

Foreword

During 2004, Taiwan's external trade performed exceptionally well, driven by the global economic recovery. Domestic demand also picked up as a result of buoyant consumption and investment. However, during the second half of the year, surging oil prices, interest rate hikes by major countries and the high base of 2003 caused a drag on the pace of economic expansion. Nevertheless, GDP managed to grow by a brisk 5.71 percent for the year as a whole. Furthermore, consumer prices rose by 1.62 percent as international commodity prices increased and a harsh typhoon season pushed up fruit and vegetable prices.

In the wake of economic expansion, rising prices, and negative real interest rates, the Bank turned its low interest rate policy, adopted since the end of 2000, into a neutral monetary stance in October to curb inflationary expectations. By the end of 2004, the Bank had twice raised the discount rate, gradually leading market rates upwards. In addition, the Bank urged community financial institutions to adopt a base rate pricing system to improve the transparency of market rate adjustment. The Bank also continued promoting policy lending, including preferential housing loans and project finance for traditional industries.

Under the Bank's prudent policy, monetary aggregates expanded moderately throughout 2004. M2 grew by 7.45 percent on average. The NT dollar exhibited dynamic stability, trading at 31.917 against the US dollar at the end of 2004. This represented an appreciation of 6.46 percent over a year earlier. Foreign exchange reserves continued to build to US\$241.7 billion.

Meanwhile, the Bank promoted institutional reforms to foster sound development of financial markets. The Bank helped set up the Bills Depository and Clearing System and promoted the electronic processing of check payments by the Taiwan Clearing House, greatly improving payment efficiency. The Bank also continued its efforts in financial liberalization and globalization. It introduced more foreign exchange products, streamlined foreign investment application procedures, and promoted direct financial business across the Taiwan Strait. A milestone in Taiwan's financial supervisory history was reached when the Financial Supervisory Commission of the Executive Yuan was established in July 2004. The Bank no longer undertakes financial examination responsibilities except those related to the Bank's monetary, credit and foreign exchange policies.

Many challenges still lie ahead as globalization and financial innovation complicate the task of monetary policy formulation. The Bank's monetary policy will continue to focus on maintaining price and financial stability, and sustainable development of the economy.

Finally, my sincere appreciation goes to my colleagues for their continued dedication during 2004. Together, we will work hard to meet the challenges in the year ahead.



Fai-nan Perng

Governor

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