

III. Central Bank Operations

1. Overview

Taiwan's external trade grew steadily from its vigorous trade relations with Asian nations in 2007, despite a global economic slowdown caused by the subprime mortgage crisis in the U.S. Domestic demand exhibited a gradual pickup as private investment and consumption improved against the backdrop of improved employment and a dwindling impact of credit card defaults. For the year as a whole, Taiwan's economy registered a growth of 5.70 percent, higher than the 4.89 percent in the previous year.

Taiwan's headline consumer price index (CPI) inflation rate remained stable in the first half of 2007. The surging international commodity prices and a typhoon-induced vegetable price increase both weighed on inflationary pressure in the second half of the year. During 2007, the CPI rose by 1.80 percent and the core CPI grew by 1.35 percent, both of which were moderate compared with those of major countries.

Labor market conditions continued to improve, attributed to steady economic expansion and the implementation of the government's job-creating programs. The unemployment rate was 3.91 percent in 2007, the same as in 2006 and the lowest level since 2001.

Soaring international commodity prices weighed on inflationary pressure. To promote both price stability and economic growth, the Bank fine-tuned its monetary policy by raising policy rates four times by a total of 62.5 basis points in 2007. At the end of 2007, the Bank's discount rate stood at 3.375 percent.

For price stability and financial stability, the Bank also issued certificates of deposit (CDs) to mop up excess liquidity. The outstanding amount of CDs at the end of 2007 was NT\$3,460.3 billion. In addition, the Bank accepted redeposits from financial institutions of around NT\$2 trillion to absorb excess liquidity.

For further financial liberalization and internationalization, the Bank continued to approve new financial products, enact regulations for insurance companies conducting foreign exchange businesses, and deregulate foreign investment in the domestic securities market. In addition, as the offshore banking units (OBUs) of domestic banks allowed NT dollar assets to serve as collateral for foreign currency loans and commenced foreign currency check deposits, their function as the funding center for Taiwanese businesses operating overseas was further enhanced.

With respect to institutional reform, the Bank further improved overall settlement efficiency in capital markets. In terms of central government securities, the Electronic Bidding System and Auction System were integrated into one single platform in May 2007. In addition, the Bank incorporated fund transfers made through Taiwan Stock Exchange and the over-the-counter (OTC) market into its Interbank Funds-Transfer System (CIFS) in July 2007. Meanwhile, in line with its responsibility to safeguard financial stability, the Bank actively engaged in the establishment of a financial stability assessment framework to detect potential systemic risk in the financial sector and adopt timely corrective measures.

During the year, the Bank issued commemorative coin sets as usual, including the Chinese Zodiac Year of the Pig and the Taiwan Indigenous People's Cultural Series—the Thao tribe. These coin sets were popular among the public.

