

# Foreword



Fai-nan Perng, Governor

Taiwan exhibited steady economic growth during the first half of 2011. In the second half of the year, however, the escalating European sovereign debt crisis threatened to undermine global economic strength and financial stability. The negative effects also spilled over to Taiwan's exports, investment, and production. As a consequence, Taiwan's GDP grew 4.04 percent in 2011, lower than the 10.72 percent of 2010. The consumer price index registered an annual growth rate of 1.42 percent, reflecting international price rises of crude oil and other raw materials. Compared with major economies of the world, though, our inflation remained low and stable.

In line with the developments as well as drastic changes of the domestic and global economic and financial conditions, the Bank's Board made the following policy rate decisions. Two rate increases in the first half of 2011 were later followed by decisions to hold policy rates steady, as the Board judged it consistent with its mandated objectives to achieve price stability, as well as preserving economic and financial stability, amid global economic uncertainties due to the deepening European debt crisis.

Meanwhile, the Bank continued to issue short- and long-term certificates of deposit to keep market liquidity in check and manage monetary growth. With ample liquidity in the banking system and steady bank credit growth, Taiwan was shielded from a credit crunch like the ones distressing the US and European countries. In 2011, bank credit grew 7.44 percent on average, while the annual M2 growth rate stayed within the target range at 5.83 percent. The fact that both rates were higher than the GDP growth rate of the same year indicated sufficient money supply to fully support economic activity.

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In terms of foreign exchange management, Taiwan adopts a managed float regime with flexibility to maintain dynamic stability of the exchange rates. Stable exchange rates have a counter-cyclical effect and help contain inflation, thereby sustaining macroeconomic and financial stability. At the end of 2011, the NT dollar was 30.290 against the US dollar, representing a 0.26 percent appreciation from end-2010. Foreign exchange reserves increased by US\$3.5 billion over the year to reach US\$385.5 billion at the end of 2011.

The Bank also carried through with targeted prudential measures, implementing the regulations governing housing loans and land collateralized loans. Aimed at addressing the over-concentration of banks' real estate lending, the efforts were in line with the government's cross-agency "Plan to Enhance the Soundness of the Housing Market" and continued to bring forth positive progress.

In the meantime, the Bank made an ongoing endeavor to further improve on its operations. To better control liquidity risks of financial institutions, the minimum statutory liquidity ratio was raised higher. Key payment systems and the framework for financial stability assessment were strengthened in an effort to promote a sound financial system. An increasing number of market players gained permission to partake in Taiwan's foreign exchange market, where new products were approved, adding to a variety of foreign exchange businesses. The Bank also played an active role in promoting cross-strait financial cooperation as well as offshore banking unit (OBU) businesses. Furthermore, in celebration of the centenary of the Republic of China, the Bank issued the Centenary Commemorative Silver Coin and collection sets of uncut commemorative NT\$100 banknote sheets.

At this juncture, the global economic recovery remains shadowed by the unfolding European sovereign debt problems. In addition, geopolitical risks linked to the Middle East tensions have not subsided, and the probability of an economic slowdown in Mainland China can not be overlooked. The Bank will closely monitor the economic and financial conditions both at home and abroad to take proper actions in a timely manner, so as to safeguard price and financial stability and sustain economic growth.

Finally, I would like to conclude this foreword by thanking my colleagues for their dedication during past years. With the collective efforts of the talented staff, the Bank will continue to make unremitting efforts to meet future challenges.

A handwritten signature in black ink, appearing to read 'Fai-nan Perng', with a stylized, flowing script.

Fai-nan Perng  
Governor  
April, 2012