

The Central Bank of China

Annual Report

2005



Taipei, Taiwan
Republic of China

Foreword

Taiwan's economy slowed down in the first half of 2005 and regained momentum in the second half of the year. Growth was mainly attributed to a pickup in exports driven by global economic expansion and IT industry recovery. GDP grew by 4.09 percent for the year as a whole. Consumer prices rose by 2.30 percent as international oil prices surged and harsh weather pushed up fruit and vegetable prices.

In response to solid economic growth and rising inflationary pressure, the Bank aimed to maintain price stability and divert from ultra-low interest rates that could hamper long-term financial stability. From October 2004 to the end of 2005, the Bank raised the discount rate six times, gradually guiding market rates upwards. In addition, the Bank urged banks to reform their pricing systems to enhance the transparency of rate adjustment. As a result, all domestic banks and community financial institutions have adopted the base rate pricing system and launched adjustable rate mortgages.

Under the precondition of price and financial stability, the Bank set out to foster sustainable economic growth. It continued promoting policy lending, including preferential housing loans and project finance for traditional industries, and also encouraged banks to increase credit to small and medium-sized enterprises. Monetary aggregates expanded moderately throughout 2005. M2 grew by 6.22 percent on average, staying within the Bank's 3.5 to 7.5 percent target zone.

The NT dollar exchange rate remained largely stable during 2005. After peaking at 30.79 against the US dollar early in the year, the NT dollar closed the year at 32.85, showing a depreciation of 2.84 percent over a year earlier. However, on a daily average basis, the NT dollar appreciated against the US dollar, the Japanese yen and the euro by 3.90 percent, 5.75 percent and 3.66 percent, respectively, over the 2004 levels. Foreign exchange reserves continued to build up to US\$253.3 billion at the end of 2005, representing an increase of US\$11.6 billion from the previous yearend.

On a separate front, the Bank continued its efforts in financial liberalization and internationalization. It simplified the approval process of new foreign exchange products, streamlined foreign investment application procedures, and promoted financial interaction across the Taiwan Strait. Renminbi exchange business commenced in Kinmen and Matsu. The book-entry government bond market developed further with the introduction of bond trust and stripped government bonds. New versions of NT\$500 and NT\$1,000 notes were issued with advanced anti-counterfeit features.

Many challenges still lie ahead as globalization and financial innovation complicate the task of monetary policy. The Bank's monetary policy will continue to focus on maintaining price and financial stability, and sustainable development of the economy.

Finally, my sincere appreciation goes to my colleagues for their continued dedication during 2005. Together, we will work hard to meet the challenges in the year ahead.

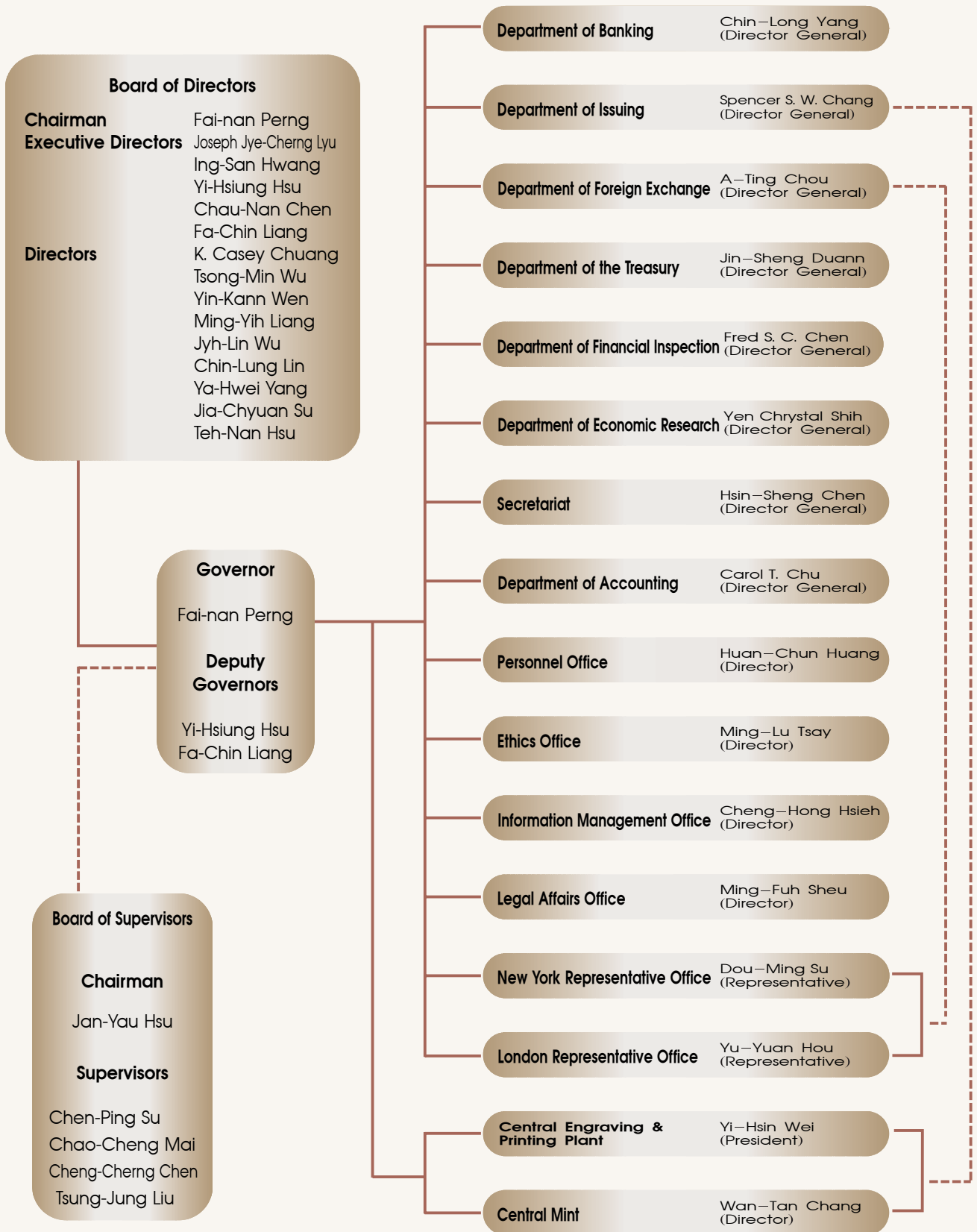


Fai-nan Perng
Governor
April 4, 2006

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Organization and Management of the Central Bank of China



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As of March 2006



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Board of Directors
Governor **Fai-nan Peng**



Executive
Director **Joseph Jye-Cheng Lyu**



Executive
Director **Ing-San Hwang**



Executive
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Deputy Governor **Yi-Hsiung Hsu**



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Supervisor **Chen-Ping Su**



Supervisor **Chao-Cheng Mai**



Supervisor **Cheng-Cheng Chen**



Supervisor **Tsung-Jung Liu**



I. DEVELOPMENTS IN THE REAL ECONOMY

- 1. Overview**
- 2. National Output and Income**
- 3. Balance of Payments**
- 4. Prices**
- 5. Public Finance of the Central Government**
- 6. Labor Market**

I. Developments in the Real Economy

1. Overview



Taiwan's economy, bolstered by exports and private consumption, expanded at a moderate rate of 4.09 percent in 2005, after reaching a seven-year high of 6.07 percent in 2004. The pace of expansion slowed down in the first half of the year as exports lost steam amid softening global growth. Local manufacturing bounced back strongly in the second half of the year, largely benefiting from an upturn in consumer electronic products exports. Moreover, fostered by an improving job market, private consumption increased at a steady and moderate rate and helped support activity throughout the year. Breaking a six-year declining streak, the growth rate of government expenditures crept into positive territory. Private investment, however, dipped in the second half of the year and ended up subtracting slightly from growth.

The balance of payments registered an overall surplus of US\$20.06 billion in 2005, following the US\$26.6 billion surplus a year earlier. This surplus was primarily due to buoyancy in exports and a net capital inflow. The surplus on trade in goods rose by 11.59 percent to US\$18.0 billion. However, due to a rise in the outward remittance of investment income by non-residents, the current account surplus narrowed by US\$2.13 billion to stand at US\$16.37 billion, or 4.73 percent of GDP. The financial account recorded a net inflow of US\$1.78 billion, the result of a higher net inflow in other investment partly offsetting the net outflows in both direct investment and portfolio investment.

Consumer price index (CPI) inflation edged higher to 2.3 percent in 2005. Soaring food prices contributed 1.93 percentage points of the CPI advance as severe typhoons drove up vegetable and fruit prices, and oil and gas prices contributed 0.27 of a percentage point. The core CPI, however, remained rather subdued and rose just 0.65 percent as a result of intense competition in product markets and stable services prices.

Labor market conditions improved further, mainly attributable to the enforcement of the government's Project for the Creation of Job Opportunities, combined with the steady economic recovery during the second half of the year. The average unemployment rate edged down to 4.13 percent in 2005, its lowest level since 2001, while the average labor force participation rate rose to its highest level since 2000.

The central government was in a better fiscal position this year. Reflecting steady economic expansion, continued tax reform and curtailment of expenditures, the central government's fiscal revenue growth greatly outpaced its expenditure growth. As a result, the ratio of the central government's fiscal deficit to GDP declined from 1.83 percent in 2004 to 0.94 percent in 2005.

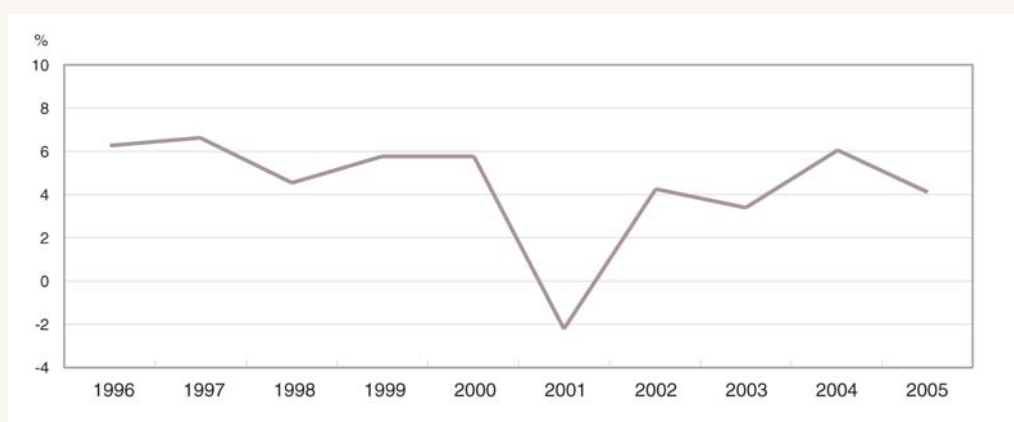


2. National Output and Income

Taiwan's national accounts were revised according to the United Nations' 1993 System of National Accounts (93SNA), and were released by the Directorate-General of Budget, Accounting and Statistics (DGBAS) in November 2005. This version of national accounts differs from its earlier version (the 68SNA) in several important ways. It set aside consumption of fixed capital on public infrastructure, including roads, bridges, breakwaters, etc. It regrouped expenditure on mineral exploration and computer software from intermediate consumption to gross fixed capital formation. It allotted financial intermediation services indirectly measured to the government, households, business sector and foreign sector, and the first two are regrouped from intermediate consumption to final consumption. It also introduced the concepts of adjusted disposable income and actual final consumption. Above all, with the adoption of this new system, national account figures in Taiwan can be more actually compared with figures worldwide. The following descriptions will report national account figures in accordance with the newly instituted revision.

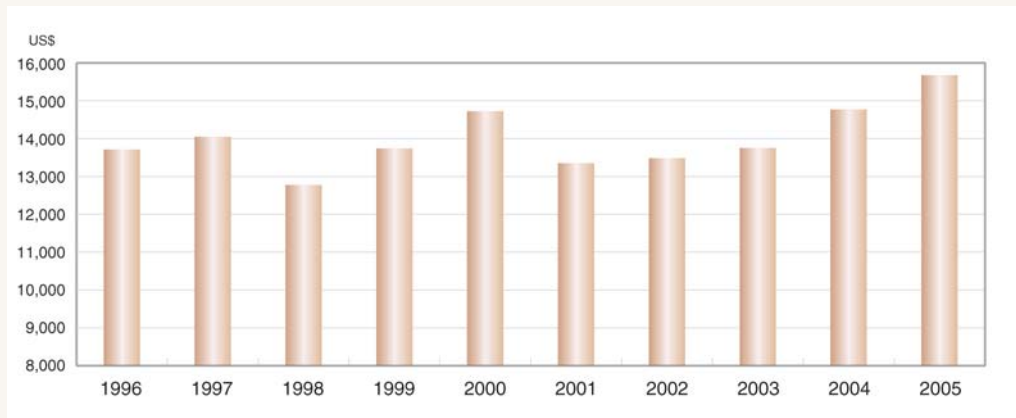
In 2005, real GDP growth was 4.09 percent, down from 6.07 percent in 2004. The slowdown was more apparent during the first half of the year as growth in external trade slowed and oil and raw material prices climbed. During the second half of the year, accompanied by an information-technology (IT) recovery and advances in infrastructure development, export growth

Economic Growth Rate



Source: *Statistical Abstract of National Income, Republic of China, Directorate-General of Budget, Accounting and Statistics (DGBAS), Executive Yuan, February 2006.*

Per Capita GNP



Source: *Statistical Abstract of National Income, Republic of China, DGBAS, Executive Yuan, February 2006.*

picked up and real GDP growth managed to gain ground by year-end.

In year-on-year terms, real GDP grew 2.49 percent during the first quarter of 2005. While employment conditions improved, the thin film transistor-liquid crystal display (TFT-LCD) industry carried over investment plans from the previous year, and private consumption and private investment expanded steadily, external demand dwindled and exports slowed. This momentum proceeded onto the next quarter. Real GDP growth was 2.97 percent, until a turn around in the third quarter. The international economy gained strength, exports rallied, private consumption continued to expand steadily although the investment planning of high tech industries were somewhat muddle and that the base was rising. Real GDP growth rose to 4.38 percent. During the fourth quarter, leading high tech companies successively announced new investment plans while a number of smaller businesses experienced cuts in investment. Exports surged to two-digit growth as demand for electronics rose, pushing real GDP growth up to 6.40 percent.

Per capita GNP increased by US\$906, reaching US\$15,676 in 2005.

Expenditure Components of GDP

Real GDP growth in 2005 was mainly driven by an expansion in foreign trade and solid domestic demand, which contributed 2.52 percentage points in net and 1.56 percentage points, respectively, to real GDP growth. Broken down by expenditure components, the largest share, exports of goods and services, accounted for 62.78 percent of GDP, followed by private

Expenditure on Gross Domestic Product

Unit: %

	2005			2004		
	Share	Real Growth Rate	Contribution to Real Growth Rate of GDP*	Share	Real Growth Rate	Contribution to Real Growth Rate of GDP*
Private Consumption	62.33	3.00	1.75	61.46	3.91	2.33
Government Consumption	13.42	0.71	0.09	13.60	-0.54	-0.07
Gross Fixed Capital Formation	20.39	0.46	0.09	21.26	17.48	3.09
Change in Inventory	-0.16	—	-0.37	0.29	—	0.96
Exports of Goods and Services	62.78	6.93	4.17	61.93	14.83	8.24
(Less : Imports of Goods and Services)	(58.76)	(3.22)	(1.64)	(58.45)	(18.55)	(8.47)
Expenditure on GDP	100.00	4.09	4.09	100.00	6.07	6.07

Note: * Percentage point.

Source: *Statistical Abstract of National Income, Republic of China, DGBAS, Executive Yuan, February 2006.*

consumption at 62.33 percent and gross fixed capital formation at 20.39 percent.

(1) Steady Expansion in Private Consumption

Private consumption expanded during the first three quarters in 2005 as improvements in job market conditions nudged up household income. Notwithstanding, as high international commodity prices pushed up wholesale prices, a contraction in the growth of private consumption followed. The real growth rate of private consumption and its contribution to GDP, as a result, fell to 3.00 percent and 1.75 percentage points in 2005 from 3.91 percent and 2.33 percentage

Real Growth Rate of Private Consumption Expenditure

Source: *Statistical Abstract of National Income, Republic of China, DGBAS, Executive Yuan, February 2006.*

points in 2004.

Analyzing private consumption growth by its components, food consumption growth dropped to 1.60 percent in 2005 from 1.94 percent in 2004 while non-food consumption fell to 3.40 percent from 4.49 percent. Breaking non-food consumption expenditure down into its components, the categories of transport and communication, fuel and power, and household operation posted the largest growth. Transport and communication grew as households gained greater access to IT products such as mobile phones, Internet-related products, and computers. Fuel and power grew as oil prices rose, pushing fuel costs up. Likewise, household operation grew as an expansion in the number of double-income households lead to a hike in the demand for housekeeping services.

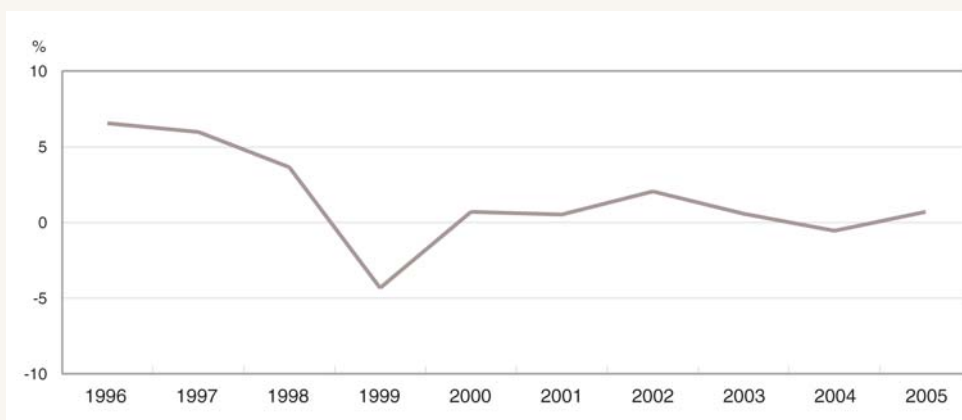
(2) Slight Increase in Government Consumption

Government consumption increased by 0.71 percent in real terms, contributing 0.09 of a percentage point to GDP in 2005, compared to a decline of 0.54 percent or -0.07 of a percentage point contribution in 2004. This was mainly due to the government's active promotion of the *Project for the Creation of Job Opportunities* with the aim of improving employment conditions, despite its long-term objective of containing spending.

(3) Slower Growth of Fixed Capital Formation

The real growth rate of fixed capital formation in 2005 tumbled to 0.46 percent from 17.48

Real Growth Rate of Government Consumption Expenditure



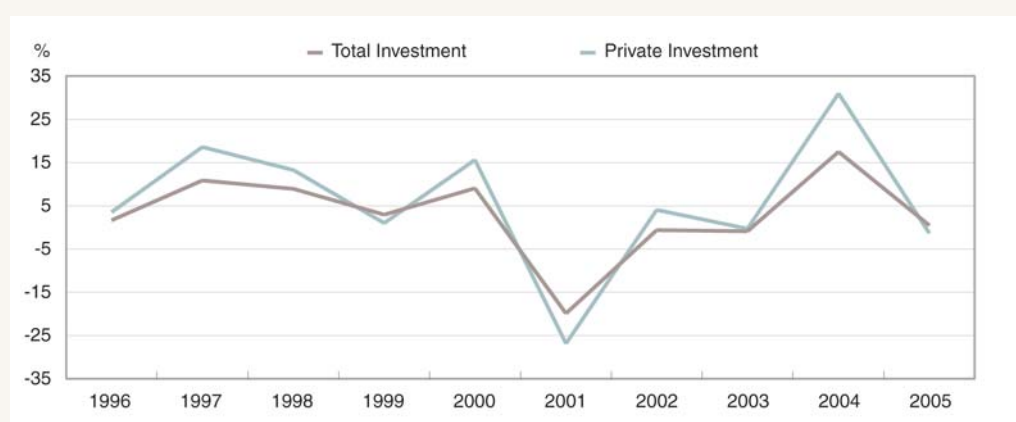
Source: *Statistical Abstract of National Income, Republic of China, DGBAS, Executive Yuan, February 2006.*

percent in 2004, contributing a mere 0.09 of a percentage point to real economic growth. For 2005, real investment carried out by public enterprises had an above-average growth at 17.21 percent, and contributed 0.28 of a percentage point to real GDP growth, in contrast to the negative contribution of 0.38 of a percentage point in 2004. The expansion primarily resulted from the large-scale investments by Taiwan Power Company's Fourth Nuclear Power Project, the Sixth Transmission and Substation Project, and the Tatan Thermal Power Plant Project.

The growth of real government investment increased from a rate of negative 5.71 percent in 2004 to 0.33 percent in 2005 as a result of vigorous infrastructure development in the second half of the year, resulting in a contribution of 0.01 of a percentage point to overall economic growth. Alternatively, real private investment growth dropped compared to 2004. While the procurement of aircraft and passenger trains increased and the investment plans from the previous year carried over by the TFT-LCD industry in the first half of 2005, real private investment growth swung into a negative territory from the third quarter, and posted -1.34 percent for the year as a whole. The cause was, mainly due to the rising base, somewhat muddle investment planning of high tech industries, and cuts in investment by a number of smaller businesses during the second half of the year. Overall, it took away 0.20 of a percentage point from real GDP growth, reversing a positive 3.68 percentage point increase in 2004.

When analyzing fixed capital formation by types of capital goods, it is evident that investment in transportation equipment posted the largest growth. Investment in intangible

Real Growth Rate of Investment



Source: Statistical Abstract of National Income, Republic of China, DGBAS, Executive Yuan, February 2006.

fixed assets came in second. Investment in construction and machinery, in contrast, contracted. The real growth of investment in transportation equipment continued to rise. It grew 31.15 percent in 2005. Investment in intangible fixed assets grew by 2.29 percent in real terms. The real growth rate of investment in the construction sector turned to -0.07 percent from 6.23 percent in 2004, owing to oversupply in the real estate market and the surge in construction material prices. Likewise, real investment in machinery slowed and posted a decline of 3.69 percent, a sharp decrease when contrasted with 27.33 percent in 2004.

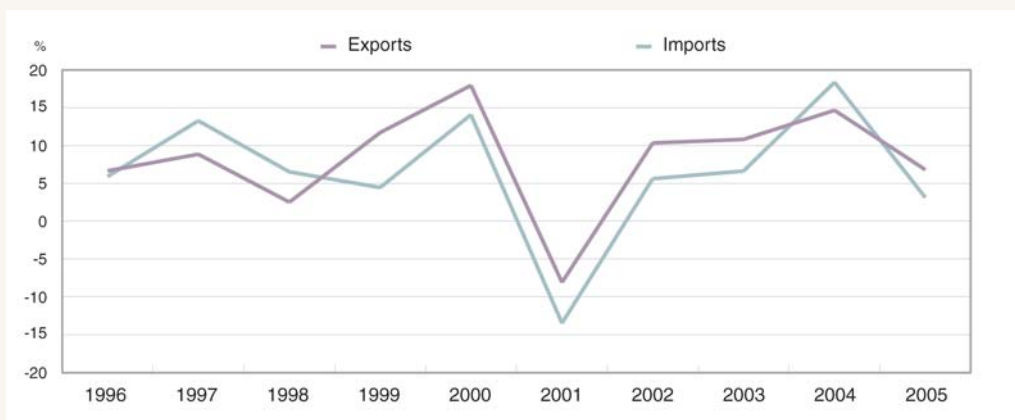
(4) Moderate Rise in Exports

Exports were a major pillar of strength for real GDP growth in 2005. During the first half of 2005, exports growth slowed compared to 2004 as external demand growth declined amid a slowdown in the global economy. From the third quarter on, exports regained strength owing to strength in the international economy accompanied by IT recovery. During the fourth quarter, exports surged to double-digit growth as demand for electronics intensified. For 2005 as a whole, the real growth rate of exports of goods and services measured in NT dollars decreased from 14.83 percent in 2004 to 6.93 percent. Exports of goods and services accounted for 62.78 percent of GDP for the year, contributing 4.17 percentage points to overall economic growth.

(5) Slight Increase of Imports

Driven by the derived demand from the steady growth of exports, import growth also ex-

Real Growth Rate of Exports and Imports



Source: *Statistical Abstract of National Income, Republic of China, DGBAS, Executive Yuan, February 2006.*

perienced a similar expanding trend. However, dragged by the slump in private investment, the pace of import growth was much slower than that of exports in the fourth quarter.

For the year as a whole, the real growth rate of imports of goods and services measured in NT dollars dropped to 3.22 percent, substantially lower than the 18.55 percent registered the previous year. Imports of goods and services accounted for 58.76 percent of GDP for the year, subtracting 1.64 percentage points from economic growth.

Overall, foreign trade, which withheld 0.23 of a percentage point of economic growth in 2004, turned to offer 2.52 percentage points of economic growth in 2005.

GDP by Sector of Production

The services and industrial sectors grew in 2005, while the agricultural sector contracted. On a whole, the services sector remained the predominant driving force for economic growth, pitching in 2.64 percentage points to economic growth in 2005, down from 3.70 percentage points in 2004. Industrial output contributed only 1.51 percentage points to overall economic growth. However, agricultural production subtracted 0.07 of a percentage point from overall economic growth.

Analyzing sector shares of GDP in nominal terms, the services sector continued to rise and the agriculture sector experienced some growth, accounting 73.56 percent and 1.80 percent of GDP, respectively. The industrial sector, in contrast, continued to recede, ending with 24.64 percent of GDP for the year.

(1) Negative Growth of Agricultural Output

The real growth rate of agricultural production, including agriculture, forestry, fishing, and animal husbandry industries, fell to -4.10 percent in 2005 due to cost factors. Except animal husbandry, all other industries within the sector were adversely affected by floods and severe typhoons.

(2) Steady Growth in Industrial Output

Industrial production, including mining and quarrying, manufacturing, construction, electricity, and gas and water, grew by 5.24 percent in real terms, lower than the 8.68 percent posted in 2004.

Gross Domestic Product by Type of Activity

Unit: %

	2005			2004		
	Share	Real Growth Rate	Contribution to Real Growth Rate of GDP*	Share	Real Growth Rate	Contribution to Real Growth Rate of GDP*
Agriculture	1.80	-4.10	-0.07	1.68	-4.09	-0.07
Industry	24.64	5.24	1.51	25.58	8.68	2.44
Mining & Quarrying	0.31	-4.62	-0.01	0.34	-2.80	-0.01
Manufacturing	21.13	5.76	1.41	21.95	9.45	2.25
Construction	1.61	0.03	0.00	1.65	5.95	0.13
Electricity, Gas & Water	1.59	5.78	0.11	1.66	3.91	0.07
Services	73.56	3.80	2.64	72.73	5.28	3.70
Trade	18.19	6.39	1.03	17.53	7.59	1.21
Accommodation & Eating-drinking Places	2.19	8.23	0.16	2.08	6.04	0.12
Transport, Storage & Communications	6.38	4.47	0.30	6.47	7.48	0.49
Finance & Insurance	10.87	2.87	0.30	10.81	4.73	0.50
Real Estate, Rental & Leasing	8.32	2.68	0.22	8.37	3.64	0.31
Professional, Scientific & Technical Services	2.42	2.52	0.06	2.40	7.81	0.17
Educational Services	1.90	3.38	0.06	1.87	2.70	0.05
Health Care & Social Welfare Services	3.08	3.24	0.09	2.99	3.13	0.09
Government Services	11.30	1.07	0.11	11.42	1.35	0.15
Gross Domestic Product	100.00	4.09	4.09	100.00	6.07	6.07

Note: * Percentage point.

Source: *Statistical Abstract of National Income, Republic of China, DGBAS, Executive Yuan, February 2006.*

The overall decline in growth, in turn, was mostly due to the slowdown in the growth in manufacturing production, the largest share of the sector, and partly due to the contraction of mining and quarrying that were let down by a slower growth in the construction industry. In 2005, manufacturing production grew by 5.76 percent in real terms, compared with 9.45 percent posted in the previous year. In the same year, production in mining and quarrying reported -4.62 percent growth, less than the -2.80 percent reported a year ago.

The slowdown in the growth in manufacturing production was most apparent during the first half of the year as growth in the global economy weakened and oil and raw material prices rose. From the third quarter onwards, the situation improved as the global economy, and IT in particular, recovered. Manufacturing production expanded at an accelerated pace, reporting double-digit growth in the fourth quarter as export performance improved markedly. Within the manufacturing production, the information and electronic industry posted the

strongest growth, or 8.70 percent in 2005. In the second half of the year, growth in the chemical industry was boosted as damages incurred by Hurricanes Katrina and Rita caused a shortage in the supply of U.S. petrochemicals. Nevertheless, this was outweighed by a decline in growth in the first half of the year, resulting in a mere 0.30 percent increase in the chemical industry for the year as a whole. The metal and machinery industry, however, contracted 0.30 percent for the year.

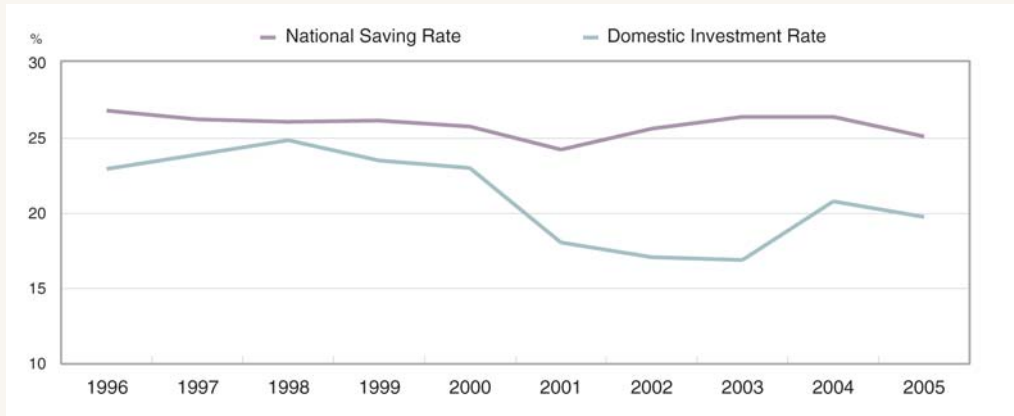
(3) Tepid Growth in the Services Sector

Services output rose by 3.80 percent in real terms for the year 2005, lower than the 5.28 percent posted in the previous year. Against the backdrop of consumers spending more on tourism and eating out, the real growth rate of the accommodation and eating-drinking places industry increased most significantly, and posted 8.23 percent growth for the year. In addition, the growth of the health care and social welfare services industry rose to 3.24 percent in real terms. The increase was primarily attributable to the rising expenditure on medical care incurred by the aging population. However, most of the other industries within the services sector posted lower growth rates than those of the previous year. The real growth rates of the trade industry, and the transport, storage and communications industry decreased to 6.39 percent and 4.47 percent, respectively, due to the decline in external trade growth during the first half of the year. The real growth rate of the finance and insurance industry edged down to 2.87 percent as a result of relatively weak stock market activities. Among the services sector, the government services sector recorded the smallest growth rate of 1.07 percent for 2005, reflecting the government's continued efforts to constrain expenditure.

Decline in National Saving Rate

The national saving rate (national saving to GNP measured at current prices) decreased from 26.32 percent in the previous year to 25.01 percent in 2005 as nominal national consumption (including both private consumption and government consumption expenditures) grew by a higher rate of 4.30 percent compared to the GNP growth rate of 2.51 percent. The rise in national consumption was mainly attributable to the steady increase in private consumption in response to moderate economic performance and improved employment conditions. In addition, the increase in government consumption, resulting from a 3.00 percent pay raise for teachers, civil servants and members of the military in 2005, also contributed to the rise in national consumption.

National Saving Rate and Domestic Investment Rate



Source: *Statistical Abstract of National Income, Republic of China, DGBAS, Executive Yuan, February 2006.*

The excess saving (national saving less gross domestic investment) to GNP ratio inched down from 5.59 percent in the previous year to 5.30 percent in 2005 as a result of a greater decline of national saving than that of domestic investment.

3. BALANCE OF PAYMENTS

The balance of payments in Taiwan was characterized by a narrowing current account surplus and a net inflow in the financial account in 2005. The current account surplus decreased to US\$16,366 million, lower than the previous year's US\$18,493 million, and accounted for 4.6 percent of GNP. The capital account registered a small deficit of US\$117 million. The financial account exhibited a net inflow of US\$1,779 million. As a result, the foreign reserve assets held by the Bank increased by US\$20,056 million.

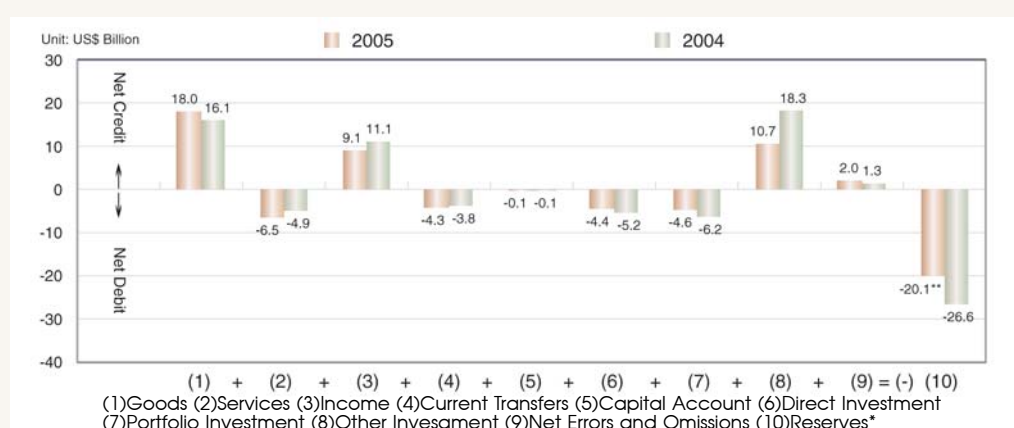
A Declining Current Account Surplus

The components of the current account include goods, services, income and current transfers. The current account surplus decreased in 2005, mainly as a result of the decline in the income surplus and the widened deficits in both services and current transfers.

(1) Goods

For the year 2005, both on a balance of payments basis and a customs basis, the value of exports and imports registered historic highs. The value of exports grew by 8.8 percent to US\$188,408 million, mainly driven by persistent expansion in the global economy. The value of imports rose by 8.5 percent to US\$170,423 million. It was primarily led by surging international oil price and stronger derived demand arising from the expansion in exports. The trade surplus

Balance of Payments



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, Republic of China, Department of Economic Research, the Central Bank of China.*

Balance of Payments

Unit: US\$ Million

	2005	2004
A. Current Account	16,366	18,493
Goods: exports f.o.b.	188,408	173,154
Goods: imports f.o.b.	-170,423	-157,026
Balance on Goods	17,985	16,128
Services: credit	26,002	25,789
Services: debit	-32,476	-30,731
Balance on Services	-6,474	-4,942
Income: credit	17,471	15,485
Income: debit	-8,345	-4,353
Balance on Income	9,126	11,132
Current transfers: credit	3,463	3,170
Current transfers: debit	-7,734	-6,995
Balance on Current transfers	-4,271	-3,825
B. Capital Account	-117	-77
Total, Groups A plus B	16,249	18,416
C. Financial Account	1,779	6,831
Direct investment abroad	-6,028	-7,145
Direct investment in R. O. C.	1,625	1,898
Portfolio investment assets	-35,807	-23,513
Portfolio investment liabilities	31,256	17,317
Other investment assets	-6,370	754
Other investment liabilities	17,103	17,520
Total, Groups A through C	18,028	25,247
D. Net Errors and Omissions	2,028	1,348
Total, Groups A through D	20,056	26,595
E. Reserves and Related Items*	-20,056	-26,595

Note: * Excluding valuation changes in exchange rates.

Source: *Balance of Payments, Republic of China, Department of Economic Research, the Central Bank of China.*

on goods increased to US\$17,985 million for the year, an increase of 11.5 percent from the previous year.

As indicated by the Taiwan Customs' statistics, the top three trading partners for Taiwan in 2005 were mainland China (including Hong Kong), the US and Japan. Exports to these three countries accounted for 60.5 percent of total exports, while imports from these three countries made up 48.9 percent of total imports.

In terms of Taiwan's trade with mainland China (including Hong Kong), exports totaled US \$71,608 million for the year, representing a growth of 12.2 percent compared with the previous year. The marked growth was attributable to mainland China's strong economic growth, as well as the rising demand for IT products and parts from Taiwanese firms operating there. This increase appeared significant when compared with other major export markets, and the share

of exports to mainland China (including Hong Kong) increased by 1.1 percentage points to 37.8 percent. Mainland China (including Hong Kong) remained Taiwan's largest export market in 2005.

Imports from mainland China (including Hong Kong) rose by 16.2 percent, and its share of total imports rose to 12.0 percent in 2005. The large increase stemmed from the increased demand for Chinese electronics, information products, machinery and related parts due to the division of labor between Taiwanese industries on either side of the Taiwan Strait. The bilateral trade surplus with mainland China (including Hong Kong) climbed to US\$49,793 million, reflecting a 10.5 percent increase. Mainland China (including Hong Kong) remained the largest source of Taiwan's trade surplus.

With respect to bilateral trade with the US, exports to the US increased by 1.4 percent in 2005, compared with 8.4 percent the previous year. The share of exports to the US in total exports has decreased since 1998, and dropped further to 15.1 percent in 2005. The reasons behind the continuous declines were the increased trade activity between the US and NAFTA (North American Free Trade Agreement) members, competition from mainland China's low-priced products, and continued outward relocation (mainly to mainland China) of local industries. Imports from the US decreased by 3.0 percent and its share of total imports declined from 12.9 percent in 2004 to 11.6 percent in 2005. Because of the increase in exports and the decrease in imports, the bilateral trade surplus with the US increased to US\$7,522 million, representing an increase of 15.9 percent. The US remained the second largest source of Taiwan's trade surplus.

Regarding bilateral trade with Japan, the recovery of the Japanese economy led to a rise in exports to Japan by 9.7 percent in 2005, and the share of exports to Japan remained at 7.6 percent. Imports from Japan increased by 5.3 percent compared with the previous year, with the share of total imports rising to 25.3 percent in 2005. Japan remained Taiwan's largest source of imports. As the increase in imports was more than that in exports, Taiwan's trade deficit with Japan registered an increase of 3.4 percent to US\$31,461 million for the year, the highest in history.

Exports to Europe decreased by 0.8 percent in 2005, with the share of total exports falling to 12.3 percent. Imports from Europe increased by 2.3 percent in 2005, with the share of imports decreasing to 12.0 percent of total imports. Due to the decrease in exports and increase in imports, Taiwan's trade surplus with Europe decreased from US\$2,137 million in 2004 to US\$1,464

Direction of Trade in Goods by Country

Unit: %

	2005			2004		
	Amount (US\$ Million)	Share	Annual Change	Amount (US\$ Million)	Share	Annual Change
Exports						
Mainland China(including Hong Kong)	71,608	37.8	12.2	63,838	36.7	28.3
U. S. A.	28,510	15.1	1.4	28,122	16.2	8.4
Europe	23,257	12.3	-0.8	23,435	13.5	14.6
Southeast Asia 6*	26,128	13.8	14.5	22,818	13.1	33.7
Japan	14,481	7.6	9.7	13,200	7.6	10.8
Rest of the World	25,410	13.4	12.4	22,602	13.0	18.8
Total	189,394	100.0	8.8	174,015	100.0	20.7
Imports						
Japan	45,942	25.3	5.3	43,627	26.0	33.7
U. S. A.	20,988	11.6	-3.0	21,633	12.9	28.6
Europe	21,794	12.0	2.3	21,298	12.7	31.1
Southeast Asia 6*	21,015	11.6	3.9	20,229	12.0	16.1
Mainland China(including Hong Kong)	21,815	12.0	16.2	18,773	11.2	48.0
Rest of the World	50,052	27.6	18.2	42,330	25.2	34.7
Total	181,606	100.0	8.2	167,890	100.0	31.9

Note: * Including Indonesia, Malaysia, the Philippines, Singapore, Thailand, and Vietnam.

Source: *Monthly Statistics of Exports and Imports, Republic of China, Department of Statistics, Ministry of Finance.*

million in 2005.

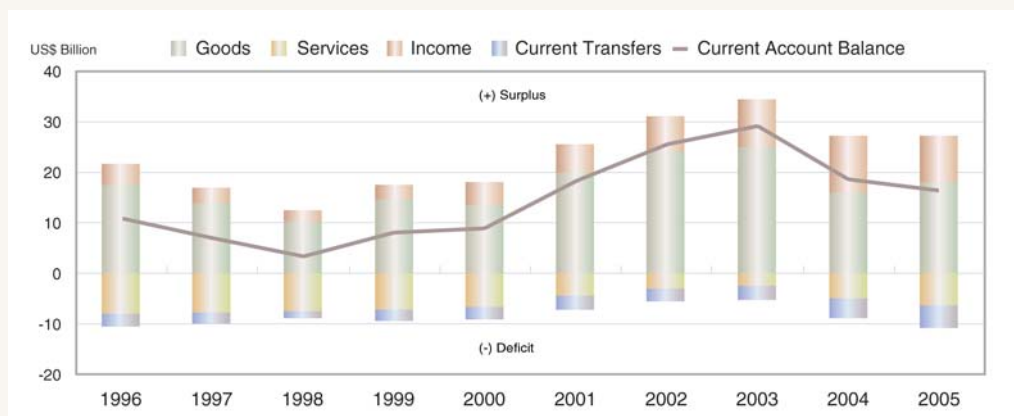
Owing to steady growth in Southeast Asia, exports to the six countries in the region, including Indonesia, Malaysia, the Philippines, Singapore, Thailand, and Vietnam, increased by 14.5 percent. Exports to Indonesia grew by 25.1 percent, the highest among the six countries. The share of exports to these countries rose to 13.8 percent. Imports from these countries rose by 3.9 percent in 2005, with the share of imports declining to 11.6 percent. As the increase of exports was more than that of imports, Taiwan's trade surplus with the six countries increased to US\$5,112 million in 2005 from US\$2,589 million in 2004.

(2) Services

In 2005, both service receipts and payments registered their highest amounts in history. With total service receipts increasing by US\$213 million to US\$26,002 million in 2005 and total service payments increasing by US\$1,745 million to US\$32,476 million, the service deficit widened to US\$6,474 million from the US\$4,942 million recorded in 2004.

Of the various components of the services account, net payments with respect to transportation decreased from US\$2,838 million recorded a year earlier to US\$2,504 million in 2005, largely due to the increase in international freight receipts. Total travel receipts surged

Current Account



Source: Balance of Payments, Republic of China, Department of Economic Research, the Central Bank of China.

by US\$986 million to US\$5,040 million, as the result of an increase in both the number and per person expenditure of nonresidents visiting Taiwan. Total travel payments for the year increased by US\$512 million to US\$8,682 million, due to an increase in overseas visits by residents. Net travel payments decreased to US\$3,642 million as a result of total travel receipts increasing at a greater pace than those of total travel payments. Total other services receipts decreased by US\$1,410 million to US\$15,031 million, while total other services payments increased by US\$930 million to US\$15,359 million. Due to the decrease in total other services receipts and the increase in total other services payments, net total other services registered a deficit of US\$328 million in 2005 compared with a surplus of US\$2,012 million in 2004.

(3) Income

Both total income receipts and payments registered their highest levels ever in 2005. Total income receipts increased by US\$1,986 million to US\$17,471 million in 2005. Total income payments for the year amounted to US\$8,345 million, US\$3,992 million more than in 2004, mainly because the U.S. offered a special low tax rate on homebound remittances of overseas earnings, and cash dividend distributions by local listed companies boosted non-residents' income from investment in equity securities. Due to the increase in total income receipts being less than that in total income payments, the surplus on the income account decreased from US\$11,132 million in 2004 to US\$9,126 million in 2005.

(4) Current Transfers

Total current transfer receipts amounted to US\$3,463 million in 2005, US\$293 million more than in the previous year. Total current transfer payments for the year expanded by US\$739 million to US\$7,734 million, reaching a historical high, on account of the increase in outward remittances by residents to support their overseas relatives. Net current transfer payments increased from US\$3,825 million in 2004 to US\$4,271 million in 2005.

An Increasing Capital Account Deficit

The capital account includes capital transfers (debt forgiveness, ownership transfer of fixed assets and migrants' transfers), and the acquisition and disposal of non-produced, non-financial assets. In 2005, the capital account consistently exhibited a deficit, and the size of this deficit increased to US\$117 million from US\$77 million in 2004, as a result of the increased acquisitions of non-produced, non-financial assets.

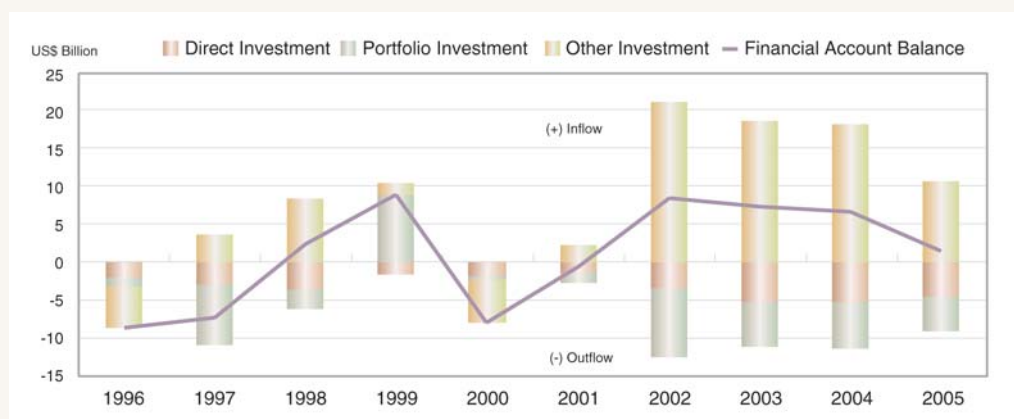
Net Inflow in the Financial Account

In 2005, the financial account presented a net inflow of US\$1,779 million. In terms of sub-categories, direct investment and portfolio investment posted a net outflow of US\$4,403 million and US\$4,551 million, respectively, while other investment posted a net inflow of US\$10,733 million.

(1) Direct Investment

Direct investment abroad by residents accounted for a net outflow of US\$6,028 million, US\$1,117 million less than in the previous year. Mainland China received the lion's share of Taiwan's direct investment abroad. Direct investment in Taiwan by nonresidents registered a net inflow of US\$1,625 million, a decrease of US\$273 million from the previous year. The net outflow of

Financial Account



Source: Balance of Payments, Republic of China, Department of Economic Research, the Central Bank of China.

direct investment declined to US\$4,403 million in 2005, compared to US\$5,247 million in 2004.

(2) Portfolio Investment

Portfolio investment abroad by residents recorded a huge net outflow of US\$35,807 million, the highest level ever recorded. It showed that residents increased investment in foreign securities through the purchase of overseas mutual funds and large portfolio investment abroad by local insurance companies and banks' offshore banking units pursuing higher returns. Net inflow of local portfolio investment by nonresidents registered US\$31,256 million, also the highest level ever recorded. The capital inflow in the domestic market can largely be attributed to the massive portfolio allocation of international funds in Asia and the expectation of better earnings outlooks for locally listed companies. As a result, portfolio investment posted a net outflow of US\$4,551 million in 2005.

(3) Other Investment

Other investment abroad by residents recorded a net outflow of US\$6,370 million, representing an increase of other claims on nonresidents by residents. This outflow was mainly because of the increase in loans extended to foreign banks. Other local investments by nonresidents stood at a net inflow of US\$17,103 million, representing an increase of residents' other liabilities to nonresidents. The inflow was mainly due to the monetary authorities' increase of repurchase agreement transactions for higher returns on foreign exchange reserves. As a consequence, other investment exhibited a net inflow of US\$10,733 million in 2005.

An Increase in Foreign Exchange Reserves

For the year as a whole, the foreign exchange reserve assets held by the Bank increased by US\$20,056 million. Reserve assets increased as a result of the current account surplus, as well as the net inflow in the financial account, which resulted from a massive inflow of foreign funds invested in the local stock market.

4. Prices

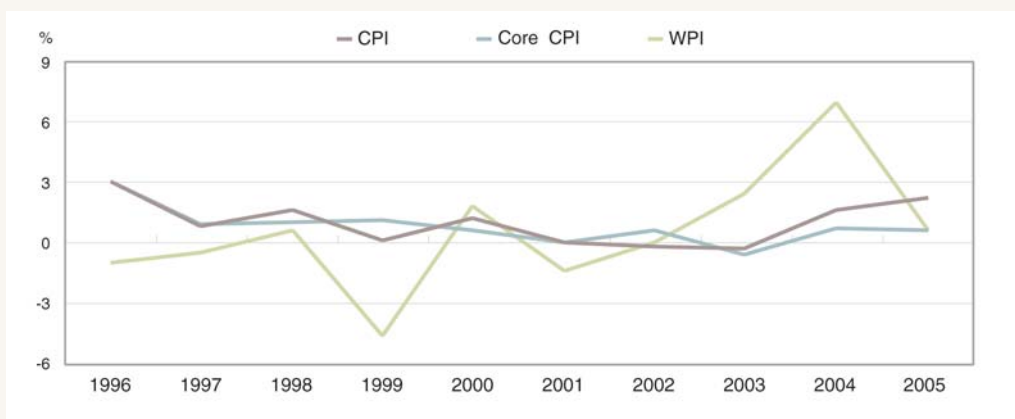
Taiwan's 2005 wholesale price index (WPI) rose a mere 0.61 percent as the strong New Taiwan dollar alleviated most of the upward pressure exerted by the rise in international primary commodity prices. Consumer price index (CPI) inflation rate rose to 2.30 percent mainly due to surges in fresh food prices and oil prices while the core CPI (consumer prices excluding fresh fruits and vegetables, fish and shellfish, and energy) rose by 0.65 percent.

Slightly Increase in Wholesale Prices

Taiwan's WPI increased slightly by 0.61 percent in 2005. Broken down by the major components of the WPI, it is evident that the decrease in export prices offset part of the increases in import prices and the factory prices of products for domestic sales.

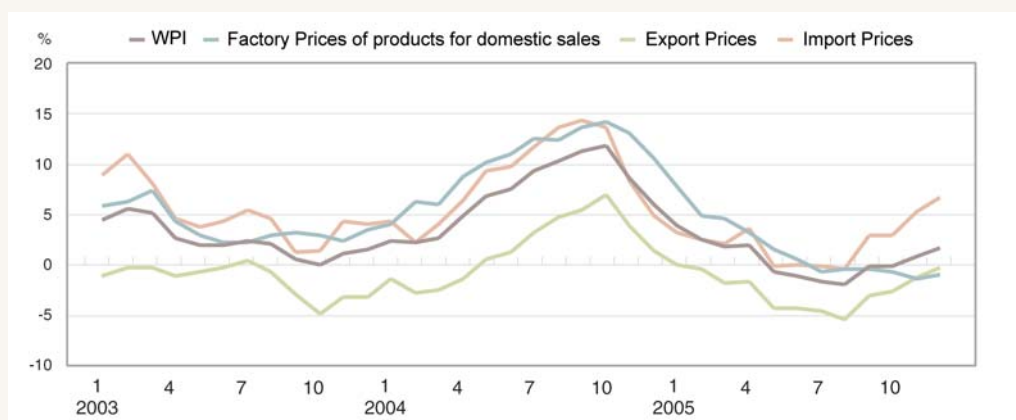
In US dollar terms, import prices increased by 6.38 percent as demand for crude oil, copper, rubber, and plastic remained robust, pushing prices for primary commodities up. In local currency terms, import prices increased 2.43 percent as the 3.9 percent appreciation of the NT dollar against US dollar offset some of the increases in prices. Factory prices of products for domestic sales rose by 1.49 percent, affected by the global increase in primary commodity prices. Alternatively, export prices decreased by 2.46 percent due to the NT dollar appreciation and considerable price cuts in major exporting products of computer, communication, and audio and video equipment.

Inflation Rate



Source: Price Statistics Monthly, Republic of China, DGBAS, Executive Yuan.

Annual Change Rate of WPI



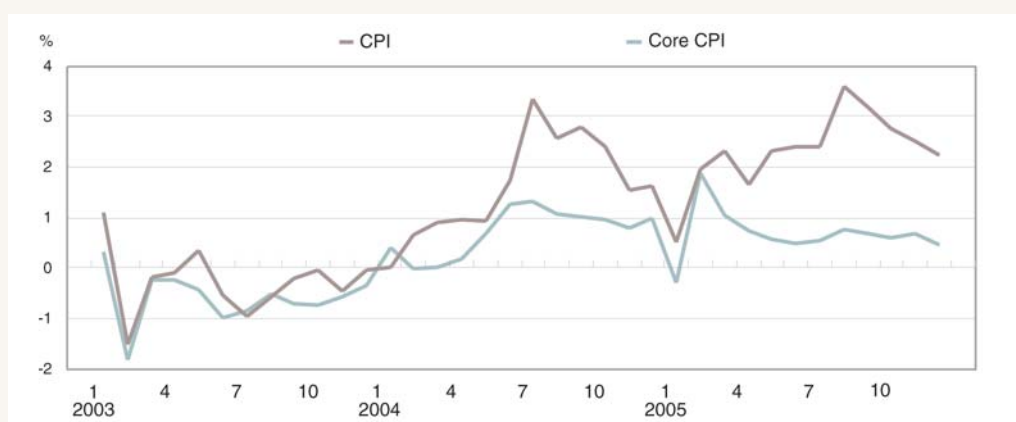
Source: Price Statistics Monthly, Republic of China, DGBAS, Executive Yuan.

Moderate Increase in Consumer Prices

Core CPI inflation rate fluctuated sharply in first two months due to seasonal factors influenced by Chinese Lunar New Year holidays. However, from March onward, core CPI inflation rate remained in a steady range between 0.45 and 1.03 percent and edged up by 0.65 percent for the year as a whole. The mild core CPI inflation reflected intense domestic market competition and relatively stable services prices.

The CPI rose by 2.30 percent year over year in 2005. Sharp increases in food and energy prices accounted for a total of 96 percent or 2.20 percentage points of the CPI increase. Food

Annual Change Rate of CPI



Source: Price Statistics Monthly, Republic of China, DGBAS, Executive Yuan.

prices shot up by 7.47 percent, a 13-year record high increase. They accounted for 84 percent or 1.93 percentage points of the CPI rise as a consequence of bad weather conditions. Damage associated with frosts in March and losses resulting from heavy rain and severe typhoons during the second half of the year pushed vegetable and fruit prices up considerably. Meanwhile, a drop in beef imports as fears of mad cow disease spread after an outbreak was reported in the United States and a decrease in the supply of poultry resulted from the extermination of chickens to eradicate bird flu led to meat price increases. As for eating out, prices for food away from home were driven up by increases in raw food prices.

Oil and gas prices accounted for a total of 12 percent or 0.27 of a percentage point of the CPI advance. The price of oil rose by 7.98 percent and gas by 6.70 percent, contributing 0.20 and 0.07 of a percentage point to the CPI inflation rate, respectively. Internationally, crude oil prices skyrocketed, peaking at around US\$70 per barrel. Reflecting this fact, oil prices were adjusted upward three times in Taiwan, which triggered the government to implement a temporary cut in the oil excise tax for three months beginning in October in order to relieve consumers from high oil prices.

Changes in consumer prices excluding food and energy prices accounted for less than five percent of the overall advance in CPI for a number of reasons. First, although raw material prices rose a stark 15.42 percent over the year, they accounted for a small share of total costs. Portions of the increase were transitory and cyclical swings had little effect on overall inflation. Second, competition promoted by trade liberalization and globalization made it difficult for

Percentage Changes in the Major Components of the CPI in 2005

Item	Inflation rate (%)	Contribution to CPI inflation rate (percentage point)
CPI	2.30	2.30
Food	7.47	1.93
Vegetables	29.75	0.88
Fruits	19.31	0.51
Meat	6.05	0.16
Energy	4.97	0.27
Oil	7.98	0.20
Gas	6.70	0.07
CPI Excluding Food and Energy	0.14	0.10
Durable Consumer Goods	-2.31	-0.17
Medical Care Services	5.47	0.15
Tuition and Miscellaneous Fees	1.10	0.07

Source: Price Statistics Monthly, Republic of China, DGBAS, Executive Yuan.

firms to pass on higher input costs to consumers, thereby, causing a decrease in wholesale prices of finished goods (for domestic sales) of 0.57 percent for the year. Third, services prices remained stable. For example, rent prices continued on a downward stream for the fifth year and helped to lessen inflationary pressures. Fourth, driven by increased productivity and subdued upward pressure on wages, unit labor costs were down for the fourth consecutive year, thereby offsetting CPI inflationary pressures.



5. Public Finance of the Central Government

For 2005, central government revenue climbed by NT\$95.2 billion while expenditure increased by a mere NT\$2.5 billion. As a result, the budget deficit narrowed substantially to NT\$103.9 billion, lending evidence to the positive result of the government's efforts to reduce expenditure and implement tax reforms. Measures to improve government finance will continue to be implemented with the aim of balancing the budget by 2011.

Significant Rise in Central Government Revenue

Central government revenue increased by 6.96 percent to NT\$1,463.4 billion in 2005 due to the recovery of the domestic economy in 2004 and the consequent substantial growth of 16.48 percent in tax revenue.

Tax revenue and surpluses of public enterprises and public utilities together account for 89.63 percent of total revenue. Among the components of the total revenue, business income tax and personal income tax revenues grew significantly by 36.65 percent and 38.02 percent, respectively. However, securities transaction tax dropped 18.91 percent due to the lackluster stock market performance during the year. In addition, surpluses of public enterprises and

Total Revenue and Expenditure of the Central Government

Unit: NT\$ Billion

	Fiscal Year*									
	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005**
Total Revenue	996.8	1,025.2	1,251.5	1,228.6	2,030.8	1,417.2	1,304.7	1,321.0	1,368.2	1,463.4
(Ratio of GDP : %)	12.55	11.91	13.55	12.74	14.20	14.37	12.80	12.80	12.70	13.15
Total Expenditure	1,004.9	1,051.4	1,083.1	1,164.0	2,230.1	1,559.7	1,551.9	1,618.1	1,564.8	1,567.3
(Ratio of GDP : %)	12.65	12.21	11.72	12.07	15.59	15.81	15.22	15.68	14.53	14.08
Surplus/Deficit	-8.1	-26.2	168.4	64.6	-199.3	-142.5	-247.2	-297.1	-196.6	-103.9
(Ratio to GDP : %)	-0.10	-0.30	1.82	0.67	-1.39	-1.44	-2.42	-2.88	-1.83	-0.93
(Ratio to Total Expenditure : %)	-0.81	-2.49	15.55	5.55	-8.94	-9.14	-15.93	-18.36	-12.56	-6.63
Debt Repayment	80.2	100.4	103.9	118.0	193.4	122.2	55.5	46.5	56.1	64.1
Financing:	95.8	126.6	49.9	56.6	466.1	275.8	302.7	343.7	253.5	168.0
Debt Financing	95.8	117.3	49.9	56.6	466.1	275.8	244.4	300.8	253.5	167.3
Surplus of Previous Fiscal Years	--	9.3	--	--	--	--	58.3	42.9	--	0.7
Memorandum:										
Debt Dependency Ratio*** (%)	9.53	11.16	4.61	4.86	20.90	17.68	15.75	18.59	16.20	10.67

Notes: * Effective 2001, the calendar year is adopted as the fiscal year. As a transition, the fiscal year 2000 begins on July 1, 1999 and ends on Dec. 31, 2000, while the other fiscal years prior to 2000 run from July 1 of the preceding year to June 30 of the designated.

** The figures for the year 2005 are preliminary estimates.

***Debt dependency ratio is defined as the ratio of annual issuance of government bonds and borrowing from banks to total.

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

public utilities fell as a result of privatization and losses incurred by some of public enterprises. Proceeds from sales of properties and recalled capital dropped due to a fall in the numbers of shares released by the central government.

Slight Increase in Central Government Expenditure

Owing to enhanced cost control measures, central government expenditure edged up by a mere 0.16 percent after declining 3.29 percent in the previous year. Among the components, spending on education, science and culture accounted for 19.24 percent, the largest share of total government spending. Spending on social welfare accounted for the second largest share of 18.24 percent. Spending on economic development (excluding special budgets) continued on the downward trend starting in 2002 to account for 15.76 percent of total central government spending in 2005, falling behind spending on social welfare and national defense.

However, the Challenge 2008 - National Development Plan, launched in 2002 to tackle the issues of globalization, rapid technological advances, and environmental concerns, has seen modest initial results. Government projects aimed at stimulating economic expansion, job creation, and offering a better quality of life will continue to be implemented.

Total Revenue and Expenditure of the Central Government by Category

Unit: NT\$ Billion

	Fiscal Year									
	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005*
Total Revenue	996.8	1025.2	1251.5	1228.6	2030.8	1417.2	1304.7	1321.0	1368.2	1463.4
Taxes	706.1	749.1	858.8	772.9	1280.7	841.5	820.1	828.6	916.6	1067.7
Surpluses of Public Enterprises and Public Utilities	151.6	149.5	239.9	284.1	442.4	335.8	250.6	326.5	282.1	243.9
Fees, Fines and Indemnities	31.9	32.7	34.9	29.1	103.0	72.5	123.3	73.3	76.0	79.0
Revenues from Government-owned Monopolies	36.4	37.8	37.4	35.9	77.3	57.5	0.4	--	--	--
Proceeds from Sales of Properties and Recalled Capital	40.7	31.1	60.5	91.9	88.4	80.9	73.9	65.8	70.4	52.4
Others	30.1	25.0	20.0	14.7	39.0	29.0	36.4	26.8	23.1	20.4
Total Expenditure	1004.9	1051.4	1083.1	1164.0	2230.1	1559.7	1551.9	1618.1	1564.8	1567.3
General Administration	104.8	108.0	112.7	134.6	234.9	167.0	162.3	167.3	164.1	165.6
National Defense	244.1	253.4	257.1	263.2	343.3	237.7	225.2	227.7	248.9	248.7
Education, Science and Culture	166.6	174.9	184.8	202.7	367.6	257.2	267.0	300.2	302.1	301.5
Economic Development	124.2	113.8	126.5	172.5	356.4	277.1	291.2	295.5	248.9	247.0
Social Welfare	143.7	150.0	150.2	157.6	411.0	293.3	262.2	284.4	279.8	285.8
Community Development & Environmental Protection	19.8	15.3	15.8	19.2	39.6	22.3	23.4	28.7	24.8	25.2
Pensions & Survivors' Benefits	108.6	139.5	139.8	129.3	195.4	122.0	124.3	125.4	123.1	130.5
Interest payments	61.2	58.9	63.5	80.3	249.6	151.2	152.2	144.6	127.1	117.9
Others	31.9	37.6	32.7	4.6	32.3	31.9	44.1	44.3	46.0	45.1

Note * The figures for the year 2005 are preliminary estimates.

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

In 2005, with tight control over government expenditure and tax reforms, the ratio of the fiscal deficit to total expenditure fell from 12.56 percent in the previous year to 6.63 percent this year. The ratio of the fiscal deficit to GDP also narrowed from 1.83 percent to 0.93 percent.

Less Demand for Debt Financing

The demand for debt financing dropped in 2005 in line with the reduced fiscal deficit. The total amount of the fiscal deficit and debt repayment decreased substantially from NT\$253.5 billion in the preceding year to NT\$168.0 billion this year. Of this amount, NT\$167.3 billion was raised through issuing government bonds and borrowing from banks, while the remaining amount was appropriated from surpluses of previous years.

Continued Increase in Debt Obligations

Despite the remarkable narrowing in the fiscal deficit, the debt obligation of the central government continued to increase. Total outstanding debt of the central government reached NT\$3,555.8 billion at the end of 2005, equal to a record high share of 31.94 percent of GDP.

The debt dependency ratio, an indicator to show the share of funds for financing government expenditure by the issuance of government bonds and borrowing from banks, fell to 10.67 percent from the previous year's 16.20 percent due to falling demand for debt financing. This is the lowest since 2000.

Public Debt of the Central Government

Unit: NT\$ Billion

End of Fiscal Year	Outstanding Debt			Outstanding Debt /GDP (%)
		Government	Borrowing from Banks*	
1996	1,224.9	1,020.4	204.5	15.42
1997	1,382.2	1,129.3	252.9	16.05
1998	1,381.7	1,078.0	303.7	14.96
1999	1,332.3	1,024.9	307.4	13.82
2000	2,474.7	1,362.8	1,111.9	17.31
2001	2,788.4	1,687.8	1,100.6	28.27
2002	2,878.4	1,944.0	934.4	28.24
2003	3,159.1	2,323.8	835.3	30.62
2004	3,396.6	2,548.8	847.8	31.54
2005**	3,555.8	2,821.0	734.8	31.94

Notes: * Including foreign debt.

** The figures for the year 2005 are preliminary estimates.

Sources: DGBAS, Executive Yuan.

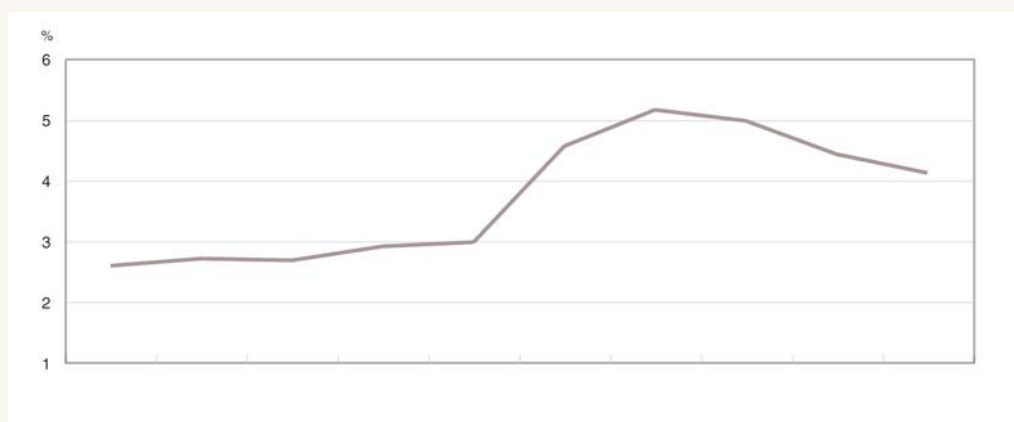
6. Labor Market

Unemployment Rate Continued to Decline

The steady expansion of general economic activity during 2005 encouraged firms to hire more labor. The government also implemented the *Project for the Creation of Job Opportunities in the Government Sector* to help boost employment. Both factors reduced the unemployment rate. For the year 2005, the unemployment rate decreased by 0.31 of a percentage point over the previous year to 4.13 percent, its lowest level since 2001.

The number of jobless people decreased by 26 thousand, or 5.73 percent over the previous year, to an average of 428 thousand in 2005. Employment in the industrial sector, which has a traditional preference for male workers, increased relatively stronger than that in the services sector. As a result, the male unemployment rate fell by 0.52 of a percentage point to 4.31 percent, while the female unemployment rate showed little change, at 3.88 percent. With regard to the factors behind unemployment, job dissatisfaction caused the loss of 9 thousand jobs, accounting for the largest share, or 32.65 percent of total unemployment. The unemployment rate for the age group of 45-64 dropped the most significantly, highlighting the fact that the senior group faced improving conditions regarding job search due to steady economic expansion. Following the mushrooming growth in the number of universities and graduate schools, those in the education group of university or above registered its highest unemployment rate of 4.23 percent. In contrast, the unemployment rates for the rest of the education groups

Unemployment Rate



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

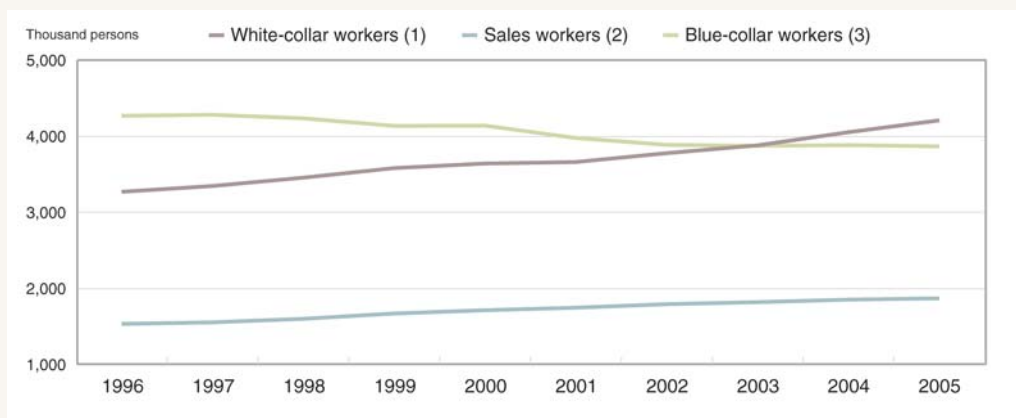
all experienced downward trends.

Total Employment Increased

Positively influenced by steady economic growth and the government's employment creation plan, average employment grew by 1.60 percent over the previous year and amounted to an all-time high, or 9,942 thousand persons in 2005. Employment of white-collar and sales workers grew by 3.87 percent and 0.92 percent, respectively. Among which, professionals, technicians, and associate professionals employment increased most significantly. However, over the same period, blue-collar workers' employment edged down by 0.46 percent.

Broken down by sectors, the services sector still accounted for most of the total employment and exhibited a stable annual growth rate of 1.66 percent. Job gains occurred in several industries, including accommodation, eating-drinking places, professional, scientific and technical services, educational services as well as in the finance and insurance industries. Following the recovery of the global electronic industry and the steady expansion in the domestic construction industry, employment in the industrial sector experienced an annual growth rate of 3.27 percent. In addition, employment in the manufacturing industry increased to 2,726 thousand persons, a record-high since 1990. Employment in the agricultural sector, which has shown a steadily declining trend since 1992, posted a further reduction of 7.94 percent over the preceding year.

Employment by Occupation



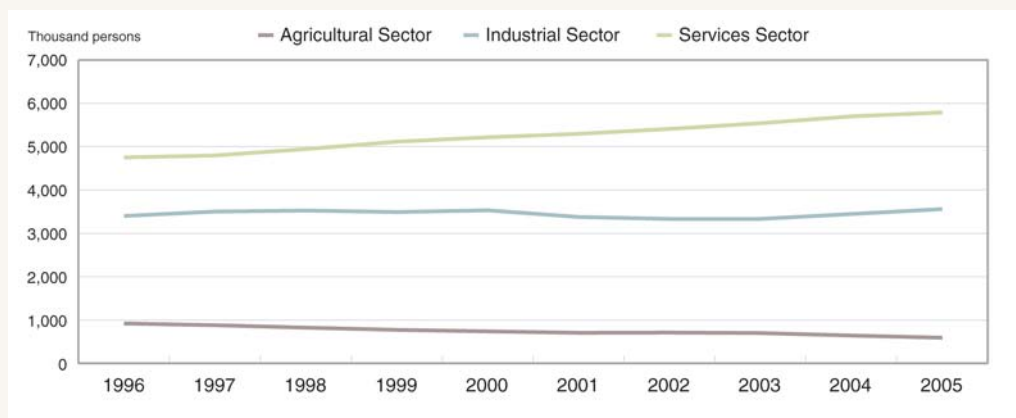
Notes: (1) Including legislators, government administrators, business executives and managers, professionals, technicians and associate professionals, and clerks.

(2) Including service workers, shop and market sales workers.

(3) Including agricultural, animal husbandry, forestry, and fishing workers, production and machine operators and related workers.

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

Employment by Sectors



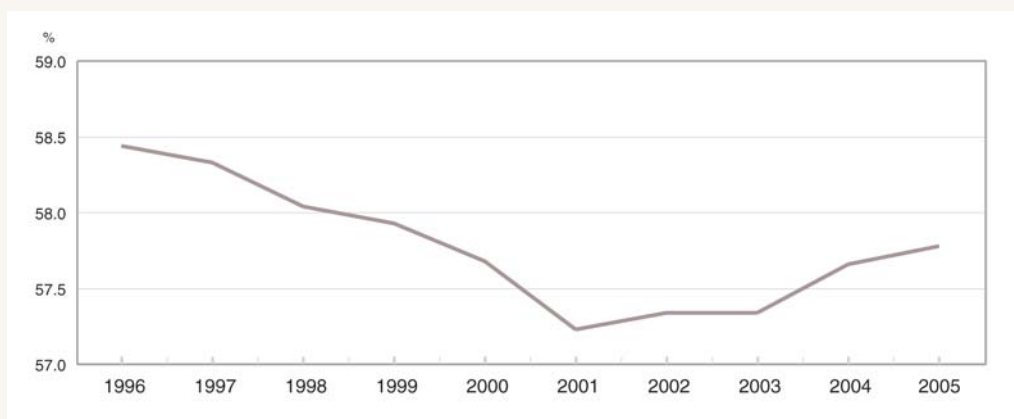
Source: *Monthly Bulletin of Manpower Statistics, Republic of China, DGBAS, Executive Yuan.*

In May 2005, employment of lower income persons and of those who worked for less than 40 hours per week and wished to increase their working hours declined to 860 thousand persons, accounting for 8.68 percent of total employment, a record-low reading. Of these, the ratio of lower income employment (workers whose incomes were less than income end-off-points or the minimum wage level) to total employment inched down by 0.83 of a percentage point to 5.97 percent. The ratio of those who worked for less than 40 hours per week and wished to increase their working hours to total employment also declined by 0.85 of a percentage point over the year to 2.71 percent. These changes reflected an improved labor market.

Labor Force Participation Rate Rose

The number of labor force and non-labor force increased by 1.27 percent and 0.78 percent, respectively, as more workers were willing to participate in the labor market when the economy expanded steadily. The average labor force participation rate increased by 0.12 of a percentage point to 57.78 percent in 2005, a record-high reading since 2000. In terms of gender, the male labor force participation rate edged down to an all-time low, while the female rate reached an all-time high. The participation rate growth was mainly sustained by a rise in the female participation rate of 0.41 percentage point. The participation rates for the working population aged 25-44 and 45-64 rose by 0.62 and 0.28 of a percentage point, respectively. The participation rate for the working population aged 15-24 continued to decline by 0.91 of a percentage point, as a result of lengthened education years. In terms of education level, the participation rate for the working population with junior high school degrees or below declined by 0.86 of a percentage point, while all the other education level groups experienced upward trends.

Labor Force Participation Rate



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

In May 2005, the labor force participation rate for single males edged up over the year by 0.34 of a percentage point to 56.64 percent. The labor force participation rate for married males, however, decreased by 0.72 of a percentage point to 76.21 percent. The participation rates for single females and married females increased by 0.94 and 0.04 of a percentage point to 55.49 percent and 47.88 percent, respectively. The married childless female group showed the highest participation rate of 71.21 percent, up by 1.84 percentage points from the prior year. Overall, the May data reflected that while the female participation rate for both single and married groups rose over the year, the increase was relatively smaller for the married group.

Increase in Earnings of Industrial Workers

The average monthly earnings and regular earnings of workers in the non-agricultural sector, i.e. those hired in the industrial and services sectors, increased by 1.38 percent and 0.99 percent in 2005, respectively. When the increase in consumer prices was taken into account, real monthly earnings and regular earnings decreased by 0.90 percent and 1.28 percent, respectively.

With respect to different sectors, the average monthly earnings of industrial workers increased by 2.46 percent and regular earnings by 1.51 percent. The average monthly earnings and regular earnings of services sector workers edged up by 0.38 percent and 0.44 percent, respectively, indicating that wage adjustment in the industrial sector was more significant than that in the services sector. Real monthly earnings of industrial workers inched up by 0.15 percent, while those of services sector workers decreased by 1.88 percent. However, real monthly earnings in the transport, storage, and communications industry, and the professional, scientific, and technical services industry increased during 2005.

Rising Labor Productivity and Declining Unit Labor Cost in the Industrial Sector

As the increase in total production outpaced that in total working hours, the labor productivity index for the industrial sector rose solidly by 4.71 percent in 2005. The gains in labor productivity were particularly significant in the electronic parts and components industry, which grew by 10.81 percent. However, traditional industries such as wood and bamboo products, and apparel, clothing accessories, and other textile products industries exhibited negative productivity growth.

The index of unit labor cost in the industrial sector decreased by 0.81 percent from the previous year, reflecting an increase in total production which exceeded that of total labor compensation. The reduction improved the overall competitiveness of the industrial sector. However, the increase in unit labor cost in some industries, such as in apparel, clothing accessories, and other textile products, and wood and bamboo products industries, exceeded 10 percent, which would indicate that the competitiveness of these industries is likely to have weakened.

Labor Productivity and Unit Labor Cost Indices in the Industrial Sector



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



II. Financial Developments

- 1. Overview**
- 2. Monetary Aggregates**
- 3. Banking Sector**
- 4. Money Market**
- 5. Foreign Exchange Market**
- 6. Stock Market**
- 7. Bond Market**

II. Financial Developments

1. Overview



Domestic financial conditions remained accommodative in 2005, although monetary policy was tightened to curb mounting inflationary pressure and reserve money growth slowed. Along with the pace of the Bank's rate rises, bank interest rates and short-term market rates rose gradually. However, yields on longer-term bonds edged down through most of the year.

Loans and investments by major financial institutions expanded at an annual rate of 7.69 percent in 2005, down from 8.64 percent registered in 2004. Within the composition of bank credit, borrowing by non-financial businesses picked up moderately, while unsecured consumer loans, which had been growing strongly since 2003, cooled from the second half of 2005. Government borrowing continued to show negative growth over the year. The moderation of bank credit growth combined with increased holdings of foreign financial assets by residents led the annual growth of the monetary aggregate M2 to decline from 7.45 percent in 2004 to 6.22 percent in 2005. Nevertheless, M2 growth still fell comfortably within the Bank's 3.5 to 7.5 percent target zone.

The NT dollar started the year strong and hit a yearly high of 30.790 against the US dollar on March 10 as foreign capital continuously flowed in. It then depreciated through the end of October and reached a yearly low of 33.770 against the US dollar on October 24, as domestic investors increased their outward portfolio investments on expectations that the Fed would further tighten monetary policy. The NT dollar stood at 32.85 against the US dollar at the end of 2005, showing a depreciation of 2.84 percent compared to the previous year-end. For the year as a whole, the NT dollar, however, appreciated by 3.90 percent against the US dollar.

In the equity market, the TAIEX hovered between 5,800 and 6,200 points over the first five months of 2005. The market modestly resumed momentum from the end of May, as Morgan

Stanley Capital International Inc. (MSCI) raised Taiwan's weighting in its indices and foreign investors sought net long positions in the local equity market. After August, stock prices moved down and reached a yearly nadir of 5,633 points on October 28. From then on, the index bounced back sharply in response to the pickup in economic growth in the fourth quarter. The TAIEX ended the year at 6,548 points, 6.64 percent higher than a year earlier. The daily average turnover for the year, however, dropped by 20.21 percent from the previous year.

Profitability of financial institutions in 2005 retreated significantly from the very high level posted in 2004, but was still higher than 2003. The large decline was mainly attributable to the surge in the writing-off of bad debts and in provisions for consumer loan losses by some banks. The average capital adequacy ratio of domestic banks also dropped to 10.34 percent at the end of the year from 10.67 percent reported at the 2004 year-end. However, the quality of bank assets continued to improve. The non-performing loan ratio of domestic banks declined from 3.82 percent to 2.24 percent during the same period.



2. Monetary Aggregates

The broad monetary aggregate M2 has been the Bank's intermediate target for monetary policy since 1992. It grew at an annual rate of 6.22 percent in 2005, lower than that of 7.45 percent in 2004, but within the target range of 3.5 to 7.5 percent set for the year.

The growth of the narrow monetary aggregate, M1B, plunged to 7.10 percent in 2005 from 18.98 percent of the previous year as domestic economic conditions slackened, stock transactions eased, and transaction deposits shifted to time deposits as interest rate differentials between them widened.

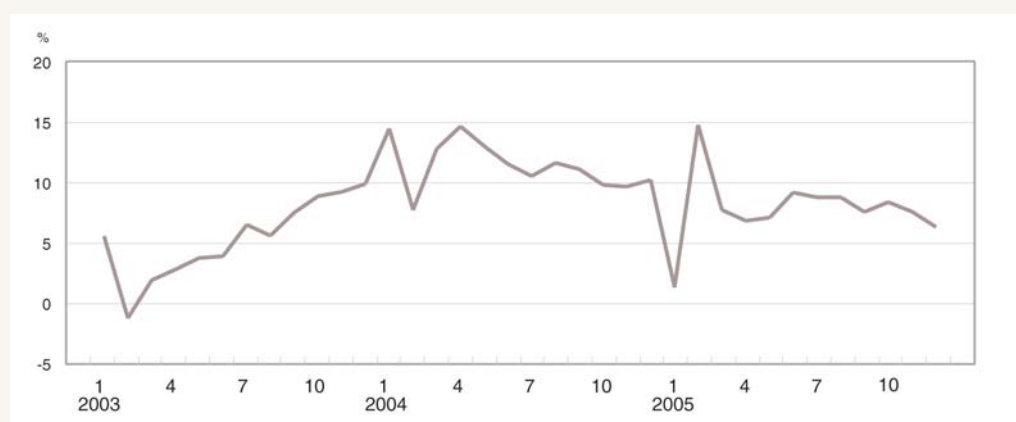
Moderate Growth of Reserve Money

After hitting a ten-year high of 11.38 percent in 2004, the average annual growth rate of reserve money – bank reserves plus currency held by the non-bank public – fell to 7.84 percent in 2005. Within reserve money, bank reserves grew by a mild 6.03 percent, while currency held by the non-bank public grew by 10.50 percent.

For the monthly movements of reserve money growth, the annual growth rates fluctuated excessively in January and February, reflecting the seasonal demand for currency during the Chinese Lunar New Year Holidays. In the subsequent months, this rate remained broadly stable.

On the demand side, several factors influenced the growth of reserve money in 2005. For

Annual Growth Rates of Reserve Money



Source: *Financial Statistics Monthly*, Republic of China, Department of Economic Research, the Central Bank of China.

banks, the reduced momentum in economic growth and credit expansion limited demand for bank reserves. Meanwhile, the shift from transaction deposits to time deposits induced by the widening interest rate spread lessened banks' demand for reserves as time deposits were subject to lower reserve requirements. For the non-bank public, the strong demand for currency largely mirrored the low level of interest rates and thus relatively low opportunity costs of holding cash.

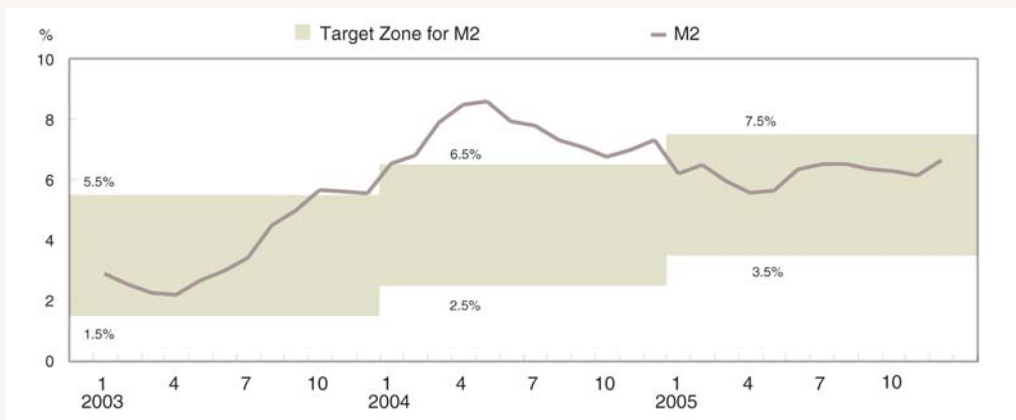
On the supply side, the Bank's balance sheet reflected the sources of reserve money. The expansion of the Bank's foreign assets, which reflected the efforts made by the Bank to absorb massive inflows of foreign capital, was the foremost source of the increase in reserve money. Although this successfully reduced the volatility of the exchange rate, it simultaneously led to a rise in reserve money. To sterilize the resultant excess liquidity, the Bank took redeposits from financial institutions, swapped out foreign currency for NT dollars, and issued certificates of deposit (CDs), which brought about a rise in the sum of these three liability-side items. Overall, this rise offset the increase in foreign assets to a degree, leading to a smaller increase in reserve money than the increase in foreign assets.

Tepid Growth of M2

M2 is the Bank's intermediate target for conducting monetary policy. M2 grew at an annual rate of 6.22 percent in 2005, lying within the target range of 3.5 to 7.5 percent.

The monthly changes of M2 growth were as follows. In January and February, M2 grew by

Target Range and Annual Growth Rates of M2



Source: *Financial Statistics Monthly*, Republic of China, Department of Economic Research, the Central Bank of China.

over 6 percent as the amount of consumer credit granted by financial institutions picked up and a considerable amount of foreign capital flowed in. From March to May, M2 growth slipped below 6 percent due to an upsurge in foreign portfolio investment by local residents and the high base of the same period last year. From June onwards, M2 growth climbed back up to above 6 percent due to substantial foreign capital inflows, above-eight-percent growth in banks' loans and investments, and a lower base effect.

A Decline in M1B Growth

In 2005, the average annual growth rate of M1B was 7.10 percent, much lower than the 18.98 percent posted in the preceding year. The sharp decline in this rate reflected, to a large extent, somewhat moderated economic growth and a decline in stock trading volume, as well as limited growth in transaction deposits. Following the Bank's four consecutive rate hikes during 2005, financial institutions gradually lifted interest rates on time deposits while they kept those on transaction deposits unchanged. The widened spread caused a shift out of transaction deposits toward time deposits, deepening the drop in M1B growth.

For the beginning of the year, with the exception of February, the growth of M1B followed a declining growth trend, tailing off to 5.91 percent in May. From June to August, M1B rebounded to above 7 percent due to regained strength in the stock market and recurrent foreign capital inflows. From September to November, the growth rate of M1B fell and bottomed at 5.39 percent in October due to a higher base in the previous year and the attenuation of the stock market. In December, M1B rose to 6.56 percent as foreign capital poured in *en masse*.

Annual Growth Rates of M1B



Source: *Financial Statistics Monthly, Republic of China, Department of Economic Research, the Central Bank of China.*

3. Banking Sector

A Drop in the Number of Depository Institutions

At the end of 2005, the number of depository institutions was 390, a decrease of six from the previous year. This was the result of new openings of one domestic bank and one foreign bank and mergers by four domestic banks, three credit cooperative associations, and one credit department of a farmers' and fishermen's association into local banks.

The number of financial holding companies remained at 14 at year-end 2005, unchanged from 2004.

Market Shares of Deposits and Loans

Due to the previously mentioned mergers into domestic banks, domestic banks' market shares of deposits and loans increased to 70.02 percent and 86.86 percent, respectively, at year-end 2005. While placing great emphasis on their foreign exchange related business, foreign banks' market shares of deposits and loans remained relatively low at around three percent each. Restricted by the government regarding loan extension, the Department of Savings and Remittances of the Chunghwa Post Co.'s market share of deposits rose to 15.04 percent, whereas its market share of loans only edged up to 0.10 percent, slightly higher than that of the previous year.

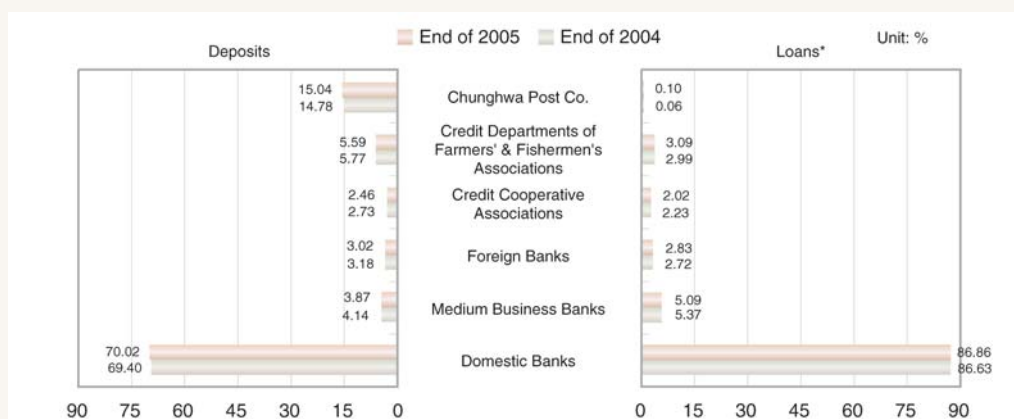
Number of Depository Institutions by Category

	End of 2005	End of 2004	Annual Change
Combined Number of Main Offices	390	396	-6
Domestic Banks	42	45	-3
Medium Business Banks	4	4	0
Foreign Banks	36	35	1
Credit Cooperative Associations	29	32	-3
Credit Departments of Farmers' and Fishermen's Associations	278	279	-1
Department of Savings and Remittances of Chunghwa Post Co.	1	1	0
Combined Number of Branches	5,938	5,911	27
Local Branches	5,789	5,761	28
Overseas Branches	79	80	-1
Offshore Banking Units	70	70	0

Sources: 1. *Financial Statistics Monthly, Republic of China, Department of Economic Research, the Central Bank of China.*

2. *Department of Financial Inspection, the Central Bank of China.*

Market Shares of Deposits and Loans by Type of Depository Institutions



Note * Including data for securities acquired under reverse repurchase agreements.

Source: *Financial Statistics Monthly, Republic of China, Department of Economic Research, the Central Bank of China.*

Depository Institutions' Sources and Uses of Funds

Regarding the sources of funds, both the amount and share of transaction and non-transaction deposits, especially for foreign currency deposits, increased markedly in 2005, though government deposits and borrowings from the Bank decreased. Concerning the uses

Sources and Uses of Funds in Depository Institutions

	End of 2005		End of 2004		Annual Change	
	Amount	Share (%)	Amount	Share (%)	Amount	Share (%)
Sources:						
Transaction Deposits ⁽¹⁾	7,141	27.68	6,698	27.44	443	0.24
Non-transaction Deposits ⁽²⁾	16,636	64.48	15,672	64.21	965	0.28
Government Deposits	729	2.83	748	3.06	-18	-0.24
Borrowings from CBC	122	0.47	208	0.85	-86	-0.38
Other Items (Net)	1,172	4.54	1,083	4.44	88	0.10
Total	25,800	100.00	24,409	100.00	1,391	0.00
Uses:						
Foreign Assets ⁽³⁾	149	0.58	147	0.60	2	-0.02
Loans	17,143	66.45	15,884	65.08	1,259	1.37
Portfolio Investments	2,202	8.53	2,096	8.59	106	-0.05
Purchases of CDs Issued by CBC	3,444	13.35	3,518	14.41	-75	-1.07
Deposits with CBC	2,863	11.10	2,764	11.32	99	-0.23

Notes: (1) Including checking account deposits, passbook deposits and passbook savings deposits.

(2) Including time deposits, time savings deposits, foreign currency deposits, postal savings deposits, non-residents NT dollar deposits, repurchase agreements, and money market mutual funds.

(3) Excluding valuation changes in the exchange rate of the NT dollar against foreign currencies when calculating their annual change.

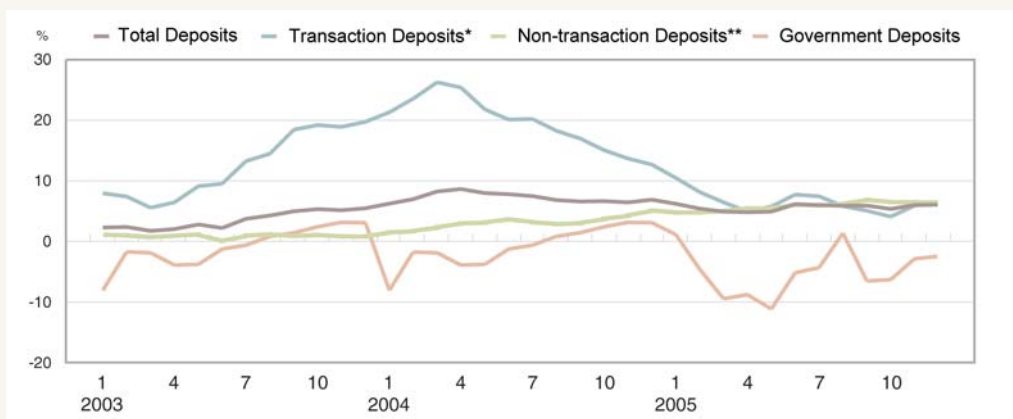
Source: *Financial Statistics Monthly, Republic of China, Department of Economic Research, the Central Bank of China.*

of funds, although the increments of funds raised directly from financial markets via the issues of bonds and bills by enterprises shrank, the growth of loans increased significantly as banks aggressively expanded their consumer finance business. As a result, the share of bank loans in the uses of funds rose. Meanwhile, portfolio investments increased to some extent, despite the fact that they regressed in the share of uses. Both the share of holdings of certificates of deposit issued by the Bank and the share of deposits with the Bank, on the whole, decreased considerably from the previous year.

Downtrend in the Growth of Deposits

Total deposits of depository institutions as of the end of 2005 grew by an annual rate of 6.18 percent, lower than the 6.89 percent recorded in 2004. The annual average was 5.65 percent in 2005, compared to the 7.23 percent posted in 2004. On a monthly basis, it is evident that bank loans and investments fell gradually during the first four months of the year. In April, the annual growth rate of deposits fell to an annual low of 4.83 percent. This level of growth persisted in May. In June, deposit growth picked up as net foreign capital inflow and bank loans and investments expanded. In July, deposit growth waned due to a decline in net capital inflow. From August to October, deposit growth receded even more as the decline in capital inflow turned into an outflow as domestic investment in financial markets overseas rose. From November onwards, net foreign capital inflow resumed, and the annual growth rate of deposit rebounded to 6.18 percent in December.

Annual Growth Rate of Deposits by Type



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.

Source: *Financial Statistics Monthly, Republic of China, Department of Economic Research, the Central Bank of China.*

The growth rate of transaction deposits was 6.61 percent in 2005, significantly lower than the 12.68 percent of the previous year. During the first two months of the year, it tumbled as demand for currency soared prior to the Chinese New Year holidays. In March and April, it tapered off as stock market activity weakened as banks repeatedly jacked up non-transaction deposits rates, thus attracting a shift of funds from transaction deposits to non-transaction deposits. In May, it rebounded. By June, continued inflow of net foreign capital and the rise in bank loans and investments helped the growth of transaction deposits to pick up momentum. However, this turn around did not last through the second half of the year. Due to higher base in the previous year, the annual growth rate dropped in July. From August to October, a reversal in net foreign capital from inflow to outflow and growth in domestic investment in overseas financial markets further weakened the growth of transaction deposits. From November onwards, the annual growth rate of transaction deposits increased due to active stock market transactions. It climbed to 6.61 percent at the end of December. At the end of 2005, the share of transaction deposits in total deposits edged up from the previous year's 29.02 percent to 29.14 percent.

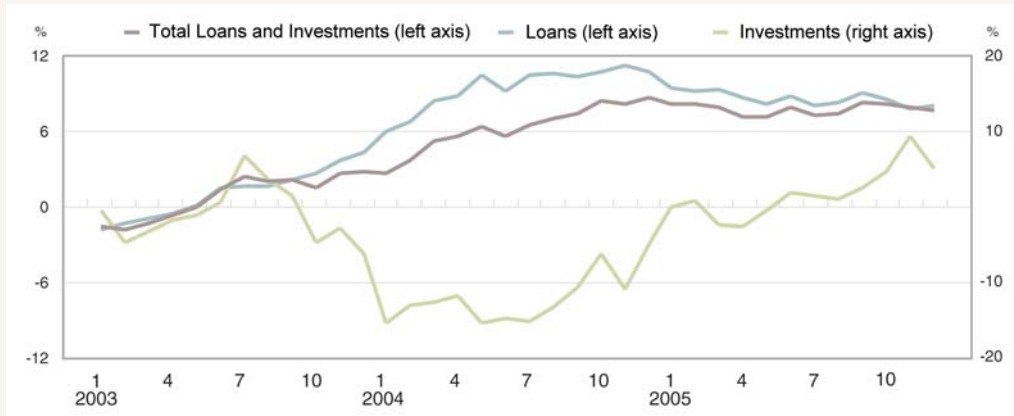
In terms of the growth rate of non-transaction deposits, it climbed from 5.11 percent at the end of 2004 to 6.42 percent at the end of 2005, while its share in total deposits edged up only slightly from 67.74 percent to 67.88 percent. The increase in non-transaction deposits mainly arose from the widening of the transaction and non-transaction deposit interest rate spread. Analyzing non-transaction deposits by type, it is noticeable that negotiable certificate of deposits (NCDs) fell while time savings deposits rose. With the decline of NCDs, the growth rate of time deposits dropped from 7.25 percent at the end of 2004 to 4.87 percent at the end of 2005. Time savings deposits, notwithstanding, grew from 1.26 percent to 4.81 percent. As for postal savings deposits, the growth rate climbed from 6.82 percent to 10.05 percent. The rate of foreign currency deposits expanded slightly from 12.88 percent to 13.99 percent due to the widening interest rate spread between the US dollar and the NT dollar deposits.

Government deposits in depository institutions contracted 2.47 percent at the end of 2005, compared to a 3.31 percent contraction at the previous year-end, which was equivalent to a drop from 3.24 percent to 2.98 percent of total deposits.

Retarded Growth in Loans and Investments

Loans posted an annual growth rate of 8.04 percent at the end of 2005, lower than that of 10.71 percent a year earlier, while the annual growth rate of investments rose to 5.04 percent in 2005 from a negative 4.81 percent reported in 2004. The annual growth rate of loans and

Annul Growth Rate of Loans and Investments



Source: Financial Statistics Monthly, Republic of China, Department of Economic Research, the Central Bank of China.

investments of depository institutions fell to 7.69 percent at year-end 2005, compared to the 8.64 percent recorded in the previous year.

Shifts in Sector Share of Loans

Due to prompt growth of banks' consumer loans, loans extended to the private sector reported a huge 86.35 percent of total loans at the end of 2005, higher than that of 85.05 percent recorded a year earlier. Owing to the central government's repayment of loans, the share of loans extended to government agencies to total loans decreased to 10.40 percent from 12.08 percent in the preceding year. Meanwhile, the share of loans to public enterprises

Industry Loans Extended by Deposit Insitutions



Source: Financial Statistics Monthly, Republic of China, Department of Economic Research, the Central Bank of China.

increased from 2.87 percent at year-end 2004 to 3.25 percent at year-end 2005.

Loans by Industry

The share of real estate loans extended by domestic banks ascended from the previous year-end's 6.79 percent to 7.36 percent as the real estate market showed signs of revival, while the shares of loans to other primary industries fell.

Consumer Loans

Domestic banks, local branches of foreign banks, and medium business banks recorded an annual increase of NT\$753.4 billion or 12.85 percent of total loans made due to their continual attempts to expand their consumer finance businesses. The magnitude of this increase was smaller than that of the previous year's NT\$892.1 billion or 17.95 percent due to the reduction in revolving credit allowances for credit cards and cash card loans from in the fourth quarter.

Share of Loans by Currency

The share of foreign currency loans to total loans dropped to 2.99 percent at year-end 2005 from 3.53 percent a year earlier. The drop was mainly due to rising expectations of NT dollar depreciation from the third quarter onwards. The corresponding share of NT dollar loans to total loans therefore increased from 96.47 percent to 97.01 percent. Moreover, the NT dollar loan-to-deposit ratio increased to 72.31 percent at the end of 2005 from 70.36 percent a year earlier.

Investment

Government bonds accounted for the largest share of depository institutions' total investment at 53.00 percent in 2005, up from 49.55 percent a year ago, due mainly to the Department of Savings and Remittances of the Chunghwa Post Co.'s oversized purchase of government bonds. Corporate bonds, second to government bonds in total investment shares, leaped to 12.54 percent from 6.99 percent a year earlier as banks upsized purchases to reduce excess liquidity. Commercial paper, in contrast, dropped to 9.93 percent from 12.49 percent due to a cutback in commercial paper outstanding.

Increasing Share of Intermediate Financing

The total amount of funds raised during the year by the non-financial sector, comprising enterprises, households, and the government, decreased from the previous year's NT\$2,319.2 billion to NT\$1,962.4 billion. The share of market financing to total funds raised decreased from

Intermediate Financing vs. Market Financing*

Unit: NT\$ Billion

Year	Total Funds Raised (3)=(1)+(2)	Intermediate Financing(1)				Market Financing(2)	
		Amount			Share (1)/(3)(%)	Amount	Share (2)/(3)(%)
			Loans	Investments			
1996	1,625.9	1,372.6	721.4	651.2	84.42	253.3	15.58
1997	2,278.0	1,670.2	1,548.0	122.2	73.32	607.8	26.68
1998	1,935.4	1,404.4	886.5	517.9	72.56	531.0	27.44
1999	1,289.1	1,041.3	954.0	87.3	80.78	247.8	19.22
2000	1,377.1	1,203.2	1,053.2	150.0	87.37	173.9	12.63
2001	665.2	594.5	200.6	393.9	89.38	70.7	10.62
2002	807.5	424.8	71.7	353.1	52.61	382.7	47.39
2003	1,677.1	716.0	711.5	4.5	42.69	961.1	57.31
2004	2,319.2	1,824.6	1,578.4	246.2	78.67	494.6	21.33
2005	1,962.4	1,768.8	1,447.1	321.7	90.14	193.6	9.86

Notes: * Measured in terms of flow data.

(1) Refers to loans and investments made by depository institutions, investment and trust companies, and life insurance companies, after taking account of their reclassifying of non-accrual loans and bad loans written-offs.

(2) Refers to the total amount of new issues of various marketable securities, including government bonds, corporate bonds and stocks, offshore bonds and depository receipts, and short-term bills and asset-backed securities directly held by the non-financial sectors.

Source: *Financial Statistics Monthly, Republic of China, Department of Economic Research, the Central Bank of China.*

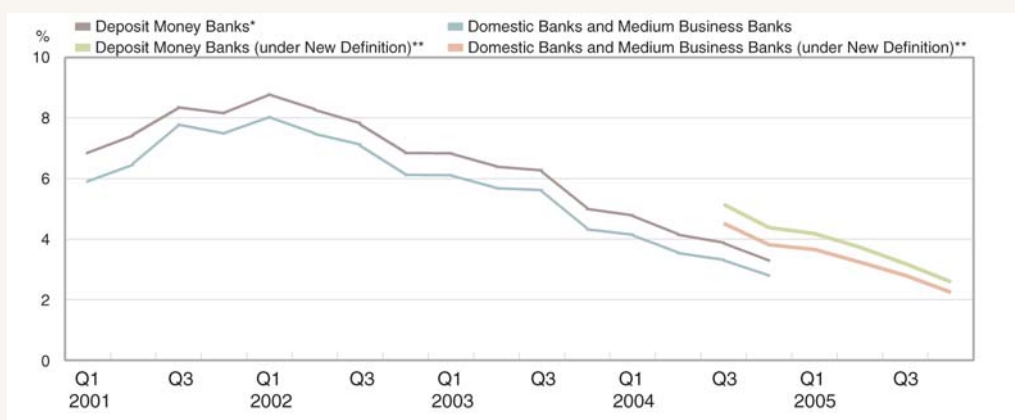
21.33 percent to 9.86 percent as the growth of offshore bonds and government bonds shrunk and short-term securities and corporate bonds outstanding diminished. Conversely, the share of intermediate financing, that is, those raised from financial institutions including depository institutions, investment and trust companies, and life insurance companies, rose from 78.67 percent in 2004 to 90.14 percent in 2005.

Substantial Decline in the Non-Performing Loan Ratio

Local banks' effort in speeding up the disposal of non-performing loans (NPLs) has led to a significant decline in the total value of NPLs. In 2005, the book value of accumulated NPLs sold recorded a remarkable increase of \$173.6 billion.

In addition to the decline in the value of NPLs, banks' effort in writing off bad loans with earnings despite of the adoption of a new definition of NPLs has led to a substantial drop in NPL ratios. Beginning in July 2005, the definition of NPLs was modified to include NPLs under the old definition plus a large portion of loans under surveillance. Those not included are restructured loans that satisfy special conditions. Estimates reported using the new definition showed a decline of the average NPL ratio of deposit money banks. It reported 2.59 percent at year-end 2005, a sharp decline from the 4.38 percent recorded a year earlier. During this period, the corresponding NPL ratio for domestic banks and medium business banks combined (including their offshore banking units and overseas branches) dropped from 3.82 percent at

Non-performing Loan Ratios of the Banking Sector



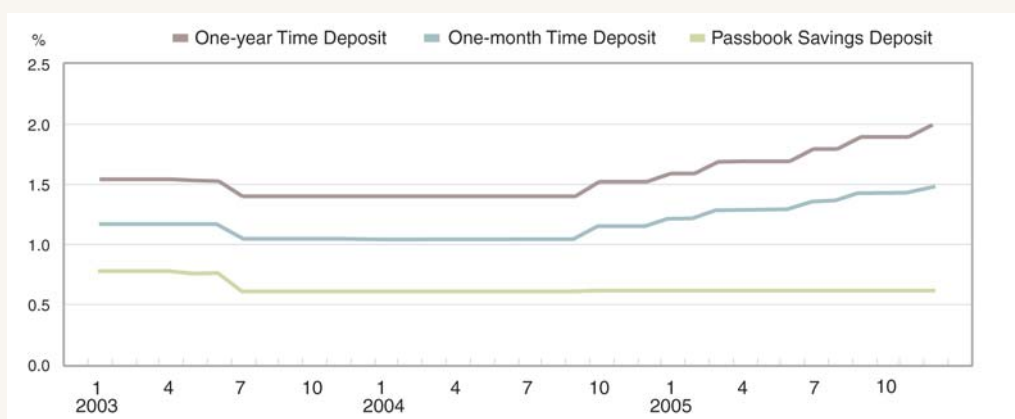
Notes: * Including domestic banks, medium business banks, foreign banks, credit cooperatives associations and credit departments of farmers' and fishermen's associations.
 ** Including loans under surveillance.
 Source: Department of Financial Inspection, the Central Bank of China.

year-end 2004 to 2.24 percent at year-end 2005.

Increase in Bank Interest Rates

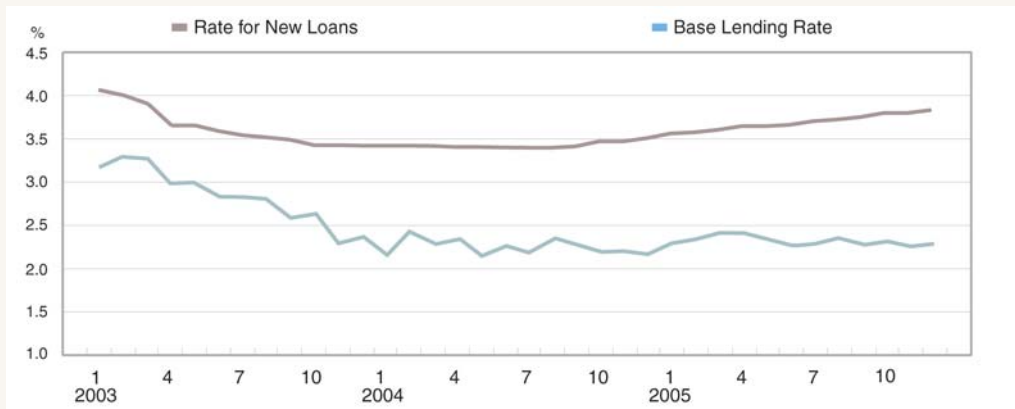
The average monthly interest rate posted by the five major domestic banks grew steadily throughout 2005 owing to increases in the central bank discount rate. Breaking these rates down by duration of deposits, rates for one-month and one-year time deposits moved upward to 1.50 percent and 1.99 percent by the end of 2005, respectively, from 1.15 percent and 1.52

The Average Deposit Rates of the Five Major Domestic Banks*



Note: * The five major domestic banks are the Bank of Taiwan, the Taiwan Cooperative Bank, the First Commercial Bank, the Hua Nan Commercial Bank and the Chang Hwa Commercial Bank.
 Source: Financial Statistics Monthly, Republic of China, Department of Economic Research, the Central Bank of China.

The Average Lending Rate of the Five Major Domestic Banks*



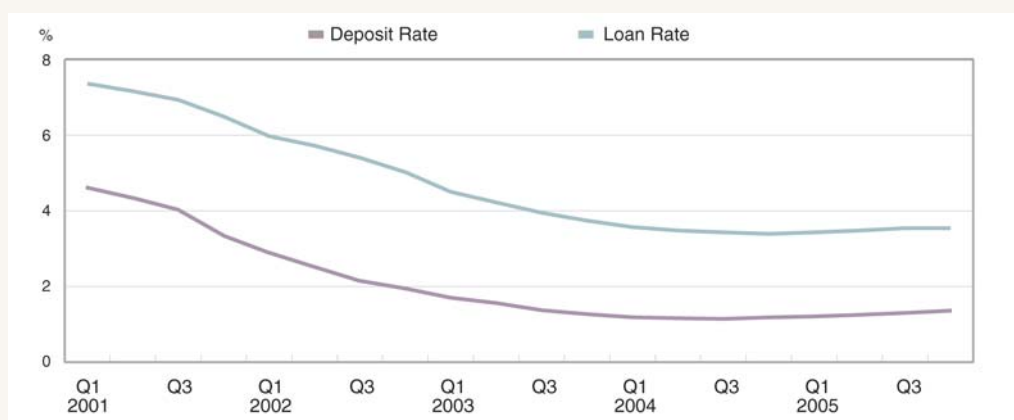
Note: * The five major domestic banks are the Bank of Taiwan, the Taiwan Cooperative Bank, the First Commercial Bank, the Hua Nan Commercial Bank and the Chang Hwa Commercial Bank.
Source: *Financial Statistics Monthly, Republic of China, Department of Economic Research, the Central Bank of China.*

percent at the end of 2004. Furthermore, the average base-lending rate rose to 3.85 percent from 3.52 percent.

With the baselending rate climbing, the weighted average rate for new loans employed by the five major domestic banks rose to 2.41 percent in March 2005 from 2.16 percent in December 2004. From March onwards, the rate for new loans fluctuated in a narrow range between 2.25 percent and 2.41 percent, regardless of the persistent rise in the base lending rate. This was mainly due to the extension of low interest rate loans to the government and enterprises with good credit records, and mortgages contracted where preferential rates were applied during the initial periods of the loans. On the whole, the weighted average lending rate merely increased by 0.07 of a percentage point, from 2.24 percent in 2004 to 2.31 percent in 2005. Not counting government loans, the rate was 2.34 percent for 2005, the same as that of 2004.

The weighted average rate of deposits and loans of domestic banks increased gradually throughout the year. During the fourth quarter of 2005, the weighted average rate for deposits and lending rose to 1.36 percent and 3.54 percent from that of 1.18 percent and 3.39 percent, respectively, in the fourth quarter of 2004. For 2005, the weighted average rate for deposits and lending were 1.28 percent and 3.50 percent, higher than the 1.17 percent and 3.47 percent recorded in 2004. The increase in the lending rate was greater than the increase in the deposit rate for the first three quarters of 2005. The interest rate differential for lending expanded from 2.22 percent in the first quarter to 2.24 percent in the third quarter. Nevertheless, this spread

The Weighted Average Interest Rates of Domestic Banks



Source: *Financial Statistics Monthly, Republic of China, Department of Economic Research, the Central Bank of China.*

plunged to a historical low of 2.18 percent in the fourth quarter as banks cutback extensions of high interest consumer loans such as cash card loans.

A Shrinkage in Profitability

The profitability of banks shrunk significantly during 2005. The combined pre-tax earnings of all depository institutions fell by NT\$76.5 billion to NT\$116.5 billion. Of this amount, the pre-tax earnings of domestic banks and medium business banks combined decreased by NT\$76.6 billion to NT\$78.7 billion. This was primarily attributed to banks' sizable provisions for bad loans incurred from credit and cash card defaults and an increase in business and administrative costs. The pre-tax profits of foreign banks dropped by NT\$2.7 billion, mainly due to a rise in business and administrative costs. As for credit cooperative associations and the credit

Profitability of Depository Institutions by Type

Unit: NT\$ Billion

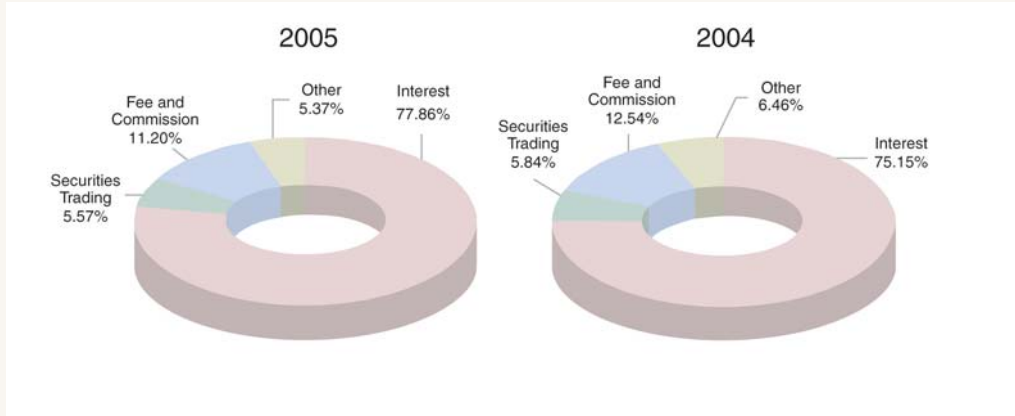
	Profit before Tax			Return on Assets (%)*			Return on Equity (%)**		
	2005	2004	Annual Change	2005	2004	Annual Change	2005	2004	Annual Change
Domestic Banks and Medium Business Banks	78.7	155.3	-76.6	0.29	0.61	-0.32	4.55	9.79	-5.24
Foreign Banks	20.1	22.8	-2.7	1.10	1.31	-0.21	37.88	37.45	0.43
Credit Cooperative Associations	1.5	1.2	0.3	0.23	0.17	0.06	3.75	2.87	0.88
Credit Departments of Farmers' and Fishermen's Associations	2.9	2.1	0.8	0.19	0.15	0.04	3.48	2.77	0.71
Department of Savings and Remittances Chunghwa Post Co.	13.3	11.6	1.7	0.35	0.33	0.02	24.90	22.88	2.02
Total Depository Institutions	116.5	193.0	-76.5	0.34	0.59	-0.25	5.95	10.62	-4.67

Notes: * Return on Assets = Profit before Tax / Total Assets

** Return on Equity = Profit before Tax / Net Worth

Source: *Department of Financial Inspection, the Central Bank of China.*

Composition of Operating Income of Domestic Banks and Medium Business Banks



Source: Department of Financial Inspection, the Central Bank of China.

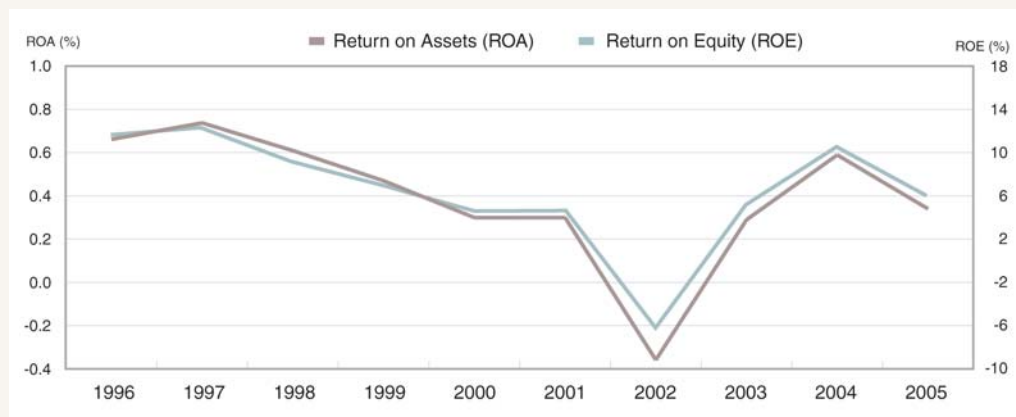
departments of farmers' and fishermen's associations, pre-tax earnings rose as banks' provisions for bad loans dwindled. In addition, the pre-tax profit of the Department of Savings and Remittances of the Chunghwa Post Co. climbed, owing to an upsurge in interest earned from bonds and dividend income.

In terms of the components of operating income of domestic banks and medium business banks combined, the share of interest income to total operating income rose from the previous year's 75.15 percent to 77.86 percent owing to an increase in banks' interest rates. As for fee and commission income, and earnings from securities trading, the shares dropped from 12.54 percent and 5.84 percent in 2004, respectively, to 11.20 percent and 5.57 percent in 2005.

A Decrease in ROA and ROE

The average return on assets (ROA) and return on equity (ROE) for all depository institutions fell to 0.34 percent and 5.95 percent in 2005, respectively, from 0.59 percent and 10.62 percent a year earlier. Among depository institutions, foreign banks remained ahead in terms of ROAs and ROEs. For 2005 they recorded lower ROAs but higher ROEs, while domestic banks and medium business banks registered both lower ROAs and ROEs than the preceding year. ROAs and ROEs for all other depository institutions surpassed those of the previous year.

The Return on Assets and Equity of Depository Institutions



Source: Department of Financial Inspection, the Central Bank of China.



4. Money Market

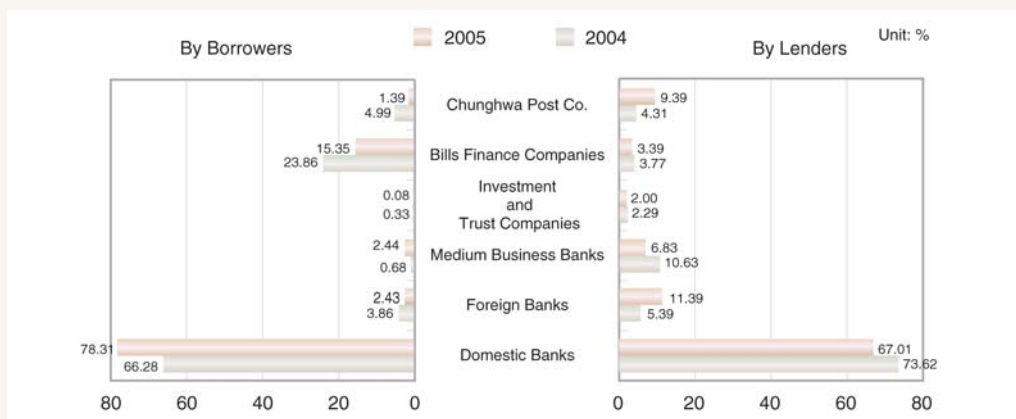
Brisk Interbank Call-loan Market

In the first-half of 2005, funding conditions in the banking system remained easy, because expectations of a renminbi appreciation and an increase in Taiwan's weighting in the Morgan Stanley Capital International (MSCI) index resulted in continuous foreign capital inflows, while continuously rising oil prices softened domestic economic growth. Activity in the interbank call-loan market grew briskly in the second-half of the year, when demand for funds regained momentum as economic activity picked up and banks expanded loans and credit. For the year as a whole, the total annual turnover in the interbank call-loan market was NT\$19,767.3 billion, representing a massive increase of 93.81 percent compared to the previous year.

In terms of borrowers in the interbank call-loan market, domestic banks were the largest borrower during the year, accounting for 78.31 percent of total trading, followed by bills finance companies, medium business banks and foreign banks, with shares of 15.35 percent, 2.44 percent and 2.43 percent, respectively. The share of domestic banks and medium business banks climbed by 12.03 and 1.76 percentage points, respectively, as their funding from deposits was insufficient to support the expansion of loans and foreign assets. The share of bills finance companies kept dropping.

With regard to lenders, domestic banks continued to be the largest supplier of funds,

Composition of Interbank Call-Loan Market by Participant



accounting for 67.01 percent of total transactions, a 6.61 percentage-point decrease from a year ago. Following domestic banks were foreign banks, Chunghwa Post Co. and medium business banks, with respective shares of 11.39 percent, 9.39 percent and 6.83 percent. Among these borrowers, the share of foreign banks climbed by 6 percentage points as foreign banks received sufficient NT dollar funds through large amounts of non-residents' NT dollar deposits.

Regarding the maturities of interbank call loans, overnight interbank call loans remained the most actively traded in the market with a predominant share of 54.73 percent. Second to them were those with maturities of 1 week and 2 weeks, respectively accounting for 27.68 percent and 13.03 percent. Trading of those with maturities ranging from 2 months to 6 months accounted for a negligible share of 0.86 percent.

Increase in Short-term Bills Issuance

In 2005, new issues of short-term bills totaled NT\$7,121.0 billion, 3.4 percent higher than in the previous year. Of new issues of short-term bills, commercial paper continued to account for the lion's share of 79.91 percent. Second to it were negotiable certificates of deposit, with a share of 18.04 percent. Treasury bills and bankers' acceptances made up marginal shares of 1.61 percent and 0.44 percent, respectively. Compared to the previous year, although the issues of Treasury bills and bankers' acceptances decreased slightly, the issues of negotiable certificates of deposit increased significantly. The increase in the issues of negotiable certificates of deposit was mainly due to some investors shifting their money from bond funds to negotiable certificates of deposit. Moreover, the issues of commercial paper turned to positive growth in

Short-term Bills Market

Unit: NT\$ Billion

Year	Total			Treasury Bills			Commercial Paper			Bankers' Acceptances			Negotiable Certificates of Deposit		
	Issue	Redemption	Year-end Outstanding	Issue	Redemption	Year-end Outstanding	Issue	Redemption	Year-end Outstanding	Issue	Redemption	Year-end Outstanding	Issue	Redemption	Year-end Outstanding
1996	9,643.6	9,300.3	1,750.2	98.7	88.7	15.0	6,773.4	6,325.6	1,095.3	1,816.5	1,822.4	268.4	955.0	1,063.7	371.6
1997	11,348.9	11,056.8	2,042.2	57.3	52.3	20.0	8,872.1	8,670.8	1,296.5	1,018.7	1,155.2	131.9	1,400.7	1,178.5	593.8
1998	13,691.2	13,347.5	2,386.0	55.0	20.0	55.0	11,497.9	11,029.9	1,764.5	486.6	581.4	37.2	1,651.7	1,716.2	529.3
1999	10,676.5	11,029.2	2,033.3	315.0	220.0	150.0	9,390.6	9,663.8	1,491.3	66.0	90.0	13.2	904.9	1,055.4	378.8
2000	10,324.6	10,552.9	1,805.0	95.0	200.0	45.0	9,032.7	9,267.8	1,256.3	46.2	49.2	10.2	1,150.8	1,036.0	493.5
2001	9,901.5	10,218.8	1,487.8	85.0	80.0	50.0	8,926.8	9,080.6	1,102.4	36.1	38.1	8.3	853.6	1,020.1	327.1
2002	8,378.1	8,556.4	1,309.5	180.0	50.0	180.0	7,525.1	7,757.5	870.1	40.1	40.5	7.9	632.9	708.4	251.5
2003	7,547.7	7,662.8	1,194.4	60.0	180.0	60.0	6,815.1	6,876.3	808.8	34.5	35.6	6.8	638.1	570.9	318.7
2004	6,888.8	6,766.7	1,316.5	130.9	60.0	130.9	5,642.8	5,676.0	775.6	35.2	34.4	7.6	1,080.0	996.3	402.4
2005	7,121.0	7,269.4	1,168.1	115.0	200.9	45.0	5,690.4	5,719.0	747.0	31.1	31.1	7.7	1,284.5	1,318.4	368.5
2004-2005 Changes	-658.9	-896.1	122.1	-15.9	140.9	-85.9	47.6	43.0	-28.6	-4.1	-3.3	0.1	204.5	322.1	-33.9
Growth rate (%)	-8.73	-11.69	10.22	-12.15	234.83	-65.62	0.84	0.76	-3.69	-11.65	-9.59	1.32	18.94	32.33	-8.42

Source: Financial Statistics Monthly, Republic of China, Department of Economic Research, the Central Bank of China.

2005. However, as of the end of 2005, total outstanding bills amounted to NT\$1,168.1 billion, 11.27 percent less than the previous year-end.

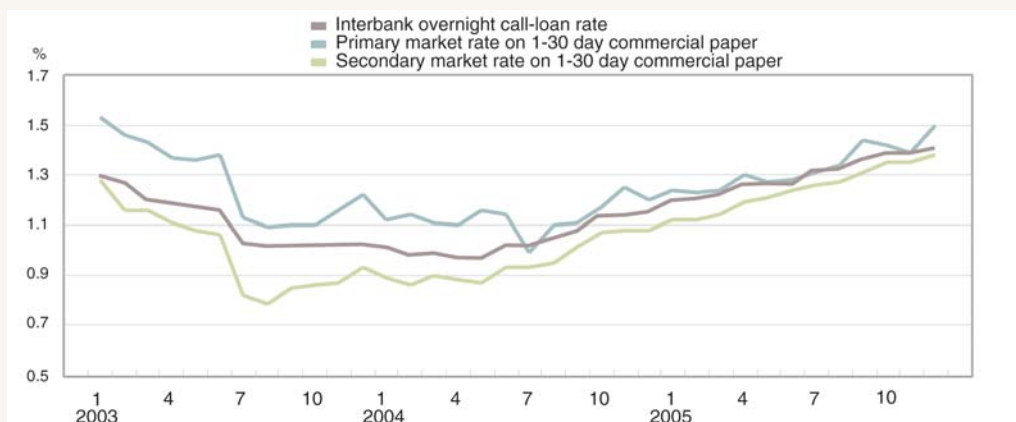
In the secondary market, total turnover of short-term bills increased by 7.70 percent to NT \$52,591.1 billion. Of the total transactions, commercial paper still made up the largest share of 75.27 percent, though slightly lower than in 2004. It was followed by negotiable certificates of deposit with a share of 17.02 percent, which was slightly lower than in 2004. Treasury bills accounted for 7.64 percent, an increase from the previous year. With respect to market participants, private enterprises remained the largest player in the market with a share of 39.97 percent, followed by banks with a share of 28.96 percent.

Money Market Rates Trend Upward

During 2005, the Bank raised the discount rates in March, June, September and December, each time by 12.5 basis points, to ease inflationary expectations due to rising oil prices and to adjust the real interest rates upward for fostering efficient fund allocation. In accordance with the Bank's policy actions, money market rates trended upward along the year.

The above trend was reflected in the interbank overnight call-loan rate, which rose from 1.15 percent at the previous year-end to 1.41 percent at the end of 2005. Over the same period, the secondary market rate on commercial paper with maturities of 1 to 30 days stepped up from 1.08 percent to 1.38 percent. The average issuing rate on commercial paper with maturities of 1 to 30 days kept moving upward to reach 1.50 percent at the end of the year.

Money Market Interest Rates



Source: *Financial Statistics Monthly, Republic of China, Department of Economic Research, The Central Bank of China.*

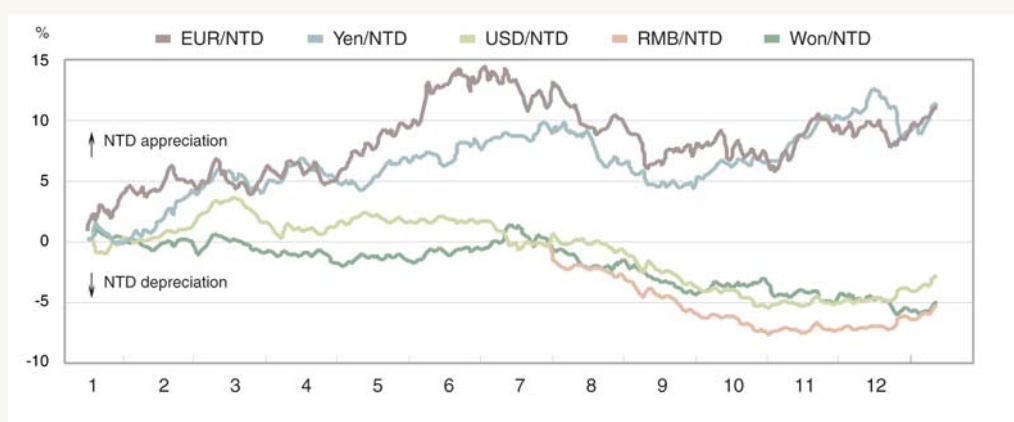
5. Foreign Exchange Market

Moderate Appreciation of the NT Dollar

On a daily average basis, the NT dollar appreciated against the US dollar, euro, and Japanese yen, but depreciated against the Korean won in 2005. Regarding the movement in the NT\$/US\$ exchange rate, reports that Asian central banks reduced their US dollar foreign reserve assets, coupled with foreign capital inflows to the Taiwan stock market, led the NT\$/US\$ exchange rate to appreciate from 32.263 at the beginning of 2005 to a yearly high of 30.790 on March 10. From the middle of March onwards, the NT dollar started to depreciate, caused by a continuous rise in US interest rates, a shrinkage in Taiwan's trade surplus, and foreign capital outflows from the Taiwan stock market. The NT dollar declined to 33.770 against the US dollar on October 24, the lowest level of the year. In December, due to Japan's economic recovery, a historically high US trade deficit, and the return of international capital to Asia, the NT dollar appreciated to close the year at 32.850 against the US dollar. Compared with the end of 2004, the NT dollar depreciated by 2.84 percent against the US dollar at the end of 2005. However, on a daily average basis, the NT\$/US\$ exchange rate appreciated 3.90 percent in 2005 from the previous year.

With respect to NT dollar exchange rates against the euro and the Japanese yen, as a result of the large appreciation of the euro against the US dollar in 2004, continuously rising

**Percentage Changes of NT Dollar against Major Currencies
(compared with End 2004)**



Note: Before July 21, the RMB was pegged to the US dollar. Therefore, the movements of the NT dollar against the RMB followed those against the US dollar.
Source: Department of Economic Research, the Central Bank of China.

US interest rates, economic weakness in the euro area and Japan, and the negative impact of higher oil prices on Japan's economy, the euro and the Japanese yen depreciated against the US dollar in 2005. Both currencies depreciated against the US dollar by a larger degree than the NT dollar. Therefore, the NT dollar appreciated against the euro and the Japanese yen by 11.16 percent and 11.30 percent, respectively, between the end of 2004 and 2005. On a daily average basis, the NT dollar appreciated against the euro and the Japanese yen by 3.66 percent and 5.75 percent, respectively, when compared with the previous year.

Due to the fact that trade with Asia exceeds 60 percent of Taiwan's total trade, the NT dollar exchange rates against other Asian currencies, such as the Chinese renminbi (RMB) and Korean won have aroused more attention in the market.

Before July 21, 2005, the RMB was pegged at 8.27 per US dollar. Therefore, the movements of the NT dollar against the RMB followed those against the US dollar. On July 21, China adopted a managed floating exchange rate regime, and the RMB appreciated by 2.1 percent from 8.27 to 8.11 against the US dollar. Afterwards, due to the rapid growth of China's economy, and expectations of a RMB appreciation, the RMB strengthened against the US dollar, and hence against the NT dollar for most of the remainder of 2005. The NT dollar depreciated 5.26 percent against the RMB between the end of 2004 and 2005. On a daily average basis, the NT dollar appreciated 2.86 percent against the RMB in 2005 when compared with the previous year.

Due to strong domestic demand, an expansion in domestic consumption, and the stock market index reaching historic highs, the Korean won mostly appreciated against the US dollar, and hence against the NT dollar in 2005. The NT dollar depreciated 5.05 percent against the Korean won between the end of 2004 and 2005. On a daily average basis, the NT dollar depreciated 7.10 percent against the Korean won in 2005 when compared with the previous year.

Based on the trade-weighted average exchange rate against major trading partners (weighted by the sum of imports and exports of goods), the NT dollar appreciated by 1.70 percent between the end of 2004 and 2005.

Moderate Increase in Trading in the Foreign Exchange Market

Trading in the Taipei foreign exchange market increased moderately in 2005. After deducting double counting on the part of interbank transactions, total net trading volume for the year increased by 16.6 percent from the previous year to US\$3,008.66 billion. The daily average turnover stood at US\$12.08 billion, representing an increase of 18.0 percent over the previous

year. The increase in turnover mainly resulted from an expansion in external trade, and a marked rise in third currency transactions following the sharp depreciation of the euro and the Japanese yen against the US dollar.

In terms of trading partners, transactions between banks and non-bank customers accounted for 31.7 percent of total net turnover. Interbank transactions made up a 68.3 percent share, including 19.5 percent for transactions among local banks and 48.8 percent for those between local banks and overseas banks.

As far as traded currencies are concerned, transactions in third currencies accounted for 50.9 percent of total trading volume, with trading in currency pairs of US dollar-Japanese yen and US dollar-euro accounting for shares of 17.9 percent and 15.3 percent, respectively. NT dollar trading against foreign currencies accounted for 49.1 percent of total trading volume, of which the share of NT dollars against US dollars was 46.4 percent.

With respect to types of transactions, spot transactions accounted for the highest share with 51.6 percent of total turnover, followed by foreign exchange swaps with 27.4 percent, options with 9.8 percent, forwards with 9.1 percent, cross currency swaps with 1.3 percent, and margin trading with 0.8 percent. Compared with 2004, except for a decrease in margin trading and options transactions, the trading volumes of all the other types increased. The trading volumes of cross currency swaps and foreign exchange swaps recorded the highest growth rates of 124.0 percent and 33.3 percent, respectively. The increase was mainly because domestic insurance companies increased their overseas investments and utilized cross currency swaps and foreign exchange swaps to hedge risks, and because banks used the interbank swap market to adjust their currency composition.

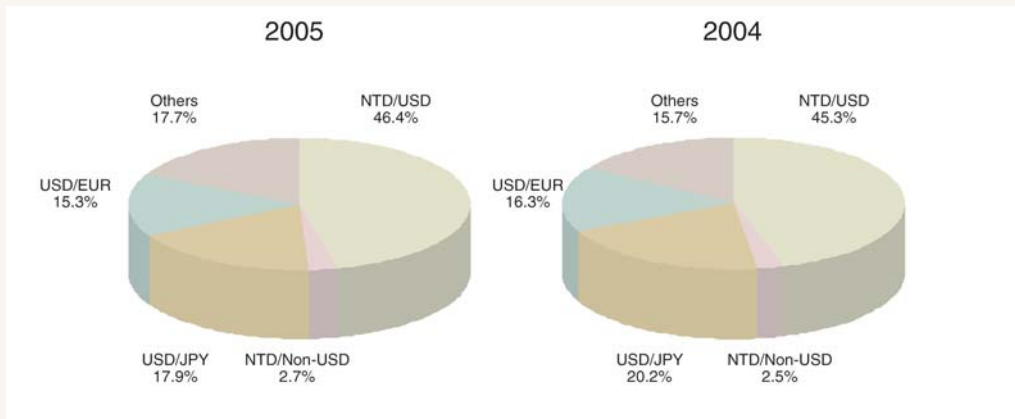
Turnover of Major Products in the Taipei Foreign Exchange Market

Unit: US\$ Million

Year	Spot	Forward	Forex Swaps	Margin Trading	Options	Cross Currency Swaps	Total
2001	758,827	93,687	172,551	21,320	105,609	8,427	1,160,421
2002	872,844	114,341	238,807	25,869	149,630	8,875	1,410,366
2003	1,058,850	156,323	361,490	33,907	213,198	13,930	1,837,698
2004	1,289,872	273,931	617,577	30,299	350,514	17,764	2,579,955
2005	1,550,731	274,370	823,483	24,378	295,908	39,788	3,008,657
2004-2005 Growth Rate (%)	20.2	0.2	33.3	-19.5	-15.6	124.0	16.6

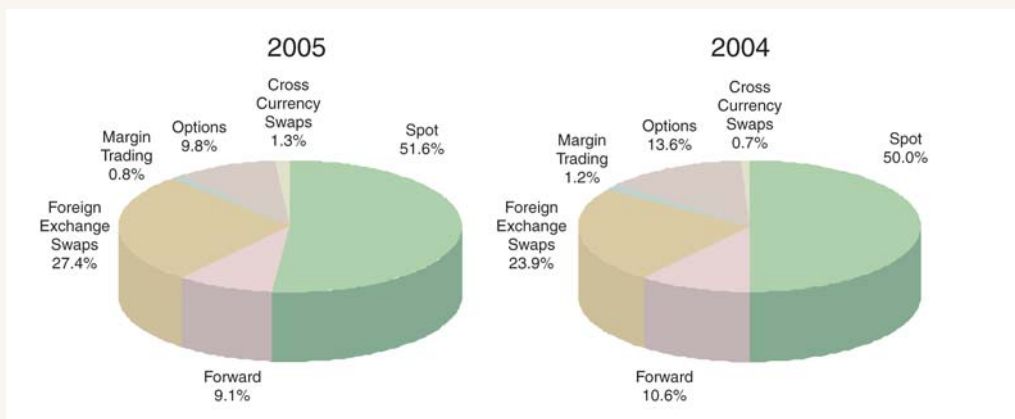
Source: Department of Foreign Exchange, the Central Bank of China.

Composition of Foreign Exchange Transactions by Traded Currency



Source: Department of Foreign Exchange, the Central Bank of China.

Composition of Foreign Exchange Transactions by Product



Source: Department of Foreign Exchange, the Central Bank of China.

In 2005, the turnover of forwards, swaps and options based on foreign currency interest rates, stock price indices, commodity prices, and credit amounted to US\$162.24 billion. Of this amount, interest rate-related derivatives accounted for the lion's share of US\$156.67 billion or 96.6 percent, representing an annual growth rate of 0.6 percent.

Contraction in the Foreign Currency Call-Loan Market

The transaction volume in the foreign currency call-loan market in 2005 was equivalent to US\$937.21 billion, a decrease of 37.1 percent over the previous year. Of this amount, US dollar transactions accounted for US\$936.41 billion, a reduction of 37.1 percent over 2004. The decrease was mainly because some banks raised interest rates on US dollar deposits to increase their sources of foreign currency funds, hence reducing demand for foreign currency call loans, and some banks used foreign exchange swaps in place of call-loan transactions. Japanese yen transactions totaled ¥17.55 billion in 2005, representing a large increase of 12.6 times the

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 Price Swaps	Commodity Options			
2001	12,170	12,114	1,018	74	259	644	34	—	26,313
2002	30,518	22,488	4,479	2,458	305	1,826	556	—	62,630
2003	20,121	41,855	10,066	12,036	175	3,313	663	—	88,229
2004	20,020	77,664	45,635	12,500	0	6,733	1,102	168	163,823
2005	25,089	78,528	23,668	29,385	0	4,594	389	581	162,235
2004-2005 Growth Rate (%)	25.3	1.1	-48.1	135.1	0.0	-31.8	-64.7	245.4	-1.0

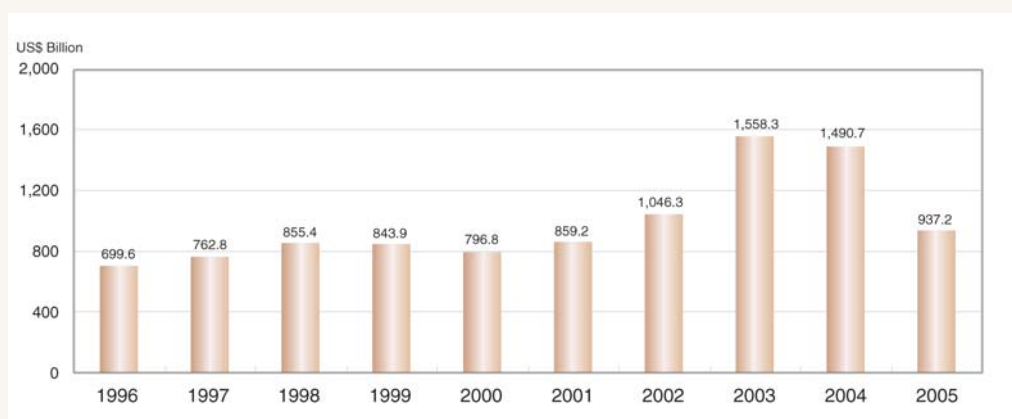
Source: Department of Foreign Exchange, the Central Bank of China.

figure recorded in 2004, but the share remained rather small at only 0.02 percent. The amount of euro transactions totaled only €510 million, decreasing 64.9 percent from 2004.

Slight Increase in the Assets of Offshore Banking Units

At the end of 2005, there were 70 offshore banking units (OBUs) in operation. Domestic banks operated 41 of the OBUs, while foreign banks ran the other 29. The combined assets of all OBUs totaled US\$70.16 billion at the end of the year, representing a slight increase of US \$939 million or 1.4 percent from the previous year-end. This was primarily the result of an increase of US\$2.17 billion in deposits with financial institutions and US\$1.98 billion in securities investments, outweighing a decrease of US\$3.07 billion in other assets caused by changes in the accounting method of US dollar-RMB non-deliverable forwards and margin trading from June 2005. Domestic bank OBUs accounted for US\$50.52 billion or 72 percent of these combined

Transactions in the Taipei Foreign Currency Call-Loan Market



Source: Department of Foreign Exchange, the Central Bank of China.

assets, and foreign bank OBUs accounted for US\$19.64 billion, or 28 percent of the total.

The OBUs' main sources of funds were due to affiliated branches and deposits by financial institutions, which together accounted for 63.1 percent of total liabilities. These were followed by deposits of non-financial institutions, which accounted for 29.5 percent of total liabilities. OBUs have been gradually developing into capital management centers for overseas Taiwanese firms. In terms of geographical origin, 67 percent of funds came from Asia, and 21 percent from the Americas.

The OBUs' main uses of funds were due from affiliated branches and deposits with financial institutions. These accounted for the lion's share, or 54.8 percent of total assets. Second to these were loans extended abroad and locally with a share of 26.6 percent. Additionally, portfolio investments accounted for 12.4 percent of total assets. In terms of fund destination, 62 percent of funds went to Asia, and 23 percent to the Americas.

The forex-trading turnover of all OBUs in 2005 was US\$133.67 billion, of which US\$95.57 billion was for spot transactions, US\$20.82 billion for foreign exchange swap transactions, and US\$17.28 billion for forward transactions. Compared with 2004, forward transactions decreased 25.2 percent, mainly because of changes in the accounting method of US dollar-RMB non-deliverable forwards and margin trading from June 2005. The total turnover of other derivative products, including margin trading, options, foreign currency interest rate swaps, financial futures, foreign currency forward rate agreements, cross currency swaps, commodity swaps, and credit derivatives, amounted to US\$90.6 billion, representing a significant increase of 43.9 percent over the previous year.

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	Other Liabilities
2003/12	15,939	7,648	37,420	3,541	64,548	16,307	44,288	3,953
2004/12	18,066	6,734	37,105	7,314	69,219	18,810	42,688	7,721
2005/12	18,697	8,718	38,432	4,311	70,158	20,712	44,305	5,141
2005/ 1	18,155	6,747	37,894	7,352	70,148	18,389	44,169	7,590
2	17,891	6,737	36,205	7,255	68,088	18,942	41,570	7,576
3	17,909	6,847	36,179	7,426	68,361	18,239	42,311	7,811
4	17,764	7,079	37,031	7,527	69,401	18,769	42,510	8,122
5	18,090	7,362	36,743	8,460	70,655	18,679	43,023	8,953
6	18,275	6,886	34,587	5,022	64,770	19,111	40,636	5,023
7	18,296	7,729	33,581	3,909	63,515	19,009	40,373	4,133
8	18,734	7,994	33,034	3,990	63,752	19,431	40,018	4,303
9	18,752	8,110	32,700	4,432	63,994	19,656	39,513	4,825
10	18,998	8,649	33,249	4,176	65,072	19,945	39,971	5,156
11	18,940	8,722	34,699	4,339	66,700	20,680	40,663	5,357
12	18,697	8,718	38,432	4,311	70,158	20,712	44,305	5,141

Source: Financial Statistics Monthly, Republic of China, Department of Economic Research, the Central Bank of China.

6. Stock Market

The Taiwan Stock Exchange (TSE) weighted stock price index (TAIEX) closed the year 2005 with an increase of 6.6 percent from the previous year-end. Tourism and electronics and electric machinery shares posted strong gains, while other industrial group stock price indices decreased. The daily average trading value for the year was NT\$76.2 billion, 20.2 percent lower than that of the previous year.

The GreTai Securities Market (GTSM), an over-the-counter market, weighted stock price index finished the year with an increase of 15.2 percent from the previous year-end. Electronics and textile shares advanced, while other industrial groups declined. The daily average turnover for the year was NT\$12.8 billion, 7.9 percent lower than the previous year.

The TSE Market

Decrease in the Number of Listed Companies

There were a total of 691 listed companies at the end of 2005, representing a decrease of 6 companies from the previous year-end. During the same period, the par value of total shares issued increased by 5.9 percent to NT\$5.4 trillion, while total market capitalization rose 11.8 percent to NT\$15.6 trillion.

Major Statistics of the TSE Market

	Stock price Index* (1966=100)	Daily Average Trading Value (NT\$Billion)	Turnover Rate (%)	Market Capitalization* (NT\$ Billion)	Net Buying / Sale Positions** (NT\$ Billion)		
					Foreign Investors Net Buy/Sell	Securities Investment Trust Companies Net Buy/Sell	Securities Dealers Net Buy/Sell
2003	5,890.7	81.7	190.8	12,869	549.0	-5.7	29.8
2004	6,139.7	95.5	177.5	13,989	284.0	-14.1	-15.4
2005	6,548.3	76.2	131.4	15,634	719.4	-86.3	16.9
2005/ 1	5,994.2	55.0	8.4	13,733	-1.8	-1.0	-0.5
2	6,207.8	86.1	7.9	14,253	114.5	-9.8	3.8
3	6,005.9	72.9	12.2	13,807	-29.7	-9.4	0.2
4	5,818.1	59.6	8.9	13,402	-24.7	-0.6	-1.4
5	6,011.6	62.3	9.4	13,872	126.6	-10.7	-3.0
6	6,241.9	82.8	12.6	14,455	131.5	-12.6	16.4
7	6,312.0	94.3	12.9	14,664	34.9	-9.2	-2.0
8	6,033.5	78.5	12.2	14,206	-8.7	-13.5	-5.6
9	6,118.6	65.2	9.5	14,442	-10.6	13.9	-5.8
10	5,764.3	70.8	10.3	13,685	-30.8	-2.3	-6.3
11	6,203.5	78.3	11.7	14,764	179.7	-9.0	6.2
12	6,548.3	110.2	15.5	15,634	238.7	-22.0	15.0

Notes: * Refers to end-of-period data.

** Minus sign "-" indicates net sale positions.

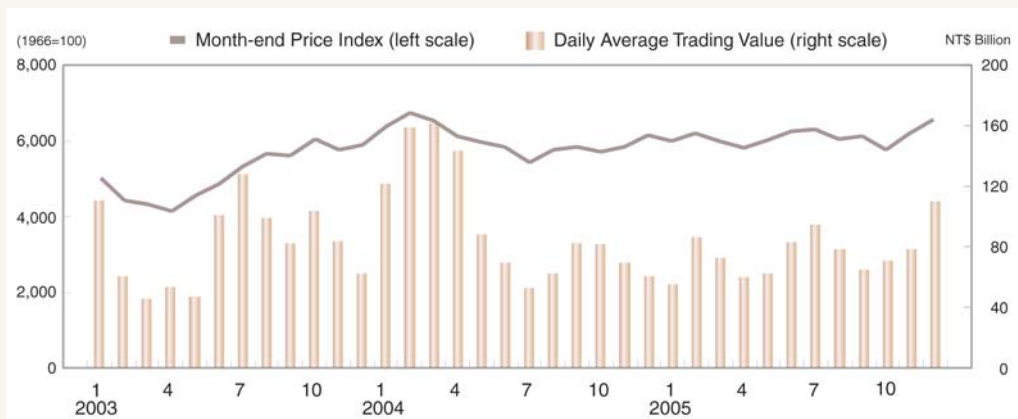
Source: Taiwan Stock Exchange Corporation.

Share Prices Consolidated before Rising towards the Year-end

In January, as surging international oil prices led stock markets worldwide lower, the TAIEX also declined. In February, global stock markets rallied, and Morgan Stanley Capital International Inc. (MSCI) scheduled to increase Taiwan's weighting in its emerging market indices in May. The TAIEX rebounded on large purchases by foreign investors. However, in the two months that followed, foreign investors dumped TAIEX shares as US stock markets turned bearish, and merger cases among financial institutions in Taiwan stalled. The TAIEX declined as a result. From May onwards, the TAIEX rose on a decrease in oil prices, bullish US and Asian stock markets and the re-weighting of Taiwan in MSCI indices. The rising trend was reversed in August, as oil prices climbed again, stock markets worldwide declined and international capital returned to the US on the continuous rise in US interest rates. The TAIEX sank to an all-year low of 5,633 points on October 28. For the remainder of the year, the TAIEX staged a strong rally as falling oil prices and rebounding stock markets worldwide prompted foreign capital to flood into Taiwan. The TAIEX reached an annual high of 6,576 points on December 29 and concluded the year at 6,548 points, exhibiting a 6.6 percent increase over the previous year-end.

Of the industrial group stock price indices, shares of traditional industries and financial sectors declined, while tourism and electronics and electric machinery shares gained ground. Tourism stocks advanced strongly by 54.4 percent on expectations that restrictions on tourists from mainland China would be lifted. Electronics and electric machinery shares rose by 24.6 percent mainly because IT industries bottomed out in the second half of the year, leading foreign investors to increase holdings of related stocks. As traditional industries, including textile,

TSE Stock Price Index and Trading Value



Source: TSEC Monthly Review, Taiwan Stock Exchange Corporation.

Changes in Industrial Group Stock Price Indices in the TSE Market



Source: TSEC Monthly Review, Taiwan Stock Exchange Corporation.

steel and iron, transportation, and plastics and chemicals sectors, experienced a decline from the cyclical peak and saw their profitability shrink, prices of related shares fell. Steel and iron shares recorded the deepest decline of 32.3 percent. Financial shares decreased by 15.0 percent, mainly because financial reform progress appeared frustrated and a substantial increase in non-performing loans arising from credit and debit cards sapped banks' profitability.

Decrease in Turnover

The daily average turnover for the year decreased by 20.2 percent from the previous year to NT\$76.2 billion. Due to the prolonged period of consolidation, individual investors, usually with high turnover rates, stood on the sidelines. On the contrary, the share of stock holdings by foreign investors increased significantly. As the market rallied towards the year-end, however, turnover expanded to a daily average of NT\$110.2 billion in December. Because foreign investors tend to adopt a buy-and-hold strategy, the turnover rate for this year declined to 131.4 percent from the previous year's 177.5 percent.

Net Buying by Foreign Investors Hit a Historic High

Foreign investors registered a net purchase of NT\$719.4 billion in the TSE market, reaching a historic high. Local securities investment trust companies recorded a net sale of NT\$86.3 billion, while local securities dealers showed a net purchase of NT\$16.9 billion.

Foreign investors were attracted to Taiwan this year mainly because MSCI increased its weighting of Taiwan in May and because Taiwan lagged behind other Asian stock markets in rising. Local securities investment trust companies registered net sales every month except

September as they were pressured by investors who wished to redeem their holdings due to a lack of confidence in local stock markets. Local securities dealers usually engage in short-swing trading, and they often buy on rising prices and sell on falling prices to meet the hedging demand of stock warrants. Therefore, local securities dealers net sold in August, September and October amid gloomy market conditions, and net bought in June, November and December when the market rose.

The GTSM Market

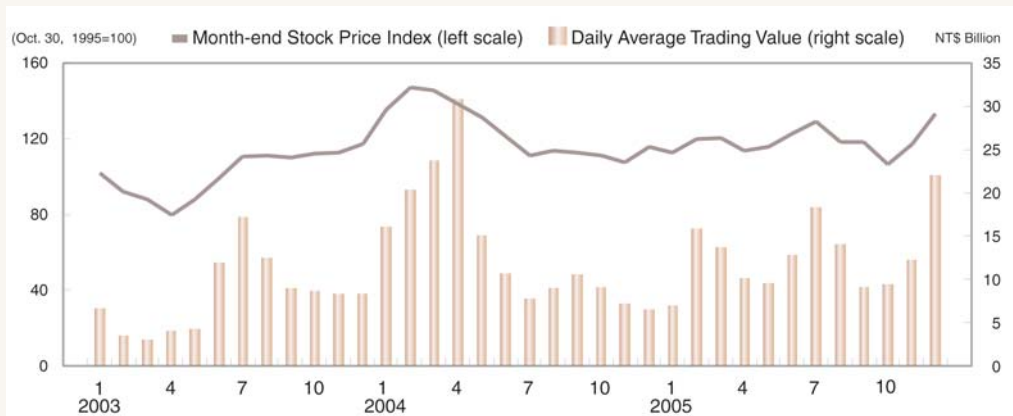
Increase in the Number of Listed Companies

The number of listed companies in the GTSM market increased to 503 at the end of 2005, an increase of 37 companies from the previous year-end. The par value of total shares issued amounted to NT\$643.2 billion at the end of 2005, 2.7 percent higher than that of the previous year-end. Market capitalization was valued at NT\$1.3 trillion at the end of 2005, recording a rise of 18.2 percent when compared with the previous year-end.

Share Prices Consolidated before Rising

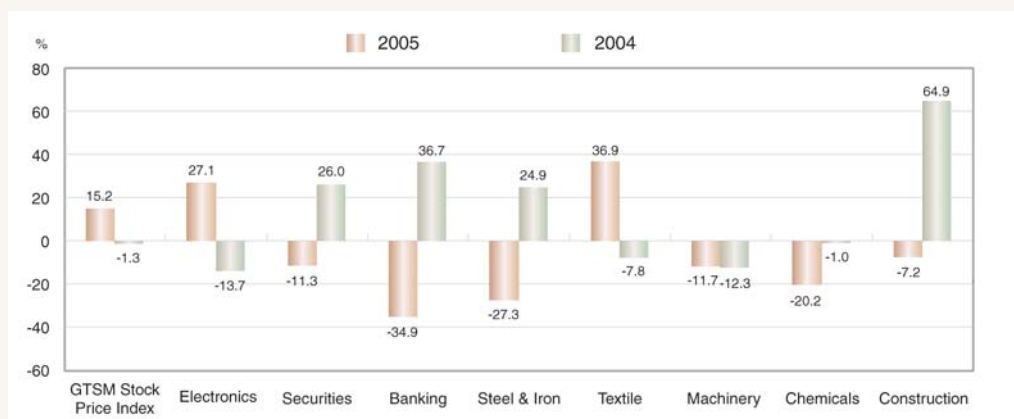
The GTSM stock price index declined in January on surging oil prices and bearish international sentiments, and rebounded in February together with stock markets worldwide. It then trended downwards as cross-Strait tensions eroded investor confidence. Starting in May, a decrease in oil prices and strong performance in US and Asian stock markets prompted the index to rise. A falling trend followed from August onwards as oil prices rose again and the US Federal Reserve continuously raised interest rates. The GTSM stock price index hit an all-year low of

GTSM Stock Price Index and Trading Value



Source: GTSM Monthly Review, GreTai Securities Market.

Changes in Industrial Group Stock Price Indices in the GTSM Market



Source: GTSM Monthly Review, GreTai Securities Market.

104 points on October 28. After that, the index rallied on the back of strengthening global stock markets and large purchases by foreign investors to close the year at an all-year high of 133 points, up by 15.2 percent from the previous year-end.

Foreign investors recorded a large net purchase of NT\$71.1 billion, while local securities investment trust companies and securities dealers sold a net of NT\$4.8 billion and NT\$4.1 billion, respectively, for the year.

Decrease in Turnover

The daily average turnover in the GTSM market for the year was NT\$12.8 billion, a decrease of 7.9 percent from the previous year. The daily average turnover in January was a mere NT\$7.0 billion due to sluggish market conditions. Daily turnover expanded to NT\$15.9 billion in February, shrank to NT\$9.6 billion in May, and generally moved in the same direction as price trends throughout the year. Towards the year-end, as the market became bullish on strong buying by foreign investors, daily turnover rose sharply to NT\$22.0 billion in December.

7. Bond Market

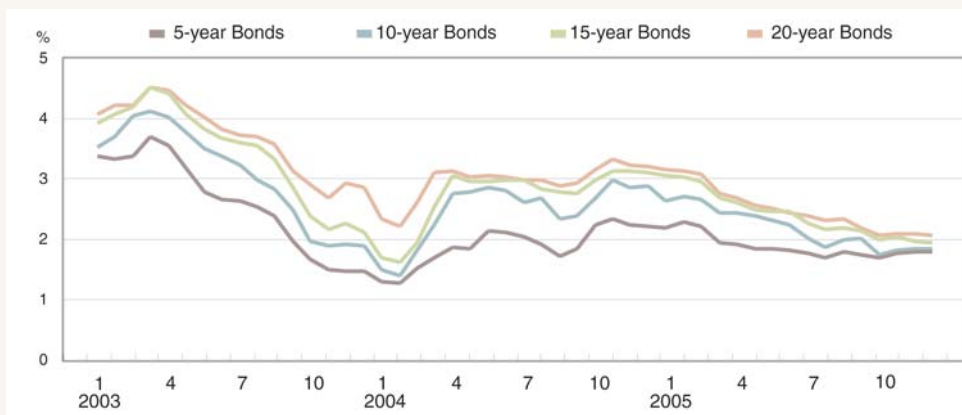
In 2005, new issues of bonds remained active with the outstanding amount reaching a new high of NT\$5,463.6 billion at the year-end. Among them, issues of government bonds continued to increase in large amounts to finance rising budget deficits, while those of corporate bonds significantly shrank, continuing the trend over the past three years, as massive redemptions of bond funds weakened the demand for corporate bonds in their portfolios. Issues of bank debentures rapidly declined largely because most banks improved their capital adequacy ratios in 2004 and hence had less need to issue debentures to strengthen their capital structure. Moreover, issues of asset-backed securities sharply increased, mainly because securities investment trust companies were pushed by the Financial Supervisory Commission to dispose of structured bonds held by bond funds by the year-end.

The total transaction volume of bonds in the secondary market reached a historic high in 2005, and bond yields gradually declined along with a bullish bond market. This was due to easy funding conditions and strong demand for benchmark bonds from bond dealers to increase their returns by short-swing trading.

Government Bonds Outstanding Hit a New High

The Ministry of Finance (MOF) issued central government bonds to a total value of NT\$445 billion in 2005. The large amount of central government bonds issued was for the purposes of

Yield Structure of Central Government Bonds with Different Maturities



Source: *Financial Statistics Monthly, Republic of China, Department of Economic Research, the Central Bank of China.*

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		Foreign Bonds*		Beneficiary** Certificates	
	Issues	Outstanding	Issues	Outstanding	Issues	Outstanding	Issues	Outstanding	Issues	Outstanding	Issues	Outstanding	Issues	Outstanding
2003	961.5	4,465.1	454.8	2,503.6	—	84.9	278.8	1,176.9	182.5	541.2	45.0	158.5	27.0	24.7
2004	1,018.2	4,947.9	465.0	2,729.2	42.0	123.4	231.4	1,215.6	218.3	709.1	10.5	126.5	52.1	62.5
2005	987.0	5,463.6	445.0	3,013.1	24.0	129.2	204.1	1,191.9	131.2	811.2	—	104.0	182.7	214.2
2005/1	113.4	5,018.8	80.0	2,768.8	5.0	128.4	3.6	1,209.4	16.3	723.0	—	120.5	8.5	68.7
2	37.1	5,046.7	30.0	2,798.5	—	128.4	0.2	1,204.2	5.5	727.2	—	120.5	1.4	67.9
3	65.4	5,063.5	40.0	2,808.3	—	126.4	11.9	1,207.3	6.7	730.9	—	118.5	6.8	72.1
4	57.1	5,105.0	30.0	2,838.3	—	126.4	19.9	1,216.8	6.3	735.9	—	117.5	0.9	70.1
5	60.4	5,102.2	30.0	2,838.2	—	126.4	5.9	1,201.3	13.7	742.7	—	117.5	10.8	76.1
6	107.5	5,184.3	40.0	2,878.1	—	121.5	26.3	1,211.2	37.4	778.7	—	117.5	3.8	77.3
7	57.5	5,194.7	30.0	2,908.0	—	121.5	22.2	1,196.9	4.5	782.5	—	110.0	0.8	75.8
8	72.2	5,236.7	30.0	2,938.0	10.0	131.5	20.9	1,190.5	3.0	784.3	—	110.0	8.3	82.4
9	112.8	5,301.9	40.0	2,947.9	—	131.5	42.8	1,217.6	0.0	784.2	—	110.0	30.0	110.7
10	75.8	5,342.9	30.0	2,977.9	—	130.5	9.3	1,207.2	7.4	785.1	—	104.0	29.1	138.2
11	60.2	5,334.3	30.0	2,978.1	—	120.0	5.1	1,188.2	14.5	797.9	—	104.0	10.6	145.9
12	167.6	5,463.6	35.0	3,013.1	9.0	129.2	36.0	1,191.9	15.9	811.2	—	104.0	71.7	214.2

Notes: * Refers to both NT dollar-denominated and foreign currency-denominated bonds issued in Taiwan by international financial institutions.

** The outstanding beneficiary certificates exclude amount purchased back by originators for credit enhancement.

Sources: *Taiwan Statistics Monthly, Republic of China, Department of Economic Research, the Central Bank of China.*

efficient management of the national treasury, effective treatment of central government debt funds, the continuous promotion of a standardized schedule of government bond issuance schedule, and extending the duration of benchmark bonds. Meanwhile, local governments' bond issuance amounted to a sum of NT\$24 billion, mainly to refund matured debts. The outstanding amount of government bonds hit a historic high of NT\$3,142 billion at the end of 2005, an increase of 10.2 percent from the previous year. Consequently, government bonds

Bond Transactions in the Over-the-Counter Market

Unit: NT\$ Billion

Year/ Month	Total	Outright Transactions		Repurchase Agreement Transactions	
		Amount	Share (%)	Amount	Share (%)
2003	203,624.0	126,570.8	62.2	77,053.2	37.8
2004	205,925.2	123,445.6	59.9	82,479.6	40.1
2005	311,386.7	222,174.5	71.4	89,212.2	28.6
2005/1	23,556.8	15,968.6	67.8	7,588.2	32.2
2	13,023.0	8,296.4	63.7	4,726.6	36.3
3	21,820.4	14,031.4	64.3	7,789.0	35.7
4	23,142.9	16,094.5	69.5	7,084.4	30.5
5	29,006.6	21,048.6	72.6	7,958.0	27.4
6	24,232.6	16,053.7	66.2	8,178.9	33.8
7	31,153.1	23,743.0	76.2	7,410.1	23.8
8	34,291.6	26,686.0	77.8	7,605.6	22.2
9	28,474.0	20,539.6	72.1	7,934.4	27.9
10	33,714.6	26,639.1	79.0	7,075.5	21.0
11	27,162.1	19,622.9	72.2	7,539.2	27.8
12	21,809.0	13,450.7	61.7	8,358.3	38.3

Source: *Taiwan Securities Exchange (TSE) & GreTai Securities Market (GTSM).*

outstanding as a percentage of GDP rose from 26.5 percent at the previous year-end to 28.2 percent. Moreover, the MOF issued re-opened government bonds 5 times with different maturities, namely 5, 10, and 20 years, in order to build an effective bond yield curve and extend the duration of benchmark bonds. The GreTai Securities Market (GTSM), an over-the-counter market, vigorously promoted the when-issued system to help discover prices for auctions of government bonds before issuance. The amount of when-issued trading for the year totaled NT\$13.2 trillion, down by 10.8 percent from the previous year.

In addition, the FSC formally launched the stripped government bond system on November 7, 2005, in order to develop principal guaranteed notes (PGNs), and attract retail investors into the bond market. As of the end of 2005, the sum of stripped government bonds issued was NT\$40 billion. Stripped bonds are attractive to investors because they have greater liquidity than interest-bearing bonds of the same maturities and coupon rates, and they also enjoy 10-percent separate taxation on their returns.

Continuous Decline in Corporate Bond Issues

New issues of corporate bonds were relatively sluggish in the first quarter of 2005 as rising short-term interest rates made it difficult to reduce issuing costs via structured pricing. In the second quarter, with low long-term interest rates, many enterprises issued corporate bonds to redeem their high-cost debts. Consequently, issues of corporate bonds increased. In the third quarter, due to a strong demand for corporate bonds by life insurance companies and bills

Turnover in Bond Market by Category

Unit: NT\$ Billion

Year/ Month	Total	TSE Market		Gre Tai Market					
		Corporate Bonds (Convertible)	Subtotal	Government Bonds	Corporate Bonds		Foreign Bonds	Bank Debentures	Beneficiary Certificates
					Nonconvertible	Convertible			
2003	203,624.0	9.8	203,614.2	200,619.9	1,904.5	249.0	713.4	125.4	2.0
2004	205,925.2	4.6	205,920.6	202,015.2	2,328.5	441.1	636.1	457.2	42.5
2005	311,386.7	0.4	311,386.3	306,009.6	3,198.7	364.3	320.0	1,413.5	80.2
2005/1	23,556.8	0.2	23,556.6	23,139.7	237.5	31.0	32.7	110.0	5.7
2	13,023.0	0.0	13,023.0	12,820.4	125.4	19.1	15.8	42.1	0.2
3	21,820.4	0.1	21,820.3	21,460.4	207.4	44.1	29.4	76.6	2.4
4	23,142.9	0.0	23,142.9	22,792.5	213.5	22.6	30.7	82.0	1.6
5	29,006.6	0.0	29,006.6	28,575.3	264.0	22.9	23.1	117.3	4.0
6	24,232.6	0.0	24,232.6	23,542.5	412.1	36.4	25.7	209.6	6.3
7	31,153.1	0.0	31,153.1	30,739.4	271.2	45.1	9.5	79.7	8.2
8	34,291.6	0.0	34,291.6	33,898.8	242.8	33.3	15.2	84.6	16.9
9	28,474.0	0.0	28,474.0	28,058.8	248.4	27.0	20.1	109.2	10.5
10	33,714.6	0.0	33,714.6	33,320.3	220.6	20.0	30.1	119.0	4.6
11	27,162.1	0.0	27,162.1	26,670.6	321.1	25.0	18.1	119.9	7.4
12	21,809.0	0.1	21,808.9	20,990.9	434.7	37.8	69.6	263.5	12.4

Source: Taiwan Securities Exchange (TSE) & GreTai Securities Market (GTSM).

finance companies, new issues of corporate bonds continued to rise. However, in the fourth quarter, the issuance of corporate bonds was much muted. This was mainly because, on the demand side, securities investment trust firms hurried to sell out all of their structured bonds before the end of 2005 in line with the FSC's policy to classify bond funds into money market funds and genuine bond funds. As a result, local bond funds shrank significantly, and the demand for corporate bonds for portfolio investment in bond funds weakened.

For the year as a whole, NT\$204.1 billion worth of corporate bonds were issued, a decline of 11.8 percent from the previous year.

Substantial Decrease in Bank Debenture Issues

In 2005, domestic banks issued NT\$131.2 billion in bank debentures, a decrease of NT\$87.1 billion or 39.9 percent from the previous year. Issues of bank debentures rapidly declined mainly because most banks improved their capital adequacy ratios in 2004, so pressure to strengthen their capital structures by issuing bank debentures was lowered. Moreover, many banks cut back on their consumer loan business due to increasing debt defaults on credit cards and cash cards during the second half of the year. As a result, funding conditions in the banking system remained relatively easy, and most banks had no strong needs to issue bank debentures.

Rapidly Growing Asset-Backed Securitization

In 2005, the total issuance of beneficiary securities on asset-backed securitization amounted to NT\$182.7 billion. Although this amount accounted for only 18.5 percent of total bond issuance, it presented a jump of NT\$130.6 billion or 250.7 percent from that recorded in 2004. Of the components, the issues of financial asset securities reached NT\$142.5 billion, and those of real estate securities amounted to NT\$40.2 billion. The sharp increase was mainly because many securities investment trust companies hurried to sell out all of their structured bonds held by bond funds before the year-end by means of securitization, and some life insurance companies aggressively issued Real Estate Investment Trust Securities (REITs).

Most investors of securitized products were institutional investors, including banks, life insurance companies, bills finance companies, and bond funds. In general, the securitized products are welcomed by institutional investors largely because banks are allowed to hold them as liquidity reserves and the interest payments distributed to investors enjoy 6-percent separate taxation.

Booming Transactions in the OTC Bond Market

During the first half of the year, as economic recovery slowed and market funds remained abundant, bond markets were very active, pressing the yield on benchmark 10-year government bonds to decline from 2.4 percent in January to 1.9 percent in June. In the second half of the year, as surging oil prices raised expectations of inflation, a large part of stock market funds flowed to the bond market for hedging purposes. Therefore, the weighted average yield on 10-year government bonds gradually declined from 2.0 percent in July to 1.8 percent in December.

Trading in the OTC bond market was very aggressive in 2005. The trading value hit a record high of NT\$311.39 trillion, a remarkable increase of 51.2 percent from the previous year. Of this amount, outright transactions increased by 80.0 percent, and repurchase agreement transactions went up by 8.2 percent. Outright transactions increased significantly mainly because the GTSM established a net settlement platform and an electronic bond trading system. This resulted in more transparent trading information and lower trading costs of outright transactions, and the limited availability of benchmark bonds for trading made it easy for bond dealers to manipulate prices by short-swing trading to increase returns.

Shrinkage in Net Assets of Bond Funds

In 2005, local bond funds shrank substantially. This was mainly because the FSC required securities investment trust companies to sell out all of their structured bonds held by bond

Portfolio Composition of Bond Funds

Unit: NT\$ Billion

Year / Month	Total	Outright Purchases		Repurchase Agreements		Bank Deposits		Short-term Securities	
		Amount	Share (%)	Amount	Share (%)	Amount	Share (%)	Amount	Share (%)
2003	2,107.6	1,066.9	50.6	611.5	29.1	354.8	16.8	74.4	3.5
2004	1,883.3	1,015.5	53.9	562.5	29.9	258.7	13.7	46.6	2.5
2005	1,308.4	498.2	38.1	582.2	44.5	200.6	15.3	27.4	2.1
2005/ 1	1,978.3	997.7	50.4	663.0	33.5	269.5	13.6	48.1	2.4
2	1,990.1	995.3	50.0	668.1	33.6	280.7	14.1	46.1	2.3
3	1,933.2	958.1	49.6	646.4	33.4	279.5	14.5	49.1	2.5
4	1,946.3	964.2	49.5	657.0	33.8	281.6	14.5	43.4	2.2
5	1,895.6	924.0	48.7	654.4	34.5	277.6	14.6	39.6	2.1
6	1,691.8	885.1	52.3	504.7	29.8	263.2	15.6	38.8	2.3
7	1,704.0	882.4	51.8	543.3	31.9	247.1	14.5	31.2	1.8
8	1,680.2	837.4	49.8	571.6	34.0	241.7	14.4	29.5	1.8
9	1,545.9	787.4	50.9	505.2	32.7	225.1	14.6	28.2	1.8
10	1,509.3	730.7	48.4	540.7	35.8	212.6	14.1	25.3	1.7
11	1,398.8	643.1	46.3	518.0	37.3	204.2	14.7	24.5	1.8
12	1,308.4	498.2	38.1	582.2	44.5	200.6	15.3	27.4	2.1

Source: Securities Investment Trust & Consulting Association of R.O.C.

funds before the year-end in compliance with its policy to divide bond funds into genuine bond funds (i.e. fixed income funds) and money market funds. As a result, massive redemptions of bond funds occurred and the net assets of local bond funds fell by NT\$574.9 billion to NT\$1,308.4 billion at the end of 2005 from the previous year-end. Of the redemption amount, financial institutions (including domestic banks, medium business banks, life insurance companies and investment trust companies) accounted for 10.9 percent, while 89.1 percent were from the non-financial private sector.

With respect to portfolio allocation, local bond funds mainly invested in outright purchases of corporate bonds, repurchase agreements of government bonds, bank time deposits and purchases of money market instruments. At the end of 2004, their portfolio ratios were 53.9 percent, 29.9 percent, 13.7 percent and 2.5 percent, respectively. During 2005, in line with the FSC's policy, securities investment trust firms adjusted their portfolio investments of bond funds. At the end of 2005, the above ratios became 38.1 percent, 44.5 percent, 15.3 percent and 2.1 percent, respectively. The current ratio of outright purchases of bonds is less than 40 percent of the portfolio held by all bond funds. This shows that a large number of bond funds seem to favor a transfer to money market funds in the future.



III. Central Bank Operations

- 1. Overview**
- 2. Monetary Management**
- 3. Foreign Exchange Management**
- 4. Banking Supervision**
- 5. Payment and Settlement Systems**
- 6. Currency Issuance**
- 7. Treasury Agency Functions**
- 8. Participation in International Activities**

III. Central Bank Operations

1. Overview



In accordance with the Central Bank of China Act, the Bank has four operational objectives, namely, to promote financial stability, to guide sound banking operations, to maintain the stability of the internal and external value of the currency and, within the scope of the above-mentioned objectives, to foster economic development.

The Board of Directors, consisting of fifteen members, is the highest decision making body of the Bank. It holds regular meetings four times a year.

In 2005, the domestic economy slowed in the first half of the year and regained momentum in the second half. The labor market improved for the third year in a row, capacity utilization rates remained high and inflationary pressures heightened. Nevertheless, both short-term and long-term interest rates continued to remain at low levels. To keep inflation expectations contained and to prevent the real interest rate from dropping, the Bank raised the discount rate by 12.5 basis points at each of its board meetings. At the end of the year, the Bank's three policy rates, namely the discount rate, the interest rate on accommodations with collateral and the interest rate on accommodations without collateral, stood at 2.25 percent, 2.625 percent and 4.5 percent, respectively, 50 basis points higher than the previous year-end.

With respect to foreign exchange policy, as Taiwan is a small and highly open economy, exchange rate movements impose significant influences on external trade and economic growth. With a managed float regime, the NT dollar exchange rate is in principle determined by market forces. However, in cases when seasonal or irregular factors such as a surge in short-term capital movements lead to excessive volatility in the exchange rate, the Bank will step in, as deemed appropriate, to maintain the dynamic stability of the NT dollar. At the end of 2005, the NT dollar stood at 32.85 against the US dollar, showing a depreciation of 2.84 percent compared to the previous year-end. On a daily average basis, the NT dollar, however, appreciated by 3.90 percent against the US dollar.

Institutional reforms of pricing bank lending rates were implemented in 2005. Since 2002, the Bank has encouraged the adoption of adjustable rate mortgages and flexible base rates pricing system to make banks' loan pricing more market-sensitive and transparent, thereby increasing the effectiveness of monetary policy transmission. By June 2005, all domestic banks and community financial institutions had adopted this pricing system. From the beginning of 2006, the old prime rate pricing system will no longer be applied to banks' loans.

In addition, the Bank continued its efforts in financial liberalization in 2005. It introduced new financial products, streamlined application procedures for foreign portfolio investment, as well as promoted direct cross-strait financial transactions, which, in turn, encouraged overseas Taiwanese enterprises to use OBUs (offshore banking units) as their funding management centers. Due to the strong demand for renminbi exchange services, from Oct. 2005, those via the "mini three links" route have been allowed to convert NT dollars into renminbi and vice versa at the banks on the outlying islands of Kinmen and Matsu.

To ensure the soundness and stability of the financial system, the Bank developed a framework for financial stability and reorganized the Department of Financial Inspection during the year. It also launched the trust system for book-entry government bonds and introduced the STRIPS (Separate Trading of Registered Interest and Principal of Securities) system, which provided more diversified products in the bond market and helped establish a benchmark yield curve. As for the issuance of banknotes, new versions of NT\$500 and NT\$1000 notes were issued by the Bank in July 2005 with enhanced design in security features.

2. Monetary Management

Continuing the Gradual Tightening of Monetary Policy

The domestic economy expanded moderately in 2005, although at a slower pace compared with the previous year. The labor market improved for the third year in a row. Capacity utilization rates also remained high. Regarding prices, inflationary pressures heightened. The resurgence of international oil prices and mounting food prices, together with rising medical costs and upward pressure from an increase in the tobacco surcharge all cast clouds over price stability. Nevertheless, both short-term and long-term interest rates continued to remain at low levels. To keep inflation expectations contained and to prevent the real interest rate from dropping, which may hamper fund allocation and long-term financial stability, the Bank continued to adopt a more restrictive monetary policy throughout the year. The discount rate, the interest rate on accommodations with collateral and the interest rate on accommodations without collateral were raised 12.5 basis points, respectively, at each of the Bank's board meetings.

In the recent rate-hiking cycle starting from October 2004 to the end of 2005, the Bank raised its policy rates 6 times for a total rise of 87.5 basis points. At the end of the year, the three policy rates stood at 2.25 percent, 2.625 percent and 4.5 percent, respectively.

Conducting Open Market Operations

The Bank's certificates of deposit (CDs) remain the primary instrument for the Bank to manage banks' day-to-day reserves. Its interest rates also play an important role in guiding market rates when issued on a fixed-rate basis. In 2005, as net foreign capital inflows were mostly offset by the surge in outward portfolio investments by domestic investors, excess liquidity

Central Bank Interest Rates

Unit: %

Effective Date	Discount Rate	Accommodation Rate with Collateral	Accommodation Rate without Collateral
2003 / June 27	1.375	1.750	3.625
2004 / Oct. 1	1.625	2.000	3.875
Dec. 31	1.750	2.125	4.000
2005 / Mar. 25	1.875	2.250	4.125
July. 1	2.000	2.375	4.250
Sept. 16	2.125	2.500	4.375
Dec. 23	2.250	2.625	4.500

Source: *Financial Statistics Monthly, Republic of China, the Central Bank of China.*

Open Market Operations

Unit: NT\$ Billion

Year/ Month	Amount Absorbed			Amount Offered			Outstanding Amount*	
	Total	Maturity of Repurchase Agreements	Issues of CDs	Total	Repurchase Agreements	Redemptions of CDs	Repurchase Agreements	CDs Issued
2003	7,399	1,371	6,028	6,354	1,371	4,983	--	2,992
2004	12,741	618	12,123	12,171	618	11,553	--	3,562
2005	20,007	--	20,007	20,049	--	20,049	--	3,520
2005 / 1	2,312	--	2,312	2,316	--	2,316	--	3,559
2	1,658	--	1,658	1,484	--	1,484	--	3,732
3	2,125	--	2,125	1,980	--	1,980	--	3,877
4	2,511	--	2,511	2,549	--	2,549	--	3,839
5	1,346	--	1,346	1,390	--	1,390	--	3,795
6	1,278	--	1,278	1,451	--	1,451	--	3,622
7	2,422	--	2,422	2,320	--	2,320	--	3,724
8	1,118	--	1,118	1,207	--	1,207	--	3,636
9	882	--	882	1,093	--	1,093	--	3,424
10	1,914	--	1,914	1,797	--	1,797	--	3,542
11	1,098	--	1,098	1,048	--	1,048	--	3,592
12	1,342	--	1,342	1,414	--	1,414	--	3,520

Note: *End-of-period data.

Source: *Financial Statistics Monthly, Republic of China, the Central Bank of China.*

in the banking system was not accumulated so much as previous years. Owing to the frequent redemptions of CDs, the Bank continued to issue CDs as part of its daily operations to drain excess liquidity and to stabilize market interest rates. At the end of the year, the outstanding amount of CDs issued by the Bank was NT\$3,520 billion, a slight drop from a year earlier.

In addition, foreign exchange swaps with banks were used extensively to absorb excess liquidity. However, the Bank didn't arrange any repos during the year given the ample liquidity in the market.

Since March 2003, the Bank has used only non-competitive bidding by setting a specific interest rate on each CD issuance. Following the Bank's adjustment of the discount rate, the Bank also announced its new CD rates for each maturity term to induce the market interest rate to move towards its target. In 2005, the 30-days CD rate was moved up by 24 basis points to 1.45 percent at the end of the year, leading the overnight call-loan rate to rise from 1.20 percent early in the year to 1.48 percent at the year-end.

Increasing Redeposits from Financial Institutions

Accepting and releasing redeposits from Chunghwa Post Co. and commercial banks is another instrument of the Bank to influence banks' reserve positions, although it's not used as frequently as open market operations. In view of the ample excess funds in the market resulting in a declining bond yield, the Bank increased its acceptance of redeposits from financial institutions in 2005 to lock in more longer-term funds with the Bank. Outstanding postal savings

Non-competitive Bidding Rates on CDs Issued by the Central Bank

Unit: %

Effective Date	30 Days	91 Days	182 Days	364 Days	2 Years
2003 / Jan. 03	1.518	--	--	1.615	1.670
Jan. 09	1.518	1.512	1.508	--	--
Jan. 16	1.368	--	--	1.512	1.529
Jan. 23	1.155	1.255	1.280	--	--
Feb. 13	1.155	1.149*	1.193	--	--
Feb. 20	--	--	--	1.381	1.457
July 03	1.050	--	1.075	1.225	--
2004 / Oct. 01	1.150	1.170	1.200	--	--
Oct. 11	1.150	1.170	1.200	1.225	--
Dec. 31	1.210	1.240	1.280	--	--
2005 / Mar. 25	1.270	1.310	1.360	--	--
July 01	1.330	1.380	1.440	--	--
Sept. 16	1.390	1.450	1.520	--	--
Dec. 23	1.450	1.520	1.600	--	--

Note: *Only competitive bid was conducted on Feb. 13, 2003. The rate refers to the weighted average of bidding rate.

Source: *Press Releases on Open Market Operations, the Central Bank of China.*

redeposits and banks' redeposits were up to NT\$1,417 billion and NT\$428 billion at the end of the year, showing an increase of NT\$66 billion and NT\$45 billion, respectively, from a year before.

In addition, the three domestic farmers' banks, namely the Taiwan Cooperative Bank, the Land Bank of Taiwan and the Farmers Bank of Taiwan, as well as the newly established Agricultural Bank of Taiwan are allowed to receive deposits from community financial institutions and make redeposits with the Bank. At the end of the year, their outstanding redeposits increased to NT \$159 billion, NT\$14 billion higher than in 2004.

Continuing to Promote Preferential Loans

To help boost the real estate market and relieve the mortgage burden of home buyers, the Bank, the Ministry of Finance and the Ministry of the Interior jointly initiated a preferential mortgage loan program in August 2000. After expanding the program 6 times since its launch, the upper limit was further raised by NT\$300 billion in May 2005. The total amount of the program was thus increased to NT\$1,800 billion. By the end of 2005, a total of 818,112 households had obtained an amount of NT\$2,508 billion under this program. The amount included NT\$939 billion in parallel lending by banks applying ordinary interest rates.

The Preferential Loans and Credit Guarantees for Traditional Industries was another preferential loan program initiated by the Bank and the Ministry of Finance in October 2000. The program, with an initial upper limit of NT\$450 billion raised from the local banking system, was established to help traditional industries acquire the funds necessary for business operations.

The total amount of the preferential loans was expanded to NT\$1,850 billion at the end of 2004. The program ended in Oct. 2005 with a total amount of NT\$1,839 billion in loans extended by banks to support 229,142 cases under this package.

During the year, the Bank continued to provide subsidies to victims of the earthquake in 1999 for interest payments on mortgage loans. This also applied to banks assuming the mortgage assets of earthquake victims. By the end of 2005, a total of NT\$59.9 billion worth of loans had been approved for 33,574 housing units under this program.

Promoting Adjustable Rate Mortgages and Flexible Base Rates

Since 2002, the Bank has encouraged the adoption of adjustable rate mortgages and flexible base rates pricing system to make banks' loan pricing more market-sensitive and transparent, thereby increasing the effectiveness of monetary policy transmission. The new pricing system was introduced to substitute downwardly rigid prime rates. At the same time, banks were urged to apply this new pricing system to their old loans. As of the end of 2005, loans extended by domestic banks still using the old prime rates accounted for merely 2.1 percent of total loans.

In view of the success of this pricing system, from April 2004, the Bank urged all community financial institutions to adopt the same pricing system not only to improve their competitiveness but also for the benefit of both lenders and borrowers. By June 2005, all community financial institutions had adopted this pricing system.

To ensure that the new system is implemented thoroughly, as requested by the Bank, the Bankers' Association of Taiwan requires its member banks to replace their prime rate pricing with a flexible base rate plus a mark up. From the beginning of 2006, the old prime rate pricing system will no longer be applied to banks' loans.

Enhancing the SME Financing Mechanism

To provide easier access to financing for small- and medium-sized enterprises (SMEs), the Bank participated in SME financing activities, including promoting a two-track guarantee system to help SMEs in obtaining loans. In addition, since June 2003, the Bank has monitored banks' performance on SME financing on a monthly basis to encourage banks to extend loans to SMEs. At the end of 2005, the guarantee balances and loans extended to SMEs by domestic banks were NT\$415 billion and NT\$3,243 billion, showing an increase of NT\$223 billion and NT\$600 billion, respectively, as compared with the end of May 2003.

3. Foreign Exchange Management

The New Taiwan dollar exchange rate regime is a managed float, where in principle the exchange rate is determined by supply and demand in the foreign exchange market. However, if the market is interrupted by seasonal or abnormal factors (e.g. large flows of hot money), causing excessive exchange rate fluctuations not reflecting Taiwan's economic fundamentals, the Bank will step in to maintain an orderly foreign exchange market.

During 2005, the NT\$/US\$ exchange rate appreciated in the first quarter and depreciated from June to November, finally ending the year at 32.850 against the US dollar, down 2.84 percent from 31.917 at the end of 2004. Nevertheless, the yearly average of the NT dollar against the US dollar, the yen and the euro was up by 3.90, 5.75 and 3.66 percent, respectively, from 2004.

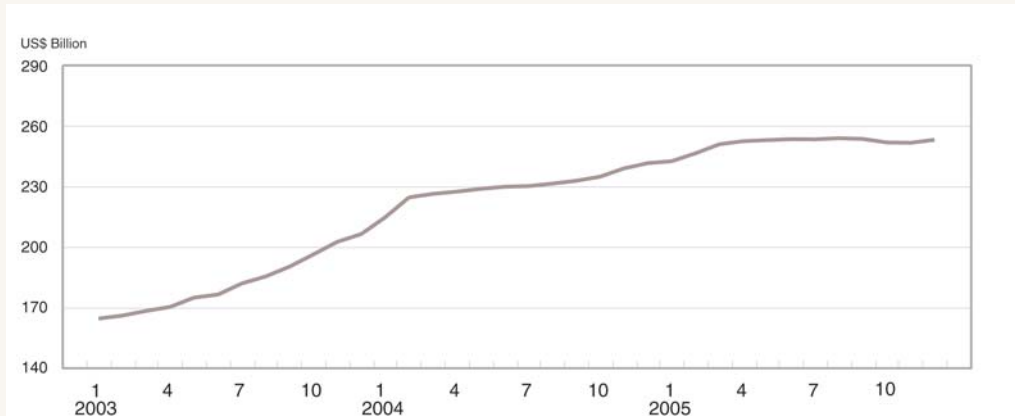
In order to enhance financial discipline and to promote the stable development of the local foreign exchange market, the Bank has implemented a Real-Time Reporting System on Large-Amount Foreign Exchange Transactions to monitor the market. In addition, to ensure that forward transactions are made only upon real demand, the Bank urged banks to enhance foreign exchange rate risk management, and conducted target examinations to effectively eliminate foreign exchange speculation and ensure sound functioning of the foreign exchange market.

Foreign Exchange Market Management

The Bank approved 27 branches of local banks to conduct full-fledged foreign exchange business and another 51 branches to conduct limited business of buying/selling foreign currencies and traveler's checks in 2005.

Simplified application procedures for new financial products were actively promoted in 2005. From January 3 onwards, existing foreign exchange derivatives were allowed to be adopted with only ex post reporting requirements according to a negative list of products requiring ex ante applications. The list included: (1) unapproved products or approved products not up to half a year and linked financial products; (2) financial derivatives involved with or linked to the NTD exchange rate (not including Quanto products and standard cross currency swaps); (3) foreign currency denominated derivatives with underlying assets involving domestic risks (including overseas securities issued by domestic enterprises, such as offshore convertible bonds, global depository receipts, Taiwan stock prices and indexes, MSCI Taiwan stock indices

Foreign Exchange Reserves



Source: Department of Foreign Exchange, the Central Bank of China.

trading in Singapore, counterparty risk involving domestic risks). Furthermore, to increase domestic firms' hedging instruments, authorized foreign exchange banks were allowed to apply to the Bank to introduce new products such as foreign exchange credit default swaps or options, and NTD or foreign currency deposits linked to foreign currency hedge fund index options or swaps with full or a part of principal protection. For the year 2005, 57 new financial products were adopted by banks.

In order to provide banks with sufficient foreign exchange liquidity to meet corporations' funding needs, the Bank appropriated seed funds of US\$20 billion, €1 billion and ¥15 billion for the foreign exchange call-loan market. Moreover, the Bank actively carried out foreign currency swap transactions. During the year, foreign exchange call loan transactions reached US\$937 billion, while foreign exchange-NT dollar swap transactions reached US\$266 billion, a 33.65 percent growth over last year.

Foreign Exchange Reserves

In addition to maintaining liquidity, security and profitability, the Bank's objectives of foreign reserve management also included promoting economic development and upgrading industries.

At the end of 2005, total foreign exchange reserves amounted to US\$253.3 billion, a US\$11.6 billion increase from the end of 2004. The main factors contributing to the increase included: (1) net foreign capital inflows; (2) the returns from foreign exchange reserve investments.

Capital Flow Management

With the progress of financial liberalization and internationalization, the Bank manages the

foreign exchange market according to the market mechanism. In general, capital movements can flow freely. As of 2005, restrictions only remained on a few short-term financial transactions involving the conversion of the NTD. For example, each domestic company and a resident could conduct inward and outward remittances up to US\$50 million and US\$5 million annually, respectively. Nonresidents could remit up to US\$100 thousand per transaction. For remittances exceeding the respective ceilings, applications could be made through authorized foreign exchange banks.

Key measures with regard to capital flows in 2005 included:

- (1) The Financial Supervisory Commission, after consultation with the Bank, adopted the following measures to loosen restrictions on foreign investments in domestic securities: (i) effective May 13, foreign investors were allowed to conduct securities borrowing and lending business not limited to strategic trading and hedging; and (ii) offshore mortgages were allowed for securities borrowing among foreign investors.
- (2) The Financial Supervisory Commission, after consultation with the Bank, adopted the following measures in order to promote the internationalization of the domestic capital market: (i) enterprises were allowed to issue overseas securities for funding purposes. In 2005, 10 corporations issued overseas depository receipts amounting to US\$7.11 billion; 14 corporations issued corporate convertible bonds amounting to US\$2.36 billion; (ii) a Thai corporation was allowed to issue a Taiwan Depository Receipt (TDR) worth NT\$700 million.
- (3) The Financial Supervisory Commission, after consultation with the Bank, adopted the following measures in order to loosen the restrictions on overseas securities investment: (i) effective January 13, securities investment trust enterprises with the required documents were allowed to apply for domestic (foreign) private placement to invest in foreign (domestic) funds; (ii) effective February 4, the regulation on financial institutions' earmarked trust fund investment in overseas funds was revised, where the ceiling of the Hong Kong or Macao H stocks and red chip stocks as a proportion of the overseas fund assets was raised from 5% to 10%; (iii) effective May 18, the Bank notified that a US\$50 million yearly accumulated remittance ceiling was provided for life insurance companies via specified pecuniary trusts (previously earmarked trust funds) or individual application to the Bank; (iv) effective August 16, the Bank notified that the remittance of offshore funds through institutional representatives or centralized securities depository enterprises were not counted as part of the yearly accumulated remittances for investors, offshore fund institutional representatives or centralized securities depository enterprises; (v) effective September 13, in accordance with the

Regulation Governing Offshore Funds, the Bank revised the scope of specified pecuniary trust investment in offshore funds; and removed the previous prohibition of advertisement, public inducement, or acting as an agent to sell offshore funds, where the securities firms should abide by the Trust Enterprise Law and the *Regulation Governing Offshore Funds*. Additionally, the regulations regarding the credit rating requirements of foreign securities investments and the prohibited investment items were simplified to be eligible to use the regulations regarding the variety and the scope of foreign securities investments recommended by investment consulting companies.

(4) In order to facilitate capital movement, the *Regulation Governing the Declaration of Foreign Exchange Receipts and Disbursement and Transactions* was revised on December 6, 2005 with the following major changes: (i) abolishing the limit on the use of remittance for the minor, who could then remit up to US\$500 thousand per transaction; (ii) under the circumstance that securities firms were entrusted as agents to sell or buy foreign securities, futures firms were entrusted as agents to conduct foreign futures trading, and securities firms managing derivative financial products trading businesses, their remittances and the remittances of the ones who entrust them were not included in the respective yearly accumulated remittance amount; (iii) in order to simplify the documentation requirement, the remittances of the securities firms managing discretionary investment in foreign securities and the life insurance companies managing foreign security investments for the insureds did not need to file the remittance book if the transaction amount of the individual beneficiary or insured did not exceed NT\$500 thousand; (iv) the employees of foreign companies' Taiwan branches (subsidiaries) were allowed to remit the amount of the purchase (sale) of their mother companies' stocks, where the remittances were included in the yearly accumulated remittance amount.

(5) In order to promote cross-strait financial business, the following measures were adopted: (i) effective March 7, the remittance items were increased from 12 to 15, which were listed in Table 10 entitled "Matters to be Verified by Banking Enterprises Engaging in Foreign Exchange Settlements Involving Outward Remittances to Mainland China" of the "Directions for Banking Enterprises on Assisting Customers to Declare Foreign Exchange Receipts and Disbursements or Transactions"; (ii) effective October 3, in order to satisfy the demand for renminbi and to regulate the renminbi exchange business, banks located in Kinmen and Matsu were allowed to apply for the purchase or sale of renminbi bills. Taiwan Area and China Area residents traveling between Mainland China and Kinmen or Matsu could each

time exchange renminbi up to 20 thousand dollars. Up to the end of 2005, eleven business offices were approved to purchase renminbi 6.06 million dollars and to sell renminbi 49.86 million dollars.

Management of Authorized Foreign Exchange Banks

The Bank continued to approve banks' applications for becoming authorized foreign exchange banks and to approve authorized banks' applications for conducting derivatives business. To maintain financial discipline, authorized banks violating foreign exchange regulations were rectified and required to improve. By the end of 2005, there were 1,125 units of authorized foreign exchange banks, which included 67 foreign banks, and 42 domestic bank headquarters and their 1,016 branches.

Improvements of Foreign Exchange Business Regulation

Effective December 21, the *Directions Governing Banking Enterprises for Operating Foreign Exchange Business* were revised with the following key points: (i) to comply with the anti-terrorist approaches recommended by the Financial Action Task Force on Money Laundering (FATF), the Bank required banks to show the remitter's name, account number or identification number, and address in the e-mail when making remittances; (ii) foreign currency financing used to be required to be related to foreign trading. However, in accordance with the opening of the domestic capital market, banks' foreign currency demand arising from domestic foreign currency trading could be financed in foreign currency after the Bank's approval; (iii) authorized foreign exchange banks could issue a letter of credit, which guaranteed domestic firms' overseas subsidiaries' borrowing from offshore financial institutions. However, the banks should carefully evaluate the guarantees' financial conditions, business management, and financial resources available for repayment; (iv) based on foreign exchange liberalization, regarding foreign natural persons' applications for credit cards, cash cards and debit cards, banks would not impose extra restrictions on the residence cards and the validation dates.

The Management of US Dollar Counterfeits

On June 9, the Bank notified all banks managing the purchase or sale of foreign currency bills that they were obligated to take foreign currency bills according to quoted rates and could not refuse to take US\$100 bills with serial numbers beginning in DF. Once foreign coin or note counterfeits were found, the managing procedure should be abided by the *Regulation Governing the Handling of Counterfeit Foreign Coins and Notes*; and (ii) in order to enhance the detection method used by tellers at authorized foreign exchange banks, the Bank invited US experts on counterfeit discrimination to Taiwan from September 13 to 16 to give eight

training courses on this subject.

Offshore Banking Business

Offshore banking units (OBUs) of local banks have been in operation since December 1983 to enhance Taiwan's international financial activities and to establish Taipei as a financial center in Asia. Since June 2001, OBUs have been allowed to conduct cross strait financial business, and their business has been growing rapidly. At the end of 2005, foreign currency deposits from non- financial institutions totaled US\$20.71 billion, a US\$9.26 billion or 80.93% increase from June 2001, and cross-strait remittances increased to US\$ 12.34 billion, a US\$11.99 billion or 3,459.84% increase during the same period. This rapid growth of cross-strait remittances helped promote OBUs as the financing center for Taiwanese businesses operating overseas.



4. Banking Supervision

To ensure the sound operations of financial institutions and maintain the stability of the financial system, the Bank conducted banking supervision in accordance with the mandate endowed by the *Central Bank of China Act*. The Bank also actively planned to establish a framework to evaluate financial stability, including the establishment of financial soundness indicators and other financial stability indicators to systematically monitor, analyze, and evaluate the possible sources of financial system risks in order to adopt appropriate policies with the objective of financial stability.

Implementing On-site Examinations

According to the mandate endowed by the *Central Bank of China Act*, the Bank only conducted target examinations related to monetary, credit, and foreign exchange policies, and payment systems when necessary.

Monitoring the Compliance with the Examination Opinions

Focusing the Bank's examination opinion and the Financial Supervisory Commission's examination opinion involving the Bank's business or regulations, the Bank monitored the improvement of the examined financial institutions, punished the misbehaving institutions according to the law when necessary, and urged the financial institutions to actually improve related deficiencies.

Enhancing Offsite Monitoring

Based on the periodical reports submitted by financial institutions, the Bank assessed the operations, financial conditions and regulatory compliance of individual financial institutions by utilizing the report auditing system. The Bank then compiled analysis on various business practices and other information to serve as a reference for relevant supervisory agencies.

Establishing the Framework to Evaluate Financial Stability

The Bank revised the *Organic Regulations of the Departments and Offices of the Central Bank of China* so the duties and organizational structure of the Department of Financial Inspection were adjusted to be responsible for the evaluation of financial stability. Meanwhile, the Bank referred to the IMF guidelines for compiling financial soundness indicators to draw up the Financial Soundness Indicators Reporting Items and Explanations. This was the first step toward establishing a relevant databank.

Other Important Measures

- (1) To comply with the regulations of the Financial Supervisory Commission and the Agriculture Commission, the Bank promulgated a new regulation regarding financial institutions' reporting to the Bank about important and unexpected events;
- (2) to support the Financial Supervisory Commission to establish a single reporting window for financial supervisory information of domestic banks, foreign banks, and bills finance companies;
- (3) completing the auditing system of bond fund statements, and planning to establish the auditing system for the statements of insurance companies, securities firms, and futures firms;
- (4) overseeing financial institutions' usage of banknote processing machines in order to take counterfeits out of circulation.



5. Payment and Settlement Systems

Increasing Funds Transfers by the CBC Wire

The two main subsystems under the CBC wire are the CBC Interbank Fund-transfer Settlement System (CIFS), and the Central Government Securities Settlement System (CGSS). The CIFS launched in May 1995 is an on-line, large-value funds transfer system. Since September 2002, the system has been operated in a real-time gross settlement (RTGS) basis. Participants of the CIFS include banks, investment and trust companies, and bills finance companies. For those who maintain transaction accounts with the Bank, they may directly use the CIFS to transfer funds. Payment instructions are also sent over the CIFS for settling obligations on check clearing, adjusting reserve account balances, or making payments associated with interbank loans, bill transactions, and bond transactions. For the year 2005, the total value of funds transferred by the system grew by 27.2 percent from 2004 to NT\$246,279 billion.

Established in September 1997, the CGSS is a real-time gross settlement system for the issuance, transfer, redemption, and interest payment of book-entry central government securities. Currently, the book-entry transactions of central government securities within a clearing bank can be made on a delivery-versus-payment (DVP) basis while those between clearing banks cannot. To reduce the settlement risk in interbank transactions, the Bank plans to link the CGSS with the CIFS to allow clearing banks to handle these settlements on a DVP basis as well.

Declining Check Clearing by the Clearing House System

Supervised by the Bank, the Taiwan Clearing House System handles the clearing and settlement of checks, promissory notes, and drafts among banks. Participants of the system include banks, credit co-operative associations, as well as credit departments of farmers' and fishermen's associations. All financial institutions in Taiwan using these facilities should hold reserve accounts at the Bank. The Bank also participates in this System.

The Taiwan Clearing House (TCH) is responsible for the operation of the system. In order to promote the efficiency of check clearing and to facilitate funds management for enterprises, the Bank guided the TCH to enhance its computerized check-clearing operation. Through dividing Taiwan into north, middle and south exchange regions, the checks collected by clearing houses were exchanged in three processing centers located in Taipei, Taichung and Kaohsiung, respectively. The Bank then handles the final settlement for these processing centers. This quasi-centralized and electronic processing system is conducive to time-saving

for check processing and reducing manual handling loads. It also facilitates funds management of both financial institutions and enterprises.

Both the volume and value of TCH transactions have been decreasing over the past few years. In 2005, checks and bills settled by the TCH system amounted to NT\$23,961 billion, a decrease of 9.9 percent from 2004, mainly due to the growth of interbank remittance transactions.

Increasing Transactions through the FISC Interbank Payment System

The Interbank Remittance System (IRS), launched in August 1987 and operated by the Financial Information Service Co., Ltd (FISC), is the largest retail electronic payment system in the country. This system provides remittance services to the general public, government agencies, and banks.

Credit cards and ATM (automatic teller machine) cards are the most popular payment cards in the country. The interbank settlements of credit card transactions between card-issuing banks and retail merchant's banks are mostly made by the FISC. The CD/ATM (cash dispenser/ automatic teller machine) System, which provides 24-hour cross-bank withdrawal, balance inquiry, funds transfer, credit card cash advance, and IC card loading services, is also operated by the FISC. All the participants in the IRS can join the system. In addition, the FISC handles funds transfers for on-batch payments, debit cards, electronic and mobile banking, etc.

In 2005, the FISC handled a total value of NT\$107,166 billion in funds transactions, a moderate increase of 2.5 percent from the previous year.

Transactions of Payment Systems

Year	CBC Interbank Funds Transfer System		Clearing House System		FISC Interbank Payment System	
	Volume (thousand)	Value (NT\$ billion)	Volume (thousand)	Value (NT\$ billion)	Volume (thousand)	Value (NT\$ billion)
1996	265	96,379	169,115	51,183	151,070	36,374
1997	310	112,022	170,950	54,957	185,770	58,232
1998	379	129,513	171,959	53,492	215,660	63,097
1999	389	118,166	170,228	41,489	249,160	65,361
2000	435	134,376	175,019	40,835	292,370	79,698
2001	466	141,078	171,509	37,975	313,370	76,545
2002	443	153,467	162,791	31,985	342,230	85,245
2003	447	160,729	158,345	28,228	371,114	89,777
2004	630	193,662	159,635	26,597	396,169	104,566
2005	794	246,279	154,538	23,961	409,193	107,166

Source: Financial Statistics Monthly, Republic of China, the Central Bank of China.

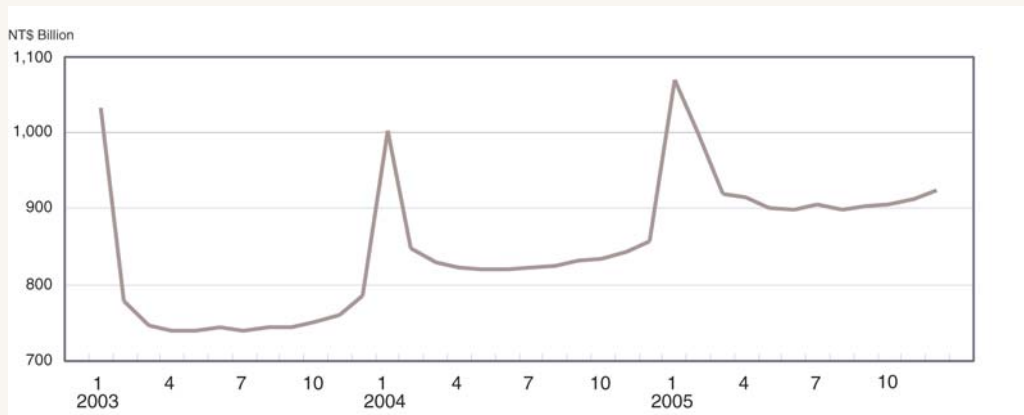
6. Currency Issuance

The Bank produces and issues the NT dollar banknotes and coins. The volume of currency production is mainly determined by the demand of the public, which is associated with the rate of economic growth, seasonal demand, and the development of noncash payments. At the end of 2005, the outstanding amount of the currency issued recorded NT\$922.9 billion, representing an increase of NT\$66 billion or 7.70 percent over the previous yearend. The NT \$1,000 note commanded the lion's share of 84.67 percent of the total value of banknotes issued, while the NT\$100, NT\$500, NT\$2,000, and NT\$200 accounted for 6.02 percent, 4.90 percent, 3.37 percent, and 0.33 percent, respectively.

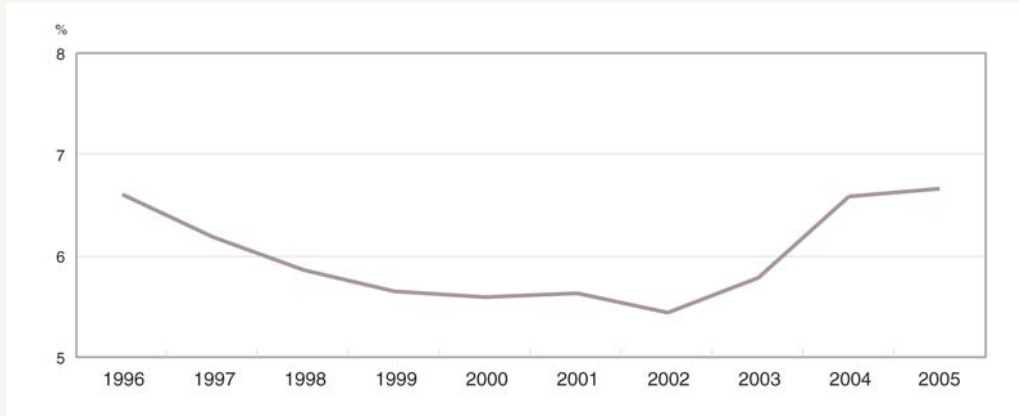
Since the middle 1990s, as a result of innovations in payment instruments, the use of payment cards such as charge cards, debit cards, and credit cards became increasingly popular and the use of cash consequentially declined. The ratio of currency in circulation to nominal GDP dropped from 7.50 percent in 1994 to as low as 5.43 percent in 2002. Thereafter, because of the increased willingness to hold cash as interest rates continually trended lower and the improved convenience of cash withdraw due to increased ATM access, currency in circulation to nominal GDP increased to 6.67 percent in 2005.

The Bank issued the new NT\$500 and NT\$1,000 notes with enhanced security features on July 20, 2005. In addition, the Bank issued a Commemorative Coin Set for the Chinese Zodiac Year of the Rooster, a Commemorative Silver Coin for the 2005 Asia Postal Exhibition, and the 8th coin set of the Taiwan Indigenous Peoples Cultural Series.

Currency Issued



The Ratio of Currency Held by the Public to GDP



7. Treasury Agency Functions

Managing the Treasury Deposit Account

The Bank acts as the government's bank and manages the Treasury Deposit Account (TDA) on behalf of the Ministry of Finance (MOF). The Bank delegates the business of treasury transactions outside of Taipei City to 16 banks. Of these delegated banks, there are 350 branches, including 5 overseas branches, to function as treasury agents. There are another 4,423 tax service offices around the country. Delegated banks and tax service offices provide convenient access for government entities and the general public. In 2005, the Bank received a total of NT\$2,689.8 billion worth of treasury deposits, an increase of NT\$33.4 billion or 1.26 percent over the previous year. Payments made for the Treasury were NT\$2,667.7 billion, an increase of NT\$30.9 billion or 1.17 percent. The outstanding balance in the TDA was NT\$73.2 billion, an increase of NT\$22.2 billion or 43.53 percent from a year earlier.

Handling Central Government Institutions Deposits

Central government entities are allowed to make their deposits with the Bank or other delegated banks. At the end of 2005, the balances of central government entities' deposits with the Bank amounted to NT\$128.8 billion, an increase of NT\$2.7 billion or 2.14 percent over the previous year. Deposits with delegated banks were NT\$428.6 billion, declining by NT\$7.5 billion or 1.72 percent. Delegated banks are required by law to re-deposit a certain ratio of deposits with the Bank, except those in interest-bearing accounts. At the end of 2005, those re-deposits were NT\$20.8 billion, decreasing by NT\$1.4 billion or 6.31 percent from a year earlier.

Managing Central Government Securities

As a fiscal agent, the Bank, on behalf of the MOF, provides services related to the issuance, transfer, redemption, and interest payment of government securities. The Bank also conducts the auctions of central government bonds. There were 76 domestic dealers qualified to submit tenders to the Bank in these auctions. In 2005, the Bank arranged 13 issues of book-entry central government bonds with a total amount of NT\$445 billion. The weighted average yields of successful bids for these 13 issues ranged from 1.322 percent to 2.475 percent per annum. During 2005, the Bank paid a total of NT\$161.2 billion in principal and NT\$115.2 billion in interest payments for central government bonds. At the end of 2005, the outstanding amount of central government bonds was NT\$3,013.1 billion.

Managing Treasury Bills

Treasury bills are sold at a discount through auctions. Participants include banks, investment and trust companies, insurance companies, bills finance companies, and Chunhua Post Co. In the year 2005, the Bank arranged 5 issues of book-entry treasury bills with a total amount of NT\$115 billion. The weighted average yields of successful bids for these 5 issues ranged from 1.228 percent to 1.514 percent. As of the end of 2005, the outstanding amount of treasury bills was NT\$45 billion.

Launching the Trust System for Book-entry Government Bonds

In line with the passage of the *Trust Law* and the *Trust Enterprise Law*, the Bank revised pertinent administrative requirements and launched the system for the registration and trust of the book-entry central government bonds and treasury bills on July 20, 2005. This measure aims to enhance the efficiency and safety in procedures for trust business as well as protect investors' rights and interests.

Introducing the STRIPS System

STRIPS (Separate Trading of Registered Interest and Principal of Securities) are a type of coupon-bearing government bonds in which coupons and principals are traded separately. These instruments are referred to as Interest Only (IO) and Principal Only (PO) strips. In line with reforms in the domestic bond market, the Bank launched the STRIPS system on November 7, 2005. The system allows broader participation of retail investors and provides more diversified investment instruments for financial institutions.

Book-entry Government Securities

At the end of 2005, there were a total of 1,535 delegated banking units handling the registration of the book-entry securities and the conversion from physical securities to book-entry form. By the end of 2005, book-entry government bonds outstanding amounted to NT \$2,989.6 billion, accounting for 99 percent of total outstanding central government bonds. Transactions of central government bonds in the book-entry form accounted for 80 percent of total transactions in the secondary bond market.

8. Participation in International Activities

The Republic of China (Taiwan) is a full member of the Asian Development Bank (ADB), the Central American Bank for Economic Integration (CABEI), and the Conference of Governors of South East Asian Central Banks (SEACEN). The Bank attends the annual meetings and hosts conferences and training courses so as to strengthen cooperation and relations with other member countries. In addition, the Bank also plays an active and extensive role in the Inter-American Development Bank (IDB), the European Bank for Reconstruction and Development (EBRD), and the Bank for International Settlements (BIS), among other international financial organizations.





IV. ANNEX

Recent Reform of Pricing Bank Lending Rates in Taiwan

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Bank lending is essential to both individuals and enterprises to make their decisions on consumption or investment and to the economy as a whole to achieve sustainable development. At its core, the lending rate can serve as a useful financial indicator, if its pricing is based on actual market conditions. This annex provides a

brief review of recent reform of pricing bank lending rates in Taiwan.

The Old Prime Rate System and Its Weakness

In the past, Taiwan adopted a prime rate system. This system was introduced by the Bank in March 1985 as one of a series of measures for interest rate deregulation. The prime rate is the interest rate charged by a commercial bank to its most creditworthy customers. It represents a key interest rate on which the entire structure of lending rates is built. Over the years, the system worked well, and prime rates established a close co-movement relationship with the Bank's discount rate.

In the early 2000s, the Bank cut discount rates continuously in response to economic slowdown, however, prime rates started exhibiting downward rigidity. The Bank cut the discount rate 15 times for a total of 3.375 percentage points from December 2000 to June 2003, while the five leading domestic banks only lowered their prime rates by an average of 0.782 of a percentage point. This downward rigidity in banks' prime rates hurt household and small- and medium-sized enterprises most since they bore unreasonably high interest burdens in a situation where market conditions showed that interest rates should have fallen. In addition, the prevailing downward rigidity hampered the transmission mechanism of monetary policy, and it became clear that there was something wrong with the pricing of prime rates.

Recent Reform in Bank Lending Rates

To address this issue, the Bank has recently introduced a number of measures to remove the downward rigidity of bank lending rates and to enhance the role played by the banking sector in the monetary transmission process. Among the steps taken were the introduction of adjustable rate mortgages (ARMs) and the Base Rate system that links lending rates to benchmark market interest rates. ARMs replace conventional mortgage rates, which linked to prime rates. Interest rates on ARMs derive from adding a markup to a market indicator. The extent of the markup is determined by the creditworthiness of customers, while indicators selected by individual banks are mostly on one-year time deposits offered by major banks.

The base rate system replaces conventional corporate loans rates. Interest rates under the new system are based on a certain markup to the base rate. The markup depends on the credit standing of borrowers. The base rate is usually an interest rate, such as the central bank's discount rate, the interbank overnight call-loan rate or the commercial paper rate, added by a percentage that reflects banks' operational costs and reasonable profits.

The whole reform is to make lending rates more responsive to market conditions and interest rate pricing more transparent. It has also reduced the debt burden of small borrowers and improved the effectiveness of monetary policy.

Four Steps Adopted in the Recent Reform

This reform was conducted step by step and included the following four steps:

1. Starting in the beginning of 2002, the Bank continued to encourage domestic banks to adopt the new pricing rule. By the end of March 2003, all domestic banks had adopted this new practice.
2. After all domestic banks adopted the new pricing practice, the Bank urged banks to convert all old loans based on prime rates into the loans based on the Base Rate system or ARMs, that is, all interest charged should be based on this pricing practice. At the end of 2005, the share of loans based on prime rates in overall loans outstanding was only 2.1 percent, indicating that most general borrowers were no longer charged higher lending rates based on the old prime rates.
3. The new practice also applied to the credit co-operative associations and the credit departments of farmers' and fishermen's associations. The Bank sent experts to provide assistance for those institutions to smoothly transform to the new system. In June 2005, all community financial institutions

adopted this system.

4. To ensure banks adopt this system truthfully, as requested by the Bank, the Bankers' Association at Taiwan requires its member banks to publicly announce their base rates. In principle, member banks should adjust their base rate every three months to reflect market conditions. In January 2006, all banks post their base rates and adjust the rates regularly.

Conclusion

Downward rigidity in prime rates was widely criticized as discriminating against borrowers with little bargaining power. It was also detrimental to the effectiveness of the Bank's monetary policy. For the past several years, the Bank worked closely with banks to reform the pricing system of lending rates. The old prime rate system was replaced with a new ARMs and the base rate system that links lending rates to benchmark market interest rates. This pricing system improves transparency, introduces flexibility, and is based on actual market conditions. In sum, the new pricing system not only reduces the unreasonable debt burden of small borrowers but also improves the effectiveness of monetary policy.

Chronology of Important Events of the Central Bank of China in 2005

Date	Events
Jan. 3	The Bank shifted to a negative list approach for the regulation of banks' foreign exchange derivatives business.
12	The Bank allowed domestic companies to transfer their DBU credit lines secured by domestic stocks, real estate or other NT dollar assets to their related enterprises for applying foreign currency loans from OBU.
13	The Bank allowed securities investment trust companies invest in domestic markets by offshore private placement or in overseas markets by local private placement.
20	The Bank allowed securities brokerages to act as agents to trade foreign bonds.
28	The Bank allowed banks to engage in foreign exchange credit default swaps (CDS) and credit default options (CDO).
Feb. 3	The Bank amended the <i>Allocation and Operations Directions for Emergency Home Reconstruction Loan Funds for Victims of the 921 Earthquake</i> to extend the deadline for loans mentioned above to Feb. 4, 2006.
4	The scope for financial institutions to invest in foreign securities of the portfolio of earmarked trust funds was expanded. Up to 10 percent of the fund may invest in Chinese owned companies listed in Hong Kong or Macao.
Mar. 4	The Bank amended the <i>Regulations Governing the Establishment and Administration of Foreign Currency Exchange Office</i> and allowed

(Continued)

		convenience stores, administrative offices of national scenic areas, sightseeing services centers, railway stations, temples, and museums to establish foreign currency exchange outlets.
	9	The Bank amended the <i>Regulations Governing Foreign Exchange Business of Banking Enterprises</i> to allow Chunghwa Post Co., Ltd to engage in the purchasing and selling of foreign currency banknotes and traveler's checks. The Bank also established the "Large Foreign Exchange Transaction Reporting System" for local internet banks.
	15	The Bank amended the <i>Directions for Auditing Liquid Reserves of Financial Institutions</i> . All types of New Taiwan dollar-denominated liabilities of financial institutions shall be subject to a minimum liquid reserve requirement, effective April 1, 2005.
	16	The Bank allowed banks to engage in structured products involving the New Taiwan dollar or foreign currency time deposits, with or without principal protection, linked to swaps or options on foreign hedge fund indices.
	24	The Bank allowed securities firms to engage in foreign currency interest rate and bond derivatives.
	25	The Bank raised the discount rate, the rate on accommodations with collateral, and the rate on accommodations without collateral by 12.5 basis points to 1.875 percent, 2.25 percent and 4.125 percent, respectively.
May	13	The Bank agreed to relax the restrictions on foreign investors' securities lending transactions proposed by the Financial Supervisory Commission.
	18	The Bank allowed insurance enterprises to invest in foreign securities through specified pecuniary trusts or by obtaining the Bank's permission for outward

remittances.

The Bank and the Financial Supervisory Commission jointly promulgated the *Regulations Governing the Currency Issued by the Mainland China Area to be Carried Into or Out of the Taiwan Area*, effective May 24. The regulations forbid the use of renminbi for transaction and currency exchange in Taiwan.

19 The scope of investment of the portfolios of specified pecuniary trusts was amended to allow trusts to invest in funds denominated in foreign currencies raised by domestic securities investment trust enterprises.

20 The ceiling of funds for local banks as a whole to extend preferential housing loans was further increased from NT\$1.5 trillion to NT\$1.8 trillion.

Jun. 3 The Bank amended the *Directions for the Central Bank of China to Regulate the Acceptance of Re-deposits from Banks and the Directions for Handling Legally Required Reserves against Re-deposited Deposits of Grassroots Financial Institutions*. The excess liquidity of credit departments of farmers' and fishermen's associations should be re-deposited in the newly established Agricultural Bank of Taiwan.

24 The Bank allowed insurance enterprises to issue foreign currency investment-linked insurance policies.

Jul. 1 The Bank raised the discount rate, the rate on accommodations with collateral, and the rate on accommodations without collateral by 12.5 basis points to 2 percent, 2.375 percent and 4.25 percent, respectively.

20 The Bank issued the new NT\$ 500 and NT\$ 1,000 notes with enhanced security features.

		<p>The Bank amended the <i>Directions for the Distribution and Administration of Book-Entry Central Government Securities</i> to allow book-entry central government securities to be held in trust.</p>
Aug.	16	<p>The Bank released the regulations related to offshore funds and allowed securities firms and investment trust companies to serve as general representatives for public offshore funds. Banks, securities firms and investment trust companies may also serve as central depository companies for private offshore funds.</p> <p>The Bank allowed banks and securities firms to engage in wealth management services involving foreign exchange transactions.</p>
Sep.	13	<p>The Bank broadened the scope of investment in foreign securities of the portfolios of specified pecuniary trusts.</p>
	16	<p>The Bank raised the discount rate, the rate on accommodations with collateral, and the rate on accommodations without collateral by 12.5 basis points to 2.125 percent, 2.5 percent and 4.375 percent, respectively.</p>
	21	<p>The Bank allowed banks to engage in structured products involving gold transactions, including book-entry gold accounts and book-entry gold accounts linked to foreign currency deposits or gold options.</p>
	26	<p>The scope of investment in foreign securities of the portfolios of specified pecuniary trusts provided by OBUs was amended.</p>
Oct.	3	<p>The Bank allowed banks located in Kinmen and Matsu to engage in purchasing and selling RMB banknotes. The cap for passengers carrying Chinese renminbi (RMB) inbound or outbound via the “Mini-Three- Links” route in Kinmen and Matsu was increased to RMB 20,000.</p>

6 The Bank amended the *Regulations Governing the Establishment and Administration of Foreign Currency Exchange Office* to allow currency exchange outlets at craft stores and jewelry stores.

Nov. 7 The Bank amended the *Directions for the Distribution and Administration of Book-Entry Central Government Securities* to allow the issue of stripped government bonds.

Dec. 23 The Bank raised the discount rate, the rate on accommodations with collateral, and the rate on accommodations without collateral by 12.5 basis points to 2.25 percent, 2.625 percent and 4.5 percent, respectively.

The Bank set the intermediate target zone for M2 growth in 2006 at 3.5 to 7.5 percent.

28 The Bank amended the *Regulations on Electronic Interbank Fund Transfers and Settlements* to urge clearing institutions to further improve their corporate governance, effective Jan. 2, 2006 for the safety of payment system.

30 The Bank amended the *Directions for Interest Rates posted by Financial Institutions*. Effective Jan. 1, 2006, the base rate will be used as a reference point for the posted interest rates for NT Dollar deposits and loans.

Financial Statements of the Central Bank of China

1. Balance Sheet

Unit: NT\$ Million

	December 31 2005	December 31 2004	Change	
			Amount	%
Assets				
Foreign Assets	8,476,318	7,832,913	643,405	8.21
Deposits to Financial Institutions	22,461	26,990	-4,529	-16.78
Loans and Accommodations to Financial Institutions	403,150	463,269	-60,119	-12.98
Other Assets	192,504	194,164	-1,660	-0.85
Total Assets	9,094,433	8,517,336	577,097	6.78
Liabilities				
Currency Issued	922,910	856,951	65,959	7.70
Reserve Deposits of Financial Institutions	837,644	862,810	-25,166	-2.92
Certificates of Deposit Issued	3,520,820	3,562,885	-42,065	-1.18
Redeposits of Financial Institutions	2,025,113	1,900,870	124,243	6.54
Government Deposits	203,643	178,874	24,769	13.85
Other Liabilities	701,802	327,472	374,330	114.31
Total Liabilities	8,211,932	7,689,862	522,070	6.79
Net Worth	882,501	827,474	55,027	6.65
Total Liabilities and Net Worth	9,094,433	8,517,336	577,097	6.78

2. Income Statement

Unit: NT\$ Million

	2005	2004
Income		
Interest Income	320,565	329,222
Fee Income	116	113
Subsidiaries Investment Income	992	828
Revenue from Trust Investment	5,581	4,444
Others	15,585	9,175
Total Income	342,839	343,782
Expenses		
Interest Expenses	102,907	84,943
Fee Expenses	22	15
Expenses for Coin Issuance	742	748
Expenses for Bank Note Issuance	3,667	2,391
Operating Expenses	1,825	1,867
Administrative Expenses	362	354
Others	45,594	52,117
Total Expenses	155,119	142,435
Net Income	187,720	201,347

Major Economic and Financial Indicators in Taiwan

Year / Month	I. Business Indicators			II. National Income and Aggregate Demand										
	CEPD ⁽¹⁾ Total Score of Monitoring Indicator (average)	TIER ⁽²⁾ Business Climate Index		Economic Growth Rate ⁽³⁾ (%)	Per Capita GNP ⁽³⁾ (US\$)	Unemploy- ment Rate (%)	Manufacturing sector					Annual Rate of Change of Industrial Production Indices(%)		
		Manufacturing Sector (1991=100) (average)	Services Sector (2001=100) (average)				Labor Productivity Index (2001=100)	Average Monthly Earnings (NT\$) (per Employee)	Average Monthly Working Hours (hrs)	Capacity Utilization Rate (%)	Ratio of Operating Profit Rate (%)	General Index	Manufacturing Index	Index of Construction
1995	24	97.37	-	6.49	13,103	1.79	72.60	32,555	201.6	79.0	5.9	4.79	5.27	-4.15
1996	20	96.11	-	6.30	13,714	2.60	76.36	33,911	201.1	78.3	5.1	1.87	2.67	-17.46
1997	27	104.35	-	6.59	14,048	2.72	80.64	35,492	201.8	78.7	5.2	6.16	7.23	-16.16
1998	20	94.58	101.22	4.55	12,773	2.69	84.93	36,546	198.0	78.8	4.9	3.39	3.18	0.55
1999	22	103.06	112.58	5.75	13,737	2.92	90.70	37,882	199.1	78.9	4.6	7.37	7.79	6.61
2000	26	100.29	112.19	5.77	14,721	2.99	96.36	39,080	198.7	80.4	4.8	6.92	8.06	-14.65
2001	10	92.39	100.00	-2.17	13,348	4.57	100.00	38,586	184.4	76.3	4.0	-7.81	-8.36	-11.19
2002	23	106.89	115.94	4.25	13,476	5.17	109.55	38,565	187.6	77.0	4.7	7.92	9.39	-20.66
2003	23	108.10	122.19	3.43	13,752	4.99	115.34	39,583	188.3	78.3	4.8	7.10	7.38	8.87
2004	33	110.74	122.18	6.07	14,770	4.44	122.13	40,611	190.7	80.1	5.0	9.85	10.55	4.93
2005	22	102.43	116.91	4.09	15,676	4.13	127.91	41,751	188.8	80.1	5.0	4.13	4.00	11.37
2005/ 1	23	100.55	114.60			4.06	121.13	68,666	191.4	80.3	4.9	15.12	14.93	46.12
2	23	101.04	113.97			4.28	134.47	50,763	142.0	77.0	4.6	-12.56	-13.76	23.68
3	22	100.16	116.15	2.49	4,095	4.15	121.62	36,912	202.0	80.5	5.1	1.05	1.22	-12.70
4	20	96.60	114.50			4.04	128.27	36,991	185.7	79.8	5.0	2.14	1.36	35.92
5	18	92.47	114.54			4.10	123.70	37,290	194.6	79.8	5.0	-0.36	-0.24	-5.70
6	20	95.75	115.49	2.97	3,753	4.22	123.98	38,415	194.7	79.6	4.9	2.66	2.42	15.92
7	19	103.12	119.44			4.32	124.70	39,250	187.7	79.6	4.8	-0.76	-0.93	-2.76
8	23	110.99	118.46			4.36	125.30	37,502	198.5	81.0	5.0	7.65	7.20	45.40
9	23	111.40	114.69	4.38	3,880	4.14	130.81	38,900	191.3	80.8	5.2	7.69	8.03	7.27
10	24	108.02	115.43			4.07	137.64	37,839	186.2	81.0	5.2	8.53	8.17	22.78
11	24	105.21	119.80			3.94	132.42	37,171	195.3	81.0	5.1	9.47	10.49	-8.01
12	27	103.90	125.79	6.40	3,948	3.86	133.03	41,267	195.9	81.2	4.9	9.27	9.79	3.39

Notes:(1) CEPD: Council for Economic Planning and Development, Executive Yuan.

(2) TIER: Taiwan Institute of Economic Research.

(3) The national account have been revised in accordance with the 1993 System of National Account (93SNA).

Major Economic and Financial Indicators in Taiwan (Cont.)

Year / Month	II. National Income and Aggregate Demand														
	Annual Rate of Change of Private Consumption Expenditure (4)	Annual Rate of Change of Gross Fixed		Gross National Savings / GNP	Gross Domestic Investment / GNP	External Trade of Goods (In US Dollars)									
		Capital Formation (4)	Private Sector (4)			Annual Rate of Change of Exports (5)					Annual Rate of		Trade Balance (5)	Annual Rate of Change of Export Orders	
						China and H.K.	U.S.	Japan	Europe	Southeast Asia (6)	Change of Total Imports (5)	Capital Equipment			
(%)	(%)	(%)	(%)	(%)	(%)	(%)	(%)	(%)	(%)	(%)	(%)	(%)	(%)	(US\$ Million)	(%)
1995	5.61	7.68	11.25	26.86	24.82	20.2	23.8	8.5	28.8	21.6	30.5	21.4	24.0	9,330	20.05
1996	6.66	1.80	3.54	26.51	22.78	3.7	3.5	1.7	3.9	7.8	3.1	-1.0	8.8	14,659	4.76
1997	7.08	10.85	18.61	26.15	23.82	5.6	6.9	10.0	-14.3	8.7	5.1	11.7	18.4	9,215	4.07
1998	6.19	8.94	13.24	25.99	24.77	-9.3	-12.5	-0.6	-20.2	6.6	-27.8	-8.5	11.8	7,366	-4.00
1999	5.51	2.94	1.01	26.07	23.42	9.9	11.3	5.2	27.8	3.5	20.2	5.7	20.3	12,537	7.26
2000	4.59	9.02	15.61	25.67	22.94	22.8	24.5	12.7	39.6	16.7	28.8	26.6	34.3	11,218	20.36
2001	0.67	-19.91	-26.83	24.15	18.01	-16.9	-10.8	-20.5	-23.1	-16.5	-19.2	-23.3	-31.6	18,344	-11.54
2002	2.34	-0.63	4.07	25.54	17.04	7.1	28.6	-3.2	-6.0	-6.3	6.4	4.9	-3.5	22,070	11.23
2003	0.94	-0.90	-0.26	26.31	16.86	11.3	22.1	-3.1	-0.5	10.2	10.0	13.0	0.4	22,590	12.64
2004	3.91	17.48	30.96	26.32	20.73	21.1	28.3	8.4	10.8	14.6	33.7	31.8	38.2	13,614	26.50
2005	3.00	0.46	-1.34	25.01	19.71	8.8	12.2	1.4	9.7	-0.8	14.5	8.2	-0.5	15,819	19.20
2005/ 1						30.3	38.3	20.4	24.4	16.6	40.5	47.0	63.5	507	32.20
2						-11.5	-20.4	-0.8	-3.9	-13.7	-3.5	-17.3	-22.0	1,308	7.68
3	2.56	10.81	10.52	22.76	18.16	7.0	11.3	3.3	6.9	-4.9	8.1	14.9	13.5	244	21.22
4						11.2	10.8	3.5	17.2	2.8	24.9	18.7	23.2	707	15.42
5						4.3	-0.4	1.1	2.6	1.2	14.5	11.2	29.9	914	13.14
6	2.98	7.38	8.95	25.42	22.35	2.3	7.1	-2.5	7.5	-10.2	8.9	2.4	0.3	458	16.70
7						5.3	7.0	-1.0	6.0	1.4	8.7	9.4	4.0	1,033	8.71
8						7.4	11.8	0.8	4.4	2.7	3.2	11.1	-8.9	1,100	22.65
9	3.69	0.27	-2.00	22.11	19.15	8.7	16.4	-6.2	9.0	-0.1	10.9	9.1	-5.9	1,430	21.96
10						16.5	25.1	1.9	18.8	1.5	17.6	9.0	-8.2	2,315	21.56
11						10.8	15.0	2.5	9.9	0.5	24.5	5.6	-27.1	2,186	24.58
12	2.77	-11.85	-17.99	29.58	19.39	15.3	29.3	-1.9	15.8	-4.5	20.3	-10.9	-32.3	3,615	24.22

Notes: (4) Consumption and investment in the national account have been revised in accordance with the 1993 System of National Accounts (93SNA).

(5) The Ministry of Finance has revised total exports, total imports and trade balance based on the United Nation's International Merchandise Trade Statistics Compilers Manual 2004, but has not revised the data in exports to major countries (or areas) and the imports of capital equipment yet.

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

Major Economic and Financial Indicators in 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 (average)		Monetary Aggregates (average)			
	General Index	Core CPI ⁽⁷⁾					Amount	Adjusted Annual Growth Rate ⁽⁸⁾	M1B		M2	
			(NT\$ Billion)	(%)	Amount	Annual Growth Rate (%)			Amount ⁽⁹⁾	Annual Growth Rate (%)		
(Annual Rate of Change, %; 2001=100)												
1995	3.67	3.57	7.38	10.15	6.89	-1.08	1,719.1	8.69	3,035.5	4.76	12,192.4	11.59
1996	3.08	3.07	-1.01	-2.49	1.67	-0.61	1,641.9	5.63	3,160.8	4.13	13,318.3	9.23
1997	0.89	0.96	-0.45	-1.40	2.05	-1.24	1,695.4	7.30	3,597.8	13.82	14,417.9	8.26
1998	1.69	1.07	0.60	0.74	5.57	-0.18	1,646.0	4.78	3,688.5	2.52	15,680.5	8.76
1999	0.17	1.16	-4.55	-4.10	-8.53	-3.38	1,518.7	5.37	4,052.6	9.87	16,986.2	8.33
2000	1.26	0.60	1.82	4.63	-0.88	-2.63	1,566.8	5.00	4,481.5	10.58	18,182.6	7.04
2001	-0.01	0.08	-1.34	-1.25	0.32	2.69	1,539.1	1.13	4,435.8	-1.02	19,236.0	5.79
2002	-0.20	0.69	0.05	0.40	-1.49	-10.28	1,417.4	1.78	5,190.4	17.01	19,918.3	3.55
2003	-0.28	-0.61	2.48	5.14	-1.49	-2.84	1,492.3	5.28	5,803.9	11.82	20,669.8	3.77
2004	1.62	0.71	7.03	8.57	1.61	-4.26	1,662.2	11.38	6,905.4	18.98	22,209.3	7.45
2005	2.30	0.65	0.61	2.43	-2.46	-1.94	1,792.5	7.84	7,395.8	7.10	23,590.7	6.22
2005/1	0.49	-0.31	4.00	3.27	0.01	-17.57	1,727.0	1.34	7,249.3	9.04	23,000.1	6.20
2	1.94	1.86	2.61	2.60	-0.42	57.50	1,910.6	14.74	7,425.0	10.06	23,332.1	6.49
3	2.30	1.03	1.93	2.10	-1.76	0.80	1,788.0	7.74	7,374.7	8.24	23,348.3	5.95
4	1.64	0.71	1.94	3.69	-1.59	-0.53	1,784.5	6.83	7,299.1	6.10	23,372.4	5.57
5	2.31	0.55	-0.69	-0.03	-4.29	1.49	1,771.2	7.10	7,266.7	5.91	23,411.1	5.64
6	2.39	0.47	-1.03	0.01	-4.33	-3.58	1,775.4	9.17	7,267.3	7.15	23,465.4	6.34
7	2.39	0.53	-1.60	-0.06	-4.49	2.24	1,779.9	8.78	7,408.4	7.68	23,670.2	6.51
8	3.58	0.74	-1.85	-0.35	-5.37	-4.00	1,791.9	8.77	7,495.4	7.59	23,773.0	6.52
9	3.16	0.67	-0.10	3.01	-3.07	-4.14	1,787.2	7.57	7,485.0	6.31	23,774.4	6.35
10	2.74	0.58	-0.03	2.98	-2.58	-5.11	1,793.8	8.38	7,417.8	5.39	23,791.3	6.28
11	2.50	0.66	0.86	5.38	-1.16	-8.72	1,793.7	7.59	7,431.7	5.44	23,916.3	6.14
12	2.21	0.45	1.71	6.71	-0.30	-5.77	1,806.9	6.32	7,629.1	6.56	24,233.7	6.64

Notes: (7) Core CPI refers to CPI excluding the categories of fresh fruits & vegetables, fish & shellfish and energy.

(8) Adjusted for the required reserves ratios and banks' required reserves in the B account (with the Central Bank) promulgated on Oct. 4 and in Nov. 2001 respectively.

(9) Data from Oct. 2004 onwards included the net present value of money market mutual funds.

Major Economic and Financial Indicators in Taiwan (Cont.)

Year / Month	IV. Money, Banking and Finance											
	Major Financial Institutions ⁽¹⁾				Past-Due Loan Ratio of Domestic Banks ⁽¹⁾ (%)	Interest Rates (%)						
	Deposits		Loans & Investments			CBC's Discount Rate (end of period)	Interbank Call-Loan Rate (average)	31-90 Day Commercial Paper Secondary Market Rate (average)	Five Major Domestic Banks ⁽²⁾		Domestic Banks	
	Amount (NT\$ Billion)	Annual Rate of Change (%)	Amount (NT\$ Billion)	Annual Rate of Change (%)					Base Lending Rate ⁽³⁾ (end of period)	New Loan Rate (average)	Deposit Rate (average)	Loan Rate (average)
1995	13,130.9	9.14	12,100.3	10.45	N.A.	5.500	6.19	6.68	7.67	8.53	6.06	8.88
1996	14,260.9	8.61	13,051.8	7.86	N.A.	5.000	5.44	5.79	7.38	8.16	5.79	8.55
1997	15,421.3	8.14	14,352.0	9.96	N.A.	5.250	6.85	6.83	7.50	8.12	5.36	8.25
1998	16,696.9	8.27	15,471.6	7.80	N.A.	4.750	6.56	6.81	7.70	8.26	5.72	8.48
1999	18,064.2	8.19	16,024.9	3.58	N.A.	4.500	4.77	4.88	7.67	7.10	5.00	8.03
2000	19,308.7	6.89	16,622.0	3.73	N.A.	4.625	4.73	4.91	7.71	6.72	4.62	7.61
2001	20,160.7	4.41	16,489.3	-0.80	11.29	2.125	3.69	3.69	7.38	5.75	4.09	6.99
2002	20,609.8	2.23	16,078.0	-2.49	8.85	1.625	2.05	2.03	7.10	4.04	2.38	5.53
2003	21,746.9	5.52	16,535.1	2.84	6.08	1.375	1.10	1.05	3.43	2.80	1.47	4.10
2004	23,256.5	6.94	17,964.0	8.64	3.80	1.750	1.06	0.99	3.52	2.16	1.17	3.47
2005	24,709.1	6.25	19,344.9	7.69	2.24	2.250	1.31	1.27	3.85	2.31	1.28	3.50
2005/ 1	23,312.0	5.92	17,998.6	8.22	3.78	1.750	1.20	1.18	3.57	2.30		
2	23,394.8	5.37	18,053.8	8.15	3.77	1.750	1.20	1.19	3.58	2.34		
3	23,505.2	4.95	18,216.5	7.88	3.66	1.875	1.22	1.18	3.61	2.41	1.21	3.43
4	23,514.3	4.76	18,243.8	7.19	3.67	1.875	1.27	1.21	3.66	2.41		
5	23,492.2	4.79	18,388.9	7.10	3.64	1.875	1.27	1.21	3.66	2.35		
6	23,962.7	6.28	18,573.1	7.96	3.24	1.875	1.27	1.23	3.67	2.26	1.25	3.48
7	23,975.1	5.93	18,571.9	7.29	2.87	2.000	1.32	1.27	3.71	2.29		
8	24,028.8	6.10	18,669.5	7.42	2.83	2.000	1.32	1.30	3.73	2.35		
9	24,086.2	6.33	18,894.9	8.25	2.80	2.125	1.37	1.34	3.76	2.27	1.30	3.54
10	24,033.0	5.63	18,891.6	8.13	2.81	2.125	1.39	1.36	3.81	2.31		
11	24,246.2	6.09	19,025.3	7.93	2.61	2.125	1.39	1.39	3.81	2.25		
12	24,709.1	6.25	19,344.9	7.69	2.24	2.250	1.41	1.40	3.85	2.29	1.36	3.54

Notes: (1) The data are from the consolidated balance sheet of the monetary institutions and the Chunghwa Post Co., Ltd.

(1) The data are based on the new NPL definition, which includes 90-day overdue loans.

(2) Between 1993 and 2002, the figures represent prime lending rates.

(3) Includes Bank of Taiwan, Taiwan Cooperative Bank, Chang Hwa Commercial Bank, First Commercial Bank and Hua Nan Commercial Bank.

Major Economic and Financial Indicators in Taiwan (Cont.)

Year / Month	V. Securities Market					VI. Balance of Payments and Foreign Exchange Market						
	TSE Stock Market		OTC Bond Market			Balance of Payments				Foreign Exchange Reserves (end of period) (US\$Billion)	Exchange Rate (End of period) NT\$ US\$	Daily Average Value of Foreign Exchange Transactions (US\$ Million)
	Stock Price Index (1966=100) (average)	Total Trading Value (NT\$ Billion)	Outstanding (end of period) (NT\$ Billion)	Trading Value		Current Account	Capital Account	Financial Account	Change in CBC's Net Foreign Assets ⁽⁸⁾			
					Share of Outright Transactions (%)							
						(US\$ Million)						
1995	5,544	10,151.5	959.3	20,802.9	8.5	5,474	-650	-8,190	3,931	90.31	27,265	4.21
1996	6,004	12,907.6	1,281.5	28,297.7	9.3	10,923	-653	-8,633	-1,102	88.04	27,491	4.40
1997	8,411	37,241.1	1,426.9	40,392.0	6.4	7,051	-314	-7,291	728	83.50	32,638	4.86
1998	7,738	29,619.0	1,655.3	54,957.7	13.0	3,437	-181	2,495	-4,827	90.34	32,216	4.72
1999	7,427	29,291.5	1,933.2	52,432.6	13.8	7,992	-173	9,220	-18,593	106.20	31,395	4.18
2000	7,847	30,526.6	2,279.3	68,843.1	24.2	8,851	-287	-8,019	-2,477	106.74	32,992	4.89
2001	4,907	18,354.9	2,869.4	118,992.5	44.6	18,253	-163	-384	-17,353	122.21	34,999	4.71
2002	5,226	21,874.0	3,599.1	134,399.0	45.1	25,630	-139	8,750	-33,664	161.66	34,753	5.61
2003	5,162	20,333.2	4,306.6	203,624.0	62.2	29,258	-87	7,630	-37,092	206.63	33,978	7.30
2004	6,034	23,875.4	4,777.3	205,925.2	59.9	18,493	-77	6,831	-26,595	241.74	31,917	10.24
2005	6,092	18,818.9	5,145.3	311,386.8	71.4	16,366	-117	1,779	-20,056	253.29	32,850	12.07
2005/ 1	5,918	1,155.1	4,829.7	23,556.8	67.8					242.74	31,790	11.16
2	6,101	1,119.2	4,858.4	13,023.0	63.7					246.63	31,175	11.80
3	6,104	1,677.5	4,872.9	21,820.4	64.3	4,411	-16	7,871	-12,481	251.14	31,530	11.85
4	5,876	1,192.2	4,917.4	23,142.9	69.5					252.64	31,279	11.44
5	5,930	1,309.2	4,908.6	29,006.6	72.6					253.17	31,363	10.74
6	6,221	1,822.2	4,989.5	24,232.7	66.2	1,746	-26	3,112	-6,450	253.62	31,618	11.67
7	6,335	1,885.3	5,008.9	31,153.1	76.2					253.56	31,996	12.94
8	6,244	1,726.6	5,044.2	34,291.7	77.8					254.09	32,751	12.35
9	6,067	1,368.8	5,081.2	28,473.9	72.1	993	-20	-2,340	-495	253.75	33,188	12.58
10	5,880	1,415.5	5,100.7	33,714.5	79.0					252.01	33,551	12.46
11	6,025	1,722.0	5,084.3	27,162.1	72.2					251.78	33,516	11.57
12	6,377	2,425.3	5,145.3	21,809.0	61.7	9,216	-55	-6,864	-630	253.29	32,850	14.31

Note: (8) The minus sign "-" represents an increase.

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The Central Bank of China, Annual Report, 2005

Publisher : Fai-nan Perng

Editor : Department of Economic Research, The Central Bank of China

Published by : The Central Bank of China

Address : 2, Roosevelt Road, Sec. 1, Taipei, 10066,
Taiwan, R. O. C.

Tel : 886 - 2 - 2393 - 6161

[http : //www.cbc.gov.tw](http://www.cbc.gov.tw)

Distributors: State Bookstore

Address: 10, Pa-Te Road, Sec. 3, Taipei, 105,
Taiwan, R. O. C.

Tel: 886 - 2 - 2578 - 7542

<http://www.govbooks.com.tw>

Designed by: Central Engraving & Printing Plant, Taipei, Taiwan, R.O.C.

Address: 235, An-Kang Road, Sec. 3, Hsin Tien,
Taipei County, 231
Taiwan, R. O. C.

Tel: 886 - 2 - 2217 - 1221

June 2006

Price: NT\$250

GPN : 2005100019

ISSN : 1017-9674

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