

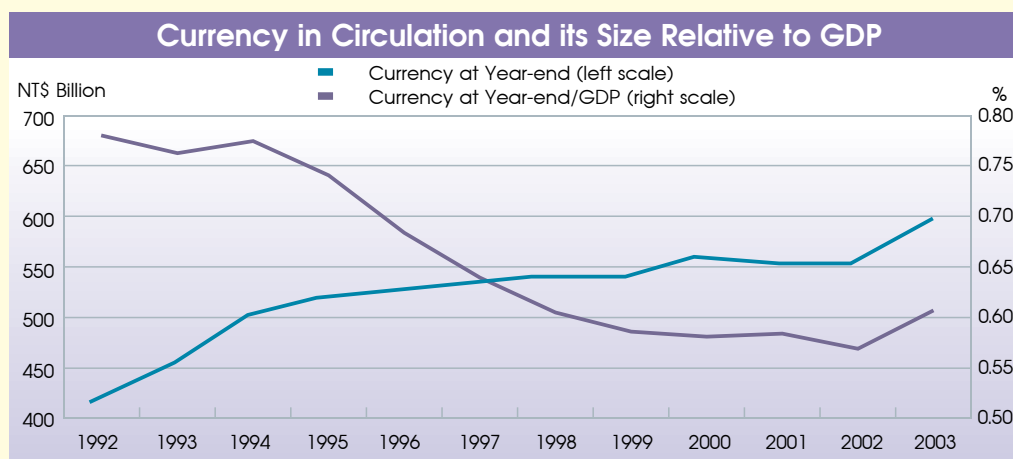
16. Currency Issuance

Slight Increase in Currency in Circulation

According to Article 16 of the Central Bank of China Act, the NT dollar should be issued against a 100-percent reserve, in the form of gold and silver bullion, foreign exchange, and eligible bills and securities. The reserve remains in the special custody of the Bank.

Because of financial innovation, the use of debit and credit cards, and the increasing prevalence of other payment tools, the traditional method of cash payment is being gradually replaced. Therefore, currency demand of the general public has barely increased during the past few years. The ratio of currency in circulation to nominal GDP has trended down since the mid-1990s. However, the ratio increased from 5.69 percent at the end of 2002 to 6.07 percent at the end of 2003. The main reasons included the historically low interest rates which caused decreasing public demand for deposits, the increasing number of automatic teller machines (ATMs) led to an increase in banknotes for load-in and replenishment, and the rising demand for transaction purposes as economic recovery gained momentum.

As the demand for currency was subject to various influences, the Bank closely monitored changes in currency demand and planned in advance accordingly to meet the public's needs. The currency in circulation peaked at NT\$1,032 billion near the end of January 2003, a few days before the Chinese Lunar New Year, when there was a temporary seasonal surge in cash demand. The outstanding amount of currency issued at the end of the year 2003 was NT\$785.2



billion, which represented a 12.4 percent or NT\$86.7 billion increase from a year earlier.

At the end of 2003, the NT\$1,000 note constituted 79.2 percent of the total value of currency in circulation, while the NT\$100, NT\$500 and others (including the NT\$2,000 and NT\$2,000 notes) accounted for 5.8 percent, 4.6 percent, and 10.4 percent, respectively.

