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Issuance of Currency

Chapter 6 Issuance of Currency

The NT dollar banknotes and coins issued by the CBC are the only legal tender in Taiwan. As the sole issuer of currency, the CBC has the responsibility to provide the general public with a stable, reliable and widely accepted currency. This chapter explains the issuance of currency in Taiwan from a historical perspective. It also explains the features of the new series of banknotes that went into circulation sequentially from July 2000. Furthermore, information on sorting damaged money and handling counterfeit money are also included.

Section 1 History of Currency Issuance

Following Taiwan's retrocession from Japan, the Taiwan dollar was first issued by the Bank of Taiwan (BOT) in 1946 and continued in circulation until hyperinflation hit Taiwan in 1949. In an effort to bring hyperinflation under control, the government implemented a currency reform by replacing the old currency with the New Taiwan (NT) dollar in June that year. At the time, every 40,000 old Taiwan dollars were exchanged for one NT dollar.

After resuming its operation in Taiwan in 1961, the CBC became in charge of issuing NT dollar notes and coins. The issuance process ranges from planning and the production of banknotes and coins, to the destruction of those no longer fit for use. The volume of currency production is mainly determined by the demand of the public, which is associated with the rate of economic growth, seasonal factors (for example, a temporary surge in cash demand during the Chinese New Year), and the development of noncash payments (for example, cashless salary payments and credit card payments). In addition, the amount of currency no longer fit for circulation and the amount of currency required as buffer stocks may also affect the volume of currency production. The CBC takes each of these factors into account when estimating the amount of currency required for the fiscal year. After determining the amount of currency to be produced for each denomination of notes and coins, the CBC delegates its affiliates, the Central Engraving & Printing Plant and the Central Mint, to print notes and mint coins.

While the CBC is responsible for planning and producing banknotes and coins, it delegates the responsibilities of circulation, delivery, sorting and destruction to the BOT. The CBC bears all expenses pertinent to the entire process.

The CBC has changed the denominations and design of banknotes and coins several times in the past four decades. The purposes of these changes are to facilitate transactions and to prevent counterfeiting. In compliance with the requirements of the *Central Bank of China Act*, these changes were approved by the Executive Yuan and were made public prior to issuance.

1. Banknotes

In 1949, the BOT issued seven denominations of NT dollar banknotes, 1, 5, 10, and 50 cents, and 1, 5, and 10 dollars. In 1961, the CBC introduced the NT\$50 and NT\$100 notes to facilitate large-value transactions. As the economy grew rapidly, the values of transactions continued to increase. To accommodate such increases, the CBC introduced the NT\$500 and NT\$1,000 notes in 1980.

From July 2000 to July 2002, a new series of banknotes, including NT\$100, NT\$200, NT\$500, NT\$1,000 and NT\$2,000 notes, were introduced sequentially one every half year. The new series incorporates advanced security features and new identification features for machines and the visually impaired. It also bears the legend "The Central Bank of China." The old series, with the legend "The Bank of Taiwan," was removed from circulation in July 2002.



2. Coins

Regarding the issuance of coins, the BOT introduced the 10-cent and 50-cent coins in 1949, and the 20-cent coin in 1950. Coins of these three denominations were gradually phased out of circulation. The CBC introduced the NT\$1 coin in 1961 and the NT\$5 coin in 1970. In 1981, it introduced the NT\$10 coin and redesigned the NT\$1 and NT\$5 coins mainly by reducing their size and weight to make them easier to carry. The CBC began to issue the NT\$50 coin in 1992 and then redesigned it to make it difficult to counterfeit in 1996 and 2002. In 2001, the CBC introduced the NT\$20 coin with latent images, Braille symbols, and Arabic numerals on the rim. The redesigned NT\$50 coin issued in 2002 also incorporated these features.



Currency issued is a liability of the CBC, and is required to be completely backed by gold and silver bullion, foreign reserves, eligible bills or securities held by the CBC. In July 1961, a supervisory committee on reserves against currency issued was established. It audited and published reserve conditions at the end of each month until its termination in June 2002. Since then, the Department of Accounting of the CBC has prepared monthly auditing reports, and the Board of Supervisors has reviewed these reports on a quarterly basis before making public announcements.

Section 2 New Banknotes

Between 2000 and 2002, the CBC introduced a new series of banknotes. The new series features vertically embedded security threads, different sizes and colors for different denominations, tactile marks for the visually impaired, and features identifiable by machines. Two new denominations of banknotes, NT\$200 and NT\$2,000, were included in the new series.

The issuance of the NT\$2,000 note was supported by extensive research. Between 1980 and 2000, Taiwan's GDP and per capita GNP grew more than fivefold, causing the demand for the NT\$1,000 note to increase at a rapid pace. In the late 1990s, the ratio of the largest denomination (NT\$1,000) to per capita GNP was only 0.24 percent in Taiwan, lower than in other countries. In addition, a recent study on credit cards indicated that the average amount of each card transaction was between NT\$3,000 to NT\$4,000. Transactions below this range were mostly paid in cash. All the studies indicated that banknotes of a larger denomination are needed. From the CBC's perspective, the issuance of NT\$2,000 notes not only benefits the public but also reduces the cost of printing notes.

Major changes in the new series include denominations, sizes, background illustrations, and anti-counterfeiting features. Illustrations on the front and back of the new series depict various aspects of Taiwan's history, diversity, natural sceneries, wildlife habitats, and economic development.

The redesigned NT\$100 note in red went into circulation in July 2001. It displays a portrait of Dr. Sun Yat-sen and his calligraphy entitled *Brotherhood and the Great Commonwealth* on the front, and an image of the Chung Shan Hall on the back. A watermark of plum blossoms, the national flower, is visible from both sides.

The NT\$200 note in green was first circulated in January 2002. The front displays a portrait of the late President Chiang Kai-shek and the themes of land reform and 9-year compulsory education to commemorate President Chiang's contribution in paving the way for Taiwan's development. The back displays an illustration of the office building of the President. A watermark of orchids is visible from both sides.

The redesigned NT\$500 note in brown went into circulation in December 2000. It displays a painting of a little league baseball team and an illustration of a

pitcher and a catcher from the major league on the front, and images of Mt. Dabajian and the endangered Formosan Sika deer on the back. A watermark of bamboos, which symbolizes integrity, is visible from both sides.

The redesigned NT\$1,000 note in blue was the first note of the new series to go into circulation in July 2000. The front displays images of elementary school students and symbols of academic subjects including geography, math, and chemistry to demonstrate the importance of education in Taiwan. The back displays illustrations of Mt. Jade surrounded by a sea of clouds and an endangered Mikado pheasant. A watermark of chrysanthemums is visible from both sides.

The NT\$2,000 in purple was first issued in July 2002. The front displays images of satellite dishes, the Taipei World Trade Center, and the ROCSAT-1 satellite to demonstrate the advancement in telecommunication technology in Taiwan. The back features illustrations of the endangered Formosan land-locked salmon and Mt. Nanhu. A watermark of pine trees is visible from both sides.

As of the end of 2004, the NT\$1,000 note was the most frequently used denomination. It accounted for around 40 percent of the banknotes in circulation, followed by the NT\$100 note with a share of 29 percent.

For the purpose of enhancing protection against counterfeiting, the CBC issued an upgraded version of the NT\$500 and NT\$1,000 banknotes on July 20, 2005. The following authentication features were added to this new version: (1) optical variable stripes with holographic images on the front, (2) optical variable window threads with holographic images on the back (replacing the window threads on the front of the previous version), and (3) optical variable ink color alternating between gold and green showing the denomination on the back. In addition, the color scheme of NT\$500 was changed to dark coffee. The previously issued version will remain in circulation simultaneously with the new one until July 31, 2007, when it will be replaced.

Section 3 Sorting Out Damaged Money and Handling Counterfeit Money

Paper notes are easily stained or damaged during circulation. To replace damaged notes, the CBC enacted the *Criteria for the Destruction of Returned Notes* and the *Criteria for the Redemption of Stained and Damaged Notes and Coins Unfit*

for Circulation. Under these rules, each bank is encouraged to help identify stained or damaged notes that should be withdrawn from circulation. The BOT should sort and destroy all notes deemed unfit.

For the purpose of preventing counterfeit currency, the CBC enacted *Regulations on the Handling of Counterfeit, Altered, and Imitation New Taiwan Dollar Notes and Coins by Financial Institutions.* These guidelines require that a financial institution which discovers counterfeit money should, with the consent of the original holder, retain the notes in question, immediately report to the CBC and, when necessary, report to the police authorities for investigation.