

III. Central Bank Operations

1. Overview



In accordance with the Central Bank of the Republic of China Act, the Bank has four operational objectives, namely, to promote financial stability, to guide sound banking operations, to maintain the stability of the internal and external value of the currency and, within the scope of the above-mentioned objectives, to foster economic development. The Board of Directors, consisting of fifteen members, is the highest decision making

body of the Bank. It holds regular meetings four times a year.

In the context of solid economic growth, subdued inflation and low real interest rates, the Bank fine-tuned monetary policy by raising the discount rate by 12.5 basis points at each of its board meetings in 2006. At the end of the year, the Bank's three policy rates stood at 2.75 percent, 3.125 percent and 5.0 percent, respectively, which were 50 basis points higher than the previous year-end. Market rates were also gradually guided upwards. M2 grew at a pace with rate of 6.22 percent, staying within the Bank's 3.5 to 7.5 percent target zone.

The Bank also closely monitored the demand and supply conditions in the foreign exchange market. In 2006, the effect of current account surplus on the NT dollar exchange rate was largely reduced by capital outflows. As a result, the NT dollar was mostly stable, closing at 32.596 against the US dollar at the year-end, a slight appreciation of 0.78 percent.

In regard to institutional reforms, the Bank continued to promote the transparency of the loan pricing mechanism. From January 2006 onwards, financial institutions are required to link prime rates to their base rates, which are posted to the public. In addition, the Bank proceeded with its progressive pace in financial liberalization and internationalization. New financial products were introduced to the market, cross-border capital movements were further facilitated,

and local financial institutions were allowed to extend NT dollar loans to non-resident foreigners. Moreover, cross-Strait remittances grew substantially in recent years, further promoting the OBUs' role as a funding center for Taiwanese businesses operating overseas.

As for the payment systems, the Bank not only effectively prevented counterfeit money, but began incorporating funds transfers involving stocks and bonds transactions into the Bank's Interbank Fund-Transfers Settlements System to enhance settlement efficiency in capital markets. At the end of the year, the relevant information systems were nearly established. During the year, the Bank issued the commemorative coin sets as usual, including the Chinese Zodiac Year of the Dog and the Taiwan Indigenous Peoples Cultural Series-SAISYAT. The Taiwan High Speed Rail Commemorative Silver Coin was also issued to celebrate the remarkable achievement in Taiwan's transportation history.

