# 13. Foreign Exchange Management

## (1) Managing the Exchange Rate

The NT dollar exchange rate exhibited dynamic stability in 1999. Beginning from mid-January, due to the Brazilian financial crisis and the expectation of a Chinese reminbi depreciation, the value of the NT dollar slightly depreciated against the US dollar before it stabilized at 33.1 in late-February. The NT dollar strengthened from mid-April onwards as the trade surplus and capital inflows continued to expand. In mid-July, tension between mainland China and Taiwan became a major factor causing the NT dollar to depreciate. The tendency of depreciation was quickly halted as the Bank stepped in to regulate the foreign exchange market and as the US dollar weakened in international markets. From early August, the NT dollar exhibited a trend of appreciation as capital inflows once again increased.

The major earthquake in September temporarily dampened export performance, but by October exports had regained momentum. In addition, as the Japanese yen depreciated and capital inflows continued to grow, the NT dollar further strengthened and exhibited a trend of appreciation for the rest of the year. At the end of the year, the NT dollar exchange rate was 31.395 against the US dollar. Compared to 32.216 at the end of 1998, the NT dollar appreciated by 2.62 percent against the US dollar in 1999.

The principle of the Bank's exchange rate management is based on the resolution of its Board of Directors such that movement of the NT dollar exchange rate is determined by market forces. However, when seasonal or irregular factors result in market imbalance, the Bank will step in to regulate the market so as to maintain the dynamic stability of the exchange rate.

To further strengthen the development of the foreign exchange market, the Bank continued to adopt the following measures: (a) preventing local institutional investors from engaging in Non-Delivery Forward (NDF) transactions to curb speculative attack; (b) implementing a real-time reporting system on huge transactions to monitor the foreign exchange market; and (c) imposing controls on sources of NT dollars to prevent speculators from using the forward market or foreign exchange deposits as channels of speculation.

## (2) Utilizing Foreign Exchange Reserves

In addition to the basic principles of maintaining liquidity, security, and profitability, consideration on the management and utilization of foreign exchange reserves has also been given in recent years to promoting economic development and industrial upgrading. The bulk of these foreign exchange reserves are deposited in overseas correspondent banks that have excellent ratings. At the end of 1999, total foreign exchange reserves amounted to US$106.2 billion, a US$15.8 billion increase from the end of 1998. The US dollar accounts for a major share of total foreign exchange reserves, followed by the euro and the Japanese yen. This currency composition is similar to those in the cases of other major central banks around the world.

The following measures have been adopted in order to utilize foreign exchange reserves more efficiently:

a. Through the foreign exchange market, the Bank appropriates the funds needed by domestic enterprises to import major items of machinery and equipment.

b. The Bank has already appropriated US$10 billion, EUR 1 billion, and ￥15 billion as seed funds for the Taipei foreign currency call-loan market. This market has also established a computerized network system with brokerage firms in major international financial centers. They are the foundations for promoting Taipei as a regional financial center.

c. The Bank has deposited a portion of foreign exchange reserves in the overseas branches of our domestic banks to promote international financial activities and to support the Taiwanese firms located there. Since the outbreak of the Asian financial crisis, the Bank has once again increased its deposits in those branches.

d. The Bank has appropriated US$10 billion as refinanced funds for authorized foreign exchange banks to participate in major investment projects relating to overall domestic economic development.

**(3) Relaxing Foreign Exchange Controls**

With the progress of financial liberalization in recent years, the foreign exchange system has operated in accordance with the market mechanism. Funds not related to NT dollar transactions can flow in and out freely. With regard to inflows and outflows of foreign currencies that involve NT dollar transactions, not only current-account related transactions are completely liberalized, but financial account-related transactions for investment and trade purposes are also completely free with prior authorization by the monetary authorities. Only financial account transactions of a short-term nature are restricted. However, the restrictions have been gradually relaxed to meet public demand. Major policy measures with regard to improving foreign exchange management and relaxing foreign exchange controls include:

a. Each resident and company may inwardly or outwardly remit up to US$5 million and US$50 million, respectively, in each year.

b. Any foreign investor and all foreign investors as a whole may hold up to 50 percent of the total issued stocks of a listed company. Each qualified foreign institutional investor (QFII) may not invest more than US$ 1.2 billion in domestic securities.

c. Any overseas natural and juridical person may not invest more than US$5 million and US$ 50 million, respectively, in domestic securities.