

Foreword



Fai-nan Perng, Governor

In the first half of 2012, Taiwan's economic performance was affected by weak demand from its major trading partners. As external demand gradually stabilized, exports began to show signs of improvement while private investment and consumption also picked up. As a result, the economy recovered moderately during the second half of 2012. For the year as a whole, the economy grew at a pace of 1.26 percent, lower than the 4.07 percent recorded in 2011.

Elevated international raw material prices and a weather-induced price surge in fresh farm produce pushed the CPI growth rate slightly higher to 1.93 percent in 2012. Nonetheless, Taiwan's inflation continued to be low and stable relative to the world's major economies.

Against this backdrop, the Bank's Board decided to keep policy rates unchanged and continued to manage market liquidity and money growth by issuing certificates of deposit. These actions were consistent with the Bank's mandates of maintaining price and financial stability and fostering economic growth. Bank credit grew at an average annual rate of 5.08 percent, while M2 rose by 4.17 percent during the year, both higher than the economic growth rate. This indicated that money supply remained sufficient to support economic activity.

Taiwan adopts a managed floating exchange rate regime with flexibility. The NT dollar exchange rate exhibited dynamic stability in 2012, closing the year at 29.136 against the US dollar, an appreciation of 3.96 percent over the previous year. Foreign exchange reserves grew by US\$17.6 billion to US\$403.2 billion at the year end, ranked fourth in the world.

In 2012, the Bank not only continued with existing measures to control risks associated with mortgages in several areas in metropolitan Taipei and land collateralized loans, but also introduced new restrictions on high-value residential mortgages in June. As a result, the concentration of real-estate related lending declined further. In addition, the government rolled out new rules to levy a tax on second (or more) homes sold within two years of purchase and changed the law to require the registration of real estate transaction values. These measures were both conducive to the development of a healthy housing market.

Over the past year, the Bank made great strides on cross-strait financial cooperation, signing a memorandum with the People's Bank of China in August 2012 that would pave the way for cross-strait currency settlement. Taiwan's DBU (Domestic Banking Unit) renminbi banking business commenced on February 6, 2013, and renminbi deposits and remittances have since taken off.

After the establishment of the renminbi settlement mechanism, the Bank consigned the Financial Information Service Co., Ltd. to set up an international currency clearing system. The system officially came on line for US dollar transactions in March 2013 and will gradually phase in more foreign currencies, including renminbi. Not only will this system help streamline currency clearing procedures and save costs, but it will also further facilitate the development of the financial services sector.

As the global economy continues to heal, concerns about the US fiscal tussle, the stagnation of the eurozone economy, and the sharp depreciation of the Japanese yen still weigh on the global economic outlook and financial stability. The Bank will continue to closely monitor the economic and financial developments in Taiwan and across the world and take appropriate and timely actions.

Finally, I would like to thank my colleagues for their dedication in putting together this publication and for their hard work during the past year. We remain committed to our missions and will strive 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
March 2013