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### III. Central Bank Operations

The global economy enjoyed stable growth during the first half of 2000, as the U.S. economy surged ahead, the Asian economies bounced back, and Europe rallied. Led by expanding world trade, Taiwan's exports picked up and industrial output also increased. GDP grew by 6.68 percent for the first half of the year. However, Taiwan's external trade decelerated during the second half of the year, mainly affected by the U.S. economic slowdown and its global repercussions. Moreover, Taiwan's stock market, along with stock markets worldwide, suffered a severe correction. The subsequent shrinkage in wealth dampened private consumption and investment, resulting in a slowdown in domestic demand. The GDP growth rate for the fourth quarter dropped to 4.08 percent. For the year as a whole, GDP grew by 5.98 percent, 0.56 of a percentage point more than in the previous year. In terms of prices, rising international staple prices were smoothed out by appreciation of the NT dollar. Also offsetting inflationary factors were domestic food prices, the gloomy real-estate market, and declining telecommunications fees. For the year as a whole, CPI inflation edged up only 1.26 percent.

Under the precondition of price and financial stability, the Bank continued to adopt flexible monetary and exchange rate policies. It imposed reserve requirements on newly-taken foreign currency deposits to remove distortions from the foreign exchange market. The measure was aimed to ensure that the NT dollar exchange rate exhibited dynamic stability to reflect economic fundamentals. To fine-tune financial conditions, the Bank adjusted the discount rate and the interest rate on accommodations with collateral, as well as undertook open market operations and other measures. The objective was to maintain appropriate growth of monetary aggregates and at the same time to provide sufficient liquidity for economic activities. In the aftermath of the September 21 earthquake in 1999, the Bank appropriated more than NT\$100 billion from the postal savings redeposits to assist in post-quake reconstruction and to help relieve victims of their financial burden. Moreover, to help revitalize traditional industries and meet people's housing needs, the Bank, together with the Ministry of Finance and the Ministry of the Interior, implemented preferential housing loans and credit guarantees for the youth totaling NT\$120 billion, preferential housing loans totaling NT\$200 billion, and preferential loans for traditional industries totaling NT\$450 billion. With the above measures conducted in a prudential and timely manner, M2 grew by 7.04 percent for the year, within the 6 to 11 percent target zone, interest rate levels remained stable, the NT dollar exchange rate exhibited dynamic stability, and inflation was mild. The Bank was able to achieve its overarching goal of promoting economic growth within the scope of maintaining price and financial stability.