

Foreword



Fai-nan Perng, Governor

The year 2016 started off with export contraction and weak economic expansion amidst a tepid global economy. In the latter half of the year, exports regained positive growth thanks to rebounding semiconductor demand. Private investment thus picked up, and private consumption sustained moderate growth. With the economy gathering steam, the annual GDP growth rate for the year as a whole rose from 0.72% in 2015 to 1.50%. The CPI inflation rate was 1.40%, reflecting weather-induced food price surges. Excluding vegetables, fruit, and energy, core inflation grew mildly at a pace of 0.84%.

Against the backdrop of a slow economic recovery, a widened negative output gap, and subdued inflation expectations, the Bank cut the policy rates in both March and July by a total of 25 basis points. Later in the year, as the economy strengthened and inflation was expected to stay stable, the policy rates were kept unchanged to foster economic growth with the continuation of easy money and credit conditions. The Bank also conducted open market operations to maintain adequate liquidity in the banking system. In 2016, bank credit and M2 growth averaged 4.12% and 4.51%, respectively, indicating there was sufficient market liquidity to support economic activity.

On the housing front, targeted macroprudential measures have proved effective and financial institutions have improved credit risk management associated with real estate lending. Relevant government policies, including real estate tax reforms, have also pared down speculative real estate transactions. Based on these developments, the Bank announced in March 2016 to lift credit controls on home mortgages and land-collateralized loans, except loans for high-value housing purchases.

During the course of the year, the Bank continued to maintain dynamic stability of the NT dollar under a managed floating exchange rate regime. The domestic financial market

was roiled by erratic short-term capital flows. The NT dollar was broadly on an appreciating trend partly because of foreign capital inflows that resulted in higher net foreign buying than other major Asian stock markets. At the end of 2016, the NT dollar exchange rate was 32.279 against the US dollar, appreciating by 2.44% compared to the end of 2015.

In terms of financial development, the Bank approved a new range of financial products and the issuance of negotiable certificates of deposit denominated in Australian dollar, enriching investment choices for hedging or wealth management. Amid a rising wave of financial digitization, financial services became even more convenient as the Bank continued streamlining electronic forex business application procedures for banking enterprises. We also enhanced further the foreign currency clearing platform by launching Australian dollar clearing and currency collection services on the platform. This not only facilitates the operation of the overall payment system but also increases settlement efficiency and significantly reduces foreign currency remittance fees.

Our Virtual Money Museum, having attracted many viewers since it opened in 2013, unveiled a special online exhibition in July 2016. By showcasing the 56 foreign banknotes that feature remarkable girls and women, Museum visitors can learn about their wonderful contributions to the world while admiring manifold banknote designs produced by various countries.

Looking ahead, uncertainties abound, ranging from US economic and trade policies, Brexit negotiations, to a rapid debt buildup in emerging markets. These factors could disrupt international financial markets and cast a shadow over the global economic recovery. We will continue to closely monitor the economic and financial developments in Taiwan and across the world. The Bank will take appropriate policy actions in line with its statutory mandate, including maintaining an orderly foreign exchange market to safeguard dynamic stability of the NT dollar.

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