

The Central Bank of China

Annual Report
2000



Taipei, Taiwan
The Republic of China

Foreword

In the beginning of 2000, the promising signs in the key economic figures offered evidence of the ROC's economic upturn. Mainly buoyed by the vigor of the world economy, export growth accelerated, and private investment and consumption strengthened as well. However, the drastic global economic downturn in the latter part of the year had some unfavorable impact on our economy. For the year as a whole, economic growth still reached 5.98 percent, 0.56 of a percentage point higher than in 1999. Meanwhile, despite the run-up in oil prices, inflation remained tamed over the course of 2000 with the consumer price index rising by a mere 1.26 percent.

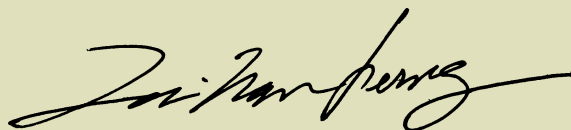
In view of the Bank's objectives of maintaining low inflation and sustainable economic growth, a moderately easy monetary policy stance was adopted throughout the year. The monetary aggregate M2 grew at an annual rate of 7.04 percent for 2000, remaining within the target zone. With a benign outlook for inflation, the Bank has lowered the discount rate five times since last December to spur the economy. The discount rate thus reached its lowest level and market interest rates edged lower accordingly. The NT dollar exchange rate is basically determined by market forces. Primarily triggered by a strong US dollar and the widening interest rate spread between US dollar deposits and NT dollar deposits, foreign currency deposits held by locals kept on increasing in the latter part of 2000, which in turn put downward pressure on the NT dollar. To dampen the speculation, the Bank imposed reserve requirements on newly-taken foreign currency deposits. Moreover, the much sharper cuts in US interest rates since January 2001 have helped shift funds back to NT dollar deposits and bolster the NT dollar exchange rate.

The Bank and the Ministry of Finance have continued to work together to carry out financial reforms. In particular, financial consolidation has been promoted to achieve economies of scale and scope, enhance operational efficiency, as well as upgrade competitiveness. The Financial Institution Merger Act, governing the merger of financial institutions and the establishment of

asset management companies, was promulgated near the end of 2000. The establishment of asset management companies will help speed up the process of clearing up the non-performing loans of financial institutions. Furthermore, our government is currently drafting the Financial Holding Company Act to boost synergy among financial institutions, and is organizing a new financial supervision authority to unify the work of financial supervision.

In 2001, the Bank's monetary policy faces the challenges arising from the apparent slowdown of the global economy, and further uncertainties, partially due to increasing globalization, rapidly changing information technology, as well as booming e-commerce and cyber-banking. Along with the ROC's plan to build a knowledge-based economy for the 21st century, the Bank will continue to help promote financial innovation and facilitate the financial conditions that will foster economic growth as well as price and financial stability over time.

On top of everything else, I sincerely thank my colleagues in the Bank for their persistent dedication. Together, we shall continue to address all challenges and make a contribution to global financial stability.



Fai-nan Perng

Governor

May 2, 2001