

The Central Bank of China

# Annual Report

1999



Taipei, Taiwan  
The Republic of China



## Foreword

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During 1999, the ROC economy showed clear signs of a vigorous rebound from the Asian financial crisis despite the adverse impact from the severe earthquake on September 21. Our exports turned from a decline of 9.4 percent in 1998 to a 10 percent growth in 1999, largely bolstered by the continued US economic boom and the renewed economic strength in Southeast Asia. Strong exports, coupled with improved private consumption and public investment, helped boost the economic recovery. GDP growth rose to 5.7 percent. The general price level was benign, with the consumer price index rising slightly by 0.2 percent. The unemployment rate stood at 2.9 percent, among the lowest in Asia. In 2000, further improvements in the external sector and an increase in private investment are expected to push GDP growth rate to 6.7 percent. The core consumer price index, meanwhile, is forecast to rise by less than 1.2 percent for the year.

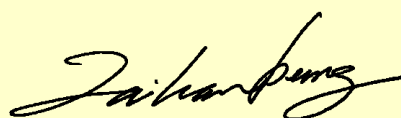
With respect to monetary policy, the Bank adopted open market operations and other fine-tuning measures to maintain the monetary aggregate M2 at the target level and provide sufficient liquidity for real economic activities. M2 grew at an annual rate of 8.3 percent for 1999, close to the mid-point of the 6 to 11 percent target zone. Low inflation, together with moderately easy monetary conditions, contributed to the low level of nominal interest rates. The NT dollar exchange rate is determined by market forces. Reflecting the trade surplus and foreign capital influx, the NT dollar exchange rate showed a steady trend of appreciation against the US dollar and the foreign exchange reserves reached US\$106.2 billion as of the end of 1999. The Bank will continue to pursue price stability and financial stability in the coming year.

With respect to medium and long-term reforms, a major task is to enhance the soundness of the banking sector. The Bank and the Ministry of Finance jointly implemented a number of policies for financial structural reform, with a focus on improving the quality of bank assets and encouraging consolidations in the financial industry. In February, the Bank sharply lowered the required reserve ratio. In July, the Ministry of Finance slashed the business tax rate on financial institutions from 5 percent to 2 percent. The resulting increase in earnings from these measures is to be used exclusively to write off bad loans. The past-due loan ratio for domestic banks averaged 4.9 percent at the end of 1999. In addition, against the background of increasing global competition, three major state-owned domestic banks including the Bank of Taiwan, the Land

Bank of Taiwan, and the Central Trust of China reached an agreement to merge. Furthermore, the government is currently preparing to set up the Financial Supervision and Examination Council to further improve financial supervision.

In the new millennium, we expect great challenges ahead of us. In preparation for the WTO, which calls on the member countries to open a wide range of markets, all sectors of the economy must be ready to compete with foreign competitors. The financial institutions also need to respond with product innovation and adopt the latest technology to adjust to the changing environment. In view of the developments in the domestic financial sector and increasing global competition, the Bank and other relevant government agencies will continue to promote financial reforms, strengthen financial supervision, maintain financial stability as well as upgrade the financial industry, with a view to enhancing the foundation for sustainable economic growth.

Finally, I would like to convey my heartfelt gratitude to all my colleagues in the Bank, who assisted me in meeting the challenges in the past year. With persistent efforts, I am confident that we will continue to contribute to domestic and regional economic developments.

A handwritten signature in black ink, appearing to read 'Fai-nan Perng', written in a cursive style.

Fai-nan Perng  
Governor  
May 1, 2000