

Foreword

Largely hampered by the global economic slowdown, which was exacerbated by the September 11 terrorist attacks in the U.S., our exports and private investment markedly shrank in 2001. A slack stock market and rising unemployment rate dampened private consumption. As a result, Taiwan's economy contracted by 1.91 percent in 2001. The general price level was quite stable in 2001, with the core consumer price index increasing only 0.08 percent.

Given weakening domestic demand and low inflation, the Bank has adopted an easy monetary policy stance to shore up the economy. Since December 2000, the Bank has lowered the discount rate twelve times with a total cut of 2.625 percentage points. Affected by the Bank's interest rate policy, market interest rates have trended down, which has in turn helped reduce firms' cost of funds and benefited economic activity.

Taiwan's economy is heading for a recovery and is expected to accelerate in the second half of 2002. Recent economic figures continue to suggest that a global recovery is in sight. This is encouraging to Taiwan's exporters. The growth rates of Taiwan's export orders and manufacturing production have both turned positive. For this year, the economic growth rate and inflation rate are forecast to be 2.29 percent and 0.39 percent, respectively.

On the financial front, Taiwan's balance of payments was in good shape. Foreign exchange reserves rose to US\$122 billion at the end of 2001, setting a new record. The growth of the monetary aggregate M2 remained within the target zone. However, the rising nonperforming loan ratio was a major concern in 2001. The Ministry of Finance and the Bank have therefore undertaken broad-based financial reforms. The Financial Restructuring Fund was set up to deal with problem community financial institutions. The establishment of

asset management companies, aimed at speeding up the disposal of bad loans, got underway following the promulgation of the Financial Institution Merger Law in December 2000. Moreover, several financial laws including the Financial Holding Company Law were amended or enacted to encourage financial institutions to enhance their operating synergy and expand their business scope. The Bank will continue working with other government agencies to move towards integrated financial supervision, with an emphasis on strengthening the soundness and global competitiveness of the financial sector.

Looking ahead, the Bank's monetary policy must surmount the challenges posed by increasing globalization and swiftly developing information technology in a rapidly changing financial environment. The Bank will continue to exercise prudence and diligence in carrying out its mission of maintaining price and financial stability and fostering economic growth.

Finally, I would like to take the opportunity to thank my colleagues for their efforts. With their diligence and dedication, the Bank shall be able to tackle any challenges lying ahead in the coming year.



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Governor
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