the largest increase in 2010, rising by 71 thousand persons over the year; construction employment also increased by 9 thousand persons. In the service sector, employment grew by 123 thousand persons or 2.02 percent. Within the service sector, accommodation and food services accounted for an increase of 34 thousand people, supported by a hike in the number of Mainland Chinese tourists; the growing emphasis on medicine and health, as well as an aging population, also boosted the employment in medical services and social work to rise by 18 thousand persons.

Marked Decline in Unemployment Rate

In the year 2010, the steady economic recovery generated more employment demand, gradually bringing down the unemployment rate. In June and July, the unemployment rate edged up 0.06 of a percentage point, the smallest increase ever posted, as college graduates and summer part-time job-seekers attempted to find jobs. In August, instead of trending up, the unemployment rate bucked its historic trend and recorded its third-ever decline for that month. From October, the decline further continued and the unemployment rate fell below the 5 percent target set by the government to reach 4.67 percent in December. For the year as a whole, the unemployment rate averaged 5.21 percent, with 577 thousand persons unemployed, a decrease of 62 thousand, or 9.66 percent, compared to the previous year.

Though the labor market has greatly strengthened, the average duration of unemployment still lengthened by 2.2 weeks from the previous year to 29.7 weeks. The annual average number of the long-term unemployed (those continuously unemployed for 53 weeks or more) was 105 thousand persons in 2010, an increase of nearly 4 thousand persons or 3.35 percent over the previous year. Among these people, the 25-44 age group accounted for 63.54 percent, while those with college education or above made up 41.75 percent. This showed that despite a positive economic turnaround and more job opportunities, job applicants still needed more than half a year to find a job. Meanwhile, long-term unemployment of the 25-44 age group and those with higher education remained a concern.

The number of the unemployed population declined by 62 thousand in 2010, primarily due to a significant decrease of 97 thousand in the number of involuntarily unemployed as a result of business closures or downsizing. This type of unemployment accounted for 41.57 percent of the total number, down significantly by 11.19 percentage points from 52.76 percent in the previous year.

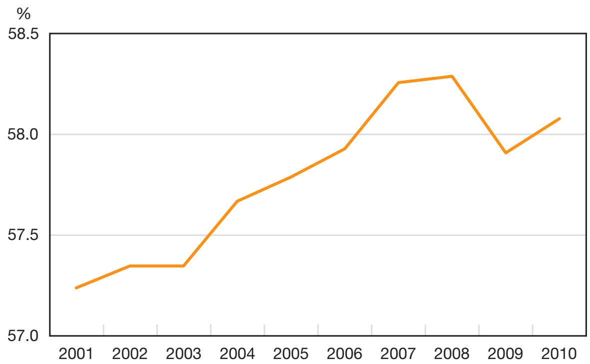
Along with the economic expansion, employees were more willing to consider changing jobs. In 2010, unemployed job changers made up a greater share in total unemployment, with the number exceeding 150 thousand in August. For the entire year, the voluntarily unemployed job changers unsatisfied with their previous jobs accounted for 24.57 percent of total unemployed persons, a considerable rise of 5.92 percentage points from a year ago.

In terms of age, the 15-24 age group continued with the highest unemployment rate in 2010 at 13.09 percent, as they are generally inexperienced and tend to change jobs more frequently. The average number of the unemployed for the age groups of 25-44 and 45-64 decreased by 35 thousand (9.41 percent) and 14 thousand (10.07 percent) persons, respectively, over the previous year. For the year as a whole, the average unemployment rates for these groups were 5.35 percent for the former, and 3.39 percent for the latter, showing year-on-year declines of 0.58 and 0.51 of a percentage point, respectively. Since most of the unemployed in these age groups were the major income sources of their households, this phenomenon had a larger impact on households and society as a whole.

Labor Force Participation Rate Rose

In 2010, labor force rose by 1.40 percent to average 11.07 million, as the labor market regained energy due to a thriving economy. Employed persons totaled 10.49 million, with an annual growth rate of 2.09 percent, attaining the level prior to the global financial crisis. The number of jobless persons also dropped by 9.66 percent to 577 thousand persons, though still higher than the pre-crisis level of about 450 thousand persons.

Labor Force Participation Rate



Source: *Monthly Bulletin of Manpower Statistics*, DGBAS, Executive Yuan.

The average labor force participation rate rose in 2010 by 0.17 of a percentage point to reach 58.07 percent. In terms of gender, the male labor force participation rate edged up by 0.11 of a percentage point from the preceding year to 66.51 percent, while the female rate reached another all-time high at 49.89 percent, up by 0.27 of a percentage point over the previous year. Broken down by age bracket, labor participation rates of all age groups went up across the board, with the group aged 25-44 posting the largest increase of 0.53 of a percentage point to 84.72 percent. With respect to educational background, the labor participation rate for the working population with college degrees or above slightly increased by 0.03 of a percentage point to 68.43 percent (71.17 percent for males; 65.64 percent for females), showing that the more education one received, the more active he/she was in labor participation.

The non-labor force population totaled 7.99 million, representing a year-on-year rise of 55 thousand persons, or 0.69 percent. Better economic conditions largely contained the factors discouraging people from labor participation. Among all non-labor force groups, those pursuing educational attainment or preparing for school entrance examinations accounted for the largest decline of 0.57 of a percentage point, while only two groups, namely the elderly and the mentally or physically disabled, continued to take up large shares in the non-labor force, reflecting the challenges posed by an aging population.

Earnings of Non-Farm Workers Increased

In 2010, rapid economic growth led to better corporate profits and a consequent rise in earnings and bonuses for employees. The average monthly earnings per worker of the non-farm sector averaged NT$44,430, rising considerably by 5.34 percent over the previous year. After adjustment for inflation (CPI), average real monthly earnings grew 4.34 percent, a record surge since 1994.

The average monthly earnings of industrial sector workers increased by 7.09 percent over the previous year to NT$42,869, and monthly real earnings also rose 6.06 percent. Meanwhile, the average monthly earnings of service sector workers climbed 4.11 percent to NT$45,720, as the average monthly real earnings in this sector went up 3.12 percent.

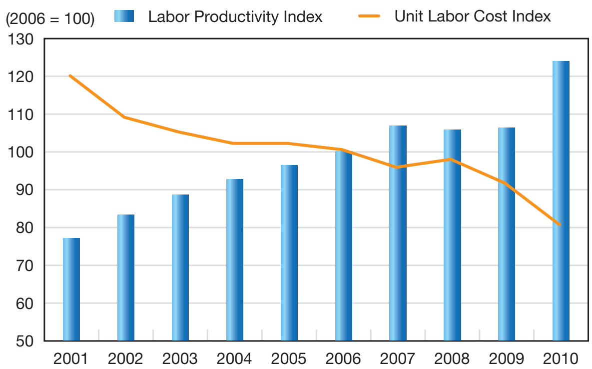
A further breakdown of the performance of monthly real earnings across component industries showed that the finance and insurance industry experienced the greatest increase of 8.08 percent. Supported by vigorous growth in exports, the manufacturing industry came in second with an increase of 7.31 percent (among the sub-categories, monthly real earnings in basic metal-, chemical material-, and electronic parts-manufacturing industries showed increases of 17.08 percent, 13.95 percent, and 10.98 percent, respectively). The real estate industry also enjoyed higher earnings in 2010, with an increase of 5.29 percent amid the housing market boom. As for monthly real regular earnings per worker, the industrial and the service sectors recorded year-on-year increases of 1.29 percent and 0.62 percent, respectively. Together, the two sectors exhibited a 0.85 percent increase in their monthly real regular earnings, compared with the previous year.

Labor Productivity Soared

As the increase in total production outpaced that in total working hours, labor productivity gained substantially. For the industrial sector and manufacturing industry, the labor productivity indices were 124.02 and 125.00 (2006=100), rising by 16.63 percent and 17.24 percent from the previous year, respectively. Within the manufacturing industry, the largest increase was accounted for by mechanical equipment with an increase of 34.96 percent, followed by 28.00 percent for electronic parts and components. However, oil and coal products experienced a contrasting decline of 11.80 percent in labor productivity.

As total labor compensation grew much slower than production, the unit output labor cost of the industrial sector and manufacturing industry decreased by 12.07 percent and 12.29 percent in 2010, respectively. Within the manufacturing industry, mechanical equipment suffered the greatest decline of 27.81 percent, while electronic parts and components and motor vehicles and parts manufacturing followed with respective decreases of 16.81 percent and 15.26 percent in unit output labor cost.

Labor Productivity and Unit Labor Cost Indices in the Industrial Sector



Source: *Monthly Bulletin of Earnings and Productivity Statistics*, DGBAS, Executive Yuan.

Financial Developments

II. Financial Developments

1. Overview

In the year 2010, along with global economic recovery, Taiwan's domestic economic activity steadily picked up, which in turn stimulated the overall demand for funds and an expansion of bank credit. In addition, net foreign capital inflows contributed to the continued growth in monetary aggregates. However, the growth rates of M2 and M1B were lower than those of the previous year due to the higher base effect. Market interest rates trended up gradually as the Bank raised policy rates three times in the second half of the year. Meanwhile, during the corresponding period, the NT dollar moderately appreciated.

Slower Growth in Monetary Aggregates

The annual growth rate of M2 declined from 7.21 percent in the previous year to 4.59 percent in 2010, close to the median of the Bank's 2.5 percent to 6.5 percent target zone for the year. As the robust recovery in the economy led to the rise in transaction demand for money, coupled with bullish stock markets and continued net capital inflows, the average annual growth rate of M1B recorded 14.93 percent, slightly lower than the previous year's 16.54 percent due to the higher base effect.

Continued Growth in Banks' Loans and Investments

Loans and investments of major financial institutions grew at an annual rate of 6.19 percent at the end of 2010, up from 0.75 percent registered a year earlier, mainly because economic activity had recovered from the global financial crisis, and enterprises' demand for funds strengthened. If the loans and investments of life insurance companies, non-accrual loans reclassified, and bad loans written off by major financial institutions, as well as funds raised directly in the financial markets were taken into account, the total funds raised by the non-financial sector registered an annual growth rate of 5.47 percent at the end of the year, higher than the 1.62 percent recorded at the previous year-end.

Improvement in Financial Performance of Domestic Banks

The pre-tax profits of depository institutions went up in 2010, mainly due to increases in the fair value of financial assets and the profits of portfolio investments. As a result, their average return on assets and return on equity were both higher than those of the previous year. The average capital adequacy ratio of domestic banks increased from the previous year-end's 11.83 percent to 11.96 percent. Meanwhile, the overall non-performing loan ratio decreased from 1.15 percent to 0.61 percent during the same period.

Uptrend in Market Interest Rates

The Bank gradually adjusted its monetary easing policy and raised policy rates three times since June. This effectively guided banks' posted interest rates on deposits and loans to inch up. The average fixed rate on one-year time deposits of the five major domestic banks moved upward from 0.89 percent at the previous year-end to 1.13 percent at the end of 2010, and their weighted average rate on new loans also edged up to 1.39 percent at the end of 2010.

Rise in Money Market Rates and Continuous Decline in Bond Yields

As the Bank raised policy rates, the interbank overnight call-loan rate rose from 0.11 percent of the previous year-end to 0.24 percent at the end of 2010. Primary market rates on commercial paper also slightly went up. Regarding the bond market, yield rates kept falling. The average yield rate on the 10-year government bond in 2010 was 1.37 percent, down by 0.14 of a percentage point over the previous year.

Gains in Stock Shares

In the stock markets, the TAIEX was boosted by the effects of the cross-strait MOU on financial cooperation in the beginning of the year. As Mainland China raised reserve requirements and the sovereign debt crisis erupted in Greece and other Southern European countries, the TAIEX took a plunge in early February. Thereafter, boosted by easing concerns over the Greek debt crisis, the TAIEX regained its previous losses and reached 8,172 points on April 15. From May to mid-June, as Mainland China raised required reserve ratios for the third time and the Southern European sovereign credit crisis reemerged, the TAIEX was dragged down to a yearly low of 7,072 points on June 9. In the second half of the year, owing to the relief of the Southern European sovereign debt crisis from mid-June, the effect of the ECFA and the Fed's continued quantitative easing policy, the TAIEX rose steadily to reach an all-year high of 8,973 points on December 31, 2010, posting an increase of 9.6 percent from the 8,188 points recorded at the end of 2009. The daily average turnover in the TAIEX market in 2010 decreased by 5.0 percent from the previous year.

Moderate Appreciation of the NT Dollar

The NT dollar exchange rate (NT$/US$) was stable from January to March. Afterwards, the NT dollar appreciated against the US dollar as the appreciation expectation of the RMB induced foreign capital inflows. In May, the increasing sovereign credit risk in the euro area and the political tension on the Korean peninsula caused foreign capital flight out of East Asia, and consequently the NT dollar depreciated to a yearly low of 32.528 on June 7. From September on, as the US Fed continued its easy monetary policy, foreign capital inflows pushed the NT dollar to reach a yearly high of 30.217 on December 30. On a daily average basis, the NT$/US$ exchange rate appreciated by 4.45 percent compared with that of the previous year, and the trade-weighted nominal effective exchange rate index of the NT dollar increased by 1.30 percent for the year.

2. Monetary Aggregates

The broad monetary aggregate M2 has been the Bank's intermediate target for monetary policy since 1992. For the year 2010, the annual growth rate of M2 registered 4.59 percent, lower than the previous year's 7.21 percent, but close to the median of the Bank's target range from 2.5 percent to 6.5 percent. M2 growth was mainly attributable to the increase in bank credit extended to the private sector against the backdrop of the undergoing economic recovery as well as a net inflow of foreign investment.

The narrow monetary aggregate M1B continued to trend upwards and registered a growth rate of 14.93 percent for the year 2010, slightly lower than the previous year's 16.54 percent. The continued growth in M1B was mainly attributable to an increase in the transaction demand for money during the economic recovery as well as the booming stock market.

Growth in Reserve Money Decelerated

Reserve money growth decelerated for the year 2010, recording a growth rate of 5.43 percent, and was 6.12 percentage points lower than the previous year's figure. The drop in reserve money growth was mainly attributable to the sharp decline in excess reserves. Broken down by the components of reserve money, bank reserves posted slower growth of 2.74 percent when compared to the previous year's 13.04 percent, while the growth of currency held by the non-bank public increased to 9.64 percent from 9.31 percent one year earlier.

Because the exact timing of the Chinese new year shifts on the Gregorian calendar each year, the annual growth rates of reserve money for January and February are more volatile. In 2010 they posted a combined growth rate of 4.69 percent during this period. Afterwards, the annual growth rates generally trended up and reached an all-year high of 7.23 percent in August, before trending down for the following months of the year.

Annual Growth Rates of Reserve Money

Source: *Financial Statistics Monthly*, CBC.

On the demand side, currency held by the non-bank public grew faster because the low opportunity cost of holding currency given the low interest rates paid on bank deposits encouraged the willingness to hold cash. The sustained economic recovery also helped to stimulate demand for money for transactions motives. Banks' demand for reserves decreased when compared with the previous year as the Bank started to adjust its monetary policy stance in order to guide market interest rates back to normal levels. The Bank also issued long-term certificates of deposit to mop up excess liquidity in the financial system.

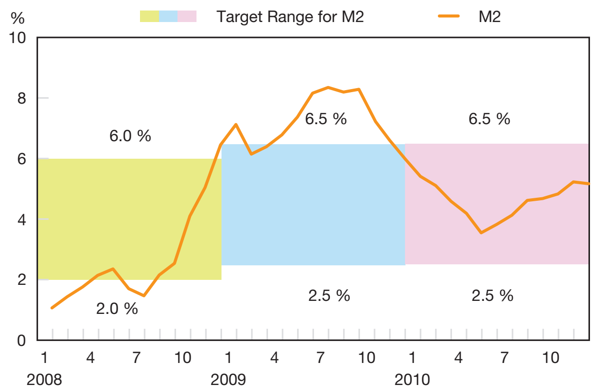
From the supply side perspective, the balance sheet of the Bank revealed, against the backdrop of continued net capital inflows, the Bank's intervention in the foreign exchange market to smooth excessive fluctuations in exchange rates. This action led to a net increase in the Bank's foreign assets and a simultaneous rise in reserve money. On the other hand, reserve money declined mainly because the Bank increased the issuance of certificates of deposit (CDs) to conduct open market operations in order to mop up excess liquidity in the banking sector.

Steady Increase in M2 Growth

The monetary aggregate M2 comprises currency in circulation, deposits in banks' checking and demand accounts, and quasi money. The annual growth rate of M2 in 2010 was 4.59 percent, 2.62 percentage points down from the previous year's figure and was close to the median of the Bank's target range.

In terms of M2's monthly movements for 2010, all were within the Bank's target range and generally trended downward for the first five months before starting on a mostly upward trend for the rest of the year. Due to the effect of a higher base and the slow growth in banks' loans and investments, M2 growth rates exhibited a downward trend from the 5.40 percent recorded in January to its all-year low of 3.54 percent in May. From June onwards, M2 growth rates gradually trended up due to the increase in banks' loans and investments, continued net foreign capital inflows, and the lower base of the corresponding period in the previous year. The M2 growth rate reached its second highest figure of 5.20 percent in November and slightly slid to 5.14 percent in December because the growth of banks' loans and investments started to slow.

Target Zone and Annual Growth Rates of M2



Source: *Financial Statistics Monthly*, CBC.

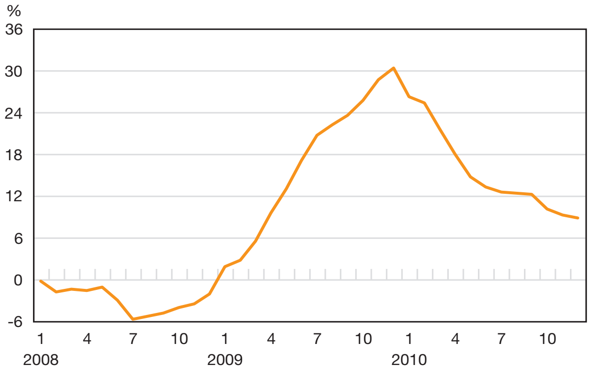
Decline in M1B Growth

As the robust recovery in the economy led to the rise in the transaction demand for money, coupled with the relatively low opportunity cost of holding demand deposits as well as continued net capital inflows aiming to reap returns from the bullish stock market, the average annual growth rate of M1B recorded 14.93 percent, slightly lower than the previous year's 16.54

percent due to the higher base effect.

The level of M1B generally exhibited an upward trend except in March and June. Factors causing the volume of M1B to decline were attributable to the increase in bank deposits after the Chinese new year in March, and the decrease in demand deposits resulting from the bearish stock market amid European sovereign debt woes in June. However, if compared on a year-over-year basis, the M1B annual growth rates gradually trended down due to the higher-base effect, from 26.17 percent in January to 8.77 percent in December.

Annual Growth Rates of M1B



Source: *Financial Statistics Monthly*, CBC.

3. Banking Sector

Number of Depository Institutions Decreased

There were 394 depository institutions at the end of 2010, a decrease of three compared with the previous year-end. The number of foreign banks decreased by four because three were merged and one closed its branches in Taiwan. The number of domestic banks remained the same as a result of Chinfon Commercial Bank's merger and the HSBC Bank (Taiwan)'s new opening. As for medium business banks and credit cooperatives, the numbers remained the same. However, one new credit department of a farmers' and fishermen's association was set up in 2010.

Number of Depository Institutions by Category

Types of institutions		End of 2010	End of 2009	Annual Change
Total Number of Main Offices		394	397	-3
	Domestic Banks	37	37	0
	Medium Business Banks	1	1	0
	Foreign Banks	28	32	-4
	Credit Cooperatives	26	26	0
	Credit Departments of Farmers' and Fishermen's Associations	301	300	1
	Department of Savings and Remittances of Chunghwa Post Co.	1	1	0
Total Number of Branches		6,016	5,998	18
	Local Branches	5,860	5,844	16
	Overseas Branches	95	91	4
	Offshore Banking Units	61	63	-2

Sources: 1. *Financial Statistics Monthly*, CBC.
2. Department of Financial Inspection, CBC.

In addition, the numbers of financial holding companies and money market mutual funds remained at 15 and 2, respectively, at year-end 2010.

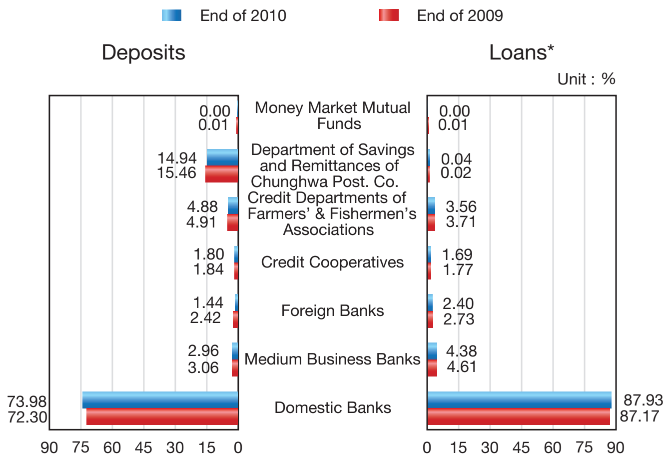
Market Shares of Deposits and Loans

Domestic banks have played a major role in Taiwan's banking system. At the end of 2010, domestic banks accounted for 73.98 percent of deposits and 87.93 percent of loans in terms of market share. Both were higher than those of the previous year, mainly due to the transfer of business from the Taipei Branch of Hongkong and Shanghai Banking Corp., to the newly formed HSBC Bank (Taiwan). As a result, foreign banks' market shares of deposits and loans decreased to 1.44 percent and 2.40 percent, respectively. The Department of Savings and Remittances of Chunghwa Post Co.'s market share of deposits slightly decreased to 14.94 percent at the end of 2010, but its market share of loans increased modestly to 0.04 percent due to securities acquired under reverse repurchase agreements. As for medium business banks, credit cooperatives and the credit departments of farmers' and fishermen's associations, their market shares of deposits and loans slightly decreased.

Depository Institutions' Sources and Uses of Funds

Depository institutions' funds increased significantly by NT$1,856 billion during the year 2010 as growth in banks' loans and investments boosted banks' deposits. Among the different sources of funds, banks' transaction deposits and non-transaction deposits were the major contributors to the increase. Driven by booming stock markets, banks' transaction deposits as well as their combined share in the sources of funds increased significantly. Non-transaction deposits also increased, despite a shrinking share in the sources of funds.

Market Shares of Deposits and Loans by Category of Depository Institutions



Note: * Including data for securities acquired under reverse repurchase agreements.
Source: *Financial Statistics Monthly*, CBC.

Sources and Uses of Funds in Depository Institutions

Unit: NT$ Billion

	End of 2010		End of 2009		Annual Change	
	Amount	Share (%)	Amount	Share (%)	Amount	Share (%)
Sources:						
Transaction Deposits *	10,461	30.50	9,599	29.59	862	0.91
Non-Transaction Deposits**	19,497	56.85	18,826	58.04	671	-1.18
Government Deposits	835	2.43	772	2.38	63	0.05
Borrowings from CBC	56	0.16	191	0.59	-135	-0.42
Other Items (Net)	3,446	10.06	3,051	9.40	395	0.66
Total	34,294	100.00	32,439	100.00	1,856	0.00
Uses:						
Net Foreign Assets***	1,474	4.30	1,837	5.66	-364	-1.37
Loans	19,870	57.94	18,579	57.27	1,291	0.67
Portfolio Investments****	2,951	8.60	2,883	8.89	68	-0.28
Purchases of CDs Issued by CBC	6,518	19.01	5,787	17.84	731	1.17
Deposits with CBC	3,482	10.15	3,353	10.34	129	-0.18

Notes: * Including checking account deposits, passbook deposits and passbook savings deposits.
** Including time deposits, time savings deposits, foreign currency deposits, postal savings deposits, non-residents' NT dollar deposits, and repurchase agreements. From 2010, non-transaction deposits exclude the carrying value of the host contracts of structured products issued by banks to enterprises and individuals and non-residents.
*** Excluding valuation changes in the exchange rate of the NT dollar against foreign currencies when calculating their annual change.
**** Measured at original costs.
Source: *Financial Statistics Monthly*, CBC.

With respect to the uses of funds, banks' loans increased amid the economic recovery leading to a bigger share in the total use of funds. The funds used for purchasing certificates of deposit (CDs) issued by the Bank increased, taking up a larger share in terms of fund usage, as the Bank increased its issuance of 364-day CDs each month from April 2010 to ensure an appropriate level of liquidity in the banking system. Net foreign assets declined in the year because of the decrease in dues from other branches, and the increase in liabilities to OBUs.

Downtrend in the Growth of Deposits

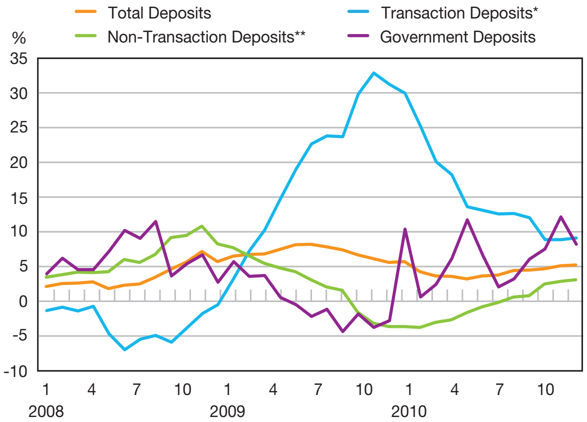
Total deposits of depository institutions grew by 5.01 percent during the year. This was lower than the 5.38 percent at the end of 2009, mainly caused by an increase in residents' net capital outflows.

Due to growth in banks' loans and investments and a net foreign capital inflow, the annual growth rate of deposits hit a yearly high of 5.49 percent in January. From February onwards, an increase in residents' net capital outflows and a net foreign capital outflow, pushed the annual growth rate of deposits to fall to its yearly low of 3.02 percent in May. In the following months, the annual growth rate of deposits gradually rose to 5.01 percent by the end of 2010 due to the continuous growth in banks' loans and investments. The average annual growth rate recorded 4.09 percent, lower than the previous year's 6.71 percent.

Due to a higher base effect, the annual growth rate of transaction deposits declined from the previous year's 31.13 percent to 8.98 percent at the end of 2010. Its share in total deposits increased from 32.74 percent to 33.97 percent. This was mainly attributable to greater demand for transaction deposits as the economic recovery boosted trading in the stock market.

Beginning January 2010, the carrying value of the host contracts of structured products issued by banks were excluded from non-transaction deposits and relisted under other liabilities. The annual growth rate of non-transaction deposits at all depository institutions rose to 2.88 percent at the end of the year in contrast to -3.85 percent in the previous year. This was mainly due to the wider interest rate spread between different types of deposits, inducing a shift of funds from transaction deposits to non-transaction deposits. However, the share of non-transaction deposits in total

Annual Growth Rates of Deposits



Notes: * Including checking account deposits, passbook deposits and passbook savings deposits.
** Including time deposits, time savings deposits, foreign currency deposits, postal savings deposits, non-residents' NT dollar deposits, repurchase agreements, and money market mutual funds. Beginning Jan. 2010, the carrying value of the host contracts of structured products issued by banks were excluded.

Source: *Financial Statistics Monthly*, CBC.

deposits edged down from 64.63 percent to 63.32 percent.

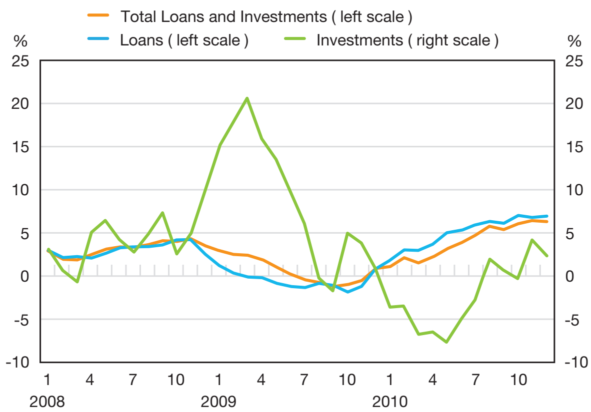
By type of non-transaction deposits, the shares of all types (except for time savings deposits and postal savings deposits) in total deposits went down at the end of the year when compared with the previous year-end.

The annual growth rate of government deposits in depository institutions reversed from the previous year's -2.88 percent to 8.11 percent at the end of 2010, reflecting an increase in tax revenues. Meanwhile, its share in total deposits increased slightly from 2.63 percent to 2.71 percent.

Increase in Banks' Loans and Investments

The annual growth rate of loans and investments of depository institutions rose to 6.19 percent at year-end 2010, compared to the 0.75 percent recorded at the end of the previous year. This was mainly because economic activity had overcome the adverse impacts of the global financial crisis and private enterprises' demand for funds strengthened. Loans posted an annual growth rate of 6.78 percent at the end of 2010, higher than the 0.74 percent a year earlier, while the growth of investments rose to 2.36 percent in 2010 from 0.76 percent in 2009.

Annual Growth Rate of Loans and Investments



Sources: *Financial Statistics Monthly*, CBC.

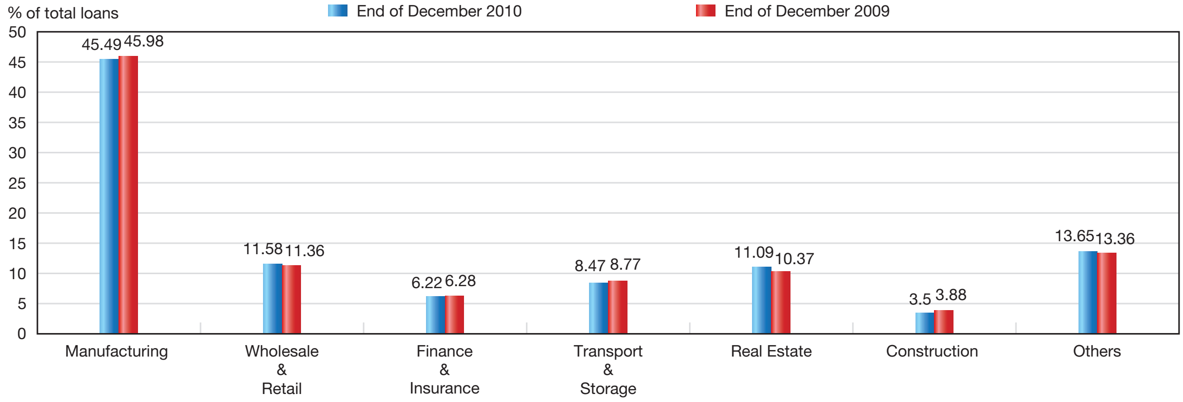
Loans by Sector

At the end of 2010, loans extended to the private sector, government agencies and public enterprises accounted for 87.75 percent, 8.03 percent and 4.22 percent of total loans, respectively. Due to an increase in demand for funds, the annual growth rate of loans to the private sector and public enterprises rose to 7.29 percent and 7.92 percent, respectively, at the end of 2010 from -0.19 percent and -3.47 percent at the end of 2009. Meanwhile, the annual growth rate of loans to government agencies declined significantly to 0.95 percent compared to the 19.09 percent growth rate of the previous year-end.

Loans by Industry

Among all industries, the manufacturing sector continued to account for the largest portion of bank loans, slightly shrinking from 45.98 percent in 2009 to 45.49 percent in 2010. The share of loans extended to the finance & insurance industry, transport & storage industry and construction industry

Loans by Industry



Source: *Financial Statistics Monthly*, CBC.

fell in 2010 from the previous year-end, while those to real estate and other industries increased in 2010 from the previous year-end.

Consumer Loans

With regard to consumer loans, a modest increase in private consumption and reinvigoration in the real estate market led consumer loans to continue an uptrend in 2010. As a result, the outstanding balance of consumer loans extended by banks at the end of 2010 recorded an annual increase of NT$171.8 billion or 2.53 percent from the previous year-end.

Investments

Owing to a liquidity flush in the market, portfolio investments by depository institutions measured on a cost basis showed an annual increase of NT$68.1 billion or 2.36 percent in 2010, significantly higher than the growth of NT$21.7 billion or 0.76 percent a year earlier. Among the investment instruments, government bonds accounted for the largest share with 63.52 percent, higher than the 60.97 percent share recorded a year ago, mainly due to the massive purchases of government bonds by the Department of Savings and Remittances of Chunghwa Post Co. Meanwhile, the annual growth rate of investment in government bonds rose from 5.64 percent to 6.64 percent at end-2010. When measured at fair value, the annual increase of portfolio investments by depository institutions became NT$67.3 billion.

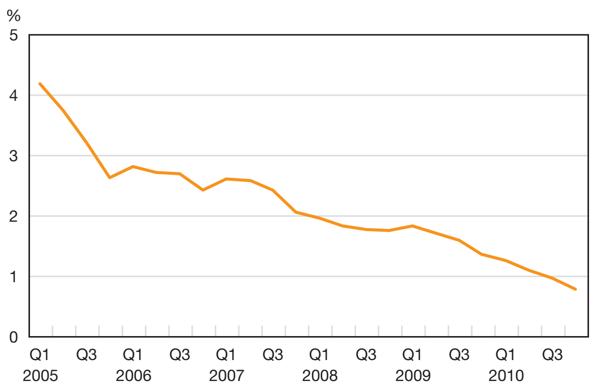
Increase in the Share of Indirect Finance

Financing channels of the non-financial sector comprise indirect finance and direct finance, i.e. borrowing from financial institutions and issuing securities in the markets, respectively. The total amount of funds raised by the non-financial sector during the year 2010 increased from the previous year's NT$540.8 billion to NT$1,851.0 billion. Funds raised through borrowing from financial institutions increased from the previous year's NT$390.8 billion to NT$1,704.9 billion. Funds raised by issuing securities increased NT$146.1 billion, mainly due to the increasing issuance of public offerings of stocks and government bonds. Based on outstanding balance data, the share of indirect finance in total funds increased from 76.89 percent at the end of 2009 to 77.76 percent at year-end 2010, while the share of direct finance decreased from 23.11 percent to 22.24 percent.

Decline in the Non-Performing Loan (NPL) Ratio

Affected by the significant economic recovery and the improved financial condition of the private sector, the asset quality of domestic financial institutions continued to improve in 2010. As a result, the average NPL ratio of depository institutions as a whole declined to 0.72 percent at the

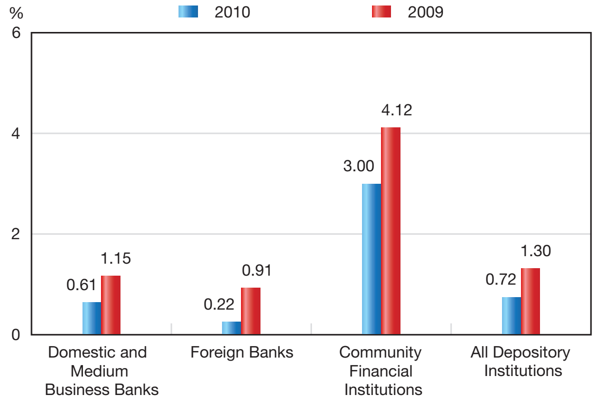
Non-Performing Loan Ratios of Depository Institutions*



Note: * Financial institutions include domestic banks, medium business banks, foreign banks, credit cooperatives, credit departments of farmers' and fishermen's associations, as well as trust and investment companies for data prior to 2008 Q4.

Source: Department of Financial Inspection, CBC.

Non-Performing Loan Ratios by Type of Depository Institutions



Source: Department of Financial Inspection, CBC.

Indirect Finance vs. Direct Finance*

Unit: NT$ Billion

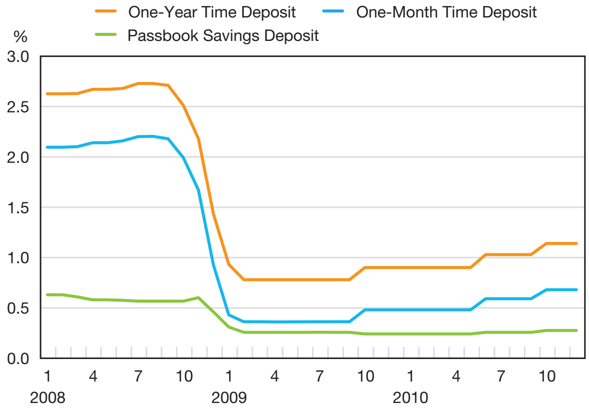
Year	Total Funds Raised (3)=(1)+(2)	Indirect Finance (1) Subtotal	Indirect Finance (1) Loans	Indirect Finance (1) Investments	Direct Finance (2)
2001	665.2	594.5	200.6	393.9	70.7
2002	807.5	424.8	71.7	353.1	382.7
2003	1,677.1	716.0	711.5	4.5	961.1
2004	2,129.3	1,815.9	1,569.7	246.2	313.4
2005	1,961.7	1,780.3	1,458.5	321.8	181.4
2006	1,223.6	1,374.8	837.8	537.0	-151.2
2007	1,044.5	961.8	733.2	228.6	82.7
2008	894.4	1,222.8	647.5	575.3	-328.4
2009	540.8	390.8	138.7	252.1	150.0
2010	1,851.0	1,704.9	1,251.7	453.2	146.1

Notes: * Measured in terms of flow data.
(1) Refers to loans and investments (measured on a cost basis) made by depository institutions, trust and investment companies, companies, and life insurance companies, after taking account of their non-accrual loans reclassified and bad loans written off.
(2) Refers to the total amount of new issues of various market able securities, including government bonds, corporate bonds, listed stocks, offshore bonds, depository receipts, short-term bills and asset-backed securities held by the non-financial sectors.
Source: *Financial Statistics Monthly*, CBC.

end of 2010, lower than the previous year's 1.30 percent. With respect to different types of financial institutions, the NPL ratios of community financial institutions continued to show the biggest improvement during the course of the year.

Uptrend in Bank Interest Rates

Average Deposit Rates of the Five Major Domestic Banks*



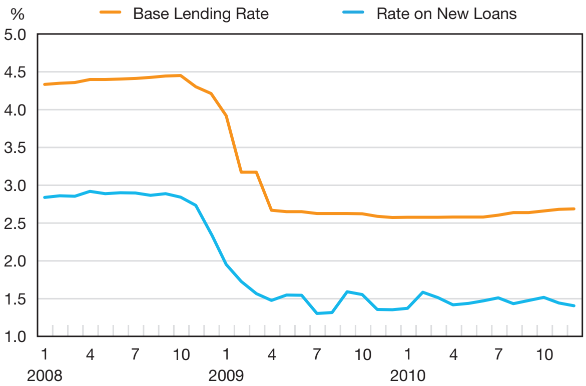
Note: * Prior to Oct. 2008, the five major domestic banks were Bank of Taiwan, Taiwan Cooperative Bank, First Commercial Bank, Hua Nan Commercial Bank and Chang Hwa Commercial Bank, while beginning Nov.2008, Chang Hwa Commercial Bank was excluded from the major five and was replaced by Land Bank of Taiwan.

Source: *Financial Statistics Monthly*, CBC.

As both the global and domestic economies continued to recover from the beginning of 2010, the Bank gradually removed its quantitative easing policy to maintain financial stability. The Bank raised policy rates in June, October and December, respectively, to guide market rates up gently. As a result, banks' posted interest rates on deposits and loans rose modestly. In the case of the five major domestic banks, the average fixed rates on one-month and one-year time deposits moved upward to 0.67 percent and 1.13 percent, respectively, by the end of 2010 from 0.47 percent and 0.89 percent at the previous year-end. In the same period, the average base lending rate rose to 2.68 percent from 2.56 percent.

The weighted average rate on new loans of the five major domestic banks slightly fluctuated throughout 2010. The banks' base lending rate increased gradually in the second half of the year

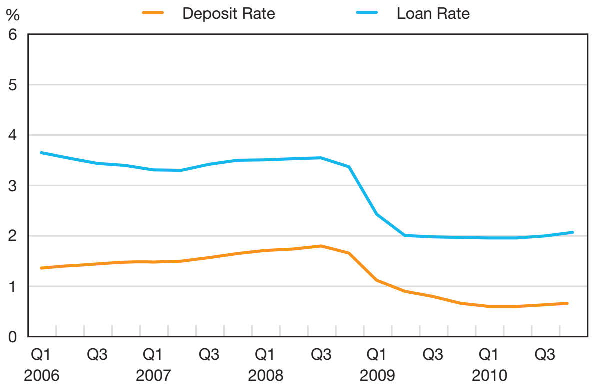
Average Lending Rates of the Five Major Domestic Banks*



Note: * Prior to Oct. 2008, the five major domestic banks were Bank of Taiwan, Taiwan Cooperative Bank, First Commercial Bank, Hua Nan Commercial Bank and Chang Hwa Commercial Bank, while beginning Nov.2008, Chang Hwa Commercial Bank was excluded from the major five and was replaced by Land Bank of Taiwan.

Source: *Financial Statistics Monthly*, CBC.

Weighted Average Interest Rates of Domestic Banks



Source: *Financial Statistics Monthly*, CBC.

owing to increases in the central bank discount rate. The weighted average rate on new loans ranged between 1.35 percent and 1.51 percent with easy funding conditions. On average, the weighted average rate on new loans declined from 1.50 percent in 2009 to 1.44 percent in 2010.

The weighted average rates on deposits and loans of domestic banks remained largely unchanged in the first half of 2010, and then started to climb smoothly in the second half of the year as the Bank raised policy interest rates. In the fourth quarter of 2010, the weighted average interest rates on deposits and loans, respectively, were 0.65 percent and 2.05 percent from 0.64 percent and 1.95 percent at the previous year-end. The interest rate spread between deposits and loans widened to 1.40 percentage points, more than the 1.31 percentage points recorded in the fourth quarter of 2009.

Increase in Profitability

The pre-tax profits of all depository institutions increased by NT$102.2 billion to NT$215.9 billion in 2010. Those of domestic banks and medium business banks increased by NT$99.7 billion to NT$184.8 billion, mainly due to the increased net interest revenue and the significantly decreased provisions for bad loans. The pre-tax profits of Department of Savings & Remittances, Chunghwa Post Co. increased by NT$2.4 billion to NT$15.6 billion due to increases in the fair value of financial assets and the profits from portfolio investments.

Increases in Both ROA and ROE

The average return on assets (ROA) and return on equity (ROE) for all depository institutions in 2010 went up to 0.51 percent and 9.02 percent, respectively, from 0.28 percent and 5.10 percent a year earlier, mainly due to the improved ROAs and ROEs of domestic banks and medium business banks. Among the depository institutions, domestic banks and medium business banks were the

Profits of Depository Institutions

Unit: NT$ Billion

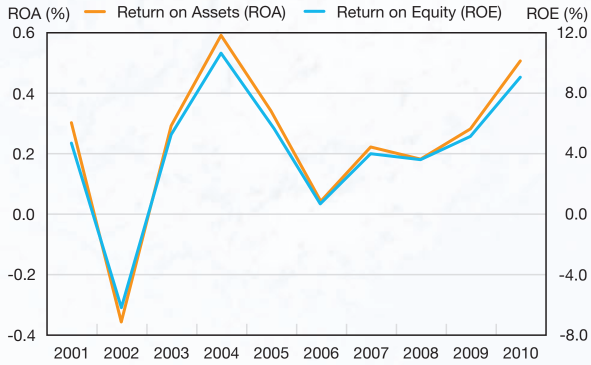
	Pre-tax Profits			Return on Assets (%)*			Return on Equity (%)**		
	2010	2009	Annual Change	2010	2009	Annual Change	2010	2009	Annual Change
Domestic Banks and Medium Business Banks	184.8	85.1	99.7	0.55	0.27	0.28	8.75	4.35	4.40
Foreign Banks	10.3	12.1	-1.8	0.45	0.54	-0.09	15.52	17.16	-1.64
Credit Cooperatives	1.7	0.2	1.5	0.28	0.03	0.25	4.16	0.42	3.74
Credit Departments of Farmers' and Fishermen's Associations	3.5	3.1	0.4	0.21	0.20	0.01	3.66	3.39	0.27
Department of Savings & Remittances, Chunghwa Post Co.	15.6	13.2	2.4	0.33	0.28	0.05	19.74	17.85	1.89
Total	215.9	113.7	102.2	0.51	0.28	0.23	9.02	5.10	3.92

Notes: * Return on Assets = Pre-tax Profits / Total Assets
** Return on Equity = Pre-tax Profits / Net Worth
Source: Department of Financial Inspection, CBC.

best performers in terms of ROA, while Department of Savings & Remittances, Chunghwa Post Co. recorded the highest ROE.

As for the capital adequacy ratio, the average ratio of domestic banks rose to 11.96 percent at the end of the year from 11.83 percent at the previous year-end on account of increased regulatory capital and reduced risk-weighted assets.

The Return on Assets and Equity of Depository Institutions



Source: Department of Financial Inspection, CBC.

4. Money Market

In 2010, the total turnover increased by 38.01 percent in the interbank call-loan market, and by 39.15 percent in the short-term bills market. Interest rates in both markets went up gradually after the Bank raised the discount rate and increased the issuance of NCDs from the second quarter.

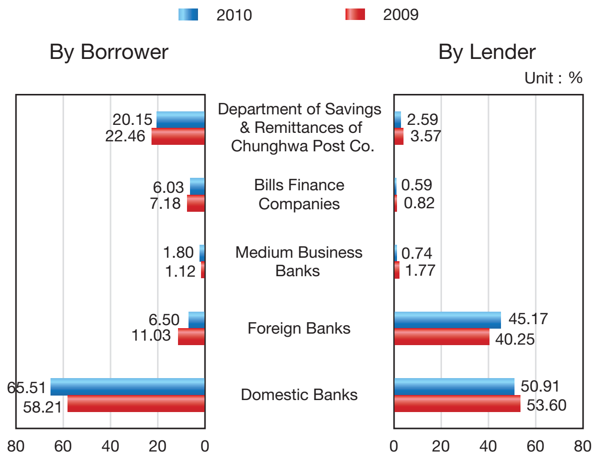
Dynamic Interbank Call-Loan Market

Trading in the interbank call-loan market was active in 2010. As the domestic economy regained momentum following the global economy recovery, banks' loan growth increased steadily and banks' lending policies to the call-loans turned easier. Coupled with the abundant supply of funds in the local market associated with foreign capital inflows in the fourth quarter, total annual turnover amounted to NT$35,479.4 billion for the year, showing a marked increase of 38.01 percent when compared with the previous year.

Domestic banks were the largest borrower during the year, accounting for 65.51 percent of total trading, followed by Department of Savings & Remittances of Chunghwa Post Co., foreign banks and bills finance companies, with shares of 20.15 percent, 6.50 percent and 6.03 percent, respectively. The share of domestic banks increased by 7.30 percentage points, with the borrowed amount increasing by 55.31 percent. The increase reflected the Bank's increase in the issuance of short- and long-term certificates of deposit, which induced banks' demand for call-loans. The share of Department of Savings & Remittances, Chunghwa Post Co. decreased by 2.31 percentage points, although the borrowed amount increased because of its collaborative efforts in managing market liquidity. The share of foreign banks also decreased due to the inflow of foreign capital and was 4.53 percentage points less than that in the previous year. The share of bills finance companies decreased by 1.15 percentage points from the previous year, though the borrowed amount increased, mainly because they continuously increased the issuing amount of bills to improve profits.

With regard to lenders, domestic banks continued to be the largest supplier of funds, accounting for 50.91 percent of total transactions. Following domestic banks were foreign banks,

Composition of Interbank Call-Loan Market by Participant



Source: *Financial Statistics Monthly*, CBC.

Department of Savings & Remittances of Chunghwa Post Co. and medium business banks with respective shares of 45.17 percent, 2.59 percent and 0.74 percent. The amount lent by domestic banks increased by 31.10 percent compared with the previous year because banks' lending policies became easier. With abundant funds gained from the custodian business for foreign investors, the amount lent by foreign banks kept increasing. The share of foreign banks climbed from 40.25 percent in the previous year to 45.17 percent. The share of Department of Savings & Remittances of Chunghwa Post Co. decreased to 2.59 percent from 3.57 percent in the previous year, and that of medium business banks decreased by 1.03 percentage points over the same period.

In terms of maturity, overnight interbank call loans remained the most actively traded instrument in the market with a predominant share of 63.54 percent, up by 4.92 percentage points from that of the previous year. Second were those with a maturity of 1 week, accounting for 31.05 percent, down by 0.22 percentage points from that of the previous year. The share of loans with a 2-week maturity declined to 4.49 percent from 8.25 percent in the previous year. Shares for the trading of those with maturities of 3 weeks, 1 month, 2-6 months, and above 6 months were negligible.

Increase in Short-Term Bills Market Transactions

In 2010, newly issued short-term bills totaled NT$7,137.2 billion. Of the new issues of short-term bills, commercial paper continued to account for the lion's share of 82.71 percent. Second were negotiable certificates of deposit with a share of 11.71 percent. Bankers' acceptances made up a marginal share of 0.46 percent. Compared with the previous year, the growth rate of commercial paper issued turned positive because corporate demand for funds was strong. In contrast, the Ministry of Finance decreased the issues of treasury bills owing to the increase in tax revenues. As

Short-Term Bills Market

Unit: NT$ Billion

Year	Total		Treasury Bills		Commercial Papers		Bankers' Acceptances		Negotiable Certificates of Deposit	
	Issues	Year-end Outstanding	Issues	Year-end Outstanding	Issues	Year-end Outstanding	Issues	Year-end Outstanding	Issues	Year-end Outstanding
2001	9,901.5	1,487.8	85.0	50.0	8,926.8	1,102.4	36.1	8.3	853.6	327.1
2002	8,378.1	1,309.5	180.0	180.0	7,525.1	870.1	40.1	7.9	632.9	251.5
2003	7,547.7	1,194.4	60.0	60.0	6,815.1	808.8	34.5	6.8	638.1	318.7
2004	6,888.8	1,316.5	130.9	130.9	5,642.8	775.6	35.2	7.6	1,080.0	402.4
2005	7,121.0	1,168.1	115.0	45.0	5,690.4	747.0	31.1	7.7	1,284.5	368.5
2006	7,004.0	1,092.4	45.0	25.0	5,879.8	717.6	36.1	8.1	1,043.1	341.7
2007	6,495.1	925.3	88.0	28.0	5,577.2	664.8	38.2	8.4	791.7	224.0
2008	6,948.6	969.8	240.0	106.8	6,074.7	690.2	33.3	4.9	600.6	167.8
2009	6,293.4	1,043.1	435.0	215.0	5,397.7	651.3	21.9	4.9	438.8	171.9
2010	7,137.2	1,167.5	365.0	240.0	5,903.4	686.1	33.1	6.2	835.7	235.2
2009-2010 Change	843.8	124.4	-70.0	25.0	505.7	34.8	11.2	1.3	396.9	63.3
Growth Rate (%)	13.41	11.93	-16.09	11.63	9.37	5.34	51.14	26.53	90.45	36.82

Source: *Financial Statistics Monthly*, CBC.

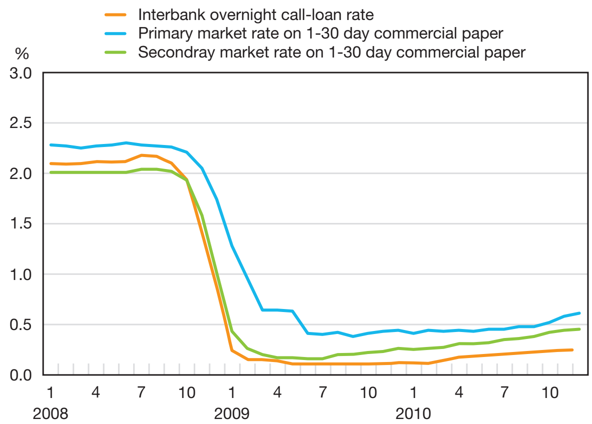
of the end of 2010, total outstanding short-term bills amounted to NT$1,167.5 billion, 11.93 percent more than that of the previous year-end.

In the secondary market, the total turnover of short-term bills increased by 39.15 percent to NT$58,577.5 billion. Of the total transactions, commercial paper still made up the largest share of 59.38 percent, representing a decrease of 18.79 percentage points compared with the previous year. It was followed by negotiable certificates of deposit with a share of 38.26 percent, representing an increase of 20.72 percentage points over 2009. Treasury bills accounted for 2.34 percent. With respect to market participants, banks were the largest players in the market with a combined share of 39.51 percent, followed by private enterprises with a share of 33.02 percent.

Gradual Rise in Money Market Rates

During 2010, funding conditions in the banking system gradually returned to normal levels. In the first quarter, due to continual inflow of funds from overseas and the Bank's low interest rates, funding conditions remained easy. From the second quarter, amid a domestic economic recovery, the Bank issued more certificates of deposit to prevent excess liquidity from affecting the stability of financial markets and raised the discount rate, the rates on accommodations with collateral and accommodations without collateral three times each by 0.125 percentage points to safeguard price stability. Consequently, the level of banks' excess reserves subsided and funding conditions became normal.

Money Market Interest Rates



Source: *Financial Statistics Monthly*, CBC.

Although the Bank kept policy rates at a low level, the interbank overnight call-loan rate went up gradually from its lowest point of 0.10 percent in February to 0.17 percent in May, before edging up to 0.24 percent at the year end following the Bank's increasing of policy rates three times since June. The primary market rate on commercial paper with maturities of 1-30 days went upward from 0.40 percent in the beginning of 2010 to 0.60 percent at the end of the year. The secondary market rate on commercial paper with maturities of 1-30 days also stepped up from 0.24 percent to 0.44 percent during the same period.

5. Foreign Exchange Market

Moderate Appreciation of the NT dollar

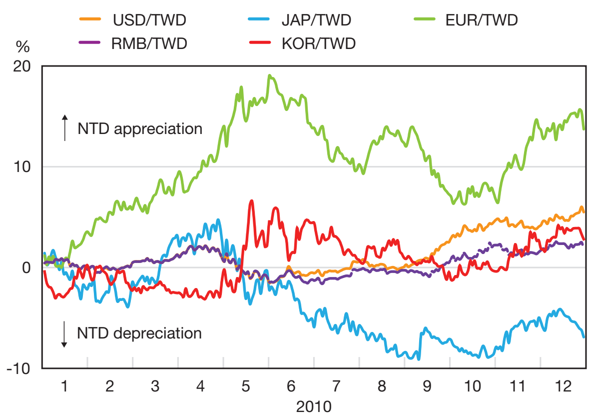
The NT dollar was steady since the beginning of 2010 until enormous foreign capital inflows from September onwards caused the NT dollar to appreciate markedly in the fourth quarter of 2010. On a daily average basis, the trade-weighted nominal effective exchange rate index of the NT dollar increased by 1.30 percent in 2010.

The NT$/US$ exchange rate was stable from January to March. Afterwards, the NT dollar appreciated against the US dollar because of appreciation expectations surrounding the RMB and foreign capital inflows. In May, the increasing sovereign credit risk of the euro area caused the US dollar to gain strength. Furthermore, foreign capital outflows from East Asia in response to political tension on the Korean peninsula pushed the NT$/US$ exchange rate to depreciate to a yearly low of 32.528 on June 7, representing a depreciation of 1.53 percent compared to the end of 2009.

The NT dollar stayed largely stable from July to September. As the continued easing monetary policy of the US led to international capital flows into Asia, NT dollar appreciation advanced. In early November, the US Federal Reserve launched the second round of quantitative easing (QE2) and thus pushed the NT$/US$ exchange rate further to a yearly high of 30.217 on December 30, 6.00 percent higher than at the end of 2009. Between the end of 2009 and 2010, the NT dollar appreciated by 5.47 percent against the US dollar. On a daily average basis, the NT$/US$ exchange rate appreciated by 4.45 percent compared with that of the previous year.

The NT dollar appreciated against the euro throughout 2010. Because of the sovereign credit crisis of Greece, Spain and Portugal, the NT dollar appreciated against the euro to a yearly high of 38.777 on June 7. After the endeavors of deficit cutting and government bond issuance, the euro rebounded as the crisis improved and the appreciation of the NT dollar against the euro narrowed. In early November, the euro area's debt crisis aggravated and broadened the range of NT dollar appreciation. At the end of the year, the exchange rate of the NT dollar against the euro was 13.70 percent

Percentage Changes of NT Dollar against Major Currencies
(compared with end 2009)



Source: Department of Economic Research, CBC.

above the level observed one year before. On a daily average basis, the NT dollar appreciated against the euro by 9.45 percent compared with the previous year.

The Japanese yen remained strong as the economic performance of Japan was better than that of the US and the euro area. Although the NT dollar appreciated against the yen from mid-March to May due to the expectation of another round of monetary easing in Japan, for the year as a whole it depreciated. At the end of the year, the NT dollar depreciated by 6.92 percent against the Japanese yen compared to the end of 2009. On a daily average basis, the NT dollar depreciated against the Japanese yen by 2.13 percent when compared with the previous year.

The path of the NT dollar against the RMB was similar to that of the NT dollar against the US dollar before mid-June because the RMB was pegged to the US dollar. On June 19, Mainland China announced that it would enhance RMB flexibility; this caused the NT dollar to depreciate slightly against the RMB, but it bounced back after September. Between the end of 2009 and 2010, the NT dollar appreciated by 1.81 percent against the RMB. On a daily average basis, the NT dollar appreciated by 3.50 percent against the RMB as compared with the previous year.

The NT dollar depreciated against the Korean won at the beginning of the year, reflecting an increase in South Korea's exports and foreign capital inflows. After May, the tension on the Korean peninsula heightened, adding to the pressure on the Korean won. In the following months, since South Korean economic growth was better than expected and foreign capital flowed into the country, the NT dollar turned to depreciate against the Korean won. In November, the NT dollar strengthened against the Korean won because of a military conflict between the North and South Koreas and a consequent outflow of foreign capital. The NT dollar appreciated by 2.78 percent against the Korean won between the end of 2009 and 2010. On a daily average basis, the NT dollar depreciated by 5.50 percent against the Korean won in 2010 when compared with the previous year.

Turnover of Foreign Exchange Market Increased

Trading in the Taipei foreign exchange market increased in 2010. Total net trading volume for the year increased by 24.4 percent from the previous year to US$5,115.1 billion. The daily average turnover was US$20.2 billion, representing also an increase of 24.4 percent over the previous year. The increase in turnover mainly reflected an expansion of international trade, capital inflows and magnifying capital movements.

In terms of trading partners, transactions between banks and non-bank customers accounted for 24.5 percent of the total net turnover, while inter-bank transactions made up a 75.5 percent share, including 28.6 percent for transactions among local banks and 46.9 percent for those between local banks and overseas banks.

Turnover of Major Products in the Taipei Foreign Exchange Market

Unit: US$ Million

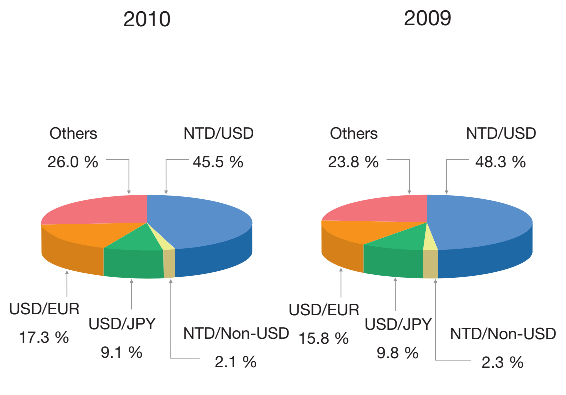
Year	Spots	Forwards	Forex Swaps	Margin Trading	Options	Cross Currency Swaps	Total
2006	1,910,270	411,182	1,107,646	37,809	396,578	47,353	3,910,838
2007	2,418,963	477,189	1,362,112	42,482	303,857	29,683	4,634,286
2008	2,455,394	459,393	1,548,763	34,871	307,857	40,097	4,846,375
2009	1,841,951	283,233	1,627,020	20,809	311,353	26,927	4,111,293
2010	2,192,719	290,075	2,166,897	18,295	423,261	23,848	5,115,095
2009-2010 Growth Rate (%)	19.0	2.4	33.2	-12.1	35.9	-11.4	24.4

Source: Department of Foreign Exchange, CBC.

As far as traded currencies were concerned, NT dollar trading against foreign currencies accounted for 47.6 percent of the total trading volume, of which trading against the US dollar made up a dominant 45.5 percent. Transactions in third currencies accounted for 52.4 percent of total trading volume, with trading in currency pairs of US dollar-other currencies and US dollar-euro accounting for shares of 26.0 percent and 17.3 percent, respectively. Compared with 2009, NT dollar trading against foreign currencies increased by 17.1 percent, and transactions in third currencies increased by 31.9 percent.

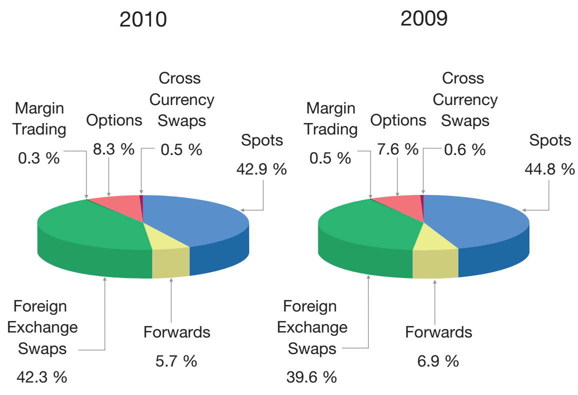
With respect to transaction types, spot transactions accounted for the highest share with 42.9 percent of total turnover, followed by foreign exchange swaps with a share of 42.3 percent. Compared with 2009, except for a decrease in margin trading and cross currency swaps transactions, the trading volume of all the other types increased. However, in terms of the share of total turnover, only the transactions of foreign exchange swaps and options increased.

Composition of Foreign Exchange Transactions by Traded Currency



Source: Department of Foreign Exchange, CBC.

Composition of Foreign Exchange Transactions by Product



Source: Department of Foreign Exchange, CBC.

Turnover of Other Products in the Taipei Foreign Exchange Market

Unit: US$ Million

Year	Interest Rate-related Products				Commodity-related Products	Stock Index Options	Credit Derivatives	Total
	Forward Rate Agreements	Interest Rate Swaps	Interest Rate Options	Foreign Currency Interest Rate Futures	Commodity Options			
2006	24,796	69,219	11,970	40,992	1,827	1,005	964	150,772
2007	12,958	93,072	17,475	176,723	6,947	627	5,243	313,044
2008	18,799	205,911	8,860	172,918	17,875	126	3,586	428,075
2009	5,715	469,003	4,999	208,566	18,360	51	3,312	710,006
2010	842	125,541	6,043	392,368	18,060	105	10,126	553,085
2009-2010 Growth Rate (%)	-85.3	-73.2	20.9	88.1	-1.6	104.9	205.7	-22.1

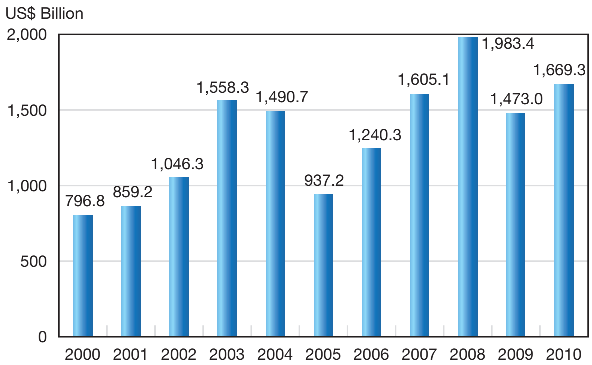
Source: Departmen tof Foreign Exchange, CBC.

In 2010, the turnover of forwards, swaps and options based on foreign currency interest rates, stock price indices, commodity prices, and credit derivatives amounted to US$553.1 billion. Of this amount, interest rate-related derivatives accounted for the lion's share of US$524.8 billion or 94.9 percent, representing a negative annual growth rate of 23.8 percent. Interest rate swaps accounted for the majority of declines with US$343.5 billion among derivatives due to a relatively higher base.

Foreign Currency Call-Loan Market Transactions Increased

The transaction volume in the foreign currency call-loan market in 2010 was US$1,669.3 billion, an increase of 13.3 percent over the previous year. Of this amount, US dollar transactions accounted for US$1,654.3 billion, as high as 99.1 percent of the total and about 13.4 percent higher than that in 2009. The increase was mainly attributable to the rising turnover of overnight call-loans, reflecting the trending down of the US dollar interest rate. Japanese yen transactions totaled ¥954.0 billion in 2010, a slight decrease of 0.4 percent over the figure recorded in 2009, but the share remained rather small at only 0.6 percent. The amount of euro transactions totaled only 0.9 billion, 37.1 percent lower than that of the previous year, and the share was 0.1 percent. Other currencies accounted for 0.2 percent of total transaction volume in 2010.

Transactions in the Taipei Foreign Currency Call-Loan Market



Source: Department of Foreign Exchange, CBC.

Offshore Banking Units' Assets Increased

There were 61 offshore banking units (OBUs) in operation at the end of 2010. Domestic banks operated 36 of the OBUs, while foreign banks ran the other 25 units. Owing to the increases in claims on local banks and Inter-OBUs, the total assets of all OBUs increased to US$122.9 billion at the end of the year, representing an increase of US$27.9 billion or 29.3 percent from the previous year-end. OBUs of domestic banks accounted for US$97.7 billion or 79.4 percent of these combined assets, and OBUs of foreign banks accounted for US$25.3 billion, or 20.6 percent of the total. The OBUs' main uses of funds were dues from affiliated branches and deposits with financial institutions. These accounted for 45.5 percent of total assets. Second to these were loans with a share of 33.8 percent. In terms of fund destination, 61.3 percent of funds went to Asia, and 26.7 percent went to the Americas.

The OBUs' main sources of funds were dues to affiliated branches and deposits by financial institutions, which together accounted for 61.2 percent of total liabilities. These were followed by deposits of non-financial institutions, which accounted for 29.0 percent of total liabilities after an increase of 9.5 percent compared to the previous year. OBUs have been the funding centers for overseas Taiwanese firms. In terms of geographical origin, 70.8 percent of funds came from Asia, and 21.5 percent from the Americas.

Supported by the global economic recovery, the forex-trading turnover of all OBUs in 2010 was US$196.8 billion, of which US$109.0 billion was for spot transactions, US$50.5 billion for forward transactions and US$37.3 billion for foreign exchange swap transactions. Compared with the previous year, spot, forward and foreign exchange swap transactions increased 22.5 percent, 37.5 percent and 13.5 percent, respectively.

The total turnover of derivatives products amounted to US$525.8 billion, an increase of 67.6 percent over the previous year. Of this amount, interest futures accounted for US$392.4 billion, as high as 74.6 percent of the total and an increase of 88.2 percent from 2009. The main reason was the increase in hedging and speculative transactions by companies as a result of interest rate changes.

Consolidated Balance Sheet of Offshore Banking Units in Banking System

Unit: US$ Million

Year/Month	Loans to Non-financial Institutions	Portfolio Investment	Claims on Financial Institutions	Other Assets	Total Assets= Total Liabilities	Deposits of Non-financial Institutions	Due to Financial Institutions	Securities Issued	Other Liabilities
2006/12	19,473	10,805	40,352	6,056	76,686	24,227	46,664	483	5,312
2007/12	23,931	11,969	47,788	7,593	91,281	27,263	55,939	499	7,580
2008/12	32,481	10,851	48,141	7,159	98,632	31,133	60,198	724	6,577
2009/12	29,988	13,757	43,954	7,352	95,051	32,493	54,070	352	8,136
2010/12	40,752	15,952	55,878	10,348	122,930	35,587	75,270	364	11,709
2009/12-2010/12 Growth Rate (%)	35.9	16.0	27.1	40.8	29.3	9.5	39.2	3.4	43.9

Source: *Financial Statistics Monthly*, CBC.

6. Stock Market

At the end of 2010, the Taiwan Stock Exchange (TWSE) weighted stock price index (TAIEX) rose 9.6 percent over the previous year-end. All industrial groups recorded higher indices than 2009, with shipping and textile industry shares the top performers. The TAIEX daily average trading value was NT$112.4 billion, decreasing by 5.0 percent from the previous year.

The weighted stock price index of the GreTai Securities Market (GTSM), an over-the-counter market, closed the year down 4.1 percent compared to the end of 2009, mainly due to falling share prices in the electronics and tourism groups. The daily average trading value was NT$22.4 billion, an increase of 7.2 percent from the previous year.

The TWSE Market

Listings Continued to Increase

At the end of 2010, the number of listed companies on the TWSE market totaled 758, increasing by 17 over the previous year. The par value of shares issued amounted to NT$5.9 trillion, a modest increase of 1.0 percent from a year ago. The total market capitalization grew 13.2 percent from the previous year-end to NT$23.8 trillion. Meanwhile, 12 companies issued Taiwan Depository Receipts (TDRs) in 2010, compared to 10 the year before.

Major Statistics of the TWSE Market

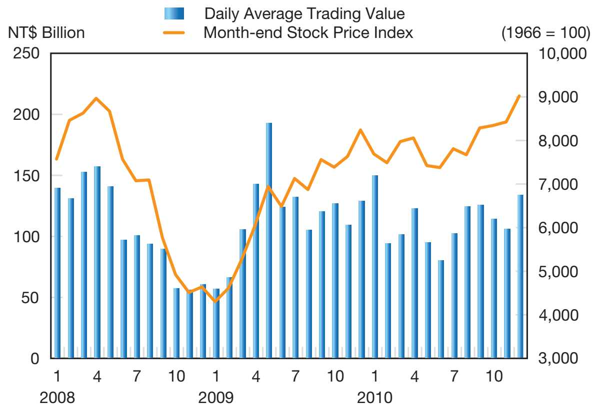
	Stock price Index* (1966=100)	Daily Average Trading Value (NT$ Billion)	Turnover Rate (%)	Market Capitalization* (NT$ Billion)	Net Buying Positions** (NT$ Billion)		
					Foreign Investors Net Buy/Sell	Securities Investment Trust Companies Net Buy/Sell	Securities Dealers Net Buy/Sell
2008	4,591.2	104.9	145.5	11,707	-470.0	44.0	43.3
2009	8,188.1	118.3	178.3	21,034	480.1	-28.9	10.0
2010	8,972.5	112.4	136.7	23,811	281.2	-67.8	2.7
2010/ 1	7,640.4	149.1	15.1	19,706	4.1	-14.1	-10.2
2	7,436.1	93.3	6.8	19,159	-90.3	0.3	-4.5
3	7,920.1	101.1	11.4	20,426	113.1	1.8	16.3
4	8,004.3	122.4	12.4	20,647	116.4	-14.9	-4.6
5	7,374.0	94.5	10.4	19,052	-127.2	-9.7	-13.0
6	7,329.4	79.7	8.9	18,919	-12.4	-5.3	2.9
7	7,760.6	101.6	11.1	20,071	63.4	6.8	7.5
8	7,616.3	123.9	13.8	19,764	-46.2	-9.3	-2.5
9	8,237.8	125.3	12.3	21,400	79.0	-4.3	11.7
10	8,287.1	113.7	11.0	21,655	40.4	-6.3	-1.4
11	8,372.5	105.6	10.6	22,031	53.8	-4.5	1.8
12	8,972.5	133.6	12.9	23,811	87.1	-8.4	-1.2

Notes: * Refers to end-of-period data.
** Minus sign "-" indicates net sale positions.
Source: Financial Supervisory Commission, Executive Yuan.

Stock Indices Went up

The TWSE market opened high as the cross-strait MOU on financial cooperation was about to take effect, climbing to 8,357 points on January 15. However, the People's Bank of China's move to raise the required reserve ratio and the sovereign debt crisis in Greece and other European countries sapped its momentum, and the TAIEX skidded to 7,213 points on February 6. Then, US stock markets were boosted by easing concerns over the Greek debt crisis, and foreign investors in Taiwan responded with a huge net-purchase that pushed the TAIEX up to 8,172 points on April 15. However, the shadow of the European debt crisis loomed large again, and the resulting plunge in global stock markets dragged down the TAIEX to the 7,072 points of June 9.

TWSE Stock Price Index and Trading Value



Source: Financial Supervisory Commission, Executive Yuan.

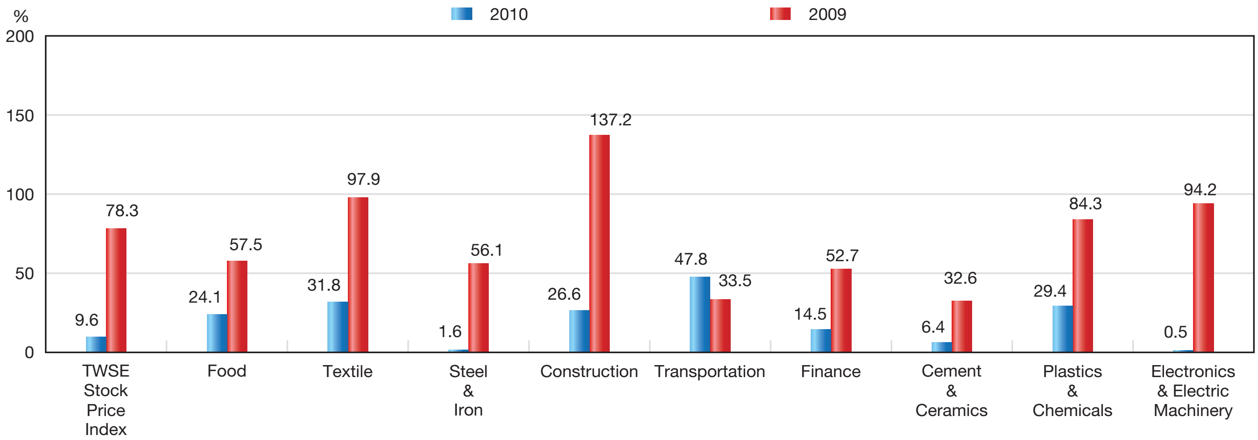
Nevertheless, in mid-June, against a backdrop of the alleviated crisis in Europe, strong upswings in US stock markets, and a bullish trend due to the potential benefits of the Economic Cooperation Framework Agreement (ECFA), the TAIEX resumed its upward trend and climbed to 8,034 points on August 9. Afterwards, heavy selling pressures of previously locked in shares around the 8,000 point threshold and a weakened US stock performance caused the TAIEX to dip.

Between September and December, the US Federal Reserve (Fed) announced a second round of quantitative easing (QE2) and induced continuous capital inflows to Asia. This propelled a substantial buyout of the TWSE market by foreign investors, which drove the TAIEX up to a yearly high of 8,973 points on December 31. This represented an annual increase of 9.6 percent, compared to the 8,188 points recorded at the previous year-end.

Traditional Industry Stocks Outperformed the TAIEX

By subcategory of industrial groups, financials and traditional industrials performed better as they attracted investors who were optimistic about the ECFA effect and potential asset price hikes supported by NT dollar appreciation. In contrast, a stronger NT dollar caused electronics & electric machinery stocks to suffer from exchange rate losses and lower earnings, posting a weaker performance than financial and traditional industry shares. Among the top performers in 2010 were shares in the groups of shipping and transportation (a 47.8 percent rise), textile (a 31.8 percent rise), and plastics & chemicals (a 29.4 percent rise), while financials gained 14.5 percent. However, electronics & electric machinery stocks rose slightly by 0.5 percent.

Changes in Industrial Group Stock Price Indices in the TWSE Market



Source: *TSEC Monthly Review*, Taiwan Stock Exchange Corporation.

Turnover Declined

Affected by greater volatility in the TWSE market this year, investors tended to take a more conservative stance. As a result, market turnover declined by 5.0 percent from NT$118.3 billion the previous year to NT$112.4 billion on a daily average basis.

Foreign Investors Net Bought

In 2010, foreign investors bought a net NT$281.2 billion in the TWSE market. In January, bullish US stock markets and the signing of the MOU on cross-strait financial cooperation led foreign investors to buy more than they sold. Net sales were recorded in February, May, June, and August due to the European sovereign debt crisis and weak US stock markets. In contrast, as the debt crisis in Europe eased and US stock markets strengthened, foreign investors net bought in the TWSE market in March, April, and July. And in the four months from September onwards, the US Fed's QE2 resulted in capital inflows to Asia, including a series of net purchases by foreign investors in Taiwan's stock mrket.

Local Securities Investment Trust Companies Net Sold

Local securities investment trust companies net sold NT$67.8 billion during the course of the year. They were faced with heavier pressures to redeem mutual funds as investors suspected the TAIEX had already neared its peak and became inclined to take profits rather than wait for limited further rises. Net sales were therefore recorded for nine months, except for February, March, and July. In both February and March, the TAIEX pulled back and investors increased holdings of stocks deemed undervalued. July's net purchase was mainly attributable to optimism about the ECFA and its positive effect on the stock market.

Local Securities Dealers Net Bought

In 2010, local securities dealers bought a net NT$2.7 billion. They tend to opt for short-swing trading and often net buy on rising prices and net sell on falling prices. Net sales by this group appeared in January, February, April, May, August, and October, as the TAIEX experienced the doldrums. December recorded a net sale by local dealers despite a bullish TWSE market as they turned conservative in light of a substantial rise in the TAIEX. On the other hand, the signing of the ECFA and its potential benefits encouraged local dealers to increase share holdings in June despite a flagging stock market. Net buying was recorded in all of the other months as local securities dealers naturally bought more than they sold in a strong market.

The GTSM

GTSM Listings Increased

At the end of 2010, the number of listed companies in the GTSM increased by 18 from a year before, bringing the total to 564. The par value of total shares amounted to NT$706.0 billion at the year-end, falling by 8.6 percent over the previous year. Market capitalization amounted to NT$1,984.6 billion, rising by 3.7 percent from the end of 2009.

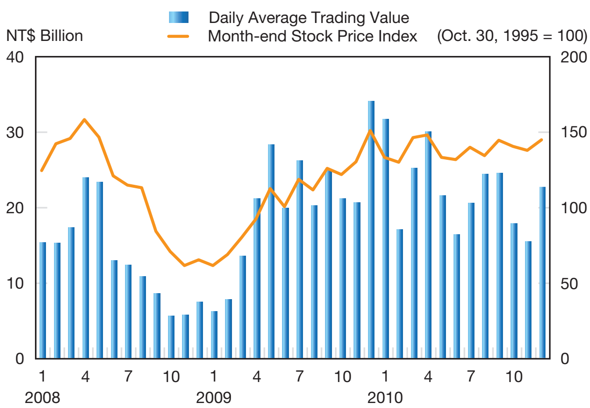
Share Prices Fell While Turnover Increased

From January to early February, the GTSM index experienced a sharp fall due to offloading by both foreign and domestic institutional investors amid a sovereign debt crisis in South Europe and the consequent plunge in global stock markets. The GTSM index dropped to an all-year low of 122.8 points on February 6.

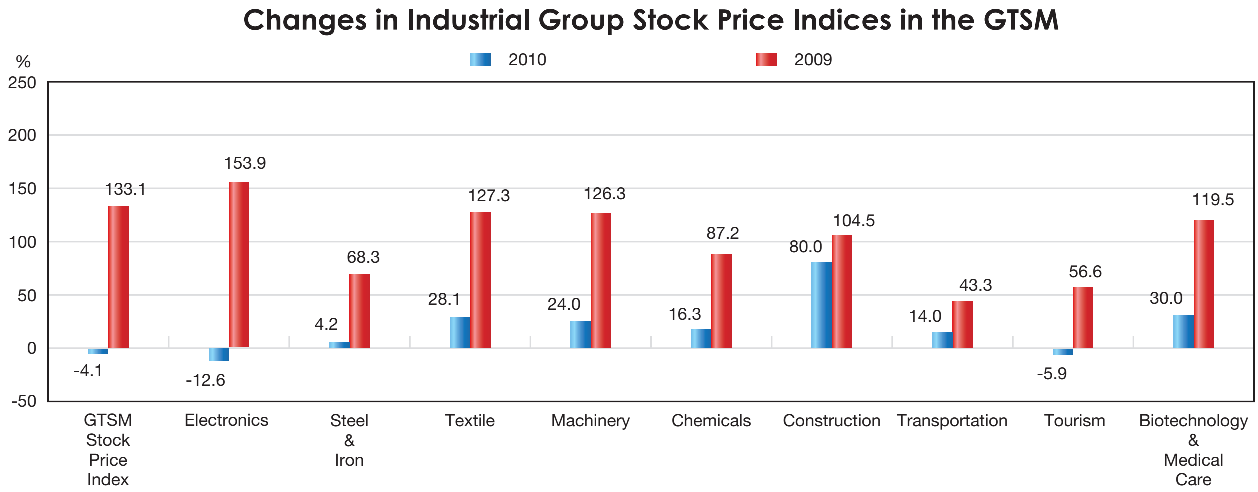
However, the index quickly rallied to peak at 150.8 points on April 15 as foreign investors were boosted by easing concerns over the South European debt crisis, the strong US stock market rebound, and the ECFA effect. Afterwards, though, the debt crisis in South Europe aggravated and foreign investors dumped their GTSM shares amidst a slump in global stock markets, dragging down the GTSM index to 124.0 points on May 25.

Another rebound appeared between June and mid-August, supported by an improved situation in South Europe, US stock gains, and the ECFA effect. Since the index climbed higher

GTSM Stock Price Index and Trading Value



Sources: 1. Financial Supervisory Commission, Executive Yuan.
2. GreTai Securities Market.



Source: GreTai Securities Market.

between mid-August and October to the level registered earlier in the year, investors opted out to avert losses, while the US stock markets also experienced wild fluctuations, jointly taking the GTSM index to a period of consolidation.

Between November and December, positive factors including the US Fed's QE2, a continuous uptrend in US stock markets, and a resulting surge of capital flows into Asia boosted foreign investment in GTSM shares, lifting the index to eventually close the year at 144.0 points, 4.1 percent lower when compared to 150.1 points at the end of 2009.

For the year 2010, foreign investors net bought NT$10.4 billion in the GTSM, local securities investment trust companies and securities dealers net sold NT$13.8 billion and NT$3.5 billion, respectively. The daily average turnover in the GTSM market was NT$22.4 billion, an increase of 7.2 percent from the previous year's NT$20.9 billion.

Key Measures for the Stock Market

The following important measures for the stock market were delivered in 2010:

(1) On January 15, the Financial Supervisory Commission (FSC) announced the maximum amount for Mainland Chinese qualified domestic institutional investors (QDIIs) to invest in Taiwan. The combined investment made by Mainland Chinese QDIIs is capped at US$0.5 billion, while each QDII may apply to invest in Taiwan with no more than US$80 million. In addition, investment by each Mainland Chinese QDII in an enterprise of Taiwan's financial sector shall not exceed 5 percent of the enterprise's total shares outstanding, and the combined investment by all Mainland Chinese QDIIs shall not exceed 10 percent.

Later, the ceiling was lifted higher from US$80 million to US$100 million by the FSC on December 22, 2010, to better reflect the latest economic developments.

(2) On January 25, the Taiwan Futures Exchange introduced 34 stock futures contracts and 13 new stock options contracts in a bid to further expand the width and depth of the futures market and to provide more diversified trading and hedging services.

(3) On February 25, the FSC gave the green light to securities firms to be entrusted with or to engage in securities trading of red-chip stocks listed on the Hong Kong and Macao stock markets and exchange traded funds (ETFs) linked to Chinese equities.

(4) On March 16, the FSC promulgated the *Regulations Governing Approval and Management of Securities and Futures Transactions and Investment Between the Taiwan Area and the Mainland Area* to regulate matters related to office set-up and investment by Mainland Chinese securities and futures firms, such as prior screening and evaluation as well as risk management and control.

(5) On May 21, the FSC agreed to allow securities firms to offer offshore mutual funds investment in a periodic investment plan with flexibility in contribution amount so that investors may benefit from diversification and lower investment costs.

(6) On June 8, the TSE promulgated the amendments to the *Taiwan Stock Exchange Corporation Securities Borrowing and Lending Rules*, adding that a designated offshore foreign institutional investor may use US dollars as collateral.

(7) On November 11, in conjunction with the Bank's foreign exchange management policies, the FSC promulgated the amendments to rules and laws governing investment in securities by overseas Chinese and foreign nationals. Accordingly, foreign investment in Taiwan's government bonds shall be included in the 30 percent limit of the investor's inward remittances, whatever the remaining length to maturity. However, part of original purchase of government bonds that will not mature within one year may remain within their current positions, exempt from the 30 percent limit.

7. Bond Market

In 2010,Taiwan's capital markets remained buoyant as the domestic and the global economies both recovered. For the year as a whole, new issues of bonds amounted to NT$1,393.6 billion, an increase of NT$330.7 billion or 31.11 percent over the previous year.

Issuance of central government bonds increased NT$140.0 billion or 29.79 percent to NT$610.0 billion, in order to support fiscal funding needs. Issuance of corporate bonds and bank debentures both grew substantially over a year before, as enterprises increased capital expenditures amid the economic pickup and banks' claims on the private sector also rose. Foreign bond issuance, including bonds issued by the Export-Import Bank of Korea (KEXIM) and Citigroup totaled approximately NT$19.3 billion as they availed themselves of Taiwan's low funding costs. Asset securitization in Taiwan had seen no new issuance in the past two years following the US subprime mortgage debacle; however, the situation has been turned around by a gradually stabilizing global economy as new issues of asset-backed securities emerged this year.

At the end of 2010, the outstanding amount of bonds issued stood at NT$6,618.2 billion, an increase of NT$366.3 billion or 5.86 percent from the previous year-end. In the secondary market, annual transactions totaled NT$106,318.0 billion, recording limited growth of 8.99 percent over the previous year due to a lack of supply relative to demand for investment vehicles. The net assets of fixed income funds and quasi money market funds combined to reach the amount of NT$783.4 billion at the end of 2010. Moreover, all quasi money market funds in Taiwan were transformed to money market funds by the end of 2010.

Increase in Government Bond Issuance

The Ministry of Finance issued a total of NT$610.0 billion in central government bonds in 2010, an increase of NT$140.0 billion or 29.79 percent from the previous year, with the aim of supporting fiscal funding needs. The amount of issuances of 5-year, 10-year, and 20-year government bonds were NT$160.0 billion in each type of maturity, besides a 2-year issue worth NT$40 billion and a 30-year bond issue worth NT$90 billion to meet market demand. With an abundant supply of funds in the market, the weighted average issuing rates on various maturities were lower than or the same as in the previous year. The rate on 30-year bonds was 2.242 percent, a spread of less than 90 basis points over that on 10-year bonds, as the room for growth was limited by competitive tender bids from insurance companies.

The governments of Kaohsiung special municipality issued NT$19.3 billion in construction bonds in June and November, in order to repay maturing debts. In sum, government bond issuance amounted to NT$629.3 billion in 2010, an increase of NT$133.7 billion or 26.98 percent from the year

Issues and Outstanding Values in Bond Market by Category

Unit: NT$ Billion

Year/ Month	Total		Central Government Bonds		Local Government Bonds		Corporate Bonds		Bank Debentures		Beneficiary Securities**		Foreign & int'l bonds*	
	Issues	Outstanding	Issues	Outstanding	Issues	Outstanding	Issues	Outstanding	Issues	Outstanding	Issues	Outstanding	Issues	Outstanding
2008	1,346.3	6,166.7	410.0	3,609.7	28.7	126.5	287.5	1,139.0	161.2	896.0	457.6	333.0	1.3	62.5
2009	1,062.9	6,251.9	470.0	3,829.6	25.6	141.4	203.9	1,136.9	98.7	812.5	243.9	264.4	22.8	69.1
2010	1,393.6	6,618.2	610.0	4,187.6	19.3	146.7	329.7	1,202.2	158.5	815.8	256.8	216.8	19.3	49.1
2010/1	113.5	6,232.7	70.0	3,829.6	0.0	136.4	22.1	1,141.2	7.2	801.4	14.2	259.0	0.0	65.1
2	134.7	6,308.9	80.0	3,909.6	0.0	136.4	19.3	1,159.9	0.7	778.4	34.7	259.5	0.0	65.1
3	73.5	6,310.6	40.0	3,949.6	0.0	136.4	8.5	1,152.8	8.7	764.7	16.3	254.0	0.0	53.1
4	124.2	6,371.2	70.0	4,019.6	0.0	136.4	27.7	1,157.0	11.6	765.6	14.9	253.0	0.0	39.6
5	112.2	6,417.0	40.0	4,059.6	0.0	136.4	27.3	1,168.7	11.0	760.8	33.9	251.9	0.0	39.6
6	143.3	6,418.3	40.0	4,049.6	10.6	147.0	41.7	1,161.5	28.1	769.3	14.2	242.6	8.7	48.3
7	110.6	6,410.2	40.0	4,019.6	0.0	147.0	42.7	1,177.8	3.6	766.2	13.7	240.7	10.6	58.9
8	123.1	6,474.3	40.0	4,049.6	0.0	146.9	31.5	1,198.6	12.8	774.2	38.8	246.1	0.0	58.9
9	103.4	6,489.5	40.0	4,079.7	0.0	146.9	29.2	1,190.7	20.0	779.7	14.2	240.1	0.0	52.4
10	85.6	6,506.0	40.0	4,119.6	0.0	146.9	23.6	1,172.3	5.7	777.2	16.3	239.6	0.0	50.4
11	115.4	6,564.6	40.0	4,157.6	8.7	155.6	24.0	1,191.8	10.5	781.7	32.2	227.5	0.0	50.4
12	154.0	6,618.2	70.0	4,187.6	0.0	146.7	32.1	1,202.2	38.6	815.8	13.3	216.8	0.0	49.1

Notes: * Including NT dollar and foreign currency-denominated bonds issued in Taiwan by international financial institutions.
** Including those purchased back by originators for credit enhancement.
Sources: *Financial Statistics Monthly*, CBC.
Banking Bureau, Financial Supervisory Commission, Executive Yuan.
Department of Foreign Exchange, CBC.

2009. The outstanding amount continued to climb to NT$4,334.3 billion at the end of 2010, rising by NT$363.3 billion or 9.15 percent from the previous year-end.

Marked Growth in Corporate Bond Issuance

Against a backdrop of a brighter economic outlook and expectations of rate rises in 2010, corporate bond issues grew significantly to reach NT$329.7 billion, a big increase of NT$125.8 billion or 61.7 percent from a year before. The state-owned enterprises, including Taiwan Power Company and CPC Corporation, Taiwan, combined to issue NT$105.2 billion during the year, making up around 34 percent of the total. In the private sector, Formosa Plastics Group, Far Eastern Group and financial holdings companies accounted for the larger share of bond issuance with a combined amount of NT$101.8 billion, around 33 percent of the total. In terms of different bond types, more than 80 percent of corporate bonds issued in 2010 were non-convertible. Among them, unsecured and secured corporate bonds made up 52.67 percent and 47.33 percent, respectively. Five-year maturity bonds led with a share of 54.17 percent.

Despite rising short-term rates, with ample liquidity in the market and life insurance companies flush with cash, high rating corporate bonds still attracted huge investment. As a result, the issuing rates generally trended downwards when compared to 2009. The weighted rates on 3-year, 5-year 7-year and 10-year corporate bonds averaged 1.7763 percent, 1.5224 percent, 1.8343 percent, and 1.6755 percent, respectively. As enterprises that issued corporate bonds with 10-year maturities were all state-owned, smaller risk premiums also brought down their weighted average rates by 16 basis points compared to those with 7-year maturities. At the end of 2010, the outstanding amount of corporate bonds stood at NT$1,202.2 billion, an increase of NT$65.3 billion or 5.74 percent from the previous year-end.

Surge in Bank Debenture Issuance

In 2010, 24 financial institutions issued bank debentures, partly to bolster their capital adequacy ratios. Meanwhile, some bank debentures were issued to ensure low funding costs as bank loans grew. For the year as a whole, bank debenture issuance totaled NT$158.5 billion, a considerable increase of NT$59.8 billion or 60.59 percent over the previous year, and closer to the pre-crisis level.

More than 90 percent of bank debentures issued in 2010 were subordinated debt securities. Bank debentures of the issuing amount of NT$5.0 billion and above made up 54 percent of total issuance, while 7-year bank debentures were most popular, with a share of 74.56 percent in total issuance. In terms of rates, 5-year senior debt securities were issued at a weighted average rate of 1.388 percent; 7-year senior and subordinated debt securities were issued with a risk premium of 25 basis points, with rates averaging 1.775 percent and 2.020 percent, respectively. Financial institutions also issued a total amount of NT$12.0 billion non-cumulative subordinated debts without maturity to strengthen their Tier-1 capital; the weighted average rate on such debt was 3.031 percent, 100 basis points higher than that of 7-year subordinated debt owing to their long maturities. At the end of 2010, the outstanding amount of bank debentures was NT$815.8 billion, growing by NT$3.3 billion or 0.41 percent from the previous year-end.

Asset Securitization

In 2010, issuance of asset-backed securities rose by NT$12.9 billion or 5.29 percent over 2009 to NT$256.8 billion. In the aftermath of the US subprime mortgage problem, there had been no new issuance of asset securitization products in Taiwan until August 2010, which witnessed a combined issuance of NT$5.28 billion. Regarding previous issues, revolving issues of financial asset securitization amounted to NT$246.6 billion, mostly in asset-backed commercial paper. In terms of real estate securitization, the total net value of the eight existing real estate investment trust (REIT) funds increased by NT$4.9 billion in the year as the value of trust assets climbed. At the end of 2010, the outstanding amount of asset-backed securities stood at NT$216.8 billion, a NT$47.6 billion or 18 percent decrease from the previous year-end.

Decline in Foreign Bonds and International Bonds

Low interest rates and a need to diversify funding channels attracted two foreign financial institutions to issue bonds in Taiwan in 2010. In June, the KEXIM issued NT$8.7 billion worth of US dollar-denominated bonds with a maturity of 3.5 years and an issuing rate of 2.65 percent. Citigroup issued US$0.33 billion (NT$10.6 billion) in US dollar-denominated bonds with a 3-year maturity and an issuing rate of 2.8 percent in July, which also marked the first issuance of foreign currency bonds in Taiwan by a US financial institution. Since several bonds matured during the year, the outstanding amount of foreign bonds stood at NT$49.1 billion at end-2010, a decline of NT$20.0 billion or 28.94 percent from the previous year-end.

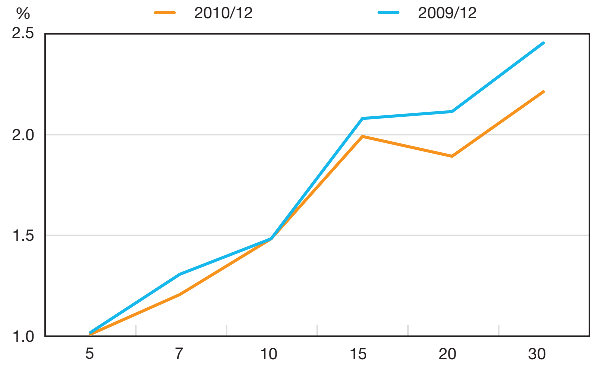
OTC Market

At the start of 2010, the continued economic recovery resulted in a more bearish bond market. However, the market turned upwards in late January as the local stock markets pulled back due to weak US stock market performance. The yield on benchmark 10-year government bonds trended down to 1.4685 percent at the end of January. As the impact of the European sovereign debt crisis negatively impacted the TAIEX in February, the bond market was only slightly affected thanks to the positive effect of the Chinese New Year.

During March and April, bearish sentiment in international bond markets and the Bank's monetary tightening combined to lead the yield on benchmark 10-year government bonds upward to a high of 1.4536 percent. The domestic bond market experienced a narrow correction beginning in May, where the yield on benchmark 10-year government bonds rose before falling. After mid-May, the yield fell further to close the month at 1.3779 percent, reflecting the trading of 10-year reopened bonds and bullish international bond markets. Though bullish sentiment was prevalent around the world, investors in the local bond market were more reserved, driving up the 10-year benchmark yield. Contributing factors also included underperforming tender results of dometic government bonds, an upswing in the TAIEX, and the Bank's rate rise by 12.5 basis points on June 25.

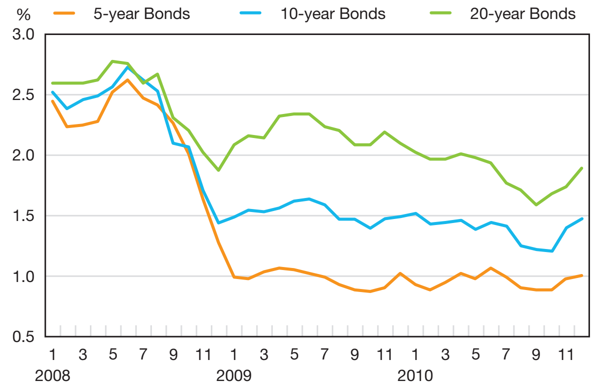
From July to August, the bullish sentiment in the bond market and more-than-abundant liquidity among banks and insurers led the 10-year benchmark yield to slip from 1.4019 percent in early July to 1.1443 percent at the end of August. The yield rebounded in September along with an uptrend in US bond yields and a rally in Taiwan's stock market. However, foreign investors then flooded the market with short-term capital, dragging down the yield to 1.1995 percent at end-September.

Yield Curve of Central Government Bonds



Source: GreTai Securities Market.

Yield Structure of Central Government Bonds with Different Maturities



Source: GreTai Securities Market.

Bond Transactions in the Over-the-Counter Market

Unit: NT$ Billion

Year/ Month	Total	Outright Transactions		Repurchase Agreement Transactions	
		Amount	Share (%)	Amount	Share (%)
2008	135,509.5	59,749.0	44.1	75,760.5	55.9
2009	97,547.5	39,404.7	40.4	58,142.8	59.6
2010	106,318.0	42,651.6	40.1	63,666.4	59.9
2010/1	8,806.3	4,449.0	50.5	4,357.3	49.5
2	4,921.2	1,748.9	35.5	3,172.3	64.5
3	9,152.4	3,672.6	40.1	5,479.8	59.9
4	9,360.4	4,484.2	47.9	4,876.2	52.1
5	10,071.9	4,923.2	48.9	5,148.7	51.1
6	9,044.0	4,010.8	44.3	5,033.2	55.7
7	10,071.8	4,623.1	45.9	5,448.7	54.1
8	10,498.7	4,178.1	39.8	6,320.6	60.2
9	8,451.1	2,902.1	34.3	5,549.0	65.7
10	8,683.5	3,099.4	35.7	5,584.1	64.3
11	9,003.1	2,767.6	30.7	6,235.5	69.3
12	8,253.6	1,792.6	21.7	6,461.0	78.3

Source: Taiwan Securities Exchange & GreTai Securities Market.

Since the Bank's 12.5 basis point rate rise on October 1 (announced on September 30) was generally expected, the bond market was not greatly affected until later when the Bank acted against foreign exchange speculation. At the end of October, the yield went up to 1.2507 percent. In the last two months of the year, the bearish sentiment in international bond markets and the increased issuing of the Ministry of Finance's 30-year government bonds resulted in a hike in the 10-year benchmark yield from 1.2730 percent in early November to 1.5357 percent at the year-end.

Life insurance companies' need for mid- to long-term bonds led to a broad downtrend year on year in average yields on government bonds of all maturities as of December 2010. The long-term

Turnover in Bond Market by Category

Unit: NT$ Billion

Year/ Month	Total	TWSE Market Corporate Bonds (Convertible)	GreTai Market						
			Subtotal	Government Bonds	Corporate Bonds		Bank Debentures	Beneficiary Securities	Foreign & int'l bonds
					Nonconvertible	Convertible			
2008	135,509.5	-	135,509.5	133,753.9	502.5	882.9	205.4	81.9	82.9
2009	97,547.5	-	97,547.5	95,993.3	480.4	861.1	152.5	0.1	60.1
2010	106,318.0	-	106,318.0	95,211.4	8,405.5	1,155.6	1,361.8	123.3	60.5
2010/1	8,806.3	-	8,806.3	8,668.0	53.2	79.5	5.5	0.0	0.1
2	4,921.2	-	4,921.2	4,817.9	52.4	45.1	5.5	0.0	0.2
3	9,152.4	-	9,152.4	9,006.7	46.3	81.2	17.6	0.0	0.6
4	9,360.4	-	9,360.4	8,300.4	825.1	79.1	139.7	7.0	9.0
5	10,071.9	-	10,071.9	9,050.6	785.3	75.4	147.1	9.9	3.5
6	9,044.0	-	9,044.0	7,935.0	848.0	77.9	158.3	19.6	5.3
7	10,071.8	-	10,071.8	8,948.1	874.9	103.4	130.0	10.1	5.4
8	10,498.7	-	10,498.7	9,320.8	886.6	117.8	150.9	16.9	5.6
9	8,451.1	-	8,451.1	7,174.9	967.0	140.4	143.0	17.6	8.1
10	8,683.5	-	8,683.5	7,376.5	1,030.2	124.1	130.4	13.8	8.5
11	9,003.1	-	9,003.1	7,699.6	1,024.1	104.1	155.7	12.4	7.2
12	8,253.6	-	8,253.6	6,912.9	1,012.2	127.6	178.0	16.0	6.9

Source: Taiwan Securities Exchange & GreTai Securities Market.

and short-term spreads between bonds of other maturities and 5-year bonds also narrowed by 10 to 20 basis points. In general, the yield curve was flatter in comparison with the previous year.

In 2010, total bond transactions in the OTC market grew by NT$8,770.5 billion or 8.99 percent from the previous year to NT$106,318.0 billion. Of the components, outright transactions increased by NT$3,246.9 billion or 8.24 percent from the previous year. Repo transactions also increased by NT$5,523.6 billion or 9.50 percent. By type of bonds, government bonds accounted for an annual amount of trading of NT$95,211.4 billion, nearly 90 percent of total bond transactions. The second most actively traded were corporate bonds at NT$9,561.1 billion. Bank debentures, asset-backed securities, and foreign bonds each made up shares as modest as less than 2 percent of total transactions, with their respective annual trading amouting to NT$1,361.8 billion, NT$123.3 billion, and NT$60.5 billion.

Decrease in Fixed Income and Quasi Money Market Funds

At the end of 2010, there were a total of 50 bond funds in Taiwan with total assets reaching NT$783.4 billion, a decrease of NT$141.9 billion or 15.34 percent over the level a year ago. Among them, 48 quasi money market funds were all converted into money market funds; and, at NT$779.1 billion, their combined assets made up a dominant 99 percent share of total bond funds in Taiwan. In addition, the bond holding ratio of all bond funds has gradually declined from 38.1 percent in 2005 (at the inception of the re-categorization of bond funds) to the current 4.1 percent.

Portfolio Composition of Fixed Income and Quasi Money Market Funds

Unit: % ; NT$ Billion

Year / Month End	Total	Outright Purchases		Repurchase Agreements		Bank Deposits		Short-term Securities	
		Amount	Share	Amount	Share	Amount	Share	Amount	Share
2008	942.7	101.3	10.8	374.1	39.7	448.4	47.6	18.9	2.0
2009	925.3	72.6	7.8	245.5	26.5	531.7	57.5	75.5	8.2
2010	783.4	32.5	4.1	172.1	22.0	495.6	63.3	83.2	10.6
2010/ 1	933.5	95.7	10.3	246.9	26.5	533.5	57.1	57.4	6.2
2	901.1	69.3	7.7	228.7	25.4	518.5	57.5	84.7	9.4
3	885.9	66.7	7.5	201.0	22.7	530.7	59.9	87.5	9.9
4	844.4	64.6	7.6	179.5	21.3	516.5	61.2	83.8	9.9
5	845.9	58.5	6.9	186.4	22.0	525.8	62.2	75.3	8.9
6	825.5	53.2	6.5	177.9	21.5	526.2	63.7	68.2	8.3
7	821.9	46.0	5.6	157.4	19.2	507.3	61.7	111.2	13.5
8	779.9	43.7	5.6	152.5	19.6	519.7	66.6	64.0	8.2
9	750.1	39.0	5.2	151.6	20.2	495.1	66.0	64.5	8.6
10	775.4	30.6	3.9	173.1	22.3	514.7	66.4	57.1	7.4
11	777.1	33.6	4.3	158.8	20.4	503.3	64.8	81.3	10.5
12	783.4	32.5	4.1	172.1	22.0	495.6	63.3	83.2	10.6

Source: Securities Investment Trust & Consulting Association of the R.O.C. (Taiwan)

Central Bank Operations

III. Central Bank Operations

1. Overview

In the year 2010, the domestic economic recovery accelerated and real GDP posted a remarkable growth rate of 10.82 percent, the highest figure recorded since 1987. The labor market also showed significant improvement. Domestic prices went up mildly as a consequence of the rise in international commodity and energy prices.

The Bank continued to utilize various policy tools to achieve its operational goals of maintaining price and financial stability in 2010. As market interest rates moved up and imported inflationary pressures hightened, the Bank raised its policy rate three times, from 1.25 percent to 1.625 percent, to contain inflation expectations. Besides the regular auction of short-term NCDs, the Bank started to issue NCDs with a maturity of 364 days to drain mid-to long-term liquidity from the market. In 2010, the issuance of 364-day NCDs totaled NT$900 billion, equivalent to raising the reserve requirement ratio by 3.49 percentage points. The Bank also managed the prudent growth of money supply, with M2 posting a growth rate of 4.59 percent in 2010.

To curb speculative investment in the property market, the Bank urged financial institutions from October 2009 to enhance their credit risk control over real estate-related lending via moral suasion, enhanced collection of relevant data and statistics, and conducted 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, with the aim of preserving financial stability.

The Bank and the Financial Supervisory Commission (FSC) jointly took several measures to prevent large short-term capital movements from threatening economic and financial stability. These major measures were as follows: (i) margins for securities borrowed by foreign investors should be denominated in US dollars; (ii) foreigners' investment in government bonds should be within the ceiling of 30 percent of total inward remittances; (iii) the combined limit of non-deliverable forwards (NDF) and NTD foreign exchange options managed by an authorized foreign exchange bank was lowered to 1/5 from 1/3 of its total position.

In terms of foreign exchange management, in continual cooperation with the FSC, the Bank adopted a series of measures, including the approval of the onshore USD short-term bills and settlement business to facilitate the short-term foreign currency funding needs of domestic enterprises.

Moreover, along with the expansion of the RMB cash business, demand for RMB cash notes rose accordingly. To secure a stable supply of RMB cash notes and to lower the conversion cost for domestic banks, the Bank approved domestic financial institutions to sign RMB notes coverage agreements with Bank of China (Hong Kong) .

To assure the smooth operation of the payment system, the Bank closely monitored domestic payment systems and urged each settlement institution to set up backup facilities and adequate contingency plans to provide business continuity in the advent of an emergency. To strengthen the management of central government bond issuance, the Bank also launched a withdrawal mechanism for market dealers to encourage them to fulfill their functions and obligations in the market.

2. Monetary Management

Due to continued economic recovery, an improvement in the unemployment situation, and a run-up in domestic prices, the Bank tightened its monetary policy standing by raising policy rates three times in 2010. The Bank also maintained an appropriate level of liquidity in the banking system, while promoting preferential loans, and enhancing the financing mechanism for small and medium-sized enterprises (SMEs).

Policy Rate Adjustments to Maintain Price Stability

Due to the fast pace of the economic recovery, improvement in employment conditions, and rising domestic prices, the Bank raised policy rates on June 25, October 1, and December 31, respectively, by a total of 0.375 percentage points to guide market interest rates higher and promote price and financial stability.

At the end of 2010, the discount rate, the rate on accommodations with collateral, and the rate on accommodations without collateral were 1.625 percent, 2 percent, and 3.875 percent, respectively.

Enhance Financial Institutions' Risk Management on Real Estate Loans

As economic recovery gained speed, housing prices continued to rise. To curb funds flowing from financial institutions into the housing market and to urge financial institutions to manage their credit risks, the Bank announced the following macro-prudential policies:

CBC Policy Rates

Unit:% (percent per annum)

Effective Date	Discount Rate	Accommodation Rate with Collateral	Accommodation Rate without Collateral
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
2010 / June 25	1.375	1.750	3.625
Oct. 1	1.500	1.875	3.750
Dec. 31	1.625	2.000	3.875

Source: *Financial Statistics Monthly*, CBC.

(1) Since October 2009, the Bank has adopted several measures to enhance commercial banks' risk management, including urging commercial banks to modify their home mortgage policies, gathering more information to analyze housing market conditions, conducting target examinations on mortgage loans undertaken by commercial banks, and requiring financial institutions to set up guidelines to control their mortgage loan risks.

(2) On June 24, 2010, the Bank announced the *Regulations Governing the Extension of Housing Loans in Specific Areas by Financial Institutions* (hereafter the *Regulations*) to contain risk-taking activities related to real estate lending. Under the *Regulations*, housing loans extended to borrowers who have taken out other outstanding housing loans cannot exceed 70 percent of the collateral value and have no grace period. The Regulations apply to the area of Taipei city and 10 other districts in New Taipei City.

(3) On December 30, 2010, the Bank amended the Regulations to make them more effective. Major amendments included the following: three districts in New Taipei City were added to the scope of *Specific Areas in the Regulations*; lowering the maximum LTV (loan-to-value) ratio on second housing loans for home purchases in Specific Areas from 70 percent to 60 percent; land collateralized loans became subject to a maximum LTV ratio of 65 percent of the acquisition cost or the evaluation value, whichever is lower, where 10 percent of the approved loan amount cannot be disbursed until construction commences.

Conduct Open Market Operations to Absorb Excess Liquidity

The Bank issues certificates of deposit (CDs) and conducts open market operations to maintain reserve money and overnight interest rates at appropriate levels.

In 2010, the total value of CDs issued amounted to NT$45,105 billion, among which were NT$900 billion worth of 364-day CDs. At the end of the year, the total outstanding amount of CDs issued by the Bank was NT$6,713 billion.

Keeping in line with changes in policy rates, the Bank also adjusted its non-competitive bidding rates for new CDs in June, October, and December, to guide market interest rates. Consequently, the rates on 30-day, 91-day, and 182-day CDs were increased to 0.74 percent, 0.78 percent, and 0.88 percent, respectively, which was a 0.17 of a percentage point increase to each type of CD.

As a result of CD bidding rate adjustments, the average overnight interest rate gradually increased to 0.239 percent in December, a 0.129 of a percentage point increase compared to the level of December 2009.

Redeposits of Financial Institutions

Accepting redeposits from Chunghwa Post Co. and commercial banks is another instrument

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
2008	19,370	18,495	1.89	2.05	2.17	2.27
2009	40,416	38,823	0.58	0.62	0.72	--
2010	40,416	44,401	0.62	0.66	0.73	0.70
2010 / 1	3,514	3,645	0.57	0.61	0.71	--
2	3,490	3,402	0.57	0.61	0.71	--
3	4,766	4,561	0.57	0.61	0.71	--
4	3,717	3,605	0.57	0.61	0.71	0.75
5	3,150	3,106	0.57	0.61	0.71	0.70
6	3,196	3,174	0.59	0.63	0.73	0.67
7	3,341	3,296	0.63	0.67	0.77	0.73
8	3,391	3,267	0.63	0.67	0.77	0.69
9	3,799	3,798	0.63	0.67	0.77	0.62
10	4,070	3,939	0.69	0.73	0.83	0.72
11	4,222	4,186	0.69	0.73	0.83	0.69
12	4,450	4,422	0.69	0.73	0.83	0.72

Note: * End-of-period data.
Source: *Financial Statistics Monthly*, CBC.

for the Bank to influence banks' reserve positions to promote financial stability. At the end of 2010, outstanding postal savings redeposits amounted to NT$1,624 billion. At the same time, banks' redeposits totaled NT$412 billion.

In addition, the three domestic agricultural banks, namely the Taiwan Cooperative Bank, the Land Bank of Taiwan and the Agricultural Bank of Taiwan, were allowed to accept deposits from community financial institutions and make redeposits with the Bank. At the end of 2010, their outstanding redeposits were NT$135 billion.

Non-Competitive Bidding Rates on CDs Issued by the CBC

Unit: %

Effective Date	30 days	91 days	182 days
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
2010 / June 25	0.630	0.670	0.770
Oct. 1	0.690	0.730	0.830
Dec. 31	0.740	0.780	0.880

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

Enhancing the SME Financing Mechanism

To provide easier access to financing for SMEs, the Bank continued to urge commerical banks to expand lending to SMEs. In May, the Bank suggested the Financial Supervisory Commission increase the target value of SME loans by domestic banks from NT$100 billion to NT$150 billion. As a consequence, at the end of 2010, the outstanding loans extended to SMEs by domestic banks increased to NT$3,677 billion, which was a 14 percent gain from 2009.

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.

In 2010, due to massive amounts of international capital moving in and out of emerging economies, exchange rate fluctuations increased in many countries. Taiwan is a small and highly open economy, the Bank's flexible exchange rate policy can help mitigate the domestic impact of massive foreign capital movements.

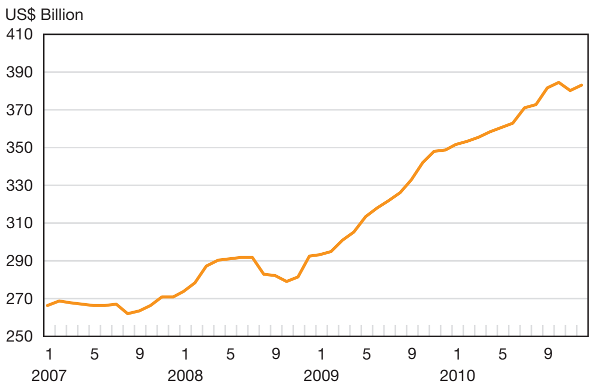
To monitor market activities, the Bank continued to implement the Real-Time Reporting System for Large-Amount Foreign Exchange Transactions. This may contain excessive volatility of the NT dollar exchange rate. In addition, the requirement that forward transactions should be made only upon actual transactions, 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 contain 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.

Furthermore, 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 2010, the volume of foreign exchange call-loan transactions reached US $1,669 billion, while that of foreign currency-NT dollar swap transactions reached US$946.9 billion.

Foreign Exchange Reserves



Source: Department of Foreign Exchange, CBC.

Foreign Exchange Reserve Management

In 2010, the Bank's foreign exchange revenues amounted to US$1,133.5 billion, while foreign exchange expenditure was US$1,099.7 billion. At the end of 2010, total foreign exchange reserves stood at US$382 billion, a US$33.8 billion increase from the end of 2009. The increase was mainly attributable to a higher return on investment of foreign exchange reserves.

Capital Flow Management

The Bank's foreign exchange management mainly relies on the market mechanism, and capital can flow freely in and out of Taiwan. As of 2010, restrictions only remained on a few short-term financial transactions involving the conversion of the NT dollar. Key measures with regard to the management of the foreign exchange in 2010 included:

(1) to prevent massive international short-term capital movements destabilizing domestic economy, the Bank collaborated with the Financial Supervisory Commission to adopt the following measures:

(i) starting from August 2, foreign investors were required to use US dollar margins for securities lending;

(ii) starting from November 11, the amount of investment in government bonds by foreign investors would be included in the 30 percent limit of remittances, pursuant to the 1995 rule;

(iii) starting from December 27, the combined limit of non-deliverable forwards and NTD FX options managed by an authorized FX bank was lowered to 1/5 from 1/3 of its total position.

(2) In order to promote the internationalization of Taiwan's capital market, the Bank agreed to the following in 2010:

(i) the issuance of overseas depository receipts by 9 corporations with a total of US$1.99 billion and the issuance of European Convertible Bonds by 9 corporations with a total of US$3.48 billion;

(ii) seven foreign corporations may raise funds from the stock markets via TWSE listing or GTSM listing, with the total amount reaching NT$19.8 billion;

(iii) the issuance of Taiwan Depository Receipts (TDRs) by 27 foreign corporations, with the total amount reaching NT$44 billion;

(iv) Korean Export-Import Bank and U.S. Citi Bank may issue foreign currency corporate bonds, with the issuance totaling US$1.5 billion.

(3) The Bank agreed to an increase in residents' investments in foreign securities as follows:

(i) domestic securities investment trust companies were allowed to raise private funds via 62 securities investment trust funds domestically to invest in foreign securities with a total of NT$678 billion raised;

(ii) life insurance companies were given consent to invest in foreign securities with the amount totaling US$0.05 billion through non-discretionary money trusts managed by financial institutions, while their investment-linked insurance products accounted for a total of US$2.81 billion in foreign securities, and forward FX sale totaled US$3 billion;

(iii) three major government pension funds and the Postal Savings Fund invested in foreign securities with the total amount reaching US$2.52 billion.

(4) The Bank loosened the following regulations regarding foreign exchange remittances. The amended Regulations Governing the Declaration of Foreign Exchange Receipts and Disbursements or Transactions went into force on June 1, with the following key points:

(i) pursant to the Regulations Governing the Banking Activity and the Establishment and the Investment by Financial Institutions Between the Taiwan Area and the Mainland Area, outward remittances to Mainland China would begin to adopt a negative list approach, and the declaration of inward and outward remittances to Mainland China should follow the aforementioned amended Regulations from then on;

(ii) for nationals below the age of twenty, remittances above NT$0.5 million are required to be approved by the Bank before the settlement;

(iii) the documents regarding the declaration of foreign exchange receipts and disbursements or transactions must be kept by banks for five years;

(iv) pursant to relevant rules of the Bank's Directions for Banking Enterprises while Assisting Customers to Declare Foreign Exchange Receipts and Disbursements or Transactions and the Bank's other laws and provisions, corporations and individuals may, as entrusted parties, declare an NTD settlement in the name of a trustee, without prior consent of the Bank;

(v) banks shall produce electronic data on foreign exchange purchase-sale memos in a format prescribed by the Bank and submit them to the Bank, where the data submitted shall be treated as declarations made by declarants to the Bank.

Management of the Foreign Exchange Business of Financial Institutions

(1) At the end of 2010, there were 1,666 authorized foreign exchange banks in total, which included 37 head offices and 1,562 branches of domestic banks, 67 branches of 28 foreign banks, as well as 2,481 authorized money exchangers, postal offices and financial institutions authorized to engage in basic foreign exchange business. In 2010, the Bank approved, under prudent discretion and with an eye on broader scope of banking services and investor protection, the issuance of 20 new foreign exchange derivative products.

(2) Up to the end of 2010, 17 insurance companies were allowed to engage in foreign currency investment-linked insurance business, and 14 insurance companies were permitted to conduct

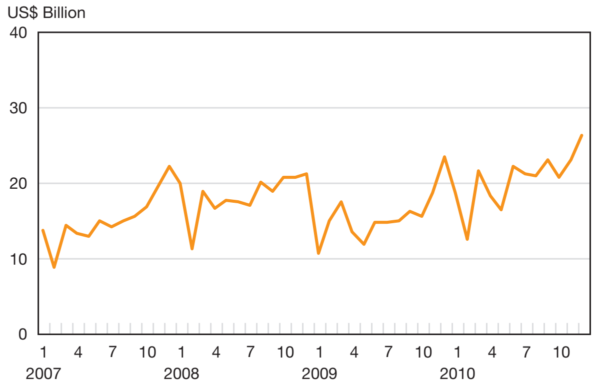
business in relation to traditional foreign currency insurance products.

(3) To facilitate corporate needs for short-term foreign currency funds, and to enlarge the scale of the domestic financial market, the Bank and the FSC agreed to open the market for US dollar bills financing and approved domestic US dollar settlement business. Therefore, beginning from December 6, Mega International Commercial Bank was the clearing bank and custodian for this business, and four banks including Bank of Taiwan were clearing and settlement banks. It is believed that domestic US dollar clearing will help banks to reduce financing costs.

(4) Domestic financial institutions used to rely on two Hong Kong commercial banks for the supply of Renminbi (RMB) cash; however, the supply was unstable and the exchange cost was high. From July 13, 2010 on, based on the currency management agreement from the Cross-Strait Financial Cooperation Agreement, Bank of China (Hong Kong) became the covering bank for Renminbi cash to provide two-way cashnote exchange of Renminbi and NTD in Taiwan; also on July 13, the Bank collaborated with the FSC to amend the Regulations Governing the Administration and Settlement of Renminbi in the Taiwan Area, so that financial institutions can, with the Bank's permission, sign an agreement with Bank of China (Hong Kong) with regard to the supply and reclamation of RMB banknotes. Between June 30, 2009, and the end of 2010, the government approved 47 financial institutions (with a total of 3,228 branches) and 174 authorized money exchangers to conduct RMB cash exchange business. The total amount of Renminbi purchased was RMB10.4 billion, while the total sale was RMB13.75 billion.

(5) Since June 2001, OBUs have been approved to conduct cross-Strait remittances. The steady growth had gradually turned OBUs into funding centers for overseas Taiwanese businessmen. In 2010, cross-Strait remittances increased from US$185.2 billion in the previous year to US$243.3 billion, an increase of 31.4 percent.

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 policies related to monetary, credit, and foreign exchange affairs, establishes an offsite review system and a financial stability evaluation framework to systematically monitor, analyze, and evaluate the potential sources of risks in order to adopt appropriate policies and measures in a timely manner to achieve its mandate of financial stability.

Implementing On-Site Examinations

Target examinations in 2010 inspected the handling of counterfeit money by financial institutions, housing loans in Metropolitan Taipei, risk management of mortgage lending, housing credit information disclosure, compliance with respect to required reserves, the 921 earthquake relief loans, spot and 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 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 continued to monitor what the examined financial institutions had improved, to urge the financial institutions to rectify related deficiencies, and thus to ensure the successful implementation of the Bank's policies.

Offsite Review

Based on financial conditions and amendments to relevant laws and regulations, the Bank examines and amends as necessary the format of periodical reports submitted by financial institutions. The submitted reports are auditted in order to obtain updated information, and the operational situation of financial institutions is analyzed via the following:

(1) To strengthen financial institutions' liquidity management, the liquidity analysis and evaluation in domestic banks' and bills finance corporations' CARSEL system were enhanced with newly-added warning signals.

(2) To achieve better analysis via report auditing, warning codes and analytical items were established to indicate the ratio of individual or a single enterprise's total credit balance to bank equity.

(3) In accordance with the amendment of the Regulations Governing Foreign Bank Branches and Representative Offices, report auditing with regard to declaration statements and its related

analytical and evaluation items for foreign banks' Taiwan branches were newly added.

(4) In conjunction with relevant laws and regulations for bills finance companies, the warning codes and analytical items for the limits on the endorsed/guaranteed amount and on the primary liability of the bills finance companies, were amended accordingly.

Financial Institution Information Transparency

Moreover, the Bank regularly compiles and publishes various financial institution statistics and the most up-to-date financial regulations. The Bank also discloses related information on its website. Therefore, the transparency of the operation of financial institutions has increased, reinforcing market discipline.

Financial Stability Evaluation

The Bank compiles financial soundness indicators so that the relevant authorities, market participants and the public are kept informed regarding the status and sources of financial system risks in Taiwan. In 2010, the fourth financial stability report was issued. This will also promote cross-border exchanges 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 "Addressing Risks in Promoting Financial Stability", answered questionnaires regarding financial stability risk, and provided the Centre with related information for the SEACEN members' "College of Supervisors".

Other Important Measures

(1) The Bank collaborated with academia in the research project titled "Quantified Monitoring of Taiwanese Financial System's Risks" in order to understand the risk source(s) and factors of Taiwanese financial system's risks, and to establish effective quantified monitoring indicators.

(2) The Bank published a special issue on the global financial crisis.

5. Payment and Settlement Systems

The CBC Interbank Funds-Transfer System (CIFS) is the backbone of Taiwan's payment systems, linking the Check Clearing House System (CCHS), the Interbank Remittance System (IRS), the Central Government Securities Settlement System (CGSS), the Bills Clearing and Settlement System (BCSS), the Securities Book-Entry Clearing System (SBECS), and the Electronic Bond Trading System (EBTS) together to constitute systemically important payment systems.

Accordingly, the Bank plays a key role in Taiwan's payment systems. In addition to operating the CIFS and CGSS, the Bank also monitors major payment systems based on international standards to ensure sound operation of these systems and to promote stabiity of the financial system.

Funds Transfers via the CIFS

Launched in May 1995, the CIFS is a large-value electronic payment system. In addition to dealing with interbank funding, reserve requirement adjustments and funds settlements in financial markets, the CIFS also provides interbank final settlement services to several clearing institutions such as Taiwan Clearing House (TCH), Financial Information Service Co., (FISC), Taiwan Depository and Clearing Corporation (TDCC) and Taiwan Stock Exchange Corporation (TWSE).

At the end of 2010, participants of the CIFS included 65 banks, 9 bills finance companies, and 5 other institutions including Chunghwa Post Co., TWSE, and the GreTai Securities Market (GTSM). For the year as a whole, the daily average value of funds transferred via the CIFS was NT$1,416.7 billion, while the daily average number of transactions reached 2,878.

Transactions via the CGSS

The CGSS was established in September 1997. It is a 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 book-entry form since then.

The CGSS System linked with the CIFS in April 2008. Since then, fund settlements, principal redemptions and interest payments have been handled through the CIFS using a delivery-versus-payment (DVP) mode. The DVP mode, promoted by the Bank for International Settlements (BIS), is an arrangement linking securities delivery with funds settlement in a securities settlement system to ensure that a securities delivery occurs almost at the same time as the funds transfer, effectively mitigating potential risks during the process of transaction.

The registration of central government securities transfers is handled by 16 clearing banks and their 1,683 branches. In 2010, 508 thousand transfers with a total value of NT$44.3 trillion were processed by this system.

Monitoring Payment Systems

The Bank monitors the payment system on a periodic basis to maintain its safety and efficiency as one of its foremost goals. Monitoring activities include the following:

(1) Require payment system operators and payment instrument issuers to provide detailed information on their operations and activities as a basis for monitoring payment systems; ensure clearing institutions set up backup system and contingency plans in case of emergency.

(2) Invite clearing institutions, such as the FISC, the TDCC, and the TCH, to participate in panel discussions held regularly to promote the sound operation of the payment system.

(3) Work with financial supervisory agencies to address potential computer system problems related to the "centenary bug" in financial and clearing institutions.

(4) Review and make changes to *Regulations Governing the Administration of Negotiable Instrument Clearing Business by the Central Bank of the Republic of China* to meet the needs of the clearing business under the current system. It went into effect on December 22, 2010. The title was also changed to *Regulations Governing the Business of Negotiable Instruments Exchange and Clearance of Accounts among Banks*.

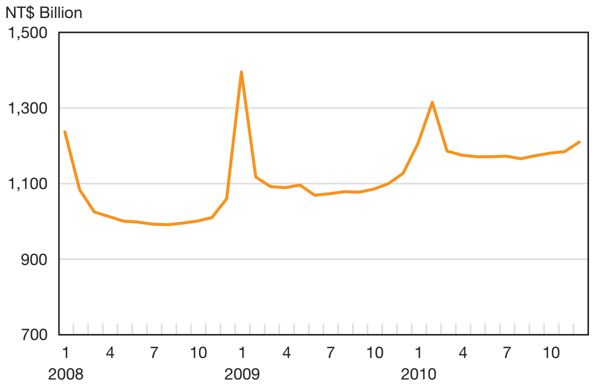
6. Currency Issuance

Currency Issued Slightly Increased

During the year of 2010, the Bank conducted currency issuance with a focus on maintaining the supply of currency at an appropriate level to meet public demand, which is dependent on the level of economic activity, seasonal factors, and the development of noncash payments instruments, etc.

In 2010, the Bank implemented an appropriate currency issuance plan for delivering banknotes and coins. The currency issued peaked at NT$1,505.2 billion on February 12, the day before the Chinese Lunar New Year holidays, reflecting a temporary seasonal surge in cash demand. At the year end, the outstanding amount of the currency issued was NT$1,204.8 billion, representing an increase of NT$82.1 billion or 7.31 percent over the previous year-end.

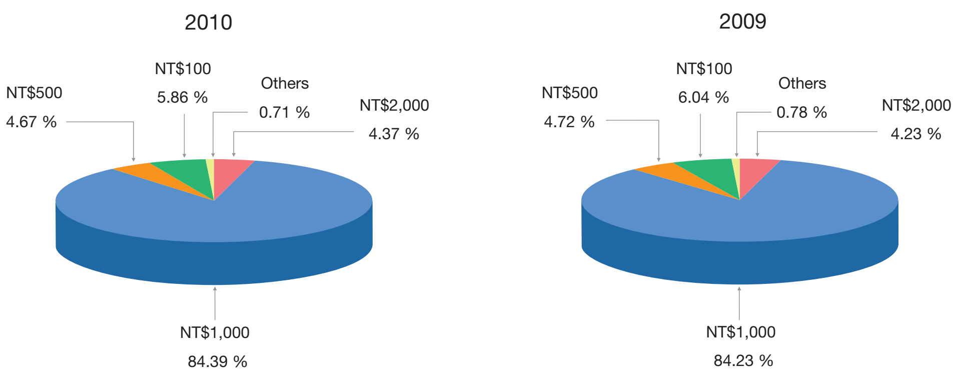
Currency Issued



Source: CBC.

As of the end of 2010, the denomination structure of NT dollar banknotes in circulation was similar to 2009. The NT$1,000 note accounted for a lion's share of 84.39 percent, followed by the NT$100 (5.86 percent) and the NT$500 (4.67 percent) notes.

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

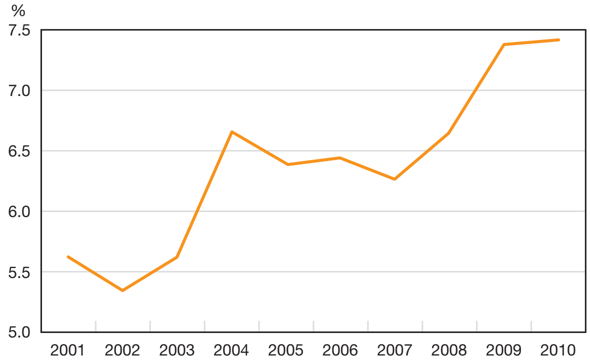


Source: CBC.

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 low interest rate environment that existed after September 2008, the public began to increase their currency holdings, and the ratio of currency in circulation to GDP rose significantly before leveling off in 2009. It stood at 7.31 percent in 2010, a mere 0.03 of a percentage point more than a year before.

The Ratio of Currency Held by the Public to GDP



Source: CBC.

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 2010, the Bank issued the coin set for the Chinese Zodiac Year of the Tiger, the commemorative coin for the late President Chiang Ching-kuo and Mr. Chiang Wei-shui, and the 13th coin set of the Taiwan Indigenous Peoples Cultural Series-the Sakizaya tribe.

7. Fiscal Agency Functions

The Bank acts as a banker to other banks as well as the central government. As the fiscal agent of the government, the Bank offers several services for the Treasury. These services include handling 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 13 financial institutions and their 360 branches, including 5 overseas branches located in New York, Los Angeles, Seattle, and Paris. There are another 4,380 tax revenue agent banks all over the country, offering convenient services to government agents and the general public. In 2010, the Bank received a total of NT$3,039.6 billion in treasury deposits, a decrease of NT$151.2 billion or 4.74 percent from 2009. Payments made for the Treasury were NT$3,048.5 billion, a decrease of NT$147.7 billion or 4.62 percent over the previous year. At the end of 2010, the TDA balance was NT$26.6 billion, decreasing by NT$8.9 billion or 25.07 percent from a year earlier.

Handling Central Government Agency Deposits

Central government agencies are required to make their deposits with the Bank or other delegated banks. 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 2010, the balance of central government agencies' deposits with the Bank amounted to NT$186.7 billion, a decrease of NT$11.5 billion or 5.80 percent over 2009. Deposits with other delegated banks were NT$451.3 billion at the end of 2010, an increase of NT$73.5 billion or 19.45 percent. Among them, redeposits with the Bank registered NT$10.3 billion, decreasing by NT$0.8 billion or 7.21 percent from a year earlier.

Managing Central Government Bonds

As a fiscal agent, the Bank 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 67 domestic dealers qualified to directly participate in the auctions, including 25 banks, 27 securities companies, 9 bills finance companies, 5 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 2010, the Bank managed 16 issues of central government bonds amounting to NT$610 billion and paid a total of NT$252 billion in principal and NT$119.1 billion in interest payments for central government bonds. At the end of 2010, the outstanding amount of central government bonds was NT$4,187.6 billion, an increase of NT$ 358 billion or 9.35 percent from the previous year-end, of which 99.94 percent was in book-entry form.

The Bank started the central government bonds buyback operation amounting to NT$2 billion on November 4, 2010. Debt buybacks have advantages for the government's debt management by promoting overall market liquidity and helping to reduce the government's interest burden.

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 2010, the Bank handled 14 issues of treasury bills with a total amount of NT$365 billion. At the end of 2010, the outstanding amount of treasury bills was NT$240 billion, an increase of NT$25 billion or 11.63 percent from the previous year-end.

Improving Operational Efficiency

To improve the efficiency of government cash management and simplify the process of tax revenue collection, the MOF and the Bank launched a tax revenue collection system from July 1, 2010. Through the new system, tax revenue agent banks process tax revenue documents with bar codes via computers, instead of keying in the transaction by hand, as was done in the past.

In addition, from October onwards, the Bank advanced the time for the auction operation from 1:30 p.m. to 12:00 a.m., with a view to enhance the efficiency of the auction operation, and reduce the uncertainty risk faced by tenders.

8. Participation in International Activities

In 2010, the Bank contributed to a wide-ranging agenda of participation in international activities. As a member, the Bank hosts conferences, provides training courses, and attends various forums, including the annual meetings organized by 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). In 2010, the Bank strengthened its interaction with other central banks to exchange views in response to current global 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 2010, the Bank participated in the 43rd annual meeting of ADB held in Tashkent, Uzbekistan, and shared views on issues such as the influence of the global financial crisis, the necessity of capital controls and regional cooperation, and establishment of a formal regional exchange-rate coordination mechanism.

The Bank is also a member of SEACEN. In February 2010, the Bank attended the 45th annual conference of governors held in Siem Reap, Cambodia, where governors and representatives from 16 member central banks discussed issues on the role of central banks in sustaining economic recovery and in achieving financial stability as well as greater international coordination on macroeconomic policies. Furthermore, the Bank hosted the SEACEN-Deutsche Bundesbank Advanced Course on Banking Supervision and Financial Stability: Financial Market Analysis and Surveillance during 31 October to 4 November.

Annex

IV. Annex

Real Estate Loans and Targeted Prudential Measures

Since mid-2009, the strong economic recovery in most Asian countries has attracted massive capital inflows and caused housing prices to rise rapidly. In response, some governments, including those of China, Hong Kong and Singapore, have taken action to prevent negative impacts from potential housing bubbles.

Taiwan's housing market has also continued to recover and housing prices have kept rising since the second half of 2009. Real estate-related loans have also exhibited steady growth. In October 2009, the Bank began to adopt targeted prudential measures and urged financial institutions to better manage credit risk in order to promote financial stability. Meanwhile, the government's Plan to Enhance the Soundness of the Housing Market was announced in April 2010. The ongoing policy efforts from various government agencies and institutions would be conducive to the sound development of the real estate market.

The Annex looks at the development of Taiwan's housing market and real estate-related loans during this year. In addition, it outlines the targeted prudential measures taken by the Bank and offers a broad assessment on their effectiveness.

Booming Real Estate Market in Taipei Metropolitan Area

Since mid-2009, bolstered by the economic recovery, low interest rates, capital inflows and the ECFA effect, housing prices soared on growing demand. From the first quarter of 2009 to year-end 2010, existing-home prices rose 32 percent. The increase in housing prices has been more pronounced in the Taipei metropolitan area, adding to the burden of homebuyers. Moreover, this area has posted higher price-to-income (PTI) ratios and loan-to-income (LTI) ratios than elsewhere in Taiwan.

Continued Growth in Real Estate Lending

Amid the housing market recovery and rising housing prices, real estate loans (for house purchases, house repairs, and construction and building) extended by all banks in 2010 amounted to NT$7,123 billion, or 37.98 percent of total lending. The annual growth rate was also higher than 2009 at 5.74 percent at year-end 2010. Among the three types of real estate lending, loans for construction and building showed the most significant growth of 23.20 percent from 2009 because construction companies' optimism toward the market outlook led to greater housing supply. In terms of loans for house purchases, as the Bank continued to urge banks to closely monitor mortgage-

Real Estate Loans Extended by Banks*

Unit: NT$ Billion ; %

year /month end	Real Estate Loans		Loans for House Purchases		Loans for House Repairs		Loans for Construction and Building	
	Amount	Annual Change	Amount	Annual Change	Amount	Annual Change	Amount	Annual Change
2008/12	6,594	0.90	4,706	1.66	812	-4.35	1,076	1.81
2009/12	6,736	2.17	4,903	4.20	787	-3.03	1,046	-2.77
2010/12	7,123	5.74	5,166	5.35	668	-15.06	1,289	23.20
2010/ 1	6,745	2.72	4,921	5.22	781	-4.38	1,043	-2.77
2	6,755	3.22	4,924	5.77	775	-4.50	1,056	-1.94
3	6,795	4.10	4,945	6.13	768	-4.92	1,082	2.02
4	6,826	4.59	4,970	6.46	758	-5.96	1,098	4.36
5	6,857	4.97	4,999	6.52	752	-6.43	1,106	6.82
6	6,897	5.25	5,023	6.22	745	-7.21	1,129	10.57
7	6,934	5.59	5,052	5.95	734	-8.15	1,148	14.88
8	6,957	5.61	5,064	5.37	717	-9.77	1,176	19.17
9	6,993	5.69	5,075	5.13	705	-11.50	1,213	22.23
10	7,016	5.72	5,099	5.23	691	-13.01	1,226	23.04
11	7,051	5.68	5,127	5.27	681	-13.75	1,243	22.78
12	7,123	5.74	5,166	5.35	668	-15.06	1,289	23.20

Note: *Banks include domestic banks, medium business banks and foreign banks.
Source: *Financial Statistics Monthly*, CBC.

lending risks and, later, introduced targeted prudential measures on housing loans in metropolitan Taipei, the annual growth rate of housing loans dropped from 6.52 percent in May to 5.35 percent in December.

Targeted Prudential Measures on Real Estate Loans

In light of housing price hikes in Metropolitan Taipei and continued growth on real estate lending, the Bank decided to take targeted prudential measures to safeguard financial stability, including using moral suasion, enhancing collection and analysis of real estate-associated statistics, conducting target examinations and formulating/amending regulations related to land collateralized loans and housing loans in areas overheated with real estate-related transactions. These preventive policy tools are further explained below.

Moral Suasion

The Bank has urged banks to contain risks related to mortgage lending since October 2009. Actions taken include requesting banks to enhance risk control over home loans granted to real estate investors (for non-residential purposes) in metropolitan Taipei by lowering the loan-to-value (LTV) ratio ceiling, raising interest rates and canceling grace periods. Banks were also urged to formulate appropriate internal policies and rules for vacant land mortgage lending, to request concrete and detailed plans for construction projects from loan applicants, and to apply reasonable LTV ratios and interest rates when reviewing loan applications in this regard.

Enhanced Collection and Analysis of Real Estate Associated Statistics

In order to monitor mortgage lending risks effectively, the Bank began to require bi-weekly reporting from financial institutions in March 2010. In addition, the Bank held training sessions on mortgage-related statistics and reports in December 2010, asking banks to provide complete and accurate statistical information.

Target Examinations

Since April 2010, the Bank has conducted a round of target examinations on real estate lending to urge banks to closely monitor related risks.

Regulations on Land Collateralized Loans and Housing Loans in Specific Areas

The *Regulations Governing the Extension of Housing Loans in Specific Areas by Financial Institutions*, promulgated on June 25, 2010, focus on individuals (natural persons) who have taken out other outstanding real estate loans in Taipei City and 10 districts in New Taipei City.

The Bank's policy measures for housing loans in the Specific Areas have shown promising results during the third quarter of the year. Nonetheless, burgeoning property transactions since October have led to similar concerns of increased bank lending for home purchases in other regions neighboring the Specific Areas. Therefore, in December, Sanxia, Linkou and Damsui districts were added to the prescribed scope of the Specific Areas. In addition, corporate legal persons and land collateralized loans shall be governed by the amended *Regulations*. The amendments entered into force on December 31, 2010.

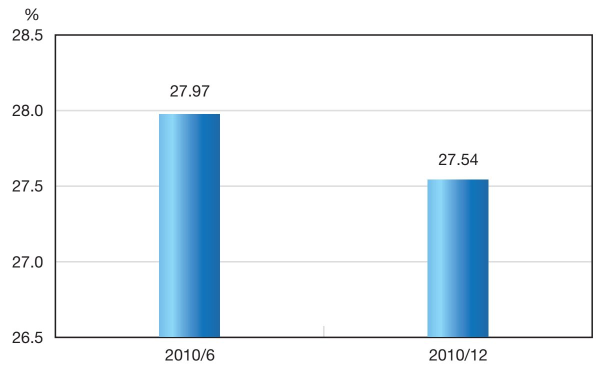
Items		Effective date	
		2010/6/25	2010/12/31
Housing loans	Applicable areas	Taipei City and 10 districts in New Taipei City	Taipei City and 13 districts in New Taipei City
	Maximum LTV ratio on individuals' second housing loans	70%	60%
	Maximum LTV ratio on corporate legal persons' second housing loans	Not specified	60%
Land collateralized loans	Restricted areas	Not specified	Residential or commercial land plots located in urban planning districts (including but not limited to Specific Areas)
	Keypoints	Not specified	1. Financial institutions shall require borrowers to present concrete plans of construction projects. 2. LTV ratio is capped at 65%, where 10% of the approved loan amount shall not be disbursed until the construction commences.

Conclusion: Positive Results of Targeted Prudential Measures

As mentioned in previous paragraphs, the targeted prudential measures were gradually introduced since October 2009 with the aim of enhancing risk control associated with real estate loans extended by financial institutions. They were also an integral part of the policy endeavors under the framework of the administration's Plan to Enhance the Soundness of the Housing Market.

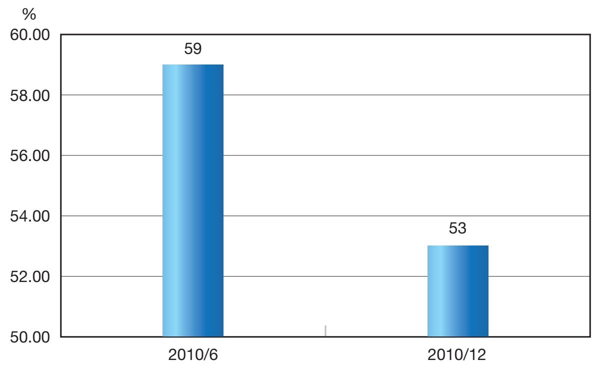
The Bank's measures have been implemented actively and effectively. For instance, the ratio of housing loans to all outstanding loans fell to 27.54 percent at the end of 2010 from 27.97 percent in June 2010. The ratio of newly-extended loans for housing in Specific Areas to total outstanding new housing loans also went down from 59 percent to 53 percent during the same period. Lower LTV ratios and higher lending interest rates demonstrate how much banks have improved in terms of risk control and sound management in the year.

Housing Loans to All Outstanding Loans



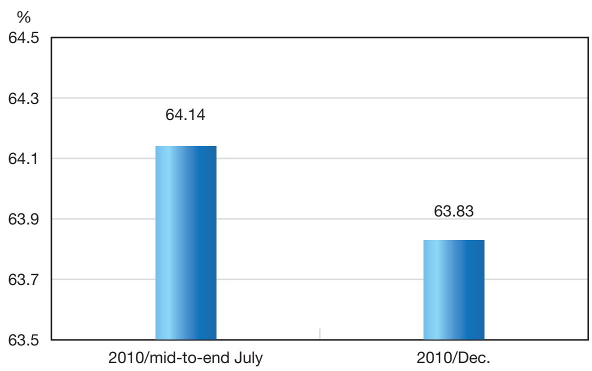
Source: *Financial Statistics Monthly*, CBC.

Newly-extended Housing Loans in Specific Areas to Total Outstanding New Housing Loans



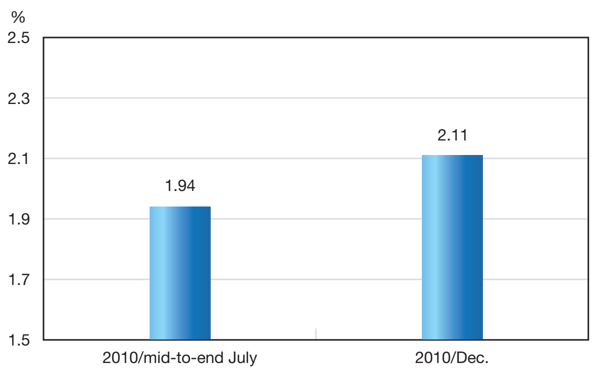
Source: *Joint Credit Information Center*.

Loan-to-value Ratios of Specific Areas



Source: Department of Banking, CBC.

Mortgage Rate of Specific Areas



Source: Department of Banking, CBC.

Chronology of Events of the CBC in 2010

Date	Events
Jan. 1	The principal received from the sale of structured products by banks were relisted as other financial liabilities and subject to a reserve ratio of 0.125 percent.
Mar. 8	The Bank requested financial institutions to enhance the collection of mortgage statistics, such as the amount of new loans, loan-to-value (LTV) ratios and the mortgage rates.
Mar. 16	The Bank and the Financial Supervisory Commission (FSC) amended the *Regulations Governing Approvals of Financial Institutions to Engage in Business and Investment Activities Between the Taiwan Area and the Mainland Area* to allow qualified banks to raise the ceiling for cross-strait lending business.
Mar. 24	The Bank's Board Meeting decided to leave the discount rate, the rate on accommodations with collateral, and the rate on accommodations without collateral unchanged at 1.25 percent, 1.625 percent, and 3.50 percent, respectively.
Apr. 7	The Bank amended the *Regulations Governing the Handling of Counterfeit and Altered Foreign Currency Notes and Coins* to extend the scope to altered foreign currency notes or coins, and add the requirement for handling institutions to retain counterfeit notes or coins.
Jun. 1	The Bank amended the *Regulations Governing the Declaration of Foreign Exchange Receipts and Disbursements or Transactions*. The major amendments were as follows： 1. The Bank adopted a negative list management approach for inward and outward remittances to the Mainland China Area. 2. With the Bank's approval, a national under 20 years of age may remit funds with an amount over NT$500,000.
Jun. 9	The Bank and the FSC amended *Article 16 of the Offshore Banking Act* to

Date	Events
	exempt gains of structured derivatives from taxation, retroactively from January 1, 2010.
Jun. 24	The Bank's Board Meeting raised the discount rate, the rate on accommodations with collateral, and the rate on accommodations without collateral by 12.5 basis points to 1.375 percent, 1.75 percent and 3.625 percent, respectively, effective from June 25, 2010.
	The Board also promulgated the *Regulations Governing the Extension of Housing Loans in Specific Areas by Financial Institutions*, effective from June 25, 2010.
Jun. 30	The Bank raised the remuneration rates on banks' B reserve accounts with the Bank. Reserves from demand deposits received 0.178 percent interest, while those from time deposits received 0.855 percent.
Jul. 13	The Bank and the FSC amended the *Regulations Governing the Administration and Settlement of Renminbi in the Taiwan Area* to allow qualified banks to engage in Renminbi coverage business with the Bank of China (Hong Kong), effective from July 15, 2010.
Aug. 2	To strengthen legal enforcement, foreign investors engaged in securities borrowing and lending shall deposit foreign currencies as cash collateral. In accordance with the *Regulations Governing the Declaration of Foreign Exchange Receipts and Disbursements or Transactions*, inward remittance in the name of cash collateral and converted into NT dollars with an amount over US$100,000 shall obtain the Bank's prior approval.
Aug. 12	The FSC, the Ministry of Finance and the Bank raised the maximum deposit insurance coverage to NT$3 million, effective from January 1, 2011.
Sept. 1	As full deposit insurance coverage would expire at the year-end of 2010, the Bank required financial institutions to review their daily liquidity reserve ratio and notify the Bank immediately should the ratio drop to below 10 percent.

Date	Events
Sept. 30	The Bank's Board Meeting raised the discount rate, the rate on accommodations with collateral, and the rate on accommodations without collateral by 12.5 basis points to 1.5 percent, 1.875 percent and 3.75 percent, respectively, effective from October 1, 2010. The Board also urged banks to formulate appropriate policies for vacant land lending.
Oct. 15	The Bank raised the remuneration rates on banks' B reserve accounts with the Bank. Reserves from demand deposits received 0.193 percent interest, while those from time deposits received 0.934 percent.
Oct. 21	The Bank allowed the Bank of Taiwan and Mega International Commercial Bank to conduct Renminbi coverage business, effective from October 26, 2010.
Nov. 11	The Bank suggested the FSC to amend the regulations regarding foreign portfolio investments. Foreign investment positions in government bonds with maturities of over one year shall be within the ceiling of 30 percent of net inward remittance.
Nov. 14	The Bank conducted government bond buyback auctions for the first time.
Nov. 29	The Bank amended the *Regulations Governing the Audit and Adjustment of Deposit and Other Liability Reserves of Financial Institutions* to be in line with changes in repos and the B reserve accounts practice, effective from December 25, 2010.
Dec. 2	The Bank and the FSC approved the setup of a domestic US dollar bills market and allowed Mega International Commercial Bank to act as clearing bank. From December 6, 2010 onward, domestic US dollar bill transactions shall be settled on a delivery-versus-payment (DVP) and real time gross settlement (RTGS) basis.
Dec. 15	To facilitate financial institutions' participation in open market operations, the Bank prescribed the *Directions for Open Market Operations by the*

Date	Events
	Central Bank of the Republic of China (Taiwan) and amended the *Directions Governing Designated Dealers for Open Market Operations* and the *Online Network Operation Directions for the Central Bank of the Republic of China's (Taiwan) Open Market Operations*, effective from December 15, 2010.
Dec. 22	In line with the institutional needs of the Taiwan Clearing House and check clearing practices, the Bank amended the *Regulations Governing the Administration of Negotiable Instrument Clearing Business by the Central Bank of the Republic of China (Taiwan).*
Dec. 27	The Bank amended Article 42 of the *Regulations Governing Foreign Exchange Business of Banking Enterprises* to lower the cap of the combined position of non-deliverable NT dollar forwards and NT dollar exchange rate options to one-fifth of the total position.
Dec. 30	The Bank's Board Meeting decided to take the following measures: 1. Raising the discount rate, the rate on accommodations with collateral, and the rate on accommodations without collateral by 12.5 basis points to 1.625 percent, 2.0 percent and 3.875 percent, respectively, effective from December 31, 2010. 2. Approving amendments to the *Regulations Governing the Extension of Housing Loans in Specific Areas by Financial Institutions*, promulgated on June 25, 2010. Major amendments were as follows: extending the scope of the Specific Areas, lowering the cap of LTV ratio on second housing loans for home purchases in the Specific Areas, and land collateralized loans will be subject to a maximum LTV ratio, effective from December 31, 2010. 3. Setting new reserve requirement ratios for NT dollar demand deposits held by non-residents. Such deposits shall be subject to a 90 percent reserve requirement on the amount exceeding the outstanding balance recorded on December 30, 2010 and a 25 percent reserve requirement will be applied to the amount below the December 30 level. Meanwhile, a zero remuneration rate will be applied to funds originating from the

Date	Events
	aforesaid deposits on banks' B reserve accounts with the Bank, effective from January 1, 2011.
Dec. 30	The Bank's Board Meeting set the target zone of M2 growth for 2011 at 2.5 percent to 6.5 percent.

Financial Statements of the CBC

1. Balance Sheet

Unit: NT$ Million

	December 31 2010	December 31 2009	Change	
			Amount	%
Assets				
Foreign Assets	11,422,580	11,357,764	648.16	0.57
Due from Domestic Banks	17,756	158,722	-1,409.66	-88.81
Loans and Accommodations to Financial Institutions	365,419	460,718	-952.99	-20.68
Other Assets	1,676,342	685,096	9,912.46	144.69
Total Assets	**13,482,097**	**12,662,300**	**819,797**	**6.47**
Liabilities				
Currency Issued	1,204,824	1,122,754	82,070	7.31
Deposits of Financial Institutions	1,301,101	1,185,486	115,615	9.75
Certificates of Deposit Issued	6,712,620	5,928,485	784,135	13.23
Redeposits of Financial Institutions	2,180,388	2,167,391	12,997	0.60
Government Deposits	214,155	234,582	-20,427	-8.71
Other Liabilities	1,137,456	800,220	337,236	42.14
Total Liabilities	**12,750,544**	**11,438,918**	**1,311,626**	**11.47**
Net Worth	**731,553**	**1,223,382**	**-491,829**	**-40.20**
Total Liabilities and Net Worth	**13,482,097**	**12,662,300**	**819,797**	**6.47**

2. Income Statement

Unit: NT$ Million

	2010	2009
Income		
Interest Income	428,656	395,165
Fee Income	119	118
Subsidiaries Investment Income	1,127	1,091
Revenue from Trust Investment	16,570	13,437
Foreign Exchange Gains	14,917	25,886
Others	4,190	723
Total Income	**465,579**	**436,420**
Expenses		
Interest Expenses	69,163	66,728
Fee Expenses	179	139
Expenses for Coin Issuance	1,664	667
Allowances	162,727	65,720
Expenses for Currency Issuance	3,995	2,836
Operating Expenses	1,555	1,565
Administrative Expenses	475	471
Others	649	631
Total Expenses	**240,407**	**138,757**
Net Income	**225,172**	**297,663**

Key Economic and Financial Indicators of the Republic of China (Taiwan)

Year / Month	I. Business Indicators			II. National Income and Aggregate Demand								
	C.E.P.D.[1] Total Score of Monitoring Indicators	T.I.E.R[2] Business Climate Index		Economic Growth Rate	Per Capita GNP	Unemploy-ment Rate	Manufacturing Sector			Annual Rate of Change of Industrial Production Indices (%)		
		Manufacturing Sector (2006=100)	Services Sector (2006=100)				Labor Productivity Index	Average Monthly Earnings (per Employee)	Index of Producer's Inventory (2006=100)	General Index	Manufacturing Index	Index of Construction
	(average)	(average)	(average)	(%)	(US$)	(%)	(2006=100)	(NT$)	(%)	(2006=100)		
2001	22	88.18	84.17	-1.65	13,401	4.57	76.15	38,412	96.3	-8.41	-9.02	-11.19
2002	23	101.97	97.59	5.26	13,716	5.17	82.67	38,435	88.4	7.46	8.93	-20.66
2003	23	103.05	102.85	3.67	14,197	4.99	88.24	39,549	89.5	9.09	9.55	9.02
2004	33	105.63	102.84	6.19	15,503	4.44	92.45	40,657	93.3	9.30	9.97	4.78
2005	22	97.71	98.40	4.70	16,449	4.13	96.18	41,858	100.8	3.76	3.66	11.38
2006	22	100.00	100.00	5.44	16,911	3.91	100.00	42,393	100.0	4.70	4.50	9.02
2007	25	102.12	96.05	5.98	17,596	3.91	107.12	43,169	101.0	7.77	8.34	-0.48
2008	19	87.43	89.96	0.73	17,833	4.14	106.02	43,105	110.8	-1.78	-1.56	-9.26
2009	19	97.36	95.54	-1.93	16,895	5.85	106.62	39,152	103.7	-8.08	-7.97	-19.08
2010	37	101.94	105.90	10.82	19,188	5.21	125.00	42,420	107.4	26.93	28.60	-9.81
2010/ 1	38	103.47	105.52			5.68	119.95	54,491	99.8	71.91	79.36	-30.86
2	38	102.76	106.05			5.76	130.32	63,142	101.7	36.55	37.99	42.98
3	39	104.29	106.52	13.59	4,647	5.67	117.76	37,873	100.8	41.21	44.04	-18.42
4	39	104.11	109.62			5.39	124.82	37,883	99.1	33.28	35.51	-13.83
5	37	104.88	108.52			5.14	126.08	38,125	105.2	31.45	33.84	-28.61
6	37	102.85	106.93	12.86	4,621	5.16	126.76	40,188	108.1	24.90	26.78	-14.60
7	38	103.10	104.29			5.20	124.03	40,367	110.9	21.11	22.64	-24.03
8	38	101.61	103.63			5.17	124.42	39,261	111.7	23.51	24.76	-6.01
9	37	98.73	102.91	10.69	4,814	5.05	124.55	40,277	111.0	12.08	12.97	-11.90
10	34	96.22	105.50			4.92	126.08	38,547	110.7	14.40	15.24	-11.24
11	32	99.28	106.00			4.73	127.68	37,813	113.5	19.61	20.23	7.49
12	34	102.01	105.34	6.92	5,106	4.67	128.64	42,038	115.7	18.93	19.73	6.32

Notes: (1) C.E.P.D.: Council for Economic Planning and Development, Executive Yuan.
(2) T.I.E.R.: Taiwan Institute of Economic Research.

Key Economic and Financial Indicators of the Republic of China (Taiwan) Cont.

Year / Month	II. National Income and Aggregate Demand														
	Annual Rate of Change of Private Consumption Expenditure (%)	Annual Rate of Change of Gross Fixed Capital Formation (%)	Annual Rate of Change of Gross Fixed: Private Sector (%)	Gross National Savings / GNP (%)	Gross Domestic Investment / GNP (%)	External Trade of Goods on Customs basis (in US Dollars): Annual Rate of Change of Total Exports (3) (%)	China and H.K. (%)	U.S. (%)	Japan (%)	Europe (%)	Southeast Asia (3) (%)	Annual Rate of Change of Total Imports (%)	Annual Rate of Change of Capital Equipment (%)	Trade Balance (US$ Million)	Annual Rate of Change of Export Orders (%)
2001	0.98	-17.91	-22.98	25.79	19.46	-16.9	-9.5	-20.9	-22.9	-16.3	-19.1	-23.3	-31.4	18,344	-11.54
2002	3.26	1.12	7.12	27.03	18.90	7.1	29.4	-2.7	-5.0	-5.9	7.4	4.9	-3.4	22,072	11.23
2003	2.91	-0.11	1.93	28.51	19.32	11.3	23.6	-3.0	0.5	10.4	10.5	13.0	0.5	22,590	12.64
2004	5.17	13.96	25.62	28.61	22.94	21.1	28.8	8.3	11.1	14.7	33.0	31.8	37.8	13,613	26.50
2005	2.90	2.66	1.53	27.94	22.17	8.8	12.2	1.3	9.4	-0.8	13.8	8.2	-4.1	15,817	19.20
2006	1.49	0.07	3.31	29.55	22.12	12.9	14.8	11.2	7.9	10.5	13.8	11.0	-0.5	21,319	16.74
2007	2.08	0.55	1.36	30.38	21.56	10.1	12.6	-0.9	-2.2	9.7	16.7	8.2	3.0	27,425	15.54
2008	-0.93	-12.36	-15.58	28.36	21.85	3.6	-0.8	-4.0	10.2	4.6	7.3	9.7	-8.1	15,181	1.71
2009	1.08	-11.01	-17.91	27.68	17.09	-20.3	-15.9	-23.5	-17.4	-24.6	-21.5	-27.5	-21.3	29,304	-8.33
2010	3.69	23.65	32.79	31.28	21.94	34.8	37.1	33.6	24.2	30.1	37.2	44.1	62.4	23,364	26.14
2010/1						75.8	157.5	13.5	30.6	41.0	87.1	115.3	75.4	2,496	71.81
2						32.6	31.8	23.3	13.4	32.2	44.5	45.7	38.1	899	36.25
3	3.02	28.61	42.29	29.76	19.97	50.1	62.4	19.4	45.0	40.7	62.4	80.0	106.6	1,529	43.66
4						47.7	56.5	29.8	39.2	37.5	55.1	52.6	93.5	2,542	35.15
5						57.5	65.6	43.2	36.8	49.1	67.3	71.7	114.5	3,128	34.03
6	4.32	31.98	39.22	32.60	21.77	34.1	33.8	53.4	16.8	29.9	27.8	39.2	48.1	1,568	22.48
7						38.5	37.2	46.9	33.7	33.8	49.5	42.6	61.5	2,164	18.23
8						26.6	18.1	51.2	26.9	28.3	22.1	27.9	64.2	2,273	23.30
9	4.63	24.62	35.57	30.50	23.37	17.5	11.0	37.7	21.8	13.4	17.3	24.9	64.8	1,777	16.68
10						21.9	17.2	34.4	13.7	17.5	23.8	27.9	35.7	2,990	12.26
11						21.8	18.2	32.1	12.2	27.7	15.9	33.8	51.4	411	14.34
12	2.85	13.04	17.76	32.26	22.56	19.1	16.2	19.9	9.7	22.4	17.3	21.4	37.4	1,587	15.27

Note: (3) Only includes six major countries in the region, i.e., Indonesia, Malaysia, the Philippines, Singapore, Thailand, and Vietnam.

Key Economic and Financial Indicators of the Republic of China (Taiwan) Cont.

Year / Month	III. Prices						IV. Money, Banking and Finance					
	Consumer Price Indices		Wholesale Price Index	Import Price Index	Export Price Index	Unit Labor Cost Index	Reserve Money (daily average)		Monetary Aggregates (daily average)			
				(in NT Dollars)					M1B		M2	
	General Index	Core CPI (4)					Amount (NT$ Billion)	Adjusted Annual Growth Rate (5) (%)	Amount (NT$ Billion)	Annual Growth Rate (%)	Amount (6) (NT$ Billion)	Annual Growth Rate (%)
	(Annual Rate of Change, %; 2006=100)											
2001	-0.01	0.09	-1.35	-1.25	0.33	3.52	1,539.1	1.38	4,435.8	-1.02	19,236.0	5.79
2002	-0.20	0.68	0.05	0.40	-1.50	-9.35	1,417.4	2.39	5,190.4	17.01	19,918.3	3.55
2003	-0.28	-0.61	2.48	5.14	-1.49	-3.92	1,492.3	5.24	5,803.9	11.82	20,669.8	3.77
2004	1.61	0.71	7.03	8.57	1.62	-3.04	1,662.2	11.98	6,905.4	18.98	22,209.3	7.45
2005	2.31	0.66	0.62	2.43	-2.46	0.14	1,792.5	7.63	7,395.8	7.10	23,590.7	6.22
2006	0.60	0.52	5.63	8.81	2.49	-1.80	1,888.1	5.62	7,787.5	5.30	25,057.1	6.22
2007	1.80	1.35	6.47	8.95	3.56	-4.94	1,977.1	5.11	8,289.2	6.44	26,122.7	4.25
2008	3.53	3.08	5.15	8.84	-2.14	2.37	2,084.1	3.35	8,045.8	-2.94	26,820.1	2.67
2009	-0.87	-0.14	-8.74	-9.61	-6.60	-6.95	2,298.4	11.55	9,376.5	16.54	28,753.1	7.21
2010	0.96	0.44	5.46	7.04	2.03	-12.29	2,421.7	5.43	10,776.6	14.93	30,074.2	4.59
2010/1	0.26	-1.12	6.80	8.85	2.27	-52.15	2,339.3	1.93	10,507.1	26.17	29,571.6	5.40
2	2.34	1.00	6.09	8.16	1.10	34.35	2,513.5	7.40	10,628.2	25.27	29,702.8	5.10
3	1.26	0.10	6.87	9.00	2.31	-20.15	2,413.9	6.32	10,512.8	21.57	29,700.8	4.58
4	1.34	0.25	9.06	12.92	2.99	-17.43	2,390.6	2.62	10,581.7	17.92	29,831.0	4.18
5	0.76	0.22	9.43	11.07	6.19	-18.60	2,410.9	3.58	10,625.9	14.67	29,859.0	3.54
6	1.19	0.64	7.02	7.19	5.29	-7.42	2,398.7	4.49	10,564.3	13.22	29,840.6	3.81
7	1.31	0.72	5.32	6.37	3.50	-8.09	2,417.2	6.24	10,662.5	12.49	29,967.2	4.12
8	-0.47	0.38	3.33	4.58	1.70	-9.16	2,428.1	7.23	10,863.9	12.29	30,186.7	4.60
9	0.29	0.71	3.77	5.81	1.21	-1.41	2,426.4	6.80	10,984.3	12.15	30,254.2	4.66
10	0.56	0.56	3.67	5.10	0.60	-6.20	2,432.9	6.45	11,010.0	10.05	30,450.0	4.80
11	1.52	0.91	2.42	2.81	-0.87	-9.83	2,434.2	6.23	11,112.8	9.18	30,684.1	5.20
12	1.24	0.93	2.34	3.77	-1.72	-10.30	2,454.6	5.98	11,266.2	8.77	30,842.5	5.14

Notes: (4) Core CPI refers to CPI excluding the categories of fruits, vegetables, fish, shellfish and energy.
(5) The annual growth rates are adjusted for most recent changes in required reserve ratios on Jan. 1, 2011 and in the share of required reserves deposited with the Bank's B account in Nov. 2001.
(6) The data has included the net present value of money market mutual funds since Oct. 2004 .
Beginning Jan. 2010, the carrying values of the host contracts of structured products issued by banks are excluded from deposits but still included in monetary aggregate M2.

Key Economic and Financial Indicators of the Republic of China (Taiwan) Cont.

Year / Month	IV. Money, Banking and Finance											
	Major Financial Institutions (7)				Past-Due Loan Ratio of Domestic Banks (9) (%)	Interest Rates (%)						
	Deposits		Loans & Investments (8)			CBC's Discount Rate (end of period)	Interbank Call-Loan Rate	31-90 Day Commercial Paper Secondary Market Rate	10-Year Gov't Bond Rate in Secondary Market	Five Major Domestic Banks (10)		
	Amount (NT$ Billion)	Annual Rate of Change (%)	Amount (NT$ Billion)	Annual Rate of Change (%)			(average)			Prime Lending Rate (11) (end of period)	New Loan Rate (average)	1-Year Deposit Rate (end of period)
2001	20,160.7	4.41	16,489.3	-0.80	11.27	2.125	3.692	3.69	4.03	7.377	5.75	2.41
2002	20,609.8	2.23	16,078.0	-2.49	8.85	1.625	2.046	2.03	3.46	7.100	4.04	1.86
2003	21,746.9	5.52	16,535.1	2.84	6.08	1.375	1.097	1.05	2.16	3.429	2.80	1.40
2004	23,256.5	6.94	17,964.0	8.64	3.80	1.750	1.061	0.99	2.66	3.516	2.16	1.52
2005	24,709.5	6.25	19,360.2	7.77	2.24	2.250	1.312	1.27	2.05	3.845	2.31	1.99
2006	25,942.0	4.99	20,153.9	4.10	2.13	2.750	1.552	1.54	1.98	4.115	2.37	2.20
2007	26,208.8	1.03	20,626.9	2.35	1.84	3.375	1.998	1.90	2.27	4.313	2.70	2.62
2008	27,977.9	6.75	21,331.5	3.42	1.54	2.000	2.014	1.92	2.29	4.205	2.80	1.42
2009	29,555.9	5.64	21,490.6	0.75	1.15	1.250	0.110	0.24	1.51	2.563	1.50	0.89
2010	31,088.0	5.18	22,821.2	6.19	0.61	1.625	0.185	0.38	1.37	2.676	1.45	1.13
2010/ 1	29,762.5	6.45	21,554.1	0.98	1.13	1.250	0.108	0.30	1.51	2.564	1.36	0.89
2	29,637.0	4.85	21,612.3	2.02	1.13	1.250	0.104	0.27	1.41	2.564	1.57	0.89
3	29,693.6	4.13	21,513.2	1.45	1.07	1.250	0.130	0.33	1.43	2.564	1.50	0.89
4	29,811.1	3.99	21,660.6	2.08	1.02	1.250	0.164	0.35	1.44	2.568	1.40	0.89
5	29,869.2	3.69	21,833.7	3.03	0.96	1.250	0.174	0.33	1.36	2.568	1.42	0.89
6	29,942.2	3.74	21,882.8	3.73	0.91	1.375	0.183	0.35	1.44	2.568	1.46	1.02
7	30,131.9	4.01	22,001.5	4.63	0.87	1.375	0.196	0.39	1.40	2.592	1.50	1.02
8	30,216.8	4.53	22,207.9	5.68	0.82	1.375	0.203	0.39	1.24	2.628	1.42	1.02
9	30,376.3	4.59	22,185.6	5.29	0.78	1.375	0.210	0.42	1.21	2.628	1.46	1.02
10	30,593.0	4.63	22,345.4	5.96	0.73	1.500	0.226	0.45	1.19	2.648	1.51	1.13
11	30,734.9	4.99	22,542.4	6.34	0.70	1.500	0.231	0.46	1.39	2.672	1.43	1.13
12	31,088.0	5.18	22,821.2	6.19	0.61	1.625	0.239	0.49	1.47	2.676	1.39	1.13

Notes: (7) The data are from the consolidated balance sheet of the monetary institutions and the Chunghwa Post Co.
(8) From Jan. 2004, includes data for securities acquired under reverse repurchase agreements. Portfolio investments are measured at original costs.
(9) The data are based on the new NPL definition, which includes 90-day overdue loans.
(10) Prior to Oct. 2008, the five major domestic banks are Bank of Taiwan, Taiwan Coorperative Bank, First Commercial Bank, Hua Nan Commercial Bank and Chang Hwa Commercial Bank, while beginning Nov. 2008, the Chang Hwa Commercial Bank is replaced by Land Bank of Taiwan.
(11) Between 1993 and 2002, the figures represent prime lending rates.

Key Economic and Financial Indicators of the Republic of China (Taiwan) Cont.

Year / Month	V. Securities Market					VI. Balance of Payments and Foreign Exchange Market						
	TSE Stock Market		Bond Market			Balance of Payments				Foreign Exchange Reserves (end of period)	Exchange Rate (end of period)	Daily Average Value of Foreign Exchange Transactions
	Stock Price Index (1966=100) (average)	Total Trading Value (NT$ Billion)	Outstanding (end of period) (NT$ Billion)	Trading Value (NT$ Billion)	Share of Outright Transactions (%)	Current Account (US$ Million)	Capital Account (US$ Million)	Financial Account (US$ Million)	Change in CBC's Net Foreign Assets ⑿ (US$ Million)	(US$ Billion)	NT$/US$	(US$ Billion)
2001	4,907	18,354.9	2,869.4	118,992.5	44.56	18,936	-163	-384	-17,353	122.21	34.999	4.71
2002	5,226	21,874.0	3,599.0	134,399.0	45.13	26,357	-139	8,749	-33,664	161.66	34.753	5.61
2003	5,162	20,333.2	4,306.6	203,624.0	62.16	30,504	-87	7,628	-37,092	206.63	33.978	7.30
2004	6,034	23,875.4	4,777.3	206,132.4	59.89	19,728	-77	7,169	-26,595	241.74	31.917	10.24
2005	6,092	18,818.9	5,145.3	319,737.0	69.49	17,578	-117	2,302	-20,056	253.29	32.850	12.07
2006	6,842	23,900.4	5,462.1	275,833.2	61.63	26,322	-118	-19,620	-6,086	266.15	32.596	15.63
2007	8,510	33,043.9	5,542.1	194,005.5	48.34	35,154	-96	-38,951	4,020	270.31	32.443	18.62
2008	7,024	26,115.4	5,771.2	135,509.5	44.09	27,505	-334	-1,660	-26,274	291.71	32.860	19.37
2009	6,460	29,680.5	5,920.3	97,547.5	40.40	42,911	-100	13,561	-54,126	348.20	32.030	16.22
2010	7,950	28,218.7	6,352.3	106,318.0	40.12	40,617	-113	-607	-40,173	382.01	30.368	20.23
2010/ 1	8,099	2,982.8	5,908.4	8,806.2	50.52					350.71	31.990	20.29
2	7,432	1,306.7	5,984.2	4,921.2	35.54					352.73	32.085	19.85
3	7,775	2,325.4	6,003.4	9,152.4	40.13	10,307	-36	2,598	-13,401	355.04	31.819	19.27
4	8,052	2,569.3	6,078.5	9,360.4	47.91					357.56	31.418	20.79
5	7,526	1,985.0	6,125.4	10,071.9	48.88					360.12	32.225	22.53
6	7,383	1,674.1	6,127.4	9,044.0	44.35	11,148	-36	5,870	15,377	362.38	32.278	19.15
7	7,639	2,235.9	6,110.5	10,071.8	45.90					370.11	32.050	19.53
8	7,884	2,725.3	6,169.3	10,498.6	39.80					372.06	32.102	20.15
9	8,040	2,630.2	6,197.0	8,451.1	34.34	9,060	-21	-2,520	-7,998	380.51	31.330	21.13
10	8,210	2,387.0	6,216.0	8,683.4	35.69					383.84	30.782	21.07
11	8,350	2,324.3	6,286.8	9,003.1	30.74					379.26	30.850	20.03
12	8,777	3,072.8	6,352.3	8,253.6	21.72	10,102	-20	-6,555	-3,397	382.01	30.368	18.99

Note: ⑿ The minus sign "-" represents an increase.

Sources: 1. *Taiwan Business Indicators,* Council for Economic Planning and Development, Executive Yuan, R.O.C. (Taiwan).
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