III. Central Bank Operations

World trade and the global economy regained momentum during 1999 as the Asian countries steadily recovered, the US economy continued to boom, and the European economies rebounded. Domestically, the Taiwan economy also expanded. Good export performance combined with an increase in public investment resulting from the government's effort to stimulate domestic demand became the main driving forces behind Taiwan's economic growth. The economic growth rate reached 5.67 percent, an increase of 1.1 percentage points compared with that of the year before. The general price level remained stable. Although the global economic recovery was underway and the prices of certain international staple commodities were on the rise in the second half of the year, the appreciation of the NT dollar and the stable nontraded goods and food prices offset these inflationary forces. Consequently, consumer prices as measured by the CPI rose by only 0.18 percent for the whole year.

Under the preconditions of price and financial stability, the Bank continued to adopt flexible monetary and exchange rate policies. It managed the foreign exchange market to ensure that the NT dollar exchange rate was dynamically stable and that the real exchange rate was in line with economic fundamentals. It also adopted open market operations and other measures to fine-tune the financial side of the economy. By carefully conducting monetary policy, the Bank was able to maintain the growth rate of monetary aggregate within the target zone and at the same time to provide sufficient liquidity for economic activities. In the aftermath of the September earthquake, the Bank appropriated NT$ 117 billion to assist in post-quake reconstruction and to help relieve victims from their financial burden. Moreover, the Bank continuously urged financial institutions to fully prepare themselves for the Y2K date change. Banks were required to conduct system testing, renew equipment, and devise contingency plans. The Bank also implemented open market operations and discount window accommodations to ensure financial institutions were able to meet the liquidity demand associated with Y2K problems. A safety stock of NT-dollar cash was prepared to meet the potential demand from the public and a task force for Y2K issues was set up to closely monitor developments in international financial markets and their interactions with domestic financial institutions. With the above policies adopted in a timely manner, the growth rate of monetary aggregate was within the target zone, interest rates steadily declined, and the NT dollar exchange rate exhibited dynamic stability, while the general price level remained stable.