



Fai-nan Peng, Governor

Foreword

In 2007, Taiwan's economy continued with steady growth and stable prices. Exports remained buoyant as robust demand from emerging market countries more than offset the effect of the subprime mortgage crisis-ridden U.S. market. Private consumption and investment also picked up. GDP expanded by 5.70 percent in 2007, outperforming the previous year's 4.89 percent. Inflationary pressure became more evident, as surging international raw material and commodity prices fed through to import and wholesale prices and several typhoons pushed up vegetable prices. Nevertheless, CPI edged up by 1.80 percent, a relatively moderate level compared to other countries.

Maintaining price stability is the primary goal of the Bank. In the context of solid economic growth, heightened inflationary concerns, and low real interest rates, the Bank adopted fine-tuning measures. The discount rate was raised four times during 2007 by a total of 62.5 basis points and fourteen times from October 2004 to the end of 2007 by a total of 200 basis points. Market rates moved upwards at a gradual pace and with minimal impact on the cost of funding for the corporate sector. Under the Bank's prudent policy, M2 grew by 4.25 percent in 2007, staying within the Bank's 3.5 to 7.5 percent target zone.



On the foreign exchange front, the NT dollar exhibited dynamic stability, closing at 32.443 against the US dollar at the end of 2007, a marginal appreciation of 0.47 percent from a year earlier. Foreign exchange reserves built up to US\$270.3 billion at the end of 2007, sufficient to meet the needs of fifteen months of imports. The Bank also continued to promote financial liberalization by introducing new financial products to the domestic market and by streamlining inward and outward remittances of funds. In addition, as the 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 incorporated payments settled in Taiwan Stock Exchange and the OTC market into the CBC Interbank Funds-Transfer System (CIFS) to further improve overall settlement efficiency in capital markets. By 2008, the CIFS will also process transactions in the Central Government Securities-Settlement System. Moreover, in line with its responsibility to safeguard financial stability, the Bank actively plans to set up a financial stability assessment framework to detect potential systemic risk in the financial sector and adopt timely corrective measures.

Many challenges still lie ahead in a world economic outlook of slowing growth and rising inflation risk, on top of the trend towards globalization and financial innovation. The task of carrying out monetary policy becomes more complicated than ever before. Based on its legal mandate, the Bank will continue to implement appropriate monetary policy, devote itself to maintaining price and financial stability, ensure the sound operation of the payments system, and help promote sustainable development of the economy.

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

Fai-nan Perng

Governor

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