

Foreword

Taiwan's economic performance experienced a slowdown in the first half of 2003, as concerns about the US-Iraq War and the outbreak of Severe Acute Respiratory Syndrome, or SARS, in East Asia dampened trade and economic activity. After those incidents were contained and global economic conditions improved, exports and domestic demand picked up accordingly. The Taiwan economy staged a favorable rebound in the 3rd and 4th quarters. For the year as a whole, real GDP grew by 3.24 percent and the CPI declined slightly by 0.28 percent.

Since inflationary pressure remained rather subdued, the Bank maintained an accommodative monetary stance throughout 2003 to foster domestic demand. Aiming to shore up Taiwan's recovery after SARS, the Bank cut the discount rate by 25 basis points in late June, the fifteenth rate cut since December 2000. To strengthen the effect of rate cuts, the Bank continued to urge banks to promote adjustable rate mortgages and adopt the flexible prime rate benchmark scheme, which also helped lower the cost of funds for the general public.

With regard to money growth, the broad monetary aggregates M2, and M2 plus bond funds expanded at an annual rate of 3.77 percent and 5.25 percent, respectively, both within their target zones. As for the foreign exchange market, the NT dollar exchange rate remained dynamically stable over the course of 2003. The NT dollar stood at 33.978 per US dollar at year-end, appreciating by 2.28 percent from the previous year-end. With foreign exchange reserves rising to US \$206.6 billion at the end of 2003, our external liquidity position remained strong.

To boost the efficiency of the payment system and to meet the

more sophisticated and diversified needs of business transactions, the Bank actively directed the Taiwan Clearing House to promote the electronic processing of check payments and launch the first eCheck system in Asia in September. Moreover, the Bank facilitated the reopening of government bond issues, aimed at increasing liquidity and building a complete yield curve on benchmark government debt issues.

Looking ahead, how to set monetary policy in the face of uncertainties arising from increased globalization, growing financial innovations and the rapid evolution of information technology will be a great challenge for the Bank. The Bank's monetary policy will continue to focus on pursuing financial and price stability with the aim of fostering sustainable economic growth.

Finally, my sincere appreciation goes to my colleagues for their continued dedication during 2003. Together, we will work hard to meet the challenges in the year ahead.



Fai-nan Perng
Governor
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